CHAPTER V

PROBLEMS FACED BY THE LORRY BODY BUILDING INDUSTRY
CHAPTER - FIVE

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Introduction

The Lorry Body Building Industry is classified as a small scale industry and therefore, the problems commonly faced by small scale industries in general are applicable to Lorry Body Building Units also.

The importance of fostering small scale industries for the industrial prosperity has been realised both by the developed and developing nations. The need for fostering small scale industry for the economic development of the nation like India need not be over-emphasized. It plays a very significant and dominant role in providing employment opportunities to millions of people. The main objective of developing small scale industry is to achieve a balanced, integrated and egalitarian socio-economic development of the country. "It is a truism to say that small scale industries constituted the backbone of a developing country like India".  

The problems faced by the small scale industries are many and varied. They can be classified under two broad heads.

(1) External problems and
(2) Internal problems.

External problems are those which are beyond the control of the industrialists and which are often referred to as independent variables in economics. In other words, the problems are not under the control of the industrialists e.g., the availability of power and other infrastructural facilities needed for the establishment as well as smooth functioning of small scale industries.

Internal problems are those which are not influenced by external forces. They include organization-structure, production channels, distribution channel, technical knowhow, training industrial relations and efficiency of management. The following are the problems faced by the small scale industries.

1. Licence

Obtaining licence for the establishment of small scale industry is a complex affair despite the liberal licensing and controlling policy pursued by the Government. "The Government
officials are often unhelpful towards small scale entrepreneurs". A lot of time and energy are wasted at every stage in persuading these officials to perform their duties. The small scale entrepreneurs do not know how to approach and avail for themselves of the various facilities and concessions extended both by the Central and State Governments through various avenues. Almost, at every stage, a small entrepreneur has to tip both officials as well as non-officials. "Since corruption has taken deep roots in the economy, only courageous and influential people ultimately emerge successful in establishing small industrial units". 

Licensing is a problem which is applicable to only those Small Scale Industries based on import of raw materials and controlled materials. But in the case of LBB Industry, mere registration of the unit with the local panchayat is enough.

2. Finance

"Finance is the life blood of any industry". The small

2. Ibid, p.4
3. Ibid, p.4
units mainly depend upon their owned as well as borrowed funds. The small scale entrepreneur borrows from non-banking and non-Government sectors because the banks and Government financial corporations are rather reluctant to advance money to these units. The small units are not in a position to offer any security as required by the banking sector. Moreover, the procedure involved in raising a loan from the banks and Government financial institutions are cumbersome and laborious. This acts as a stumbling block for illiterate and semi-literate entrepreneurs to avail of the facilities offered by the banks. Only skilled worker-cum-entrepreneur gets some assistance because of his previous relationship with the concerned officials.

Many established small units hesitate to approach the institutional financial agencies because of their traditional tie-up with non-institutional bodies and also because of their lack of training, especially in financial matters. "The fact was supported by the Moga Study conducted under the supervision of Mr.V.S.Mahajan. An interesting finding of the study is that almost all 300 and odd units engaged in the production of agricultural implements were started with the entrepreneurs' owned funds and borrowed funds". The nationalised banking sector and state

5. Ibid, p.5
financial corporations have contributed very little in this regard.

The small scale industrialists are not in a position to install modern machinery and tools and to maintain well-organised and fully-equipped factories due to paucity of funds. State financial corporations take several months to arrive at a decision on extending term loans. If one is in a hurry to start a project, one has to approach a bank for a regular term loan or bridge loan. Banks are also not expeditiously disposing off loan applications. They take a minimum of three months to clear a project and sanction the loan. The loan is made available only for meeting the working capital needs of the small scale units.

In fine, "Financial institutions require a lot of information and data which cannot normally be provided by the small scale units and consequently, a few of the entrepreneurs get fed-up at this stage and abandon their project".  

Most of the Lorry Body Builders are small entrepreneurs, and they are not in a position to provide the collateral security insisted on by the commercial banks for getting the loans. Therefore, they are forced to resort to borrow from private money.

