CHAPTER - III

MARKETING PROBLEMS OF SMALL SCALE UNITS
– A CONCEPTUAL STUDY
While in the chapter second, a brief profile of twin coastal districts of Karnataka State namely Dakshina Kannada and Udupi in terms of Geographical location, Cultural features, Demographic features and potentialities they offer for the development of small scale industries are discussed, in the present chapter we have carried out a conceptual study of marketing problems of small scale units in terms of marketing concept, marketing mix, dimensions of problems like poor marketing mix, shortage of raw materials and labour, poor credit recoveries, stiff competition, problems in export marketing and other marketing related problems.

**Introduction:**

Marketing is one of the essential ingredients employed by businessmen in their never-ending search for survival, growth and profit. Marketing as a discipline aims at focusing on the nature of the interaction and relationship between the firm and its environment. Since marketing includes various activities covering assessment of the demand, study of competition, government regulations, behaviour of current and potential consumers, product policy, pricing, distribution and promotion, significance of the same cannot be under-estimated.

"Marketing" is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives".

A new philosophy of doing business called 'Marketing Concept' developed as business people 'began to recognise that marketing' is vital to the success of their organisations.

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Marketing concept is a philosophy of business that states that the customer’s want and satisfaction are the economic and social justification for a firm’s existence. As a result, all activities of a company should be directed towards identifying the needs of the customers and then satisfying those needs, at the same time make profits by fulfilling customer’s needs.

**Marketing Mix:**

It is the term coined by Neil H. Borden and is used to describe the combination of the fair inputs which constitute the core of a company’s marketing system: the product, the distribution system, the price structure and promotional activities. The concept of ‘Marketing Mix’ according to Borden, comprises of list of the important elements or ingredients that make up the marketing programme, the forces that bear on the marketing operation of a firm and to which the marketing manager must adjust in his search for a mix or programme that can be successful.

**Integrated Marketing Concept:**

Many a time the problem of marketing in the small scale units is looked in a narrow sense. The entrepreneurs as well as many promotional organisations are viewing marketing synonymous to distribution, viewed in that sense much importance is attached to the decision areas like choice of middlemen, choice of distribution and storage. That is what we can call the marketing myopia prevailing among many businessmen. Infact, marketing, in its modern sense, is an integrated concept which takes in to account, every activity of the enterprise designed to satisfy the needs of customers. Hence, there is need for the introduction of the total integrated marketing concept by the small scale units.

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Components of Marketing Mix:

After having decided target market and market demand, the entrepreneurs design a marketing programme or mix. Thus, marketing mix for a small scale unit refers to four vital ingredients namely, product mix, price mix, promotion mix and physical distribution mix. They are also known as 4 P's of marketing mix. In the context of marketing problems confronted by small scale units, the application of marketing mix assumes special importance. Hence, there is a need to give a brief discussion on marketing mix with special reference to small scale industries.

Product-Mix:

The ‘product mix’ comprises mainly, the product planning and development, product line, branding and packaging. Product planning is a systematic decision making, relating to all aspects of the development and management of a firm’s product mix. The product line in fact tells the width and depth of the product mix of a firm. In order to attract more and more customers the strategy and scheme of offering group of products having related characteristics and falling within given price range is devised and pursued. Branding is a problem to the small scale industries. Since the size of operation is limited and their markets are restricted, branding is not considered a serious area of decision making. In today’s marketing strategy, packaging, infact, is used as an independent and potent selling tool. In the case of small scale units, packaging has not been given much importance because the advertising is rarely observed.

Price Mix:

Price mix includes necessary strategies pertaining to the location of customers, price flexibility, related items with in a product line and terms of sale.

It also includes pricing strategies for entering a market, especially with a new product. Among different components of marketing mix, price plays an important
role in bringing about product’s market integration. Price is the only element in the marketing mix that produces the much wanted revenue. Pricing can be used as a strategy to realise the goals of an enterprise. The small scale units follow strategies like skim-the-cream pricing, penetration pricing, preemption pricing and extension pricing. They also use various types of discounts as a total under pricing strategy.

**Promotion Mix:**

Promotion mix of a small scale unit includes policies and procedures relating to personal selling, advertising and sales promotion. It also includes sales promotion techniques like trading stamps, coupons and prize contests. Personal selling is that part of promotion involving oral and presentation in a conversation with one or more prospective buyers for the purpose of making a sale. In most of the small business concerns personal selling plays a key role in their marketing effort.

