Chapter 3

Evaluation of business performance of the sample Co-operative Spinning Mills (CSMs)

(Production, Value Addition and sales performance)

Introduction

Financial resources provide the economic power enabling the enterprise to carry on its operations and hold the entire structure of activities together. The flow of actions namely, purchasing, production and marketing as well as strategic decisions relating to size of the operations, financing, products sold, markets served and so on are planned, measured and evaluated in terms of financial resources.

The major important activities of any firm are production and sales. Production refers to the transformation of resources into the output of goods and services. According to A. Adolph et al, “Any business is viewed as a major system having three subsystems of production, sales and finance. Decision juncture exists at critical point in this dynamic system to keep it in balance. With its environment and key activities, production and sales are so adjusted that the enterprise will yield the best combinations of return on its assets and risk assumption. Therefore, production and sales are the two factors that determine the destiny of the enterprise; profitability of any business enterprise is directly related to the volume of production and sales achievement in a time frame.
None of the CSMs achieved the South India Textile Research Association’s (SITRA) standard of 98 percent of capacity utilisation and 88.8 grams of Spindle Point Production (SPP), owing to shortage of power, scarcity or inadequate supply of raw materials, deficiencies in indigenous infrastructural support, technology, process and equipment design, ageing of equipment, inadequate or improper inspection maintenance, frequent break-downs and delayed attention, lack of employees’ morale, inadequate management systems and lack of scientific approach, shortage of skilled and trained manpower, psychological and other environmental factors.

Production in the sample CSMs

The sample CSMs produce cotton yarn and in some CSMs the synthetic yarn of all counts in hank and cone forms ranging from 20s to 100s counts. They decide spindle plan every month and produce yarn in different counts based upon the requirements of the weavers’ co-operative societies, market trend, profitability and other related aspects. After fulfilling the requirement of hank yarn to the weavers’ co-operative societies, they produce cone yarn for sale in the open market.

Purchase of raw materials and sale of yarn in CSMs

The main raw material for the CSMs is cotton. The use of staple fibre and viscose is also made to overcome the shortage of cotton and to satisfy the needs of customers. The raw materials are purchased through the Cotton Purchase Cell (CPC) of the Tamilnadu Textile
Corporation (TNTC). The Committee constituted by the Commissioner of Handlooms and Textiles (CHT) purchases cotton from private parties, co-operative marketing societies, marketing federations of several states and the Cotton Corporation of India.

In the beginning, the CSMs did not attach much importance to yarn marketing. But as time went on and competition increased, they had to take to marketing of their products seriously. Yarn marketing by the CSMs is done generally through the following chain of distribution: Apex Co-operative Society - Retail Society - Weavers. In that case, as per the allotment made by the CHT, the hank yarn produced in the CSMs is sold to Weavers Co-Operative Societies in Tamilnadu at the rates fixed by the CHT, through the Co-optex. The remaining quantity of hank yarn and cone yarn are sold in the open market at the prevailing market rate but not less than the rate fixed by the CHT. Whenever the yarn market picked up, the CSMs are prevented from selling yarn in the open market, but are required to sell the production to the co-optex at the rates fixed by CHT. However the co-optex do not come forward to rescue the CSMs and avoid taking yarn when the market is dull. Because of the restriction in the sale of yarn, the flow of funds is affected.

Production is influenced by several factors like raw material choice, level of technology, productivity of labour, inventory levels, capacity utilisation and flexibility, whereas sales is influenced by the performance characteristics of the products, market acceptability,
consumer preferences, level of competition and the market promotional measures. Marketing activity is influenced by several factors. In the era of Information Technology, marketing practices and institutions have been shaped by changes in technology available for collecting, storing, communicating and analysing the information.

Value Additions

Another important measure of business operation is 'value addition' which is also known as net output or net value added by manufacture (NVAM). ‘Value addition’ is the surplus of output over input including depreciation as indicated below.

\[ NVAM = x - y - z \]

where

- \( x \) = value of sales and closing stock
- \( y \) = value of opening stock and expenditure on material inputs and power
- \( z \) = cost of capital consumption or depreciation

Therefore NVAM is the measure of the contribution by 'the business which raises the value of the material inputs to the ex-factory value of output'. 'Added value' plays a considerable role in the measurement of operational performance and productivity. The use of 'added value' facilitates changes in production to be expressed in value terms\(^6\).

