CHAPTER I
INTRODUCTION

1.1 Introduction

The development of a country mainly depends on the level of industrialization. Industrialization is a process which accelerates economic growth and effects structural changes in the economy. Jawaharlal Nehru (1958), the first Prime Minister of India, had emphasized that the real progress must ultimately depend on industrialization. For rapid industrialization, existence of both large scale and small scale industries are necessary. Industries are the key to rapid economic development of any country.

In India, since the inception of planning, industrialization has been given priority and the Second
Five Year Plan (1955-60) laid a firm foundation for industrialization. In the subsequent Five Year Plans, with the aim of achieving self-reliance and sustained economic growth, diversification of industries, both in private and public sector, was envisaged. Small scale industries were also given importance along with large scale and medium scale industries. Small scale sector received a boost in the Third Five Year Plan (1960-65) on the ground that it suited a country like India which faced, among other things, capital deficiency, unemployment, adverse balance of payments and regional disparities. With the successive Five Year Plans and the Industrial Policy Resolutions adopted by the Government of India, the small scale sector has experienced a phenomenal growth. In terms of employment generation, this sector is next only to agriculture and accounts for about 25 per cent of the total exports of the country. In terms of value added, it contributes about 40 per cent of the manufacturing sector. About one third of total industrial production is contributed by the small scale sector. It also provides employment opportunities to 12 million people (Kurien 1991). It becomes reality that small scale industries constitute the back-bone of the developing nations like India. Realizing the importance, various Government aided corporations and other related institutions are paying more attention to the development of
the small scale sector. Consequent to the priority given to small industries by the Government, this sector had already recorded a spectacular progress. The number of small scale units was 5.50 lakhs during 1975-76 and had increased to 19.40 lakh small scale units in the year 1990-91. With the increase in the number of units, the problems associated with the small units have also increased (Dahotre 1994).

The various committees appointed by the Government of India from time to time, to study the problems of the small units, have come out with various findings, the principal among them being the marketing. Based on the recommendation of the Industrial Conference held during 1947, the Small Scale Industrial Board was formed in 1952. This Board was vested with the power of overall control of industries in the country. Later during 1955, the National Small Industries Corporation (NSIC) was started to assist small units in marketing their products.

The Corporation was also assigned the role of hiring high cost machines to the small units. Setting up of Small Industries Service Institutes (SISI) during the second plan period marks another important step taken by the Government in assisting the small units. The Small Industries Development Corporation (SIDCO), set up in each state, also
helps the small units in marketing their products. They just procure orders from Government Departments and pass the same to the small scale units for production.

1.2 Significance of Marketing in Small Scale Industries

Marketing occupies an important place in the management of small scale industries. It is a key factor in determining the success of an industry, as Drucker (1954) states that marketing is the distinguishing and the unique function of business. The American Marketing Association (1960) defines marketing as the performance of business activities that direct the flow of goods and services from producer to consumer or user. Marketing serves as the bridge between production and consumption. It includes all activities necessary to place tangible goods in the hands of consumers. Production is not an end in itself, it is meant for consumption. Hence it is essential that production must have a distinct customer orientation. The origin and essence of production should be motivated through the understanding of the needs and desires of the consumers.

An exchange or transaction takes place when a market offering is acceptable to the consumer who is prepared to pay in return to the product or service. The ultimate goal of any business is to attain maximum profit and that could be achieved through effective marketing system. Efficient
marketing has significant place in the economic development of a nation. Economic growth not only means an ability to produce goods but also to make them available to the ultimate consumer in the right time, at right place and in required quantities at reasonable price.

Marketing involves three basic inputs such as product, promotional methods and distribution system. These three are the core of the marketing programme and they must be integrated to achieve maximum consumer satisfaction and optimum profits. Marketing strategy for the small firms should be based on the study and analysis of all the elements of the marketing mix. An attempt should be made to utilise the combination of product, price, physical distribution and promotional activities to the optimum level. The degree of success depends upon the degree of integration of marketing mix, the resources of small scale units and the consumer's satisfaction. Therefore, it is necessary for the entrepreneurs to be proficient in various marketing tasks.

Small scale industries occupy a strategic position in the Indian economy. It plays a vital role in fulfilling the socio-economic objectives of the nation. Today the small scale sector accounts for about 45 per cent of the total industrial production, 30 per cent of the country's exports
and two thirds of the total employment in the manufacturing sector of the country (Desai 1989). It has become one of the thrust areas of national development. It not only brings about economic change but also social change through widespread entrepreneurship among various sections of the society.