Advertising is considered to be the most vital ingredient of promotional strategy. In today’s world we hardly see any business enterprise that does not spend any amount on advertising due to a number of obvious advantages. Though advertising has many advantages the small industries are generally shy of using it. The major factor deterring the small units from choosing this avenue is its high cost. Further, the decisions relating to how much to spend, where to advertise, what agency to be selected and the final target group are also remaining complex to the small units. Sales promotion plays a crucial role in the introductory and maturity stages of the product life cycle and also to be specially effective during periods of rapid inflation.

**Physical Distribution Mix:**

The fourth element, physical distribution mix comprises of the management of channels by which ownership of products is transferred from producer to customer
and policies and procedures, relating to degree of selectivity among whole salers and retailers.

Distribution channels play a very important role in achieving the marketing objectives of a company. Undoubtedly, value utility is created by the manufacturer of product or service, but time and place utilities are created by distribution channels. According to Drucker,\textsuperscript{105} both the market and the distribution channels are often more crucial than the product, they are primary and the product is secondary.

Infact, there is no one system of distribution which can satisfy the needs of each and every enterprise. It is also not uncommon that enterprises simultaneously use different ways of distribution. The channel that works well, when a firm is small, may turn out to be inefficient when it grows large and can handle some of the distribution functions on its own. What ever may be the type of channel that is going to be selected, the decision finally rests on various factors such as issues relating to market, product, company and the environment. Therefore, the channel decision is really a difficult task involving the interplay of various forces.

Further, it has been the experience of the small industries that they find it difficult to locate a good channel that is most suited to their requirements of the various problems of marketing, distribution is considered to be the most painstaking for the small entrepreneurs.\textsuperscript{106}

\textsuperscript{105} Drucker P., \textit{Managing for Results}, Allied Publishers, Bombay, 1970.

Problems of Small Scale Units:

Recognising the vital role small industries play in the national economy, the central and state governments have taken active steps to promote and foster their growth. These measures have been particularly effective; but many of the problems of production, marketing and finance still continue to afflict the Small Scale Industries. While some of them are more or less common to a wide range of small industries, others have particular relevance to a group of small industries and to industries situated in rural and backward areas. As part of the programme to improve the prospects for different small industries, surveys on the “industrial outlook” for different small industries have been conducted on an All India and regional basis so as to build up data on the economic and statistical background against which plans of development may be framed. These surveys, which have been carried out by economic investigation teams attached to Small Industries Service Institutes in each state have thrown valuable light on the various difficulties and problems faced by different small industries and have recommended measures to overcome them.

Dimensions of the Problem:

The problems confronting SSIs can be identified in two groups namely external and internal. External problems are those which are beyond the control of owners managing the units. These problems include infrastructural bottlenecks, non-availability of scarce critical raw materials, power shortage, government controls and policies, fiscal duties, inflationary and recession trends in the economy, lack of co-ordination among agencies responsible for the promotion and growth of SSIs,


natural calamities, wars and sympathetic strikes. The internal problems are mainly at unit level. These problems include inadequate technical know-how, location disadvantages, improper layout, obsolete machinery, weak market feed back and market research, high cost of input, poor sales-promotional techniques, unimpressive brand and packaging, siphoning away of funds and adverse debt equity ratio. These problems make the unit gradually sick and economically non-viable.

Thus, the problems of SSIs are manifestation of several maladies in the working of the units. They can be dovetailed in to Production, Marketing, Finance and Management.

**Problem Areas - Management:**

At this stage, it becomes essential to discuss briefly the problems of small scale industries in the functional area. The management problems confronting SSIs include absence of proper planning of resources, poor managerial skill on the part of entrepreneurs, lack of risk taking entrepreneurs, lack of diversification and expansion, inadequate personnel to man the different functional areas and lack of co-ordination. These problems can be solved by the co-ordinated efforts of entrepreneurs and co-ordinated functioning of promotional agencies. Thus management is the basic input required for making the units successful. Further, a complex business situation requires dynamic leadership coupled with sharp business acumen on the part of the entrepreneur of the concern.

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**Production:**

Another problem area happens to be production; Production problems may be technical or managerial, wrong selection of equipment, inadequate tooling and production aids, lack of up-gradation of technology, improper lay out and lack of research and development set up. These problems can be solved through efficient and sound production planning and control system.

**Finance:**

Yet another potential problem area confronted by small scale industries is Finance. The financial problems\textsuperscript{110} are some times, created accidentally or deliberately by entrepreneur himself. The financial problems arise on account of high cost escalation and eventual losses due to erratic project appraisal, high rate of interest payable to banks and financial institutions, unusual delay due to inadequate funds for acquisition of fixed assets at the project execution stage. However, these problems can be overcome through efficient financial planning and management. Hence, all these financial problems gradually make the unit financially weak and to suffer from poor marketing backup.