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‘Value addition’ has been defined in Engineering Employers’ Federation Handbook, 1979 as “The value added to materials and other
purchased items which provides as a result of productive activities in the firm, the sum of which wages, salaries and administrative overhead expenses are paid leaving any surplus as profit”.

In a business organisation where profit making is an important goal, it is indispensable to minimise the cost of utilisation of resources and maximise the difference between cost of such usage and price of the output. Two important methods of measuring the difference between resource-usage and results are ‘value addition’ and contribution or gross margin. (It may be noted that gross margin or gross profit is covered in the next Chapter).

Value addition report draws attention to the excess of a company’s sales income over the expenditure attributable to all materials and services purchased from outside suppliers. The difference is therefore the portion of sales revenue equal to the value added by the enterprise.

According to John Black, “value added” is the total sales of a firm minus purchase of inputs from other firms or sources what is left for the wages of the employees and the profits of it’s owners.

Gary K. Meek and Sydney J. Gray, specialising in international accounts, argue that the introduction of value added statement as a supplementary disclosure would enable more informed judgements about the broader role that companies play in the society.
The UK’s Accounting Standards Committee in 1975 asserted that value added statement is useful addition to the financial information produced by companies\textsuperscript{10}.

It is the contribution by the business to the national income.

Thus value addition is a vital measure of efficiency of a business which is a social institution\textsuperscript{11}. Whereas failure to earn profit causes business sickness, failure in value addition can be death-knell of a business\textsuperscript{12}. Therefore this section also seeks to measure changes in the value of NVAM during the period under study.

To make intelligent decisions, an organisation needs accurate and timely information about sales, customers, competitors’ activities and other events in the market place. Marketing may be profoundly affected by the right choice of information systems and management\textsuperscript{10}. Therefore, for profitable business operations, Marketing Decision Support Systems (MDSS) should be strengthened in any business organisations.

It is the volume and value of the business operation which determine total revenue, marginal contribution and profit with given structure of costs and prices. Sales forecasts is the basis of business budget and therefore revised four or five times a year\textsuperscript{14}. Thus evaluation of production, value addition and sales is necessary prelude to the study of financial performance. A business system has three subsystems (viz.) production, sales and finance\textsuperscript{15}. The analysis of
production and sales of the CSMs will help to identify the areas that require improvement for successful operations.

Thus the present chapter seeks to estimate the inter-temporal variations in value of production, value of sales and amount of Net Value added by Manufacture (NVAM). Since the study covers a period of eleven years, it has become necessary to convert financial data in current prices to the constant price level of base year of 1989-90 in order to ensure parity of money value, removing inflationary effects. For this purpose, wholesale price index with base years at 1989-90 has been used as deflator for conversion of data in current price to the constant price level of 1989-90.

**Measurement of progress**

Various tools are available for measurement of production, value addition and sales, namely simple growth rate, compound growth rate, geometric mean and harmonic mean. However, each of these tools has certain limitations. Both compound growth rate and simple growth rate take into account the values of the first and the last years, ignoring fluctuations in production, value addition and sales during the in-between period under review. Also simple arithmetic mean of the annual growth rate does not give adequate weightage to fluctuations during the period. Also inter-temporal fluctuations cause unrealistic results in harmonic mean and geometric mean. Most of the above indicators of performance of the sample CSMs exhibited sharp fluctuations, complicating measurement of changes, during the period.
under study. Therefore, the researcher tried a number of methods, (viz.)
linear, quadratic, cubic and compound equations for measuring trends in
the indicators. Following cubic equation showed better $R^2$ (goodness of
fit of the variables measured) than other models.

Cubic equation

$$y = \beta_0 \pm \beta_1 t \pm \beta_2 t^2 \pm \beta_3 t^3$$

The cubic equation model can be used only in assessment of
increasing or decreasing trends without single numerical value which
would be necessary for comparison. Therefore the result of cubic
equation has been operationalised by differentiating the cubic equation
with the value of “t” substituted with $t = 1$ and $t = 11$ as shown below.

$$\frac{dy}{dt} = \beta_1 \pm \beta_2 t \pm 3\beta_3 t^2$$

If the value of the equation with substitution of $t = 11$ is greater
than the substitution of $t = 1$, it indicates that variables measured have
shown increasing trend and vice-versa. In order to compare the
performance of sample CSMs the researcher used linear equation of

$$y = c + mt$$

where $y$ = amount of dependant variables (value of production/sales)
$c$ = constant coefficient $(Y - \text{intercept})$
$m$ = slope of the curve or rate of growth
$t$ = independent variable (number of years)
Value of ‘m’ which is the slope of the curve will be a single measure for comparing sample units in the variables measured. Linear and cubic equation models have been tested at one percent and five percent significant levels indicating corresponding levels of deviations among the variables against the models. The fitness of variables with predicted model has been assessed through value of R which is directly related to the consistency of the variables against the predicted model. Predicted models without significant level for prediction and statistical analysis will have to be ignored.

