Chapter I

INTRODUCTION

The present study is concerned with the marketing practices of the small scale industrial units.

A review of the existing literature on the subject reveals that the marketing problems of the small scale industrialists has remained a fairly unmapped area. The purpose of this study is to investigate to what extent the small entrepreneurs adopt the marketing concept in their marketing decisions, for the marketing concept holds, that, the key to achieving organisational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors.

In the present chapter, to begin with, a discussion on 'marketing and economic development' is undertaken. This is followed by a description of the role of small scale industries, the concept of small industry, its advantages, disadvantages, growth, government policies, etc. In the latter half of the chapter, the nature and scope and limitations of the study, and organisation of the thesis are given.
1.1 Marketing & Economic Development

Marketing has a key role to play in the economic development of a country through its potential contribution to the process of economic development. Economic growth implies rise in Gross National Product through generation of additional income in various sectors of an economy such as agriculture, mining, industry and trade.¹

It may be noted that literature on Economic Development² prior to world war II, laid heavy emphasis on industrial expansion as the key to induced economic growth. In the early 1950's, literature on economic development suggested that the agricultural sector should be developed first, followed by the industrial sector. But in the last two decades, the importance of balanced growth between rural and urban areas has been well understood and acted upon.

In general the process of economic development involves the transformation of agriculturally based rural economies into industrially based urban economies and a harmony is established between the two sectors in satisfying each other's needs. Increased
specialization of labour, the adoption of more scientific technologies and the geographic separation of production and consumption are necessarily accompanied by the development of a more complex marketing system. Thus marketing is considered to be a set of techniques and procedures aimed at facilitating the flow of goods and services from producers to consumers in a given economy. 3

(a) Role of marketing in Economic Development

The role of marketing in the economic development of a country is described below:

(i) Marketing helps in stimulating potential aggregate demand.

(ii) It accelerates the process of monetizing the economy.

(iii) It gives rise to the concept of a national market.

(iv) Marketing also helps in sustaining the existing levels of employment.

(v) The enlargement of the market size results in two distinct advantages. The oft experienced shortage
of capital resources can be met partly through a more rational use of inventory. Secondly, the growth of market institution helps in the discovery of entrepreneurial talent. In the words of Peter Drucker, "marketing is also the most easily accessible 'multipliers' of managers and entrepreneurs in an under-developed growth area".4

(vi) An enlarged market makes economically feasible, the various economies of scale. There can be economies of scales both in production and distribution.5

(vii) The welding of small markets which can be achieved through marketing makes possible the movement of such factors of production as, labour and capital over a wider area where, they can be most efficiently used. In the hitherto independent markets which are now joined, there tends to be closer correspondence in the price of various commodities. This helps to reduce price fluctuations and possibly works towards lowering the cost of living.6

(viii) More generally, growth in marketing can help disseminate new ideas favourable to economic growth, new patterns of consumption, possibly new techniques and new ideas of social relations.7
The concept of a National Market in Developing Economies

Rostow noted that the marketing system can play a critical role in the balanced growth of rural and urban sectors in a Less Developed country. Many developing nations are characterized by a build up in social capital and are not yet at a point where significant structural distribution exist to hinder economic growth. Such structural distortions develop from the following conditions:

- There is some industrial capacity usually developed to substitute for the import of certain kinds of common goods;

- the market for most of these manufactured goods is thin (textile being an exception);

- although some development is taking place in every less developed country, the gap between the rural and urban life is widening at an accelerated rate;

- as a result of this imbalance men and women migrate from the rural areas to the cities, where there are insufficient industrial opportunities to provide full employment.
Rostow maintains that the way to achieve a take off into sustained growth for nations experiencing such conditions is to breakdown these structural distortions, to produce self-re-inforcing agricultural and industrial expansion and create truly national markets within these countries.

