CHAPTER - IV

MARKET MECHANISM
CHAPTER - IV

In view of the tremendous significance of marketing in the modern business, it would be worthwhile to examine the market mechanism of carpet industry in Kashmir. The present Chapter is therefore, devoted to this type of study so that a correct perspective of market mechanism is identified. An attempt will also be made to highlight the weaknesses in the system and suggest remedial measures.

SIGNIFICANCE OF MARKETING

Marketing has rightly been regarded as the key to the success of modern business. This view is further corroborated by Peter Drucker, who says that "there is only one valid definition of business purpose: to create a customer."¹ He further says, "Because it is its purpose to create a customer, any business enterprise has two -- and only these two -- basic functions: marketing and innovation."²

Viewed against this, it can safely be concluded that "any organisation in which marketing is either

². Ibid, P. 53.
absent or incidental is not a business and should never be run as if it were one." The world, as we know, is passing through a marketing revolution at present. The modern concept of marketing has given a new dimension to the very thinking of marketing system in a business organisation, whereby the customer has become the sovereign, perhaps for the first time in human history. The old concept of marketing was production oriented in which no care was taken of the buyers' interests, wants etc. However, with the change in times, marketing concept has now become consumption oriented.

With a view to appreciate this, it would be quite interesting to review some of the definitions of marketing management. This is not only beneficial but also imperative, so as to understand the philosophy of modern marketing and to examine how best the existing state of marketing the Kashmir carpets conforms to the modern principles of scientific marketing.

To quote Peter Drucker again, "Marketing is not only much broader than selling, it is not a specialised activity at all. It encompasses the entire business. It is the whole business seen from the point

of view of its final result, that is, from the customers' point of view.  

Marketing is a comprehensive process of bridging the gap between the producer and the consumer. It "is the creation and delivery of a standard of living." Marketing in a dynamic sense involves: finding out what consumers want; then planning and developing a product or service that will satisfy those wants, and then determining the best way to price, promote and distribute that product or service. 

Stated more formally, "marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying goods and services to present and potential." 

Hence in the light of the above definitions and concepts of modern marketing, the market mechanism of the carpet industry in Kashmir will be examined in the following pages.


7. Stanton, Ibid. P.5.
MARKETING OF KASHMIR CARPETS

Hand-knotted carpet industry of Kashmir is highly export-oriented in its marketing efforts as more than 90 percent of the total carpet production is exported to various foreign countries, like Federal Republic of Germany, France, United Kingdom, BLEU, Switzerland, Australia, United States of America, Sweden etc. Most of these countries are economically developed countries of the world. Besides, the ultimate customer for the Kashmir oriental hand-knotted carpets is the effluent class of the society in these countries, because on account of the relatively high price of oriental carpets, they are regarded as luxury items and purchased mainly by customers in the upper income groups.

Collectors belonging to the highest income groups form an important market segment for the best quality oriental carpets. Thus Kashmiri carpet industry has to cater to the needs of a market which is highly customer-oriented and geographically diversified.

Kashmir is also facing very strong competition from

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8. Based on field investigation.
other carpet producing countries like Iran, Pakistan, China, Turkey and Afghanistan. Keeping all these factors in view, it becomes essential to evolve an effective export marketing strategy for the carpet industry of Kashmir. On the one hand there is enormous export potential for Kashmir carpets in foreign markets, while on the other the task of exploiting this potential seems a challenging one. What is needed, therefore, is to evolve an appropriate marketing mechanism, which could effectively and successfully meet these challenges. For this purpose a review of the following issues becomes imperative.

**CHANNELS OF DISTRIBUTION**

In the marketing mechanism, trade channels play a crucial role. Channel decisions influence the price which the buyers have to pay. It is a vital part of the marketing mix.

"An export marketing channel is a system composed of the chain of marketing agencies or institutions which connect the manufacturer with the final consumer or users of his products in overseas markets."  

10. For a detailed discussion of export potential of Kashmir carpets, see Chapter V.

bringing the hand made carpets from the primary producer to the final consumer in another country (usually the developed one) a good number of intermediaries play an active role. The most frequent chain of linkage in Kashmir carpets is from artisan to manufacturer to an exporter who then supplies it to an importer/wholesaler, who in turn sells the same to the retailers from where it reaches the final consumer. There are number of variations in the sequence through either a reduction or a further increase in the number of participants in the chain. The diagram given on the next page depicts some of the main channels of distribution involved in the export trade of Kashmir carpets.

The diagram depicts the complex nature of the trade channels involved in the marketing of Kashmir carpets. For the sake of convenience these channels have been classified into two groups viz. a) Internal b) External.

a) **Internal Channels of Distribution**

The internal channels operate within the country starting from the weaver in Kashmir. They end up with the exporters of carpets. A brief description of the various channel combinations operating within the country is made hereunder.
Diagram Showing Export Trade Channels for hand-knotted Kashmir Carpets

CARPET WEAVERS IN KASHMIR

- Weavers on sub-contracts
- Weavers on own account
- Small and medium sized Carpet manufacturers
- Co-operative manufacturing Societies
- Public Sector Manufacturers
- Manufacturer Exporters

BROKERS/MIDDLEMEN

Merchant Exporters

Public Sector Exporters (JKHC/HHFC)

Manufacturer Exporters

EXPORTERS IN INDIA

IMPORTERS IN FOREIGN COUNTRIES

- Importer-Wholesalers
- Major Retailers
- Departmental and Chain Stores
- Retailer Buying Groups
- Others

Mail order Houses

Specialist Carpet Retailers

END USERS IN IMPORTING COUNTRIES

Source: Diagram prepared by the scholar on the basis of information obtained through investigation and desk research.
Under this channel the manufacturer or the weaver on his own, sells the products directly to the merchant exporters in Srinagar. Although this channel is relatively very short, yet its share in the total distribution of Kashmir carpets is limited because of the following reasons:

a) exporters generally purchase on credit basis from the manufacturers,

b) they are not in a position to provide advances to the manufacturers, and

c) individual manufacturers do not offer wide range of carpet designs of varying sizes to exporters.

In view of above shortcomings, this channel is not quite popular and hence scarcely adopted by the manufacturers and exporters.