**Analysis of Production of Sample CSMs**

Particulars of value of production for the five sample CSMs are furnished in Table 3.1. The table consists of two sections. The first section comprising columns 3 to 7 contains value of production (in the sample CSMs) in current prices and columns 8 to 12 in second section show the data in the price level of 1989-90. Even in current prices, value of production fluctuated in all five sample CSMs, though variations are more sharp in RSM, SSM and TSM. Naturally the variations in value of production were more frequent and higher in constant prices.

Data on value of production in the price level of 1989-90 show that the CSMs could not achieve any real progress in the production. It was only in ASM that value of production in the last year exceeded the value of production in the first year. In RSM atleast one year in the last three years registered a value of production which was higher than the value of production in the first year. In SSM two years in the last three
<table>
<thead>
<tr>
<th>SI No. (1)</th>
<th>Year</th>
<th>Value of production in current prices</th>
<th>Value of production in constant prices</th>
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</thead>
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<tr>
<td></td>
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<td>RSM (Rs.) (3)</td>
<td>SSM (Rs.) (4)</td>
</tr>
<tr>
<td>1</td>
<td>1989-90</td>
<td>416.95</td>
<td>783.30</td>
</tr>
<tr>
<td>2</td>
<td>1990-91</td>
<td>420.94</td>
<td>837.33</td>
</tr>
<tr>
<td>3</td>
<td>1991-92</td>
<td>536.21</td>
<td>1028.22</td>
</tr>
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<td>4</td>
<td>1992-93</td>
<td>671.10</td>
<td>1289.13</td>
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<td>5</td>
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<td>645.79</td>
<td>1382.61</td>
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<td>1994-95</td>
<td>873.19</td>
<td>1898.10</td>
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<td>7</td>
<td>1995-96</td>
<td>1113.51</td>
<td>2245.10</td>
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<td>8</td>
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<td>985.62</td>
<td>1903.11</td>
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<td>9</td>
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<td>1061.09</td>
<td>1974.50</td>
</tr>
<tr>
<td>10</td>
<td>1998-99</td>
<td>872.40</td>
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<td>11</td>
<td>1999-2000</td>
<td>888.69</td>
<td>1706.31</td>
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<td></td>
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<td>Cubic Equation</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>$R^2_c$</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$t = 1$</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$t = 11$</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Linear Equation</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>$R^2_l$</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>m-value</td>
<td>3.875</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Source : Annual Audited Statement of Final Accounts of the CSMs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| NS - Not significant; * - Significant at 5 percent level; ** - Significant at 1 percent level
years registered a value of production which was higher than the value of production in the first year. Though SSM raised the value of production continuously upto 1995-96, it’s performance declined subsequently. In the last four years, in PSM, value of annual production failed to surpass the value of production in the first year. In TSM only one year, in 1991-92, recorded value of production exceeding the achievement of the first year.

Therefore, cubic equations show decreasing trends for all the four CSMs. Even value of production in ASM in the last five years represented improvement over the first year. The value of production had sharp fluctuations in 1990-91, 1993-94 and 1994-95. Hence the decreasing trend in ASM too. It is to be admitted that the above results of the cubic equations are statistically not significant except in SSM where the result is significant at 5 percent level.

Linear equations show positive growth in RSM, SSM and ASM and negative growth in TSM and PSM. Because of the continuous growth achieved by SSM till 1995-96, it has the highest m’ value of 11.50 followed by 11.08 in ASM and 3.88 in RSM. Here also the findings are not significant except in TSM which is statistically significant at one percent level.

Thus out of five sample CSMs, two CSM’s (TSM and PSM) recorded negative trends and only three CSMs (RSM, SSM and ASM)
achieved significant growth in production during the period under study, though with downward fluctuations.

High inter temporal variations in the value of production show the uncertainty of the market and lack of planning on the part of the management.

**Analysis of Value Addition of Sample CSMs**

As noted above, value addition is the contribution of the business to the society. Further all costs other than material costs are met from value addition and residual will be net profit. Data on net value added by manufacture (NVAM) in the sample CSMs for the study period are furnished in Table 3.2. Among the sample CSMs, PSM and ASM occupy the first two places respectively in the value of NVAM during the period under review.