6. Ibid - p.4
lenders who usually charge usurious rate of interest varying from 24% to 36%.

3. Location

Banks and other financial institutions have not given up the traditional attachment to liquidity and safety of the investments. The small scale entrepreneurs have not availed of the various facilities offered by the government for the development of industries due to sheer ignorance. The choice of location and getting water and power connections also pose a great problem to the small entrepreneurs. It is not easy to decide the location of an industry because it involves consideration of availability of infrastructural facilities, the cost and tenure of acquisition, the availability of labour, the proximity of the markets and such other factors.

Once the selection is finalised, one has to proceed with the purchase of a plot of land and construct a shed or to take it on rent or on ownership basis. At the same time, arrangements have to be made to select and procure machinery and to get it erected.
4. Raw materials

The small scale units are unable to get the right type of raw materials, at the right time and at a reasonable price because of their smallness and weak financial position. Besides, they get raw materials on credit from the middle-men who charge higher prices, with the result, the small scale units use cheap and inferior materials which affect the quality of their end-products. Moreover, the irregular supply of raw materials adversely affects their production programme. "According to an estimate, about 40% of small scale units have fallen sick owing to non-availability of raw materials regularly".

The raw material problem has been extremely acute for steel-based industries like bicycles, sewing machines, spare parts of automobiles and agricultural implements. The shortage of special steels such as chrome vanadium steel and chrome silicon steel is ever greater. Manufacturers complain that since some companies supply steel only in wagon-loads, they cannot obtain their requirements. Even if some units can buy wagonloads, there have been complaints of inordinate delays between placing orders and the receipt of ordered goods. It appears that although the quota for small scale industries has been raised, the actual supply has not matched the quota. It is also alleged that dealers wantonly delay supplies till the expiry of the quota certificate and sell the materials in the open market at higher prices, with
the result, entrepreneurs are forced to buy the defective imported material or scrap from local dealers. Even though quotas are allotted to them, they cannot get their raw material requirements through normal channels at controlled prices. Hence, they are compelled to purchase these materials in the black market at prohibitive prices which upset all their cost calculations.

The availability of raw materials is yet another important problem faced by the industrialists. Some of them are in short supply, some are very scarce at times and some are abundant with the attendant frequent price fluctuations. Manufacturers and suppliers very often create artificial scarcities and rig up the prices. Even the Government is at fault sometimes because it is motivated by political considerations and often throws the trade into confusion by frequent changes in its policy, especially with regard to controls. "Quite often the declared objective of the control policy is defeated by unscrupulous elements with the connivance of bureaucrats, who exploit the situation to their advantage at the cost of buyers". Under these circumstances everyone wants to protect himself by resorting to hoarding for rainy days.

The small scale units in rubber industry are facing serious difficulties because of the imbalance between the demand for and
supply of raw materials which often result in undue high prices.
The Estimate Committee of Indian Parliament has expressed its
dissatisfaction over the fact that small scale industries which had
been assigned an important role in the Five Year Plans in
providing employment opportunity and an intensified development
of new industries, are suffering from chronic shortages of
essential raw materials. In its 14th Report on the Industries
Ministry, the Committee has recommended that, considering the
small scale sectors' contribution to industrial production and
national economy, its raw materials requirements should be given
top priority. In fact, these requirements should be the first
charge on the availability of such materials, consistent with the
needs of such other important and strategic sectors as public
utilities, defence and oil exploration. "According to the Committee,
the Government had not been able to assess the demands on the
small scale sector". Therefore, it has called upon the Government
to evolve a mechanism for a demand survey of the sector atleast
as regards the scarce raw materials are concerned. The
Government has favoured at one stage imposition of excise duty
with a view to curbing evasion of payments, reducing scope for
harassment and minimising administrative expenditure.

In the case of L B B Industry, procuring raw materials
such as timber, iron materials, wiring and painting is not difficult.
This is because, these units are localised and hence many ancillary units such as timber mart, electrical stores and Hardware mart are started in those places.

5. Technology

It provides the base for all industries. "The growth of small scale industries in India is not satisfactory despite the various concessions and incentives offered by the State Governments and Central Government for its promotion in the Industrial policy of the country". One of the major stumbling blocks in the case of small scale sector is the complete absence of the latest technology. "The use of latest technology by the small scale sector ensures the quality and high rate of productivity". Therefore, the small entrepreneurs should follow the latest technology for the following reasons.

1. To remain in the market.
2. To improve the quality of the products.
3. To lower the cost of production.
4. To pass on the benefits to the customers.