The effectiveness of an enterprise is the result of efficient management of its various functions like production, finance, marketing etc. In specific terms, the success or failure of an enterprise depends upon the way the two basic functions viz. marketing and innovations are performed. This is more true in case of small scale industrial units.

The marketing concept is yet to be fully understood and accepted by the small scale sector in India. Marketing mix strategy is also employed partially. Marketing management has now been considered to be of less importance by small scale industries as compared to production management, finance management and purchase management. Marketing problems, therefore continue to plague this sector. Structural limitations like inadequate resources for product promotion and quality control as well as lack of marketing experience and technical know-how have kept marketing at a low profile (Korba 1982).
1.3 Marketing in India

Marketing is in the state of infancy in the developing nations. Drucker (1958) views it as the main reason for under development in the third world countries. Neelamegam (1979) opines that India is still far away from the modern marketing concept. The reasons given for this are excessive dependence on agriculture and excessive demand in relation to the supply of products. According to Upadhyaya (1979), the very strength of our traditions is an important cause for the delay in the introduction of more free modern marketing in India.

Entrepreneurs and the consumers are the victims of the traditional thinking that the modern marketing tools such as marketing research, packaging and promotional techniques etc. increase the cost of the products. There is a need to make them understand that haphazard production and unwarranted industrialization, cost the economy very dearly and destroy the budding entrepreneurship. India has vast infrastructure and is absorbing the modern technology. It also has wide domestic markets. But its performance has remained dismal in respect of promotional techniques and the development of efficient distribution system.

Small industrialists face a number of problems in the field of marketing and has to take risky decisions. Many of
these units are locked into a continuous competitive struggle with other manufacturers. There is a great urgency to lessen the risks and to make more correct decisions with the use of effective marketing research. Timely problem recognition, accurately defining what is to be decided and acquiring adequate information on which to base the decisions can sharply reduce risks. Another vital role of marketing research for small scale units is that of opportunity discovery. Opportunities may be found in new tastes or needs of buyers, in changing marketing channels or in different market segments. Marketing research is needed as a basis for existing or prospective small industrialists in taking right decisions about improvement or expansion of enterprises already in operation or about launching new ones.

Market intelligence may help in exploring newer ways to increase turnover and net profits. It can throw up ideas for product development, newer uses and application of established products, additional markets for products both in the sense of different types of customers and geographic areas that could be cultivated, old products that could be discontinued, products which need improvement in performance, in appearance or in both, and means by which to step-up the productivity of personal selling and for the physical distribution system.
1.4 Research Background

The literature in the field of small industry in India are varied and vast. Studies dealing with marketing management practices, industrial and institutional level have to be undertaken exclusively. Such management practice studies would lead to identification of major problem areas for rectification both at national and institutional levels. Eventually, these studies may also enable the researchers to build a marketing theory which could be appropriate to Indian conditions in particular and perhaps to the developing world in general (ICSSR 1975).

There are studies focussing the importance of marketing for the success of small scale industries. Sharma (1975), Acharya and Rao (1975), Sarup (1978) and Ramani (1980) have stated the importance of marketing for the success of small scale industries. While Srinivasan (1984), in his study of marketing orientation to the success of small scale industries, found that the performance of small scale industries are not correlated with marketing decision variables such as product, price, promotion and distribution and concluded that marketing decisions are not significant for the success of small scale industries. Marketing problems faced by small scale sector were dealt by Bhave (1976), Tekade (1983), Reddy (1983), Korba (1987), Rao
et al. (1989) and Deb (1992) at macro level. All these studies have taken all types of industries from agro based industries to metal based industries.

Bhave (1976) has studied marketing policies and organizational procedures adopted by small scale industries in Pune Region. The study found that most of the units had local markets and small capital investment. No unit has undertaken an in-depth study of the markets before producing and selling their products. He found that small units which have an independent marketing section have some common characteristics such as period of existence over five years, capital investment over one lakh and sales volume over Rs. two lakhs per annum.