II) Manufacturer/Exporter

This is the shortest channel of distribution available within the country. Under this system the manufacturer himself exports his products. In other words manufacturer and the exporter are one and the
same person. Most of the carpet exporters in Srinagar prefer to be identified as manufacturer-exporters, because it gives them better reputation in the market. For this purpose they usually run and manage few carpet weaving looms within a factory type premises. Truely speaking they are stockists and purchase bulk of their stocks from middlemen or small manufacturers. What we have in mind here are those exporters who contribute a substantial amount to the value added of the production. On investigation it was found that only a few leading exporters in Srinagar fall within this category. The advantages of manufacturer-exporter over a merchant-exporter are:

1) lower prices leading to increased demand,

ii) a stronger commitment to and a thorough knowledge of his products since his survival depends on perfection and excellence in production,

iii) a stronger commitment to his work force since he gives them assured employment,

iv) better checks on the production process and hence better control on quality, delivery schedules and designs.

However, in spite of the above benefits, this channel contributes only about 10 percent of the total
export trade of Kashmir carpets, because it suffers from following limitations:

i) The exporters do not find themselves in a position to devote much time to the production side,

ii) the production has become geographically diversified and hence difficult to manage, and

iii) Exporters also face the problem of dearth of finances for undertaking production.

III) Manufacturer - Brokers - Exporter

This is most commonly used channel of distribution. It has been estimated that more than 60 percent of the total production passes through this channel, indicating the popularity and dominance of the same. Under this channel the manufacturers or the weaver on his own sells the products to a new class of middlemen known as Brokers, on cash basis. The brokers in turn sell their stocks to merchant-exporters. The present study reveals that brokers perform the below mentioned useful functions in this channel.

12. Based on field investigations.

13. Ibid.
-- Broker acts as an important link between the exporters and the small weavers/manufacturers,
-- He makes cash purchases from the manufacturers and even extends advances to them,
-- Controls the quality of the production,
-- Extends credit sales to the exporters, and
-- Dumps overproduction at the time of slump in the trade.

In view of the above advantages this channel has proved to be beneficial to the trade. Brokers play a useful role for which they receive a compensation. However, one of the limitations of this channel is that it is relatively lengthy one and hence increases the price of the end product. Besides, it provides a chance to unscrupulous brokers to exploit the small weavers/manufacturers.

IV) Manufacturer → Public Sector Exporter

Handicrafts and Handlooms Export Corporation of India (HHEC) and the Jammu and Kashmir Handicrafts (Sales and Export) Corporation (JKHC) are the two leading public sector organisations, which have been established in the State to help boost up the export of Kashmir handicrafts including that of carpets. These
Corporations are expected to play an important role in the growth and development of this industry. They are charged with the responsibility of buying carpets directly from small weavers/manufacturers and thereafter sell them to the customers. The effective functioning of these Corporations could also reduce the dependence of weavers on middlemen.

However, it is disappointing to note that these Corporations have not been able to play their role effectively. This is reflected from the fact that only 5 percent of the total carpet exports from the State is routed through these two Corporations, whereas as 95 percent is routed through other channels mostly private exporters.

ROLE OF HHHEC IN MARKETING

Handicrafts and Handloom Export Corporation of India has all the necessary infrastructure to increase the export in hand-knotted carpets from Kashmir. It has a design cell and a number of showrooms with retail outlets abroad from where it can get consumer feedback. It has also warehousing facilities in the countries where it operates. This enables it to stock the product. It is primarily an

14. Based on field investigations and desk research.
exporting concern and has done a commendable service to India's hand-knotted carpet weaving industry. In the field of hand-knotted carpets, HHEC played a pioneering role in developing persian-design carpets in India. As a result of which India has emerged now a world leader. Carpet exports handled by HHEC touched a new height of Rs. 10.1 crores in 1979-80.\(^{15}\)

However, it is distressing to note that the share of Kashmir carpets in the total carpet exports of HHEC is not more than Rs. 10 to 20 lakhs, that is about 2 percent of the total at present.\(^{16}\) This performance appears to be not very encouraging one, when compared with its long standing experience in handicrafts sales and exports, especially hand-knotted carpets. It seems that HHEC IS not seriously interested in the promotion of Kashmir carpets. According to Mr. S. C. Joshi, General Manager of the Hamburg branch of the HHEC, "The position for Kashmir carpets is even worse because the HHEC has a large volume of unsaleable carpets that were purchased from Srinagar

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15. ICRIER, "Indian Handicrafts Exports: Constraints and Prospects" Indian Council of Research on International Relations, New Delhi (1985) P. 4.2

16. Based on field investigation.
without selection or quality control. Only 5 percent of the stock of Kashmir carpets are saleable and even those have to be sold at rock bottom prices. This shows the callous attitude of the HHHC towards the Kashmir carpets. The simple question arises as to why such rubbish was purchased from Kashmir? and if purchased for one reason or the other, why was it sent to Hamburg? This needs to be probed.

ROLE OF JKHC IN DISTRIBUTION

The Jammu and Kashmir Handicrafts (Sales and Export) Corporation (JKHC) was incorporated in the year 1970, with the object of popularising and promoting the handicrafts of Jammu and Kashmir. In the field of carpet exports the progress registered by the Corporation during a period of Six years is depicted by table 4.1.

Table 4.1 reveals that the export sales turnover of JKHC in the field of hand-knotted carpets has increased from Rs. 17.63 lakhs in 1977-78 to Rs. 42.29 lakhs in 1982-83. However, when compared with the

Table 4.1

Year-wise Value of Carpet Exports from J&K State and through JKHC (1977-78) to 1982-83

<table>
<thead>
<tr>
<th>Year</th>
<th>J&amp;K State (Rs. in lakhs)</th>
<th>JKHC (Rs. in lakhs)</th>
<th>% Share of JKHC in the State</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977-78</td>
<td>849.00</td>
<td>17.63</td>
<td>2.07</td>
</tr>
<tr>
<td>1978-79</td>
<td>1210.00</td>
<td>26.70</td>
<td>2.20</td>
</tr>
<tr>
<td>1979-80</td>
<td>2696.00</td>
<td>28.86</td>
<td>1.07</td>
</tr>
<tr>
<td>1980-81</td>
<td>2680.00</td>
<td>27.46</td>
<td>1.02</td>
</tr>
<tr>
<td>1981-82</td>
<td>2445.00</td>
<td>36.21</td>
<td>1.40</td>
</tr>
<tr>
<td>1982-83</td>
<td>2310.00</td>
<td>42.29</td>
<td>1.83</td>
</tr>
</tbody>
</table>