Unless an entrepreneur takes this policy, he cannot remain in this field. It is advisable for a small entrepreneur to give a
lead especially in research and development. For the entrepreneur devoid of the facility of a sophisticated laboratory and using his intellectual capabilities and the knowledge gained through others, it is possible for him to stumble upon some new ideas, provided that he is development-oriented and capable of innovation. In U.S.A. most of the small industries are 'modern' in the sense that they are reasonable, 'up-to-date' in tools, equipments and process". 7

Since most of the Lorry Body Building Units are run by illiterate entrepreneurs, the importance of mechanisation has not been realised.

6. Marketing

Marketing is one of the major problems faced by small scale units. The problems are many and varied. They crop up due to the following factors:

Lack of standardisation, poor designing and quality, finish and bargaining power, quality controls, precision, service after

7. Manohar, V. Deshpande, Entrepreneurship of Small Scale Industries, Deep & Deep Publications, New Delhi, p.32
sales and knowledge of marketing, scale of production, brand preferences, distribution contracts, intensive competition, ignorance of potential markets, unfamiliarity with export activities-procedure and market know-how and financial weakness.

In the absence of established marketing channels of their own, many small units sell their products to large business houses. For example, Voltas sells a number of products manufactured by small units. Similarly, the Bata Shoe company sells the shoes manufactured by small scale units. Besides, due to the shortage of capital and financial resources, these units do not have adequate "Staying Capacity" and are often forced to sell their products at unremunerative prices".  

The problem of marketing is not at all experienced by the Lorry Body Builders, since the orders are received on the spot for the construction of lorries.

7. Recoveries

One of the most difficult problems of small scale industrialists today is the recovery of the sales proceeds.

It is an established practice with all small scale units for extending credit to customers for a period of three months which will be subsequently extended for a period of 12 months in the case of tight money market. But even then the purchasers do not pay their dues in time.

In the case of Lorry Body Building, the question of bad debts does not arise. This is because a majority of Lorry Body Builders get advance from the chassis-owners even before the execution of the order.

8. Labour

In modern days, handling of labourers and maintaining a very cordial relationship with them is a major problem. This is because, "nowadays, the trade unionists politicalise the problems of labour and at times create a problem when there was no problem". To protect their vested interests, politicians often prevent a settlement of dispute between the workers and the management. Therefore, it is very important to evolve a code of conduct for trade unionists to protect the interests of labour as well as the management. This will add to the general prosperity

9. Ibid - p.11
and well being of both.

Labour does not pose any problem in the case of L.B.B Industry, since there is no trade union worth the name. Moreover, the Labourers are employed on casual basis on piece rate system.

9. Faulty Planning

Another important factor is the faulty planning and inadequate appraisal of the projects before the starting of a unit. "Many entrepreneurs started the small scale units without proper viability studies, and planning". With the result, the small scale units are suffering from losses. There is an ever rising incidence of sickness among the industries, particularly in backward areas.

Even when detailed reports are prepared by inexperienced consultants, entrepreneur may develop sickness in his unit from the conception stage itself. For example, they may opt for an improper location, employ inexperienced consultants, choose improper technology, underestimate the fixed and operational costs involved in the manufacture of his products, and embark on a

project without a proper market.

"The sickness among the small scale units is attributable to their indiscriminate promotion by Government agencies in order to achieve employment targets fixed under plan programmes. During the Fifth Plan and in later years, there was an increased emphasis on providing job opportunities by developing small scale and tiny units. It resulted in hastily prepared and implemented programmes for the promotion of these units." 11

Campaigns were undertaken by the promotional agencies to select unemployed, educated and technically qualified persons as entrepreneurs in promoting small industries. Financial agencies like banks were subjected to pressures to finance without adequate evaluation of the projects. This appears to be the principal factor for the ever-rising incidence of sickness among newly promoted industries particularly in backward areas.

It is not applicable in L B B Industry since most of the L.B.B units are small sized and are run by entrepreneurs with rich expertise.