Tekade (1983) carried out a study to know the application of marketing techniques in small scale industries of Nagpur Region. He arrived at a conclusion that small industrialists are yet to understand the efficacy of marketing techniques and skills in increasing the sales. He further states that lack of raw materials, inadequate finance and inefficient management are the fore running factors which escalate the cost of production of the small scale units and weakens their competitive strength in the market.
Reddy (1983) had taken the size of investment, type of industry, location of units as the basis for analysis with the variables on share of sales, channels of distribution, pricing and promotional methods. He found that relationship between size, type and location of units are not significant in their levels of success. He referred the level of success on the basis of capacity utilized. Marketing and finance are the primary reasons for under-utilization of capacity followed by raw material problems.

Korba (1987) studied the management of marketing function in small scale sector of Andhra Pradesh and highlighted the importance of marketing function with other management functions. He concluded that small scale sector of Andhra Pradesh suffers from marketing problems of a high intensity and the removal of which is feasible through integrated marketing management of the four 'Ps', namely Product, Price, Place and Promotion.

Rao et al. (1989) studied the marketing practices of small scale industrial units in and around the twin cities of Hyderabad and Secundarabad. They observed that existence of Marketing philosophy is in an implicit form and there is a need to educate small entrepreneurs with respect to the importance of marketing to make their ventures successful.
Deb (1992) conducted a study on marketing practices followed by 79 small scale industries in a district of Assam. He found that direct marketing was the most popularly used channel of distribution and major marketing operations are in the local area. The study found that only 5.06 per cent of units spend money on marketing survey of their products. He concluded that most of the small units are unaware of the importance of market research or survey.

These studies however tend to underline the fact that marketing is an important aspect to be studied while launching an enterprise. These studies further indicate the marketing problems of small scale industries generally, but only very few attempts have been found to study the specific industries. It is in this backdrop the present study is an attempt to know the marketing practices of small scale pump manufacturing industries and to analyze the various problems relating to marketing of small scale industries.

1.5 The Research Problem

With the rapid growth of small scale sector and the resultant competition, the market can no longer be taken for granted. The customer has developed a psychological resistance to the quality of many small industry products and low price alone is not enough to promote their (small
scale sector) sales. The domination of the distributor-wholesaler, especially at major urban centres, continues to deprive the small manufacturers (units) from making adequate profits (Korba 1987).

In spite of a number of protective measures introduced by the Government, the big units continue to thrive and earn large profits at the cost of small scale industrial units. It is mainly because they dominate the markets through effective publicity and by creating brand psychology. The policy makers have failed to recognize that many industrial sectors also face demand problems. While India has a large population and a large potential market, the markets can be tapped only if the industry can turn out the products at lower cost with good quality. The small sector has suffered because it has become extremely competitive. Increase in raw material prices in many cases has forced the entrepreneurs to reduce the quality just to retain their markets.

The first Report on the Census of small scale industries conducted during 1977 analyzed the problems faced by the small scale industries and reported in its finding that problems associated with finance occupied first rank and problems associated with raw material was given second rank and third position was shared by marketing problems.
But the Second Census of small scale industries conducted during 1989 reported that marketing problems were ranked second to financial problems. This clearly indicates that marketing problems are increasing steadily and if it is not checked it may become the first ranking problem in the next Census.

1.6 Status of Pump Industry in Coimbatore

Coimbatore is the oldest industrial city in South India. It is renowned for the evolution of pump industry. The development of pump industry dates back to early 20's when Coimbatore produced the first pump in India (Data Bank - Economic Times 1992). The pump industry got an added fillip due to the rural electrification programmes which enabled the villages to utilize power for operating pump sets. Annual production of pumps has increased from few hundred in 1920 to around seven lakhs pumps at present. The total capital employed in the pump industry is estimated to be around Rs.700 million. More than 30,000 people are directly employed by the industry (Economic Times Market Watch 1992, Bhat 1994). Consequently, pump sets became more popular and a number of industries for the manufacture of pump sets sprang up. This lead to a competitive market and unhealthy competition by undercutting prices also started. This affected a number of small scale units which
resulted in under utilization of capacities. Pump industries are facing a potential threat due to recession in the market (DIC 1992). The problems faced by these industries in the marketing front are poor product quality, poor bargaining power, lack of service after sales, lack of knowledge in marketing and excessive competition (DIC 1992). Therefore, to withstand in the market and to cope with the growing competition the pump manufacturers are bound to know the various marketing strategies.

