CHAPTER 1

INTRODUCTION
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1.1) Introduction:

In 1991 the then Finance Minister Dr. Manmohan Singh initiated the process of Liberalization, Privatization and Globalization (LPG). The highlights of the new economic policies can be listed as under:

The Industrial Policy

- Delicensing of Industries.
- FERA relaxation and encouragement to foreign investment.
- MRTP relaxation.
- Curtailment of the role of the public sector.

The Trade Policy

- Free trade and a more open exim regime.
- Linking of imports to exports.
- Relying more on exchange rates and tariffs.
- Lowering of tariffs.
- Convertibility of rupee and the new exchange rate system.
- Encouragement to exports.
- Open door to foreign investment
- Integrating the country’s economy with the global economy.

Economic Reforms and Structural Adjustments

- Fiscal and monetary reforms.
- Banking sector reforms.
- Capital market reforms.
- Red carpet to foreign institutional investors.
- Insurance sector reforms.
- Phasing out of subsidies.
- Dismantling of price controls and introduction of market driven price environment.
- Public sector restructure.
- Disinvestment in PSUs.
- New policy on sick PSUs.
- Exit policy and NRF.

The new economic policies outlined above have led a sea change in the economic, industrial and marketing environment of India.

A sea change in the business environment

Entrepreneurial freedom

- Spree of company mergers and amalgamations.

Dominance of multinationals

- MNCs acquire majority equity in their Indian enterprises.
- Several MNCs enter a new with Indian partners.

Foreign investment leads to change even in core industries.

- The power sector.
- The oil sector.
- The telecom sector.
Steep jump in inflow of foreign investment. Capital market and Banking sector undergo radical changes.

- Capital market acquired by foreign institutional investor.
- Indian capital markets integrated with global capital market.
- Banking sector comes under competitive environment

Ascendancy of the private sector.

- Road building opened.
- Private sector can man telecom services.
- Private EPZ.
- Open skies.

With the initiation of LPG the import of machinery and technology was made easier. This laid to huge investments in capital goods by the industry. As a result, huge production capacities were set up in the country both for consumer goods and industrial goods. It was not possible to keep this capacity unutilized and hence production was enhanced not to meet the demand in hand but to utilize the capacity available. This created an artificial demand for inputs and this demand was misunderstood as a favourable effect of LPG. Two things happened during this period:

a) Due to liberalization of imports, many foreign goods found easy entry to the Indian market. The Indian industries who have enjoyed various protections till then, got exposed to the global competition in quality, service and price for the first time.
b) The global recession started setting in almost around the same time. When the demand is lesser than the supply as in case of the recessionary period the approaches of earning profits through volume of sales and/or through higher profitability by price hiking may not be possible. Cost of production per unit may go down when more units are produced without increasing all other costs and expenses. However, the profits are actually earned when the units produced are sold. Also, when supply is more than demand the competition becomes cut-throat and earning higher profits per unit by hiking selling price is out of question.

The combined effect of all these factors created a situation of supply surpassing demand in the Indian market. As a result, inventories piled up in large quantities, cash flows were adversely affected and sales were much below the targets and achieving break even sales also became a difficult task.

The only alternative before the industry was to cut down costs by reducing waste of all types of inputs like time, manpower and money in order to lower the break even point and thereby survive at lower sales turnover.

The traditional way of controlling the costs focuses only on the production side of business. However, favorable results can be achieved by effective marketing of products and services as well.

Management Expert, Prof. Peter F. Drucker has said "If we want economic development with freedom and responsibility, we have to build it on the foundation of marketing".
The economic system and the marketing system consistently interact with each other and strongly influence each other. Marketing in any economy activates the production consumption chain. Marketing actually makes production happen, it also generates profits, and when the profits are ploughed back into additional production, the cycle continues with increased vigour. Marketing also takes a whole nation to higher levels of consumption by inducing individuals to consume more. And by converting a whole people into a consumption-oriented community, marketing steadily takes a nation away from the vicious circle of low consumption, low production and low economic development. It is this feature that enables marketing to enhance the pace of economic activity and consequently of economic development of a country.