Source: Compiled by the scholar on the basis of data obtained from: i) Directorate of Handicrafts, J&K Sgr. ii) Statistical Cell, JKHC, Srinagar.

total export of carpets from the State, the share of JKHC seems to have been declined from 2.07 percent to 1.83 percent during the same period. This performance appears to be not very encouraging compared with its long standing experience in handicrafts sales and exports. It seems that JKHC is presently concentrating on sales in the domestic market through its 22 retail outlets in all metropolitan cities of the country. 19

19. Based on field investigation.
The domestic sales of Kashmir carpets by the Corporation are quite impressive, which is revealed by the fact that during the year 1982-83 the domestic sales of carpets amounted to Rs. 101.4 lakhs. It further indicates that the present set up of the Corporation is, however, not doing its best to boost up export of carpets in a big way.

In order to prove its usefulness for the development of one of the vital handicrafts of the State, the Corporation has to play a pivotal role for the development of export of carpets, particularly those manufactured by small and marginal weavers. It should be the endeavour of the Corporation to reduce the chances of exploitation of the small weavers by the unscrupulous private exporters. It has been seen that these exporters buy the carpets at relatively lower prices, and later on sell the same at lucrative prices.

JKHC should therefore, gear up its activities and rid itself of these infirmities, so as to make it a powerful instrument in export promotion. For this purpose, it should open a few showrooms/warehouses.

in potentially important foreign markets. To begin with a showroom may be established in Hamburg, West Germany, as this is one of the most important trading centres for oriental carpets in the world.

\**EXTERNAL CHANNELS OF DISTRIBUTION**

External channels of distribution link the Indian exporter with the ultimate user in the foreign countries. Following are the two main external channels of distribution for the export marketing of Kashmir carpets.

I) **Importer/Wholesaler → Retailer → Consumer**

It has been estimated that more than 70 percent of the total carpet exports from Kashmir pass through this channel. Most of the importers buy carpets direct from Srinagar. They sell in turn to specialist oriental carpet shops, departmental stores, mail order houses and furnishing specialists.

Importer-wholesalers are specialised in one or more products and thus have a thorough knowledge of their products. There is a lot of competition in their

business and they survive on good purchasing. They cater to all types of retailers, but their greatest success lies in supplying goods to small retailers and speciality stores. They spend lot of their time in supplying countries and develop the skill of the firms they work with. They order large quantities and also carry stocks.

On the negative side, importers offer lower prices to Kashmir exporters than retailers do which gives a temptation for exporters to contact retailers direct. Also because direct buying by retailers eliminates the importers link, this often results in a lower retail price and hence increased demand.

II. Importers/Retailer —> Consumer

There are many different kinds of retailers including boutique stores, departmental stores, chain stores, discount stores and mail order houses. Direct buying by retailers is normally confined to large chain stores or to a conglomerate of department/chain stores. Top quality carpets tend to be sold in specialist shops and lower and medium quality by

department stores. The average quality carpets handled both by mail order and furnishing specialists is said to be distinctly higher than that by the department stores.23

Retailers generally do not have a deep knowledge of a product as the importer/wholesaler. However, there is a class of a select few retailers who have developed their own designs and bear all the risks of the trade. Retailers who are quality conscious and spend more than a week or two with their customer, are considered highly desirable by firms in developing countries.

As it takes very little to become a merchant exporter people who enter the business often have no commitment to the product development and no regard for the rigorous business culture in the developed world. There is, thus a need for Orderly Marketing Arrangements, where only committed few could be allowed to export because casual exporters do a great deal of damage in keeping off potential buyers. However, this may not be practiceable in


24. Kathuria, S. "Indian Handicrafts Exports: Constraints and Prospects" ICRIER, New Delhi 1985 P.
democratic India. The next best solution is, therefore, to give positive incentives to those with commitment to the product, to their suppliers and to their buyers. In this connection manufacturer-exporter is the one category who might best fulfil these requirements and could be considered for suitable Government support e.g. a labour subsidy. 25

On the external side, the general strategy for exporters should be to supply to only a few importing firms in one country. On the whole importer-wholesaler are more committed to the development of a product than retailers and should be preferred buyers.

The public sector organisations involved in the trade, especially JKEC and HHEC should play a pivotal role in export marketing of Kashmir carpets, so as to prove beneficial to small and cottage weavers/manufacturers.

PRODUCT STRATEGY


colours and designs used, labelling, packaging and branding, size of the product, product innovation etc.

"Decisions in respect of all these components eventually determine the selection of channel, fixation of price and designing of the promotional programmes." 26

"One key to success in product planning is to adopt it to the cultural tastes and economic characteristics of the particular foreign market, rather than try to sell it abroad, in general." 27

To decide whether a product is suitable for a market and whether it should be modified, one must determine how it fits into the demand requirements of the market. For this purpose, the characteristics of a product should be identified first and then efforts made to match the main demand requirements with it.

With this theoretical background, the product strategy for marketing of Kashmir carpet is examined in the following lines:

Product Characteristics and Demand Requirements for Kashmir Carpets

There is a tendency in Kashmir to emphasize and

concentrate on the density of knots as a single most important criterion of quality of a carpet. Whereas in actual practice, a number of factors determine the quality. The main product characteristics of Kashmir carpets are mentioned below:

I. Raw Material used,
II. Design,
III. Colours combination,
IV. Weaving and density of knots,
V. Finishing of the carpet.

It has been observed that most of the carpet manufacturers and exporters in Kashmir do not have a fair idea of Product Planning and Development. They do not follow a systematic pattern of monitoring the customer preferences and requirement regularly and modifying the quality of their products accordingly. In the light of several recent market surveys, product characteristics need to be modified on the lines indicated below:

I. Raw Materials Used
a) Quality of Wool

Customers are generally of the opinion that the wool used in Kashmir carpets is too soft compared with the tough resilience of the wool in fine Iranian-carpets.
Further, the quality of wool used varies widely and needs to be made consistent. The standard to be taken as model is the wool coming from white sheep from the Plateaux of north-west Iran, where a tough wool particularly suitable for carpet making is produced. The wool should be properly sorted prior to spinning. The Government may consider importing wool for blending with locally available wool. Pakistan imports wool from Newzealand for use in the carpet industry.

b) Quality of Silk

It has been reported that the quality of silk used in Kashmir carpets is of satisfactory level. However, it can not compete with the fineness of the Chinese silk. But the real problem is the extensive use of artificial silk in place of natural silk in Kashmir carpets.