(c) **Marketing and productivity gains in the agricultural sector of developing economies.**

The modernization of the countryside in the developing countries has many dimensions. Rostow claims there are 4 necessary and sufficient conditions for an agricultural revolution.⁹ (This has relevance to the Indian situation where the agricultural sector is relatively large). The conditions put forth by Rostow are:

(i) the farmer must receive a reliable and fair price for his product; in developing countries the farmer gets 15 or 20% of the selling price of his product;

(ii) credit must be available at reasonable rates for him to make the change in the character of his output or the shift in productivity desired;
(iii) there must be available on the spot technical assistance that is relevant to his soil, his weather conditions and his change in either output or productivity;

(iv) there must be available at reasonable rates two types of industrial products: inputs such as chemical fertilizers, insecticides and farm tools, and incentive goods—that is, consumer goods of good quality that he and his family would purchase in greater quantity or work harder to get if they were cheaper or if his income were higher.

Marketing enters directly into these conditions both ways i.e. marketing from the farm to the city and from the city to the farm.

Looking at it from the other side, that is, from the city to the countryside, the modernization of rural life demands new and effective ways of getting to the farmer both the things he needs to increase productivity and incentive goods. With respect to incentive goods, it must be accepted that people in the rural areas of the developing world are poor. Until their income rises they may not be able to buy a great deal more than they are buying. Lower prices can yield more purchases in the short-run. Also, lower prices and the
availability of incentive goods of good quality can yield more output, income and purchases in the long run.

The technical marketing problem from the city to the countryside consists in finding ways to lower the unit cost of distribution under circumstances where rural markets are scattered and the volume of any one commodity to be sold at one point is low. What is required is the development of unified marketing arrangement for a wide range of consumer goods so that overhead distribution costs for each commodity are reduced. Here the role that small industry can play may be appreciated, but before delving into the same, the role of marketing functions in the economic development of a country may be considered.

(d) Role of marketing functions in economic development

The lack of real marketing mentality is deplorably apparent in developing countries resulting in the consequence of a waste of irreplaceable resources, more hunger and even death.

Lack of co-ordination between marketing and production hampers development more so where resources are limited.
and where every effort should be devoted to obtaining optimum use of capital, manpower, land and energy.

The proper use of marketing research techniques (such as forecasting sales) can reduce the differences between a country's productive capacity and the demand for its production. No doubt the techniques must be tailored especially to structural changes in the markets.

Managements have come to rely on advertising as a tool to speed up the demand, making the investment in new enterprises or expansion of established houses worthwhile. Knecht comments that in developing countries there is a general overestimation of advertising as a means of marketing communication.

Distribution is an important factor that caters to the economic development of a country. In the developing countries, the conventional channels which are riddled with parasitic middlemen are being shaken and are now getting shorter. (This has particular relevance to the Indian situation). Further, effective distribution bridges the gap between the manufacturer and the consumer. As already stated earlier, this particular marketing function, namely distribution, plays a vital role in the modernization of the agricultural sector.
Co-ordinated marketing systems.

Conditions that have influenced the growth of co-ordinated marketing systems in the developed countries also seem to be present in the less developed countries. Comparative conditions conducive to growth of co-ordinated marketing systems in developed versus less developed countries are shown in Table I-1. Although conditions similar to those described in Table I-1 exist in less developed countries, they are relatively much less sophisticated than conditions in developed countries, and their influences on achieving channel co-ordination would be tempered by the attitudes and behaviour of existing middlemen and policy makers.
<table>
<thead>
<tr>
<th>Prevailing growth conditions in Developed countries</th>
<th>Relevance to Less-Developed countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>The need for assured volume encouraged the growth of centrally co-ordinated marketing systems.</td>
<td>Most companies have low and unpredictable sales and have a definite need to develop an assured sales volume to avoid price fluctuations and spoilage.</td>
</tr>
<tr>
<td>Relative profitability declined as a result of growing competition therefore, new approaches such as vertical integration and co-ordination were adopted by firms to ameliorate these pressures.</td>
<td>Most stores seem to have relatively new levels of profitability, partly because of atomistic competition and partly because of duplication and un-coordinated activities at different levels.</td>
</tr>
<tr>
<td>The changing nature of the environment and the growing complexity of marketing processes and markets increased the need for affiliation. Expansion and re-location of markets also contributed to the growth of centrally co-ordinated markets.</td>
<td>Overall, growth in markets has been slower. However, substantial growth in market processes is visible in some of the larger urban centers. There is an acute disparity between rural and urban markets.</td>
</tr>
</tbody>
</table>
There is opportunity to capitalize on potential economies and savings that resulted from scheduling, simplifying, and repositioning marketing activities, and economies of scale at each stage of the centrally co-ordinated total business system.