The new liberalized economy of India is full of marketing challenges. The well-known MNCs of the world are already here to generate a powerful competition. Companies have also started recognizing that their major job is marketing and their major concern is creating customers and developing markets. The new policies and measures have resulted in three significant developments:

1) The competitive profile of the nations market has been changed in a significant manner, the list of sectors of the economy where consumer calls the tune is getting wider day-by-day.
2) A high degree of encouragement has become available to consumer goods.

3) World's perception about Indian market too has drastically changed, the multinationals have realized that India is an attractive market.

As a result of the sea change in economic, industrial and marketing environment the Indian industry and business now has to face following marketing challenges:

Marketing challenges of the Liberalized Economy:

De-Licensing implies a degree of destabilization for existing players:

- Cocoon of protection disappears.
- New entrants can alter economies of scale, put up global size plants and pose a threat to existing players.

The challenge of MNC Dominance

- Majority equity lends MNCs a new strategic edge.

The challenge of all pervasive competition

- Competition from fresh Indian players
- Competition from MNCs
- Import Liberalization adds to the competition
- Access to Technology adds to the competition.
- Competition is now global in character.
The exacting demands of a buyer’s market.

- Graduating from shortages to surplus.
- The challenge of competitive pricing.
- The challenge of quality – graduating from shoddy products to the products of excellence.
- The consumer calls the tune.

Indian companies are now compelled to export and go global.

- Lack of competitive advantage acts as an inherent difficulty and compounds the problem.

Vulnerability of companies comes to the fore.

In the light of all this let us take the review of Engineering and Small Scale Industry in India:

India has a large and expanding engineering industry. It has grown not only in terms of investments and output but also in terms of structure, composition of products, technological sophistication and self-reliance. There are five major and distinct segments in engineering industry viz. 1) Machine building heavy engineering segment. 2) Transport equipment 3) Heavy electrical 4) Machine tools 5) Automobiles. The engineering industry has today emerged as a very vital part of the country's total industrial profile. It is providing the infrastructure required for the industrial expansion in the country. It not only fulfills most of the domestic needs but also makes a very sizable contribution in the field of exports.
The SSI sector has grown steadily since independence. The sector occupies a special role in generating employment in a capital oriented economy and accordingly has been given due attention in the form of concessions and product reservations. The growth of the sector can be gauged from the increase in number of units, production, employment and exports over the period of time in this sector. The production of SSI sector continued to grow generally at the rate higher than that of the industrial sector. It has registered more than twelve fold increase at constant prices during the 27 years period from 1973-74 to 2000-01, while employment grew four times during this period. The most significant achievement of SSI sector is its performance in terms of exports. The share of SSI sector exports in overall exports of the country has increased from 15.6% in 1973-74 to around one third of country's total exports during 2000-01. In the wake of liberalization and the opening up of the economy, the SSI sector is confronted with competition in the domestic segment from medium and large scale sectors and from the easy imports of goods after the removal of quantitative restrictions.

However, the process of globalization has opened up ample opportunities for this sector to tap and grow.

In the post – liberalization era, there have been suitable policy changes depending upon the changing economic scenario. Policy changes were also necessitated for provision of product specific incentives and concessions to small enterprises for product standardisation, technology upgradation and
moderation etc. To focus attention on various issues relating to the SSI sector, a new ministry of small Scale Industries and Agro and Rural Industries was created by the Govt. of India on October 14th 1999, renamed as Ministry of SSI under the independent charge of a Minister of State. The new Ministry prepared a blue print for the small and village enterprises, which gave a new policy focus to the SSI sector and was named as “Mission of the Millennium”. The important objectives of the mission includes creating new investment opportunities strengthen the credit delivery system, promoting modernization and the technology upgradation of the SSI sector, providing support to small enterprises to meet the challenges of WTO agreements and to enhance their competitiveness.