Problem of Using Artificial Silk

It is distressing to note that a substantial portion of the carpets manufactured in Kashmir, these days are made of artificial silk. According to the


tentative figures announced by the Director of Handicrafts, J&K Government, staple carpets worth about Rs. 10 crores were exported from Kashmir during the year 1983-84. The share of artificial silk carpets in the total export of Kashmir carpets is growing day by day. Actually staple has emerged as a cheap substitute to the natural silk. The introduction of staple carpets is certainly going to damage the reputation of Kashmir as a manufacturer of fine quality carpets in the world. The durability of a staple carpet is very much short lived and its apparent sheen and lusture fades away only after short period of use. It has been reported that a number of carpet manufacturers, exporters, importers and retail dealers misrepresent the staple carpet as original silk carpet. The customers who have been cheated like that, feel highly dissatisfied with Kashmir Carpets. This cheating should be stopped forthwith.

In view of the above situation, it is strongly recommended that the Government of Jammu and Kashmir should take effective steps to ban the production and export of staple carpets with immediate effect. Manufacturers and exporters should also be persuaded to desist

30. Based on discussions with concerned authorities.
from using staple silk yarn in place of real silk, in the longer interests of the industry.

II. Design

Design is an important part of the quality of carpets which provide a specific pattern to the product and facilitates quality differentiation. The designs in Kashmir carpets are mostly of Persian origin.

Most of the customers are of the view that designs in Kashmir carpets lack creativity as compared with those of Iran. Concentration on a few traditional designs, repeated with minor modifications has led to saturation. Some of the designs are found to be complicated and interwoven which are not to the tastes of consumers.

Carpet manufacturers should try to introduce more designs based on exact copies of old and antique persian carpets. These designs need to be collected and codified. Efforts should be made to identify traditional designs from museums and wealthy collectors. Innovations in designs should be subject to some aesthetic control and


the practice of making crude combinations of old and new designs may be avoided.

III. Colour Combinations

Eco. Advisory Group, London, reports that great importance is attached to colours by customers which is more important than designs. Colours are seen as the single most important factor determining the saleability of Kashmir Carpets.

The Indian Institute of Foreign Trade, New Delhi (IIFT) market survey reveals that floor coverings should harmonize with the colour scheme of interior decoration. There is a clear distaste for strong contrasts in the colours of oriental carpets. The carpets produced in Kashmir have too many colours and these are generally felt too loud. There is a tendency to use bright pink, green, orange and golden yellow, which make a fine quality carpet unsaleable in the European market.

Customers generally like the graded transition in colour tonalities progressing from the border to the centre of a carpet and vice-versa. Besides,

34. Ibid. P.11.
colour preferences vary from country to country, depending upon the climate, cultural background and general taste of the people. Hence, there is need for developing different colour combinations for different markets. The table given below shows the country-wise colour preferences of carpets.

**Country-wise Colour Preferences of Carpets**

<table>
<thead>
<tr>
<th>Country</th>
<th>Colour Preferences</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.K.</td>
<td>Light colours and pastal shades</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Very bright or very dark colours are less and less sought after. Taste is developing in favour of soft pastal shades.</td>
</tr>
<tr>
<td>Austria</td>
<td>Blue, beige and Red base, Dark colours.</td>
</tr>
<tr>
<td>Italy</td>
<td>Soft and natural colours.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Bright colours, yellow colours ignored.</td>
</tr>
<tr>
<td>Norway</td>
<td>Red and rust colours, Green and Blue.</td>
</tr>
<tr>
<td>Denmark</td>
<td>Deep and warm colours.</td>
</tr>
<tr>
<td>USA</td>
<td>Pastal colours - ivary, beige, light blue etc.</td>
</tr>
<tr>
<td>Canada</td>
<td>Pastel colours such as ivary green, beige etc.</td>
</tr>
<tr>
<td>Australia</td>
<td>Gold, blue, green and red.</td>
</tr>
<tr>
<td>West Germany</td>
<td>Red, beige, some blues and greens are acceptable.</td>
</tr>
</tbody>
</table>

IV. Quality of Weaving and density of knots:

The quality of weaving of Kashmir carpets is generally found to be good. Some customers even rank it at par with that of Iran. However, others feel that the final effect of Kashmir carpet is sometimes too mathematically correct, almost like a machine made rug. Besides the use of only one type of knot i.e. Persian knot produces monotony as compared with Irani carpets. The mass use of so called 'double knot' by the carpet weavers in Kashmir has deteriorated the weaving quality.

The quality and fineness of carpet is also judged by the closeness of knots, that is the number of knots per square inch/metre of a carpet. Closeness of knot provides sturdiness to carpets and increases their span of life. On this score, Kashmir carpets belong to the superior quality group of carpets. The average density of knots for Kashmiri carpets is 364 per square inch (18x18). However, it has been observed that most of the customers give only secondary importance to the number of knots per square inch as a characteristic of quality.

37. Ibid P.7.
Therefore, excessive stress on the density of knots as the single indicator of quality, should be replaced by a comprehensive concept of quality, including a number of characteristics.

V. Finishing

Despite superior workmanship, as compared to other suppliers, Kashmiri carpets lack in good finish. IIFT observed during the course of its survey that Pakistani carpets, Turkish carpets and even carpets produced from other parts of India (particularly Badohoi and Mirzapur) have superior finish. Kashmir lacks in finishing facilities in terms of washing, clipping and pencilling. Mention may also be made about uneven absorption of dyes with the wool. There is no drying facility which is very essential during rainy season and winter.

For ensuring a better finish, the carpet manufacturers should use wooden cleaning tools instead of metal tools. Better washing would improve the sheen of the woollen carpets and reduce the amount of damage to the pile. The clipping could also be made more even by using electric rotary clippers. Attention may also


be given towards improving the dyeing process. The Government may consider taking help of an expert for providing advice on improved method of dyeing.