Chances for potential economic savings exist. However, these opportunities are hard to comprehend by the current core of marketeers and policy makers.

(f) Marketing and Economic Development - Its Relevance to the Modern Small Scale Sector in India.

The arguments usually advanced in support of small scale industries are namely, that they are labour-intensive, lead to decentralization in the sense of being more easily located in villages and towns, promote equality or democracy, and help to draw out the latent scarce resources, especially of entrepreneurship and capital. If a case in favour of small scale industry is taken, then how they promote 'marketing and economic development' is discussed below.

(i) Promotion of small industry would have two immediate catalytic benefits on the national economy:

- increased employment would increase buying power which is needed for the expansion of consumer markets. That is, they spread the total income generated more widely over the population.

- the growth of small business would provide the nation with a vast pool of individual entrepreneurs with management skills learned on the job.
This would help in the progressive diffusion of fruits of modern science and technology. Also, industry is the most dramatic form which modern science and technology assumes.

(ii) The growth and productivity of small industries scattered throughout the nation (rural and urban) provide the basic infrastructure that is needed to be labour intensive in their scope offering more jobs. In the words of Maurice Zinkin, as quoted by Tanniru Rao, "No entrepreneur, no development". Thus, it is the ability to convert available economic resources and technology into commercially profitable ventures that distinguish an entrepreneur. The increase in the number of small scale units in India is a manifestation of the policy of the Government of India in promoting the same.

(iii) India is trying to achieve integrated rural economies through its policy of concessions and incentives to small industry. These will prove to be the future points of distribution for products that need to be mass marketed.
(iv) The perception spreading in the policy circles is that the next phase of development should be on the making of efficient national markets and from this widened base, move on to the generation of new lines of diversified exports. These diversified exports alleviate pressures on the nation's credit situation and generate foreign currency reserves which can be used for economic development in other spheres of industrial growth. Historically it had been found that export of manufactured goods had usually followed or paralleled the development of a national market. 17

(v) Growth in the market can reduce the community's need for working capital (the ratio of stocks necessary to support any given consumption level). Many Indians in rural areas (for example) providing they have the resources always try to keep on hand an amount of grain adequate for several months' consumption. If inventories are carried by intermediaries rather than individually, a number of individuals can rely on a smaller total quantity of stocks. The capital which is released can be used for increased consumption, further economic growth or a combination of the two. 18
The above discussion may be concluded by saying, it is important that the marketing system be effectively organised and co-ordinated in order to ensure that the production is distributed efficiently. Productivity improvements cannot take place if the proper incentives are not transmitted to producers or if the producers are not adequately informed of consumer demands for their products through the marketing system. There appears to be a need for added emphasis on marketing as the focus of all production. There is little doubt that economic development can only proceed through specialization, exchange and resulting productivity gains. If producers are not aware of markets or if those markets are unstable and poorly co-ordinated, there is little likelihood that productivity gains will be achieved.

In the preceding paragraphs, the relevance of the 'modern small scale sector' in marketing and economic development was discussed. But to what extent is this small sector viable? Ram K. Vepa has to say the following regarding the same.

"The viability of the small sector could be judged from the fact that the net value-added per unit of fixed investment in respect of the small scale is 0.96 against 0.41 in the large scale sector, while, the production per unit of investment in the small scale is estimated
to be 5:60 against 1:80 in the large sector. A project in small scale sector with an investment of Rupees one million normally provides employment to 172 persons, while the same number of employees in the large scale sector would require an investment of Rs. 5.31 million.

Further, Vepa goes on to say that the relationship between the large and small sector is complementary and manifests itself significantly in the form of sub-contracting to their advantage. A small ancillary unit is able to supply standardised components to a large scale parent unit at much cheaper rates, owing to personal supervision and lower overheads.