It is seen from the above discussion that :

1) The process of LPG started in India in 1991. The industries experienced a boom in business environment after the initiation of LPG till 1996-97. However, this did not continue for a longer time due to global recession.

2) The engineering industry has today emerged as a very vital part of the countries total industrial profile in terms of composition of products, technological sophistication and self-reliance.

3) The SSI sector's contribution in economic development of the country is significant in respect of number of units, production, employment and exports. The SSI sector can be treated as backbone of the Indian industry.
4) The SSI sector has enjoyed the status of infant industry in the form of various concessions and product reservations in the past.

5) The liberalized economy of India is full of marketing challenges.

6) The SSI sector now has to compete not only with the large and medium industries in the country but also with the big MNC's around the world.

7) In the post liberalized era, appropriate steps have been taken by the government from time to time by making suitable policy changes.

8) In today's competitive business environment controlling the input costs can be achieved not only by minimizing the production costs but also by effective marketing of the products and services.

The SSI engineering sector is already facing a lot of limitations as regards the availability of 1) Finance 2) Manpower 3) Managerial skills.

As the ownership pattern is generally tilted towards proprietorship, in the day to day working of a SSI engineering unit all the functional areas have been looked upon by very few people mainly by entrepreneurs themselves, thus considerable time is spent on the activities which are not concerned with the manufacturing. Few such activities can be listed as follows:

i) Searching for new business.

ii) Discussions with customers.

iii) Providing after sales service.
The SSI sector generally experienced a lack of resources for sales promotion and advertising. It is due to the non availability of adequate finance that the departmentation is not feasible. On the other hand considerable amount of time is spent on marketing activities.

Here arises the need for some "Middle Agency" which can handle the Marketing Function for SSI engineering units.

Thus the study on "Building up of a Polymarketing Organisation" is extremely relevant and necessary.

What is Polymarketing Organisation?
Such "Middle Agency" is termed as a "Polymarketing Organisation" by the researcher, as it may take up the marketing activities of one or more SSI Engineering Units simultaneously. The dictionary meaning of "Poly" is "many". (e.g. A Polyclinic which houses medical experts from different specializations for the benefit of patients, at one single point. A polytechnic that provides engineering education to its students, for specialization in various disciplines etc.)

Therefore, such Polymarketing Organisation will simultaneously develop business for SSI engineering units as well as act as a reliable vendor development source for big engineering enterprises. The advancement of e-
commerce and Internet tools will facilitate the working of such a Polymarketing Organisation.

1.2) Objectives:

The aim of this study is to check the feasibility of the organisation which can perform marketing function for the SSI sector. This will ultimately result in broadening the customer base which will result in a steady flow of orders even during recessionary period, thus ensuring survival and growth of SSI Units.

The Objectives of the study are as follows:

1) To study in depth the current status of SSI Engineering Units in and around Pune.

2) To check whether the Marketing Function should be carried out by the SSI Engineering Units themselves or it should be given to Polymarketing Organisation.

3) To check the utility of such an organisation as an effective marketing set up for the Small Scale Engineering Industries.

4) To check the effect of such organisation on the functioning of the vendor development activity carried by Large Scale Industrial Organizations.

5) To form some guidelines for the functioning of such an organisation.

6) To build up a model organization structure for Polymarketing Organisation.
1.3) **Hypothesis**:

For the survival and steady growth of SSI Engineering Units' Polymarketing Organisation" is needed to:

1) Broaden the customer base of SSI Engineering Units.

2) Ensure consistent and steady flow of business.

3) Optimize the three factors of cost inputs viz: money, time and manpower.

4) **Build a symbiotic relationship with Large Scale Engineering Organisations by building a secure and sound vendor development base for large industries.**