Quality Control

The above analysis reveals that there are several bottlenecks in the product characteristics of Kashmiri carpets in the light of demand requirements of prospective customers. It is, therefore, essential that the manufacturers-exporters should formulate an effective product strategy and give necessary importance to each and every element of the product, like quality of raw materials, designs, colours, finishing, knots etc. They should also develop a long term strategy for upgrading the quality of carpets in general.

The Government and the service institutions should also provide necessary assistance to the carpet manufacturers-exporters in their efforts to improve the quality of carpets. Suitable provision may be made for rigorous quality control at the place of manufacture in order to check malpractices.

Exports of Kashmir carpets are not subject to compulsory export inspection except in case of silk.

It is suggested that exports of all carpets are brought under the purview of compulsory export inspection. Further, the quality Mark-ing Scheme as is in existence in other states may also be introduced in J&K by the State Government under which a quality marking centre be established with suitable staff. The main job of the centre will be to give the quality certificates after having checked number of knots, design, fastness of colours and the type of yarn as laid down in the export contract.

PROMOTIONAL MIX STRATEGY

Promotional mix is an important and integral part of marketing strategy for a product. Under monopolistic competition, with product differentiation, market segmentation, incomplete market information and buying behaviour of customers the need for and significance of promotional activities begs no description.

"Promotion consists of those activities that are designed to bring a company's/industry's goods or services to the favourable attention of customers." 42

These activities mainly include advertising, sales


promotion, personal selling and publicity. Often times a suitable blend of all these becomes necessary, for any one of these may not serve the purpose fully in view of the widely differing nature of products and markets. This blend is called the promotional mix.

Carpet industry in J and K State is an export-oriented industry. It caters to the needs of a highly dynamic and complex market in the world i.e. developed countries. Therefore, a persuasive promotion mix strategy is a must to boost up carpet exports from the State. In the following lines an effort has been made to analyse the advertising and the sales promotion efforts made by the individual carpet exporters and other trade promotion organization and to suggest suitable measures to improve them.

Role of Advertising in Kashmir Carpets

Advertising is one of the most important elements of a Promotional Mix Strategy. It has been regarded as salesmanship without a personal salesman. Advertising is a nonpersonal sales message, which promotes products, services or the company's image which is paid for an identified sponsor and which is directed towards a mass audience. Its broad objectives are to inform, to persuade and to remind

the target customers about the product and the firm.

Publicity and promotion play a vital role in the building up of export markets. One of the reasons for insignificant export performance of Kashmir carpets is due to inadequate exposure in the international markets. It has been reported that most of the carpet exporters have no arrangements for advertising their products and firms in the overseas markets. There are obvious reasons responsible for the same. The advertising is highly expensive in the western countries and the market is geographically so diversified that it may not be possible for the individual exporter to undertake the advertising of their products in each and every country.

However, it is disappointing to note that even the various Government sponsored organizations concerned with the marketing of Kashmir carpets do not pay proper attention to the advertising aspect of the industry. The Government of Jammu and Kashmir will have to lay special emphasis on this aspect and should build up an effective promotional campaign at various stages. What is needed for promoting exports at this stage, besides marketing factors like modification in designs, colour
schemes etc. is the proper exposition of the Kashmir Carpets abroad.\textsuperscript{44} The following suggestions in this regard merit consideration.

I. \textbf{Publication of a Brochure}

To start with, attractive and scientifically developed catalogues and folders provide an effective way of advertising. There is a complete dearth of such folders and catalogues in the carpet industry of Kashmir. The Pakistani carpet exporters have already taken a lead in this sphere. It has been reported that their catalogues and folders are highly attractive and modern in terms of layout, printing and message.

It is, therefore, suggested that the J and K Handicrafts Corporation should prepare attractive coloured brochures, with a comprehensive description of Kashmir carpets. This should include history, name and origin of designs, basic colours, sizes, manufacturing processes and other special features. The brochures should contain good colour photographs of various carpets. The brochure may be sent to Indian missions abroad, for transmission to importers, departmental stores, boutiques, importers associations etc.

\textsuperscript{44} IIFT, "Major Markets for Handicrafts of Jammu and Kashmir" (1983) P.16.
Within the country these brochures can be made available to the buying offices and agents of foreign importing organizations.

Advertisements in Trade Journals

There are several international trade journals which exclusively deal with the promotion of oriental carpets. These journals provide an important media of advertising for individual exporters because their readership constitutes a large number of the prospective buyers. However, it has been observed during the course of the survey that our exporters do not fully utilize this media. It seems that the exporters lack the modern concepts of aggressive marketing. Therefore, it is suggested that the exporters should pay greater attention to this aspect. The names of few reputed international journals on carpets are mentioned below.

Imptex (West Germany)
Hali International Carpet Journal (U.K.)
Carpet-e-World (India)

Collaboration with the Importers and Exporters of Other Countries

For launching a massive advertising campaign for oriental carpets the exporters and the various
Government organizations, related to the trade should explore the possibilities of collaborating with the carpet importers and exporters of other countries for advertising of oriental carpets on T.Vs of buying countries.

SALES PROMOTION

Sales promotion includes all activities in the promotion process except advertising, publicity and personal selling. Among the most important of sales promotion activities are premiums, contests, product samples, exhibits, container promotion, price oriented promotion, market tours and visual merchandising. 45

The present study reveals that the carpet industry in Kashmir does not fully utilise these methods of sales promotion. Although few of the exporters have started participating in International fairs and under-taking market tours, but due to financial limitations and other difficulties, most of the exporters do not find themselves in a position to participate in these activities. The following suggestions in this regard may prove useful in this context.

Participation in Exhibitions and Fairs

The Trade Fair Authority of India organises a large number of Indian exhibitions and participation in international trade fairs. The J and K Handicrafts Corporation should make it a point to participate in these exhibitions and fairs since they serve as the spring board for generating export business. The brochures can be distributed during the participation in these fairs and exhibitions. Participation will also help in assessing the requirements of the markets in terms of the product, design, colour etc. which can be effectively utilised for getting export production organized.

There is now a growing consciousness and desire among carpet exporters to participate in trade fairs abroad. But due to financial limitations, it is only the rich manufacturers and exporters who can and are willing to afford this. There are a number of International Trade Fairs specialising in carpets and floor coverings. Famous among them are 'Heimtextile' which is held every year in January in Frankfurt, Germany, 'Infex' held in Brighton, Great Britain, 'Interdecor' held in Netherlands and 'Ortefa' in Switzerland.