1.2 Role of the Small Sector

In order to comprehend the role of small scale sector in the industrial growth of the Indian economy its contribution to industry may be noted. Table I-2 gives a record of the growth of this sector in the spheres of production, employment and exports.
### Table I-2 : Growth of Small Industries

<table>
<thead>
<tr>
<th>Item</th>
<th>79-80</th>
<th>80-81</th>
<th>81-82</th>
<th>82-83</th>
<th>83-84</th>
<th>84-85</th>
<th>85-86</th>
<th>86-87</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of units (in lac numbers cumulative)</td>
<td>8.05</td>
<td>8.74</td>
<td>9.62</td>
<td>10.59</td>
<td>11.58</td>
<td>12.42</td>
<td>13.53</td>
<td>14.57 (P)</td>
</tr>
<tr>
<td>2. Production (₹ Crores) (at current prices)</td>
<td>21635</td>
<td>28060</td>
<td>32600</td>
<td>35000</td>
<td>41620</td>
<td>50520</td>
<td>61100</td>
<td>-</td>
</tr>
<tr>
<td>3. Employment (in lac numbers)</td>
<td>67.00</td>
<td>71.00</td>
<td>75.00</td>
<td>79.00</td>
<td>84.15</td>
<td>90.00</td>
<td>96.00</td>
<td>101.4</td>
</tr>
<tr>
<td>4. Exports (₹ Crores) (at current prices)</td>
<td>1226</td>
<td>1643</td>
<td>2071</td>
<td>2045</td>
<td>2219</td>
<td>2580</td>
<td>2785</td>
<td>-</td>
</tr>
<tr>
<td>5. Investment (₹ Crores)</td>
<td>5540</td>
<td>5840</td>
<td>6280</td>
<td>6800</td>
<td>7360</td>
<td>8380</td>
<td>9585</td>
<td>-</td>
</tr>
</tbody>
</table>

Besides what has been outlined in Table 1-2 above, a few other noteworthy contributions of the small sector are as follows:

(i) In the field of consumer electronics the small sector contributes about 45% of production;

(ii) while in instruments and instrumentation it contributes 75% of production;

(iii) and in computer and allied items the small sector's contribution is to the extent of 45%.

Thus, the small industry has come to play an important role in the industrialization of the country.

1.3 Definition of Small Scale Industry

For the purpose of the present study the definition of small scale industries as instituted by the Development Commissioner, Small Scale Industries, Ministry of Industry, Government of India was adhered to.
At the time of survey a small scale industry as defined by Development Commissioner, Small Scale Industries, was:

"an undertaking having investment in fixed assets in plant and machinery whether held on ownership terms or by lease or by hire purchase not exceeding Rs. 35 lakhs".

Ancillary industries, which also fall under the framework of the small sector was defined as:

"an undertaking having investment in fixed assets in plant and machinery not exceeding Rs. 45 lakhs and engaged in:

(a) the manufacture of parts, components, sub-assemblies, toolings or intermediates or

(b) the rendering of services and supplying or rendering or proposing to supply or rendering or proposing to supply or render 50% of their production or total services as the case may be to other units for production of other articles provided that no such undertakings shall be a subsidiary of or owned or controlled by, any other undertaking".
Also, within the broad framework, under the head 'Village and Small Industries' (as it is termed in the various plan documents) is the concept of the Tiny Sector introduced in the Industrial Policy Statement of December 1977.

This concept of the Tiny Sector was introduced within the small sector to refer to very small units with investment in machinery not exceeding Rs. 1,00,000. Stress was laid on the development of semi-urban and rural areas with population not exceeding 50,000 and stimulus was given to smaller among the small units and village industry. The investment limits in Tiny industry was subsequently raised to Rs. 2,00,000 in the Industrial Policy Statement of 1980.

Another element added to the concept of the small sector is the inclusion of service sector21 in the definition of small scale industries. Service oriented enterprises engaged in personal or household services in urban, semi-urban and rural areas with a population not exceeding 5,00,000 were made eligible for registration as small industry, subject to a ceiling of investment of Rs. 2,00,000 in plant and machinery. Enterprises considered for this purpose are service activities such as laundry, xerography, repair and maintenance of consumer durables, hatchery, poultry farming, etc. and do not include purely trading or commercial activities.
In the plan documents the Government of India has included small scale industry under the 'Village and Small Industries'. The various categories of industries covered under this head are given in Table I-3.