1.7 Aims and Objectives

The main aim of the study is to find out the marketing practices and to assess the performance of pump manufacturing units in Coimbatore. The specific objectives of the study include:

1. to study the marketing distribution system of small scale pump manufacturing units;
2. to find out the marketing expenses incurred under different channels of distribution;
3. to identify the marketing problems faced by these units;
4. to assess the performance of pump units in terms of investment, turnover, profit and capacity utilization; and
5. to suggest suitable measures to improve the existing system of marketing.

1.8 Hypotheses

1. The pump manufacturing units which use direct channel for marketing their products have more turnover than the units which market through intermediaries.

2. Marketing expenses are more for units which use direct channel compare to units which market through intermediaries.

3. The performance of units which use both channels (direct and indirect) for marketing are better than the units which use either direct or indirect channel only.

1.9 Methodology

1.9.1 Data Base

In Tamil Nadu, Coimbatore District ranks next to Chennai in the number of registered small scale industries. (Tamil Nadu - An Economic Appraisal 1989). However the recent Economic Appraisal (1994-95) reported that the first place, in terms of the number of units had gone to Coimbatore. Keeping the steady growth of small scale
industrial units in the State, Coimbatore has been selected as the study area for the present investigation. Among the various types of small scale industries, pump industries are taken for the present analysis since Coimbatore is renowned for manufacture of pumps (Swaminathan 1994). Since specialised industrial sectors adopt their own marketing strategies, a single type of industry, namely pump manufacturing sector is selected for the present study to have a clear cut view.

The study is based on both primary and secondary data. The secondary data is collected from the published and unpublished reports and the official records of the District Industries Centre, Small Industries Service Institute, Small Industries Development Corporation, Bureau of Indian Standards, District Statistical Office of Coimbatore district and Directorate of Statistics, Small Industries Service Institute and Small Industries Development Corporation of Chennai. Primary data is collected through pre-tested structured interview schedule. The schedule seeks information on description of the units, details on market area, channels employed, marketing expenses, terms of selling and sales promotion strategies, working capital, expenditure and problems of the units. Pump manufacturing units are mainly concentrated in and around Coimbatore City. There are 420 units engaged in pump manufacturing
activities. These units are classified as certified units, uncertified units and assembling units. The Certified units manufacture pumps according to the specification of the Bureau of Indian Standards. The Uncertified units manufacture pumps according to their own standards. The Assembling units make pumps by purchasing the spare parts and do machining works and assemble pumps.

1.9.2 Sample Design

Among the 420 pump manufacturing units in Coimbatore, 110 are certified units, 250 are uncertified units and the remaining 60 are assembling units. Twenty five per cent of the units in each category are selected using stratified proportionate random sampling technique for the present study. By this process 28 certified units, 63 uncertified units and 15 assembling units have been taken for the study. Hence the total sample capacity accounts for 106 units for the present study.

1.9.3 Tools of Analysis

The study has made use of a number of statistical tools like averages, index numbers and correlation and regression techniques. The correlation techniques are used to assess the performance of the sample units. Index numbers have been used to find out the growth of units in terms of
investment, turnover, profit and capacity. Regression models are constructed to find out the variables that determine the change in the growth indicators like profit, turnover and investment.

1.9.4 Limitations

The study covers only pump manufacturing units in Coimbatore and the findings may not be generalized to macro level. Some of the respondents were quite reluctant to provide the data. A lot of persuasion had to be done for getting their response. They might have understated their profit and turnover, overstated their investment and depreciation. It can be safely assumed that such understatement or overstatement must have been fairly uniform among the respondents and hence might not affect the relative results. Some of the units were not taken for growth rate analysis, since these units are started recently, that is, less than four year period.

1.10 Organization of the Thesis

The present study is organized into five chapters. The first chapter deals with introduction to the study, research problem, objectives, sample design and methods of data collection. The second chapter is on growth of small scale industries and pump industries in Coimbatore. Concepts and
review of literature are given in the third chapter which reviews earlier studies in the field. The fourth chapter is on analysis and interpretation of the data collected in the field. This chapter is divided into five sections. Section one explains the socio-economic characteristics of the sample units and section two examines the marketing characteristics. Section three analyses the problems of these units. Performance of the units are reported in section four. Growth pattern of these units and regression models for performance indicators are explained in section five. The fifth and concluding chapter presents summary of findings and suggestions.