11. Ibid - p.12
10. **The Management**

Another hurdle faced by the small scale unit is that of management. A well organised industry owes its success mainly to its good management. "A successful manager is one who has anticipated his problems and prepared himself to face them". He should have necessary foresight so that he can measure the strength and weakness of the organisation. He should see whether all the seven M's are made available to the industry such as Men, Machine, Materials, Money, Methods, Management and Market. He mobilises all the resources and puts them into productive activity. Each step in the function of a manager is fraught with uncertainties. He has to take a calculated decision for obtaining fruitful results. Modern management, makes a systematic and scientific study of the subject. Regular courses are now conducted at University levels. By applying the principles of management and with on-the-job training available, to-day's professional managers are at a much better advantage than those with mere traditional training alone.

The functions of management lie in the collection of required materials and utilising them in a most useful way so as

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12. Ibid - p.13
to achieve the desired goals. Management is a skill which like any other skill can be acquired. The success of an industry is determined by a satisfactory management of finance, inventory, budgeting, marketing, accounting and manpower. These areas are deeply studied and the information so collected is used to plan and control the activities of a unit. The management of finance and inventory are the most important, of all. Many units fall sick because of improper handling of the vital areas of management.

Majority of the Lorry Body Building Units are small concerns managed by illiterate and inexperienced entrepreneurs excepting a few run by entrepreneurs with ripe experience.

11. Other problems

In addition to the problems mentioned above, the small scale Industries face a number of other problems like unchanging and unresponsive production pattern, burden of local taxes and a keen competition from large scale industries.

According to the Seventh Five Year Plan, growth of the small-scale and village industries has been constrained by a number of factors "including technological obsolescence, inadequate and irregular supply of raw materials, lack of organised market
channels, imperfect knowledge of market conditions, organised nature of operations, inadequate availability of credit, constraint of infrastructure facilities including power and poor management and low technical skills. There has been lack of effective co-ordination among the various supporting units set up over the period for the promotion and development of the main unit. Quality consciousness has not been generated to the desired level despite the various measures taken in this regard. Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into uneconomic operations and have inhibited their smooth transfer to the medium sector. All these constraints have resulted in a skewed cost structure placing this sector at a disadvantage vis-a-vis the large industries, both in the domestic and export markets". 13

Unhealthy competition and unfair practices

The competition in the Lorry Body Building Industry is very acute. This competition is of different kinds. Firstly, L.B.B. Industry faces competition within itself. It takes the shape of rate cutting, use of unethical practices, such as the use of inferior materials, employment of less qualified labour, sweating of labour, attempt to cheat the lorry owner which affect the quality of the Lorry Body Built. There are some body builders who are well established and they also possess goodwill in the market. But it is likely when there is an increased demand they may not be able to accept new work beyond their capacity. They may suggest a later date for the delivery of the vehicle, this implies a long waiting period, from the time of purchasing the chassis to the time of allowing the lorries to ply on the road. This long time-lag makes the owners of the lorry to seek other means by which they can get their lorry body built. There are many Lorry Body Builders who are ready to help in this process. In so doing they adopt the unfair practices as indicated above.
Also this competition leads to the opening of number of lorry body building sheds. It is easy to get hold of a small piece of land, temporary sheds and get E B connection. The tools required are easily made available. There are always disgruntled labourers who are willing to leave their masters and seek new pastures. It is possible for some of the senior workers to start new units through provision of minimum financial needs. But, with the present banking credit facilities available, this is not an insurmountable task. There are many financiers who are willing to extend necessary financial assistance to them. The financiers themselves may become owners and keep their labourers as sleeping partners. Thus, the proliferation of lorry body building sheds becomes easy. Not a single day passes without opening some Lorry Body Building sheds. Only a small percentage of these newly started sheds will remain in operation while a large number remains underutilised or unutilised. Thus, much capital is wasted in this competitive bid. This unabated game of rate cutting, strikes at the stability of this industry. For, one can see many dilapidated sheds as reminiscence of the unhealthy practice in competition.

2. The essential inputs for the building of a lorry are timber, iron, electrical goods and paint. The timber required is procured especially from Kerala and Yercaud. Due to continuous deforestation, forest resources become
scarce and their prices increase.

The prices of iron materials increase due to annual budgetary provisions, and the tax rate increases the cost of construction of lorry body.

Other inputs such as paint and electrical goods also undergo great variations in the prices every year.

The increasing prices of chassis and other inputs every year make the total cost of the lorry to the owner very high.