Table I-3: Categories of industries covered under the title 'Village and Small Industries' (VSI)

<table>
<thead>
<tr>
<th>Categories</th>
<th>Type of Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Traditional</td>
<td>1. Khadi</td>
</tr>
<tr>
<td>Industries</td>
<td>2. Village Industries</td>
</tr>
<tr>
<td></td>
<td>3. Handlooms</td>
</tr>
<tr>
<td></td>
<td>4. Sericulture</td>
</tr>
<tr>
<td></td>
<td>5. Handicrafts</td>
</tr>
<tr>
<td></td>
<td>6. Coir</td>
</tr>
<tr>
<td>B. Modern</td>
<td>7. Small Scale Industries</td>
</tr>
<tr>
<td>Industries</td>
<td>8. Power-looms</td>
</tr>
<tr>
<td>C. Others</td>
<td>includes those units in VSI not covered by the specific groups.</td>
</tr>
</tbody>
</table>

Source: Adopted from Table 4.1, Vol.II, 7th Plan Document.

The type of small units covered under the present study come under point 7 of Category 'B' mentioned in Table I-3.
1.4 Arguments in favour of small scale enterprises:

Some of the reasons why the Government of India is seeking to promote the small scale sector are described below:

(i) As India is an agriculture based economy, small industry is a better form of introducing industry in the semi-urban and rural areas.

(ii) The principal argument put forward in favour of small enterprises is that they "give employment". The large pool of unskilled unemployed and underemployed labour, both in the cities and countryside can be absorbed into labour intensive units.

(iii) Small industries are less capital intensive and form an effective means of tapping individually meagre and scattered savings for productive purposes.

(iv) A developing country like India by promoting the small sector paves a way for modernising agriculture by producing new farming tools, machinery, fertilizers, animal and poultry feeds, etc. 23
(v) Another group of arguments for promoting small enterprises derives from social and political considerations. The social value of small industries sector\textsuperscript{24} is the most important role it plays in attaining the major objectives of the governments, in, removal of poverty, attainment of self-reliance, reduction in disparities in income, wealth and consumption standards, and regional imbalances.

(vi) An important cause for the Government of India giving special assistance to small enterprises is that they are a means of decentralising industry.\textsuperscript{25} That is, the small sector caters to the reduction of regional disparities of income between persons and regions through dispersal of industries. There is scope to exploit local raw materials and dormant entrepreneurship which would otherwise have remained unutilized.

(vii) Frequent entry into the market by a sizeable number of new and small firms brings into an industry new ideas and talents, as well as healthy competition.\textsuperscript{26}
(viii) The small scale units have a low gestation period in comparison to large industries.

1.5 Handicaps of the small sector:

For all its benefits and favourable aspects the small scale sector suffers from certain basic handicaps such as:

- lack of technical assistance,
- lack of financial assistance,
- want of suitable working accommodation,
- inadequacy of tooling,
- inadequacy of repairs and maintenance facilities, etc.

The Government, Banks and other organisations through various schemes are jointly trying to alleviate this sector from these setbacks.

1.6 Government policies towards SSI

The Government of India is promoting the small sector through its various industrial policy resolutions and plans. The progressive growth of this sector is attributable to a number of promotional measures provided by the government which include the following:
(i) Market protection is provided through the reservation of products for exclusive production in the small sector. The total number of items reserved for exclusive manufacture in the small scale sector stood at 847 at the end of December 1987.

(ii) The small sector is given purchase preference in government procurement. Under this programme 409 items have been reserved for exclusive purchase from small sector, while 13 items are reserved for purchase up to 75% and 28 items for purchase up to 50%.

(iii) Infrastructure is provided through industrial estates. The District Industries Centre, Small Industries Service Institutes and other specialised institutes provide technical assistance and testing facilities, etc.

(iv) The small industries are provided with better access to scarce raw materials.