In order to make participation open to all manufacturers, it is suggested that the Government extends financial assistance to small and medium scale manufacturers/exporters in Kashmir.

**Buyer-Seller Meet at Srinagar**

Another way of sales promotion could be the convening of carpet exhibitions/Buyer-seller meets every year at Srinagar. This will provide a chance to the prospective importers to visit the valley and to purchase the required type of carpets. However, the said exhibition should be planned well in advance and it should be given proper publicity, so that maximum number of importers are persuaded to attend such an exhibition. The timings of the exhibition should be fixed in such a way that on the one hand, maximum number of importers are willing to attend at that time and on the other the best possible selection of the carpets manufactured in the valley are available. This is possible only when the various Government agencies and the dealers work in a coordinated manner. It will be better, if this task is undertaken by the Association of Kashmir Carpet Manufacturers and Exporters, as is the practice in Mirzapur-Bhadoli and Pakistan where such exhibitions have become permanent annual features of
the industry. Pakistani carpet manufacturers and exporters regularly convene a three day carpet Exhibition every year at Lahore. More than 50 importers from different countries participated in the Carpet Fair, recently held at Lahore in the year 1984. Such an example is worth emulating.

Market Tours and Contact Promotion Programme (CPP)

At present, Indian carpet exporters depend primarily on person-to-person contact in promoting their exports. A few Indian exporters make occasional trips abroad but their so-called sales promotion trips are not well planned. There is a need, therefore, for a concerted promotion of Indian carpets as a whole and Kashmir carpets in particular on the part of concerned Government agencies. These agencies should periodically arrange the market tours and contact promotion programmes, in which due representation should be given to small and medium-sized exporters and manufacturers from the State.

Marketing Research

The dynamic nature of marketing activities

47. For details, see the Weekly Pakistan and Gulf Economist, Karachi, Pakistan March 10-16, 1984 issue.
requires that manufacturers and middlemen make decisions on a variety of problems almost continuously. These decisions should be based on adequate, timely and pertinent information. "More than ever before marketing policies are being formulated and marketing decisions made on the firm foundation of scientific research. 48 This research furnishes the factual information, which when properly evaluated enables the marketing executive to take effective action to achieve desired objectives.

Marketing research has been defined as the "systematic, objective and exhaustive search for and study of facts relating to any problem in the field of marketing. 49

As a result of this study, it has been observed that most of the carpet manufacturers and Exporters in the State of Jammu and Kashmir, do not have any systematic and reliable arrangement of gathering, analysing and interpreting the information and data relating to the marketing of their products. They usually depend on the casual tit bits of information


received from their importers or through their personal visits. Naturally, the complete and correct information about the different world markets is not available to them. Consequently, our exporters and manufacturers are not in a position to cater to the needs of the markets in a better way. The main reason responsible for this situation is the inability of the exporters to undertake export marketing research, because the cost of research is generally beyond their financial resources.

**Market Surveys for Kashmir Carpets**

However, at the Government level a few market studies have been conducted. For instance in 1977, EAG, London conducted a market study entitled "Kashmir Handicrafts: An Export Marketing Study" on behalf of the Government of Jammu and Kashmir and sponsored by the Commonwealth Fund For Technical Cooperation (CFTC). The findings of this study are contained in five volumes.50

Recently, the Indian Institute of Foreign Trade, New Delhi in Association with the Commonwealth Secretariat London and Directorate of Handicrafts, Jammu and Kashmir

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organised a Market study Tour for select handicrafts of Jammu and Kashmir in United Kingdom, Belgium, Netherlands, West Germany and France. The finding of this study contained in the report entitled "Market Opportunities for Handicrafts of Jammu and Kashmir" provide valuable market information regarding Kashmir carpets.

But despite these studies, the need for market intelligence has not been fulfilled effectively, because these studies suffer from the following limitations.

i. These studies cover a number of handicrafts items and carpet is only one of such items. Hence they lack in-depth study of carpets.

ii. Only two such studies have been conducted till now. Therefore up-to-date information is not available on continuous basis.

iii. The findings of these studies are not made available to all the exporters and manufacturers of the State, in an understandable form. These valuable reports generally remain confined to few Government officials.

To overcome the above limitations, following suggestions are put forward.

**Establishment of Market Information Cell**

It is strongly recommended that the Directorate of Handicrafts, Jammu and Kashmir should set up a Market Intelligence Cell. This information cell should be made a focal point in the State to render useful and timely services to the exporting community.

The information wing should actively engage itself in assisting the industry in developing exports. Accordingly it should provide information on (i) potential markets (ii) competing countries (iii) specific market requirements in terms of quality specifications, designs colours, packaging (iv) contact points and channels of distribution (v) trade regulations in the country and abroad (vi) exchange regulations (vii) tariff and non-tariff barriers (viii) facilities and incentives available to exporters (ix) procedures and documentation (x) national and international trade fairs and exhibitions and (xi) shipping and forwarding agents.

The information wing should continuously monitor foreign market developments in terms of market characteristics, prices and distribution channels. The
cell should maintain close links with various organizations both within the country and abroad. It should have close liaison with the Indian Institute of Foreign trade, Trade Development Authority of India, Handicrafts and Handlooms Export Corporation of India, Federation of Indian Exporters Organization, Carpet Export Promotion Council of India etc. for eliciting available information on export market. In overseas countries, the cell should maintain close contacts with Indian Trade Centre of Brussels, Importers Association and Design Institutes in various countries. The information collected should be properly documented and disseminated to various manufacturers and exporters in the State.

Stationing of Industry's Representative Abroad

It is felt necessary that there is a need to post a person abroad preferably in London or Hamburg with intimate knowledge of Kashmir carpets. This will assist in establishing a close liaison between the Kashmir exporters and the European importers in building up confidence in the latter. The main functions of the representative would be to collect and disseminate market intelligence regarding prices, imports from other countries, market trends and requirements in terms of designs, colour combinations, technological advances made in the world carpet industry and export regulations of these countries.
Market Exploration Studies

Presently exports of carpets from Jammu and Kashmir are directed mainly to West Germany, USA and some other countries in Western Europe. This over-dependence on a few markets has been one of the limiting factors in expansion of exports. This focusses attention on the need for market diversification for export consolidation and growth. Expansion of exports will greatly depend on exploration of new outlets. The new markets that are worth exploring may include Saudi Arabia, Kuwait, United Arab Emirates, Japan etc.