**Marketing:**

Many authors and authorities have identified, analysed and expressed themselves the various marketing problems faced by SSIs at different times and contexts. These are enumerated in the subsequent paragraphs.

Of all the problems confronting SSIs, it is marketing problem which has been crucial for them especially in the present new business environment. Hence, in the present chapter a conceptual study of the marketing problems of SSIs has

\textsuperscript{110} Reddy T.S & Reddy L.V., Opcit.
been considered appropriate and relevant to discuss. One can visualise marketing problems of SSIs in two forms; namely, problems associated with the product and those with the market for products.\textsuperscript{111}

**Product and Market Oriented Problems:**

Problems associated with the product arise from lack of standardisation, inadequacy of products and packaging designs, difference in the quality of raw materials used, insufficiency of precision and inconsistency in the final finish of products. The market-oriented problems stem from inadequate resources at the disposal of SSIs for identifying market outlets and market characteristics of their products and also from inability to tap profitably the existing new market outlets and contexts.

Different countries have perceived marketing problems in different ways. For instance in Japan since most small industrial units supply their products to the parent body, the problem of marketing does not confront them in an acute form. However, there is a question of delayed payment for which a special legislation has been enacted so as to ensure that the payments are made within a reasonable period of sixty days by the large units to the suppliers.\textsuperscript{112} In China marketing poses no special problem because overall planning is done by an agency which determines how much units of each product is to be produced by particular unit. These are purchased by the big plants in case of intermediate parts and by the government stores for marketing across the counter sales. But in India marketing

\textsuperscript{111} Sharma A.P., Marketing Problem of SSIs, Based on presidential address at National Seminar on Marketing Strategy for SSIs, Vigyan Bhavan, New Delhi, 11 March, 1975.

has always been a major problem for small industrial units although the performance has been significant.

**Empirical Evidences:**
The various marketing problems, their causes and impact on the working of the Small Scale units have been discussed in the subsequent paragraphs.

**Raw material and labour:**
One of the major impediments to the growth and survival of small scale industries is shortage of raw materials and power leading to a gross under utilization of capacity. Because of their smallness and weak financial position, SSIs have to utilize the services of middlemen to get raw materials on credit which results in higher costs of procurement. Poor quality of raw materials affects the quality of their finished goods. Moreover, irregular supply of certain raw materials adversely affects their production programmes. Wild fluctuation in prices of raw materials is another problem confronting small units. The small scale industries also face the problem of severe labour turnover, scarcity of skilled work force.

**Competition & Credit recoveries:**
Competition\textsuperscript{113} from large industries who can under quote prices and still survive for some time; sometimes the attitude of the big business houses deliberately tend to ditch away the small units and ultimately to uproot the unit from the market. The heavy advertisement and publicity, public relations media adopted by big units make the market for the small units tough and inaccessible resulting in acute cut-throat competition. Limitations in generation of credit availability has been a major handicap for the SSIs.\textsuperscript{114} A small unit’s credit generation is as small as its size;


costly raw materials cannot be procured on credit. They face a situation where every thing for them is based on cash and carry system but whatever they offer goes only on credit. Further, the small scale units rely mainly on provision of credit and lower prices to promote their products.\textsuperscript{115} The competitive marketing attributes are beyond their reach. Again, recoveries from sales have become one of the most difficult problems. It is an established practice for buyers to expect credit from sellers. This practice is forced upon small units by the large ones. Initially credit was available for a month and two, but with a very tight money market, of late, a situation has been developed in which the buyers do not pay their suppliers for over 12 months and get away with it. According to All India Census of SSI, 1973-74 among the major problems, marketing ranks third apart from raw materials and finance.\textsuperscript{116} Second All India Census, 1987-88 also revealed that 14.36 percent of the SSIs are found with severe marketing problems. Small scale units depend mostly on local demand and sources of supply of raw materials. They lack the knowledge of changes in customer’s taste and fashions. Majority of the SSIs are run on traditional lines.

The marketing problems identified by planning commission in its. IX plan are; lack of communication and market information, poor quality of raw materials, lack of storage and warehousing facilities, and lack of export and marketing promotional strategy.\textsuperscript{117}


\textsuperscript{116} Vivek Deolankar, 'Marketing Assistance to SSIs - How Government can help?', \textit{Southern Economist}, Vol. 23 (19), Feb 1, 1990.