(v) The small scale units get tax benefits and also get concessional interest rates and priority in disbursement of loans by financial institutions.
(vi) The share of the small sector \(^{29}\) in the aggregate assistance from Industrial Development Bank of India has increased significantly from about 19.1% on an average during 1970-76 to 28.5% during 1976-80 and to about 30% during 1981-87.

(vii) A National Equity Fund\(^ {30}\) has been recently set up (1987) in IDBI in participation with Government of India to provide equity type of support to small entrepreneurs for establishing new projects in the tiny and small scale sector and for rehabilitation of sick but potentially viable units in the SSI sector.

1.7 **Nature and scope of the study.**

A survey was undertaken to delve into the marketing practices of the small scale entrepreneurs, and for the purpose of the study, the GIDC industrial estate at Makarpura was chosen. The study is a combination of exploratory, descriptive and causal research design. The data were collected from primary sources with the help of a structured questionnaire.
In this study an attempt is made to ascertain the extent of association between input and output, the variables chosen for input are marketing practices and output is sales. Ideally, better marketing practices should lead to higher profits (which is the goal of business organisations). Unfortunately, the small entrepreneurs were unwilling to divulge the information on 'profits' of the unit. In the words of David Storey and et al.,

"data on the financial performance of small firms are so closely connected to the income of the proprietor that public divulgence is thought to constitute an unwarranted loss of privacy to those individuals". Therefore, in the place of profits, data on sales were collected.

It needs to be borne in mind that small scale units are not simply scaled down versions of large firms. They have different objectives and aspirations and face different problems and respond to different incentives.

1.8 Limitations of the study.

The study was subject to certain limitations:
(i) Data on financial aspects of the small scale units could not be collected fully. Firstly, this was due to inadequate and erratic maintenance of records. Secondly, the small entrepreneurs were unwilling to divulge information relating to profits, and any data that were related to it.

(ii) The marketing practices of the small units, concerning 'channel decisions' could not be analysed in this study, as only 10 from the sample of 52 units indicated that their sales are effected through the channel. It was felt that the results of these 10 respondents when analysed may not conform to the realities of the situation. Thus the study and analysis of channel decisions were dropped from the present study.

(iii) The study examines the relationship between sales and marketing practices. However, there may be several other factors than marketing practices, which influence sales. (Other factors may be said to include production, financial aspects, market situation, etc.)
(iv) Stratified sampling could not be used on account of the extremely small size of many industry code groups. This would have been preferable to simple random sampling.

(v) Due to constraints of time and finance, the study could not be broad based and is confined to small units in Makarpura Industrial Estate.

1.9 Organisation of the study - chapterisation:

Chapter I is an introductory chapter, which brings out the importance of marketing in economic development. The definition of the small scale sector as relevant to the study is stated. It also describes in brief, the growth, the advantages and the contributions of the small sector in the industrial growth of the Indian economy. The nature and scope of the study, as also the limitations of the study are brought out.

Chapter II highlights findings of a few studies (undertaken in different parts of the country). The marketing problems of units in Makarpura Industrial Estate, as brought out by the GIDC survey are enumerated. A case for a study on the marketing practices of the small scale industrial units is made out.
Chapter III is wholly devoted to the description of Makarpura Industrial Estate. The physical, industrial and social infrastructure facilities available in this estate are indicated. The favourable and unfavourable aspects of the industrial estate are also brought out.

Chapter IV describes the plan and procedure of the study in detail. This includes sample selection, development of the questionnaire, research objectives, and the statistical techniques used in analysing data.

Chapter V is the first of the two chapters where the data collected were analysed. Here, the level of performance of the different groups with respect to each of the marketing variables is discussed. The different groups are also compared and differentiated in terms of their marketing practices.

Chapter VI also deals with analysis and interpretation of data. The results accrued from the application of the step-wise regression technique are discussed, the criterion variable being sales and the predictor variables, the different marketing practices.
Chapter VII presents a summary of the study and highlights its major findings. The implications of the study are also discussed alongside.

Besides, there are appendices giving the map of the Makarpura Industrial Estate, the questionnaire, the scoring key and some other related particulars.
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3. Ibid.


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