Even in current prices value of NVAM in 1999-2000 in TSM was lower than that of the first year. In the price level of 1989-90, ASM alone could raise the value of NVAM from that of the first year, during the last four years, even though the value of NVAM suffered erosion during 1990-96. In other CSMs, value of NVAM during the last three years was lower than that of the first year. In PSM, SSM and RSM, value of NVAM in the first year (1989-90) was exceeded in only one year during the period of study. In TSM, the first year performance was never reached in subsequent years. Cubic equations show decreasing trends for SSM and TSM and increasing trends for RSM, ASM and PSM.
Table 3.2
Net Value Added by Manufacture (NVAM) of Sample CSMs

* Wholesale Price Index : Base Year 1989–90
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Year</th>
<th>Value of NVAM in current prices</th>
<th>Value of NVAM in constant prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>RSM (Rs.) (3)</td>
<td>SSM (Rs.) (4)</td>
</tr>
<tr>
<td>1</td>
<td>1989–90</td>
<td>121.68</td>
<td>298.73</td>
</tr>
<tr>
<td>2</td>
<td>1990–91</td>
<td>129.45</td>
<td>322.64</td>
</tr>
<tr>
<td>3</td>
<td>1991–92</td>
<td>114.60</td>
<td>226.08</td>
</tr>
<tr>
<td>4</td>
<td>1992–93</td>
<td>67.62</td>
<td>273.15</td>
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<tr>
<td>5</td>
<td>1993–94</td>
<td>118.88</td>
<td>430.98</td>
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<td>1994–95</td>
<td>120.48</td>
<td>433.97</td>
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<td>7</td>
<td>1995–96</td>
<td>198.72</td>
<td>424.41</td>
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<td>1996–97</td>
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<td>9</td>
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<tr>
<td>11</td>
<td>1999–2000</td>
<td>243.51</td>
<td>399.21</td>
</tr>
</tbody>
</table>

Cubic Equation
\[ R^2 \] 0.442<sup>NS</sup> 0.464<sup>NS</sup> 0.765<sup>*</sup> 0.643<sup>*</sup> 0.586<sup>NS</sup>

Linear Equation
\[ R^2 \] 0.002<sup>NS</sup> 0.233<sup>NS</sup> 0.500<sup>*</sup> 0.250<sup>NS</sup> 0.456<sup>*</sup>

Source: Annual Audited Statement of Final Accounts of the CSMs
NS – Not significant; * – Significant at 5 percent level; ** – Significant at 1 percent level
The above finding results relating to TSM and ASM are statistically significant at 5 percent level and for others the findings are not statistically significant. Linear equations show positive value of growth for RSM and ASM and negative value of growth for SSM, TSM and PSM.

ASM is found to have the highest growth rate in NVAM. SSM, which had the highest value of ‘m’ in production, had only negative value, besides decreasing trend in value addition. In the above findings of linear equation, results relating to TSM and PSM are significant at 5 percent level and others are not significant.

It is found that the performance of sample CSMs in value addition was far below the laclduster performance of the CSMs in production. At least three CSMs had positive value of ‘m’ in production, but only two CSMs could achieve this distinction in value addition. ASM alone posted good performance both in production and value addition.

Analysis of Sales of Sample CSMs

Particulars on value of sales effected by the sample CSMs during the period under review can be found in Table 3.3. As in the preceding tables fluctuations in value of sales can be noticed in both current prices and in constant prices. Naturally the oscillations were more frequent and more sharp in constant prices.

As in production and value addition, in sales also ASM posted the best performance with the value of sales in the price level of 1989-90,
<table>
<thead>
<tr>
<th>Sl No. (1)</th>
<th>Year</th>
<th>RSM (Rs.) (3)</th>
<th>SSM (Rs.) (4)</th>
<th>TSM (Rs.) (5)</th>
<th>ASM (Rs.) (6)</th>
<th>PSM (Rs.) (7)</th>
<th>Value of sales in current prices</th>
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<tr>
<td>1</td>
<td>1989-90</td>
<td>387.80</td>
<td>662.53</td>
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<td>759.47</td>
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<td>756.20</td>
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<td>1992-93</td>
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<td>1292.08</td>
<td>957.85</td>
<td>1931.14</td>
<td>3145.59</td>
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<td>Cubic Equation</td>
<td>R²c</td>
<td>0.659 NS</td>
<td>0.874 NS</td>
<td>0.221 NS</td>
<td>0.277 NS</td>
<td>0.616 NS</td>
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</tr>
<tr>
<td>Linear Equation</td>
<td>R²</td>
<td>0.002 NS</td>
<td>0.028 NS</td>
<td>0.100 NS</td>
<td>0.028 NS</td>
<td>0.530 NS</td>
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</tr>
</tbody>
</table>