In this connection, it is suggested that in-depth studies need to be conducted in these countries to acquire knowledge about the specific requirements of the buyers in terms of designs, colours, specifications, sizes, quality etc. for formulation of an export marketing strategy.

EXPORT PRICING

Another important element of an effective export marketing strategy for Kashmir carpets is ensuring price competitiveness in the world markets. The basic point to be noted in this context is that for carpet of any given quality, price quoted for it
should, in relation to the price regarded as reasonable for it, neither be too high, which repels prospective buyers, nor too low, which gives the impression of a cheap quality.

However, quoting of competitive prices by the carpet exporters of Kashmir depends on the availability of carpet yarn, dyes, chemicals for washing etc. at international prices. Besides the wages constitute the single most important component of the cost of a carpet. It has been observed that the Kashmir carpets are not price competitive in general. Hence suitable steps should be taken, for ensuring adequate supplies of raw materials to the industry at reasonable prices.

The availability of an adequate amount of credit also plays an important role in the above process, as the carpet industry is a working capital intensive industry, with wages and raw material accounting for more than 80 percent of the total cost of production of a carpet.

Another important aspect of pricing strategy is to avoid the severe inter-se-competition among the carpet exporters, which results in lower unit value realisation for our carpet exporters. Such unhealthy
practices could be avoided by fixing floor prices for
carpets on one hand and making periodic checks on
prices paid to Kashmiri carpets in selected overseas
markets on the other. The price checks can be carried
out through organizations like Trade Development Autho­

rity of India or through the commercial staff attached
to our embassies in these countries, which will form
the basis for an appropriate corrective action.

From the point of view of Kashmir carpets
industry, the gaps in export market created by Iran's
withdrawal presents it with an enormous and valuable
opportunity, because after Iran, Kashmir and Turkey
are the only places in the world which produce superior
quality hand-knotted silk carpets. However, the extent
to which Kashmir could capture the market depends
basically upon the price-quality relationship of its
carpets vis-a-vis that of other countries like Pakistan,
Iran and Turkey.

It is in this connection that one should note
the statements of many foreign buyers that Kashmir carpets
were rather disproportionately more expensive compared to Pakistani carpets. The main factor held responsible

52. IIIFT, "Market Opportunities for Handicrafts of
Jammu and Kashmir" Indian Institute of Foreign
for this is the increase in the wages of Kashmiri weavers which went up by about 300 per cent during 1971-72 to 1975-76 as against an increase of 55 percent in the wages of Pakistani weavers during the same period. As wages account for a major share of the cost of production of carpets, there must be a good deal of truth in this observation. Similarly Kashmir carpets are also gradually facing competition from the Mirzapur Bhadohi carpets, which are cheaper in price due to their lower wage rates and even the cost of raw material used. At present a price differential of about 30 percent is necessary to persuade the buyer of a fine oriental carpet to choose a Kashmiri rather than an Irani piece, all other characteristics being equal.

DELIVERY SCHEDULES:

It is necessary to ensure strict adherence to the delivery schedules committed to the importers in overseas markets, if any exporter has to retain his customers or to increase their number. No customer who gets irregular supplies from an exporter can be expected to patronize him for long except in the most unavoidable circumstances.

Generally speaking Kashmiri exporters are able to meet the delivery schedules of their importers. Some difficulties were faced by the exporters during the boom period of 1979-80, on this account, due to the limited number of weavers available at that time. But now that problem has been overcome. Kashmiri carpet exporters are in a better position to fulfil the delivery schedules of their buyers. This is in quite contrast with the Mirzapur-Bhadohi carpet exporters who frequently fail to meet the delivery schedules of their customers.

The factors favourable to Kashmiri exporters are:

i) most of the orders are based on the 'on the spot' selection of carpets by importers/buyers and

ii) almost all the consignments are transferred by the air-transport and hence lot of time is saved on that account.

**WAREHOUSING FACILITIES**

The importance of warehousing facilities of a required magnitude in the importing countries should

54. Based on field investigations.

be appreciated for its immense value in enabling the exporters to meet their delivery schedules. Adequate stocks of popular varieties of carpets and those demanded often, if stored in warehouse located in importing countries, would enable timely delivery of the required items to the buyers. Hence, there should be a warehouse in each of the principal importing countries for stocking carpets, may be alongwith other handicraft items.

There are already such facilities available in some of the importing countries. Handicrafts and Handlooms Export Corporation of India (HHEC) offers warehousing facilities to exporters of woollen carpets to West Germany at nominal service charges and maintains its own warehouses in New York and Paris for stocking and selling its own merchandise. 56

The warehousing facilities in West Germany relate to the Carpet Warehousing Depot set up by it in hamburg in 1965 for assisting among others, the carpet exporters. The Depot assists in a) booking direct whole sale orders on behalf of exporters and b) receiving the goods of a consortium affiliated to it, storing them in the warehouse and selling them on behalf of

the members at prices fixed by the members themselves.

The warehouses of HHBC in New York and Paris are adjuncts to its operation of its Sona Stores. These warehouses feed the Sona Shops with timely stocks of various items of sale, in addition to stocking merchandise for selling it off the shelf to wholesalers.

However, most traders interviewed in Srinagar felt that routing trade through HHBC was time consuming, resulted in blocked capital and involved too high a service charge (2% of exports).

An effective carpet export strategy should therefore, aim at creating warehousing facilities for stocking carpets for sale within short notice, especially in important market. This task should be preferably assigned to Jammu and Kashmir Handicrafts (Export and Sales) Corporation (JKHC).

**EXPORT INCENTIVES FOR KASHMIR CARPETS**

In order to promote exports at a sustained and steady pace the Government of India has offered

58. Ibid. P. 161.
a number of incentive schemes to exporters to make export products competitive in the international markets. In their efforts to diversify the export trade, manufacturers are assisted by import licensing to meet the requirements of imported raw materials for production, the allocation of indigenous raw materials, fiscal rebates, cash assistance on selected products, credit facilities and so on.