\textsuperscript{117} Brij Bhushan, SSIs in the New Era of Economic Liberalisation, Challenges and Privileges for the Ninth Plan, \textit{Kurukshetra}, May, 1997, PP 44 – 47.
**Poor marketing mix or plan:**

Small Scale Industries face problems of marketing their product due to limited resources and experience. They are in most cases unable to spend huge sums on research and development, publicity and sales promotion measures. The demand for their product also remains inadequate due to the lack of popular brand names and organised marketing arrangements.\textsuperscript{118} Besides, several studies have indicated that most of the SSIs cannot organise all marketing activities on their own and are dependent on various government agencies for information on market opportunities and guidance in undertaking product planning, pricing, sales promotion and selection of distribution channel which are the ingredients of marketing mix or a plan. The main difficulty was stated to be the higher rates charged by the advertising agencies. Again, in the absence of marketing channels of their own, many small units sell their products to large selling houses.\textsuperscript{119} Voltas for instance, market a number of products produced by the small units. Similarly, the Bata Shoe Company sells shoes manufactured by the small scale units. As a result, the small units invariably get a raw deal.

**Problems in Export Marketing:**

In the arena of export marketing,\textsuperscript{120} the main problems affecting the SSIs are non-availability of quality raw materials, competition from multinational corporations, absence of suitable product development with export orientation, lack of quality control and maintenance facilities and lack of research and development. Due to

\begin{itemize}
  \item \textsuperscript{118} Subramani N., A Long Term Perspective for Solving the Problems of SSIs - An overview, *Southern Economist*, June 1, 1995, PP-5-7.
  \item \textsuperscript{120} Chandra Prasad J. & Narayana Rao V., Small Scale Industries in the Arena of Exports, *Southern Economist*, Jan 1, 1996, Vol. 34, PP - 7 – 12.
\end{itemize}
liberalisation and globalisation the problems and challenges of SSIs with respect to
exports have further intensified.

**Other Marketing Related Problems:**
Apart from the marketing problems classified above,\(^\text{121}\) the other specific problems
which they face in marketing of their products can be enumerated as lack of up-to-
date market information; lack of quality control; poor finish and designing of
products; scale of production; lack of after sales service; poor bargaining power;
competition; ignorance of potential markets and lack of adequate finance. These
problems arise in the units with specific causes.

**Present Scenario in the study area:**
The major problem\(^\text{122}\) that SSIs face in the study region is that they have been
almost removed from the modern marketing scene. It must be admitted that not
much has been done to promote SSIs in the present marketing system. Promotion
mechanism of purchase and price preference in Government purchase could help
the SSIs to a limited extent. The small scale industries face a lot of problems in
marketing their products even in niche areas such as local market. The major
disadvantage of a small scale unit in the present competitive environment is lack of
resources. They have limited access to capital and face higher capital costs and
their access to information and market is limited. Lack of resources to stand on
their own in a competitive market or to pay for various services rendered to them
has hit the SSIs.

Small Scale Industries in the study area are confronted by a number of
problems in the area of marketing of their products besides finance and power

\(^\text{122}\) Irmiraya K.V., Secretary, D.C Office, (SSI), GOI, SSIs are Indispensable to Economic
shortage. These units are faced with cut-throat competition due to too many units producing similar products, coming in to existence. Too much concentration in the local market by the units has also resulted in keen competition among the small scale units. Slow credit recovery has badly hit the day to day business activities of the units. The small scale units without sales outlets of their own, are finding it extremely difficult in distributing their products. This has led to poor distribution contact among the units. Further, absence of Government purchases and price preference, unfavourable government policy, inadequate supply of raw materials, lack of sufficient demand, lack of export market information, modern storage facilities and poor marketing back up are stated to be major problems confronting small scale units in the study area.

Thus from the foregoing discussion on conceptual study of the marketing problems of small scale industries, we can observe that marketing includes the various activities like assessment of demand, study of competition, Government regulations, behaviour of current and potential consumers besides marketing mix. Marketing being philosophy of business has become vital to the success of any business. In the context of marketing problems confronted by small scale units, the application of marketing mix in terms of product policy, pricing, distribution and promotion assumes vital importance. Besides the SSIs are confronted with both external and internal problems such as infrastructural bottle necks, non-availability of scarce critical raw materials, power shortage, natural calamities, inadequate technical know-how, improper layout, obsolete machinery, poor sales promotional techniques, unimpressive brand and packaging.

Further, we can also observe that empirical evidences prove that SSIs are confronted by number of marketing problems like shortage of raw materials and labour, stiff competition, slow credit recoveries, poor marketing mix, problems in
export marketing, lack of up to-date market information, lack of quality control, ignorance of potential markets and lack of adequate marketing finance.

Hence, it is strongly presumed that a conceptual study of the marketing problems of the small scale industries gives a supporting strength for the topic under study and also base for the study of marketing prospects of small scale units.

Thus, against this background in view, an insight into the marketing prospects of small scale industries has been made.