Source: Annual Audited Statement of Final Accounts of the CSMs
NS - Not significant; * - Significant at 5 percent level; ** - Significant at 1 percent level
exceeding the value of sales in the first year, except in two years (1990-91 and 1994-95). In all other CSMs, value of sales in the last year was lower than that of the first year. In PSM, value of sales in the first year was never reached in the subsequent years.

By cubic equation, TSM recorded more consistent performances than others followed by ASM, RSM, PSM and SSM. However, only finding regarding RSM and SSM are statistically significant. In linear exercise ASM stands first with highest “m” value followed by SSM, while RSM, TSM and PSM had negative value of “m”. Here also except in the case of PSM the other findings are statistically insignificant. Because of the sharp and frequent fluctuations, the findings of both cubic equation, and linear equation have become insignificant, with regard to the first two ranks. Here also it is ASM which recorded higher value of sales in 1999-2000 than that of 1989-90. In all other CSMs the performance in the last year was lower than the first year.

As in value of production and value addition, TSM occupies the last in comparison of performance in the first year and the last year.

Summary

Analysis of performance of five sample CSMs shows that only ASM could achieve reel progress in production, value addition and sales during the period under review. The remaining four CSMs exhibited decreasing trends as shown by cubic trends and negative growth by the value of “m”.

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The analysis thus has proved the hypothesis that production, value addition and sales in the sample CSMs would have fallen during the period under review, because of the decrease in demand from the handlooms.

Basic reason for the lackluster performance of these CSMs lies beyond their control. As already noted, these CSMs were started primarily for supply of yarn to the handloom weavers. Therefore, recession in the handloom industry adversely affected the production and sales in these CSMs. Production in handloom industry accounted for 24.56 percent of the total textile production in the country in 1988-89 and the share of handloom declined to 19.90 percent during 2000-2001\(^1\).

In Tamilnadu also handloom industry had become emaciated, because of tough competition from the textile mills and power looms. The number of weavers’ co-operative societies decreased from 1,439 in 1995-96 to 1,382 in 1998-99 and during this period production of handloom shrank by 23.54 percent from 1,241 lakh meter to 948 lakh meters. Especially during 1996-97, handloom industries suffered a very sharp fall in production by 15 percent.\(^1\)

This explains substantial decrease in production in all the five sample CSMs in 1996-97 and even ASM which performed better than other CSMs could not avoid fall in production, because of the recession in demand.
Therefore, the rejuvenation of co-operative spinning mills requires revival of handloom industry. Further the CSMs should develop alternate avenues of markets for their output. Private handlooms under master-weavers and power looms are the promising areas which would help to enhance production in CSMs. It would be necessary for these CSMs to study the pattern of demand in private looms and power looms and reorganise their production plan accordingly. At present marketing of the output of the CSMs is handled by Department of Handloom and Textiles at Chennai. Instead, each CSM should have a marketing wing for identification of demand for yarn and vigorous sales of yarn as required in the market.

The output of CSMs (ie), yarn is a work-in-progress in textile industry and consequently quality of yarn is crucial for successful completion of production process and marketing.

Quality of yarn primarily depends on quality of cotton. Presently, material inputs (cotton, viscous and polyster) are procured by Department of Handlooms and Textiles (DHT) at Chennai. Decentralisation of procurement of raw material at CSMs level would help them to procure inputs in right price and quality for their production plan. Right choice of the raw material consisting of fibre parameter, like 2.5 percent span length, strength, maturity and tracer content, etc., have to be assessed periodically and right mixing has to be prepared for ensuring better quality. For ensuring quality in the
process, periodical maintenance of processing equipments, use of trained and skilled labourers for the purpose would be necessary.

Online quality control and raw material quality control have to be ensured for enhancing the marketability of the products of the CSMs.

The CSMs are supposed to cater to the yarn requirements of weavers’ co-operative societies. With the assured segment of market, if the yarn sales fluctuate widely in the CSMs, then it is due to lack of quality. Therefore, the Department of Handloom and Textiles, Government of Tamilnadu, has to undertake a quality drive in the CSMs under study for better marketing.
References


15] Ibid.