For instance, the cost of timber for one lorry body building which stood at Rs.18,000 in 1990 has increased to Rs.20,000 in 1991. Likewise the price of iron materials has increased by Rs.2000 during 1991. Other materials have also gone up in price by Rs.1000, in a period of one year. A skilled worker who was paid Rs.30 in 1990, is paid Rs.40 in 1991.

3. Impact and Incidence of Sales Tax

Lorry Body Building Industry is considered to be a selling industry and hence, it is subject to sales tax. The rate of sales tax which stood at 15% in 1979 has been reduced to 8% in 1990.
Even then it is considered as a big burden and there is an agitation against the imposition of this sales tax. It is claimed by the industries that this tax is borne by them and they are not able to shift it to the lorry owners. This is so because of acute competition prevailing among the Lorry Body Builders. Thus, the incidence of Sales Tax of 8% results in the increased cost of body building.

Sales Tax is charged on all the inputs and finally on the end-product also. With the result, the total cost becomes heavy and slashes the rate of profit.

4. Power

Since, the electricity requirement for the industry is continuous, due to the welding process involved, the erratic supply in electricity imposes a heavy burden upon this industry. Some Lorry Body Builders resort to the use of generator, which is a costlier one. The small units cannot afford to have generators for ensuring uninterrupted power supply.

As this industry is charged with commercial tariff, it is not in a position to enjoy the industrial tariff for its consumption of electricity. The commercial tariff which remains at Rs.1.75 is
higher than the industrial tariff by 25 paise per unit of consumption. This increases the cost of body building and thereby reduces the rate of profit.

5. Labour

The Lorry Body Building faces many difficulties in getting permanent labour. It is the practice to keep a number of workers merely on casual basis paying them piece-rate. The wage rate differs from worker to worker. It is common practice to employ child labour in this industry. Boys at a very young age join this industry and perform odd jobs at low wages. Over the years they gain experience, as their services are often in demand, they move from one body building unit to another. Consequently, there is the problem of labour mobility in this industry.

The workers have no organised union. Most of the units are not covered by the provision of the Factories Act except established and registered units. As a result, the workers are not eligible for any medical or insurance facilities, despite the fact that there is much sweating of labour in this industry.
6. Managerial and Technical Problems

It is a common feature that many of these workshops do not have properly trained, or educated personnel. This is because illiterate workers often assume the role of entrepreneurs and by virtue of their experience, they manage these workshops. They lack knowledge of scientific management and experience. There is no proper planning or control. Modern methods of management are virtually absent. They cannot even work out the B E. analysis or time schedule to increase the profit. In recent times a few registered workshops have started appointing persons from professional management cadre.

There is no scientific inventory control in most of the workshops. Material management is very poor in these workshops. Purchase and storage of materials are not done on any scientific basis. There is a haphazard buying resulting either in over-supply or shortage of materials, leading to wastage of time, leakages, pilferage, theft, misuse and deterioration in the quality of materials. Most of these workshops do not maintain proper register for these materials. They do not have proper data and information on suppliers of materials. Mostly they buy from retail units on credit basis. Thus, they are not able to reduce the cost.
of production by buying in wholesale or by keeping a good inventory system.

No attempt is made in these workshops to improve their efficiency by means of research and development. The workshops are so small that any allocation for research and development is not possible. Scientific study of work schedule has not been undertaken by any of these workshops which results in under-utilisation of its capacity.

In the utilisation of materials there is much lacunae in cutting and shaping of the alloy sheets, plywood or mica sheets and hence, there is greater wastage. Since there is no proper training or planning, the technical and engineering application in the use of materials is very much absent, leading to a great wastage of materials resulting in a hike in the cost and reduction in the profit.

7. Finance

Every industrial unit requires finance for the smooth and successful running of the business. It requires both fixed as well as working capital. Most of the Lorry Body Builders are small entrepreneurs who cannot afford to employ their own capital, with
the result, they are forced to resort to borrow from financiers who usually charge exorbitant rates of interest varying from 24% to 36%. Hence, the cost of Lorry Body building increases and consequently the rate of profitability decreases to a considerable extent. One can argue that Lorry Body Building units can avail of the credit facilities provided by commercial banks. The problem is that the LBB Units are not in a position to comply with the various legal and procedural formalities stipulated by the commercial banks in the matter of securing finance. The main stumbling block in this regard is the inability of the LBB units to provide the collateral security needed by the commercial banks for sanctioning the loans.