The carpet exporters in Jammu and Kashmir are entitled to a number of export incentives as mentioned above. However, in the following pages a brief examination of the three main incentives will be made, viz:

i) Cash Compensatory Support

ii) Import Replenishment Licence

iii) Export Credit

1. Cash Compensatory Support

The scheme of cash compensatory support has been extended by the Government of India to certain selected products to enable them to withstand competitive conditions in the export market. The quantum of cash


assistance is usually calculated as a percentage of the net f.o.b. value.

The hand-knotted carpet industry is also one of the industries which has been selected for the purpose of awarding this incentives. Following are the rates of cash compensatory support applicable to carpet exports at present:

i) 10 percent of the F.O.B. Export Price of Silk carpets.

ii) 17 percent of the F.O.B. Export Price of woollen carpets.

The cash assistance on silk carpet exports has been allowed only recently, after much persuasion on the part of the local manufacturers and exporters. Obviously, the rate of incentive on silk carpets is much lower than woollen carpets. As Kashmir manufacturers export mainly silk carpets at present, therefore it is felt that the rate of incentive should be enhanced from 10 percent to at least 15 percent in respect of silk carpets.

The cash assistance on woollen carpet exports has been reduced from 20 percent to 17 percent. It is
suggested that the different incentive rates should be fixed for different quality categories so that carpets of higher knot density receive more incentive. Besides, the formalities required for claiming the cash assistance are complicated and time consuming. Hence the same should be simplified so that cash assistance is provided to the exporters without any delay.

**Replication Licences**

To cover the import requirements of few specified export industries, the registered exporters are allotted import entitlement for import content, in the manufacturing process, required for the export product. Carpet industry is also covered by this scheme. Following are the replication rates applicable to this industry.

1) 40% of the F.O.B. price of the silk carpets.

II) 20% of the F.O.B. price of the woollen carpets.

These incentives can prove highly beneficial for this industry. Carpet industry in Kashmir is badly in need of the imported raw material like silk and wool, in order to compete with the carpets from Pakistan and China etc. However, it has been observed that most of
the carpet manufacturers/exporters do not utilise the replenishment licence for the purpose for which these are issued by the Government. It has been estimated that about 95% of carpet exporters/manufacturers transfer these licences against some premium to the importers from other parts of India.  

Carpet manufacturers are of the opinion that they cannot import the raw materials from foreign countries against their licences because it is not economical for them to import small quantities. This problem could be solved, if instead of issuing the licences to individual exporters, the Government would authorise the Small Scale Industrial Development Corporation (SIDCO) of Jammu and Kashmir State to import the required raw material in bulk and then distribute the same among the exporter/manufacturers on quota basis.

**EXPORT CREDIT**

Export Credit refers to credit extended to the exporters for financing the export transactions. It includes any loan to an exporter for financing the purchase procuring, manufacturing or packing of goods meant for

61. Information based on field investigations.
overseas markets. Following are some of the types of export credit facilities provided to the exporters by various commercial Banks.

i) Pre-shipment finance/packing credit

ii) Post-shipment credit

iii) Medium and Long Term Credit

These loans are provided at a relatively concessional rates of interest to the carpet exporters. It was revealed by the survey that most of the carpet manufacturers/exporters in Kashmir avail of these facilities. However, when compared to the export credit facilities provided by Pakistan Government to its carpet exporters, the facilities seem to be inadequate. According to ITC report, credit under the Export Refinancing Scheme is allowed to carpet exporters in Pakistan by commercial banks, at extremely concessional rates i.e. 3 percent against Letters of Credit or firm orders. Whileas in India, the minimum rate of interest charged on such loans is 8 percent per annum. Therefore, the need for lowering down of interest rates on export finance is strongly recommended.

Role of ECGC

Export Credit and Guarantee Corporation of India plays an important role in the field through its various policies and guarantees providing cover for commercial and political risks involved in export trade. It is not a lending institution; export finance comes through the commercial banks. But ECGC's policies and guarantees are collateral of security to the exporter as well as the banker. They make it easier for the exporter to obtain through the banking system the finances that they require.

ECGC issues a variety of commercial and political risks. The main commercial risks covered are the insolvency of the overseas buyer and his protracted default to pay for the goods accepted by him. War, insurrection, sudden import restrictions and embargos on remittances from abroad are some of the political risks covered.

It has been observed that most of the carpet importers in Jammu and Kashmir are unaware of the significant role which the ECGC plays in the promotion of the export trade. This is also indicated by the fact that only small number of exporters have contacted
ECGC's local office during the last about two years. It is therefore, suggested that the carpet exporters of Kashmir should be made to realize the role and functions of ECGC. For this purpose the ECGC authorities should launch a publicity campaign in the State.

Complicated Nature of Export Procedures

It was generally reported by most of the exporters that the present export procedures and policies of the Government of India are highly complicated, cumbersome and time consuming. There is lot of paper work and official routine involved in the export procedures. This acts as a discouraging factor for new exporters. The following instance illustrates the complicated nature of export procedures.

The cash incentive on export of silk carpets is being given by the Controller of Imports and Exports, only when it is proved that the intention of the foreign buyer is resale of the carpets purchased by him. In case of woollen carpets, the controller is satisfied with the bulk and quantity of the carpets sold. But very strongly in case of silk carpets, the exporters, are being advised by the concerned agency to procure the mail written order on the letter head of the foreign buyer under his seal and signature to prove
that the sales have not been affected to the foreign tourists visiting valley.

The authorities are completely in know of the fact that the buyer comes personally to Kashmir on a buying trip and physically selects the goods, signs the order form of the exporter. He feels it very inconvenient to type out the order in his country on his own letter head and to send it back to the exporter. Besides, this practice is not prevailing in other parts of India, as silk carpets are exported only from Kashmir within India, therefore it becomes very difficult for Kashmiri exporter to make the customer understand the purpose of such an order. Moreover there is no reason why his order on spot given in Kashmir should not be accepted as genuine even though it may be on plain paper.

The above example clearly shows the complicated and irrational nature of export rules and regulations. It is, therefore, suggested that the Government of India should simplify the export procedures to the maximum possible extent.

In this connection the Government of Jammu and Kashmir has done a commendable job by at least bringing all the agencies/organisations involved in the export