7.0 CONCLUSIONS AND RECOMMENDATIONS

7.1 PROFILE

The conclusions in general, regarding the SSI units manufacturing food products in Ernakulam District as included in this research are recorded in this Section. The data and detailed analysis which form the basis for these are given in section 4.1

7.1.1 A major segment of SSI units in the food products manufacturing category are proprietary concerns. The others are partnership firms. Other forms of organisation viz. co-operative societies, though present are negligible in number.

7.1.2 Location wise, the SSI firms are spread all over the district. They are not restricted to the District head-
quarters. These projects are found to be established in rural settings as well as in the urban surroundings.

7.1.3 By investments in the projects, each product group has a different mean. It ranges between Rs.1.82 lakhs and Rs.3.42 lakhs.

- Bread: Rs 2.49 lakhs
- Biscuits: Rs 1.97 lakhs
- Spices: Rs 1.82 lakhs
- Pickles: Rs 3.42 lakhs

7.1.4 The mean of working capital employed by the four product groups range between Rs.0.38 lakhs and Rs.1.60 lakhs.

- Bread: Rs 0.42 lakhs
- Biscuits: Rs 0.38 lakhs
- Spices: Rs 0.41 lakhs
- Pickles: Rs 1.60 lakhs

7.1.5 With the mean employment ranging between 7 and 30, the investment per employment generated is found to be very low.

- Bread: Rs 0.28 lakhs
- Biscuits: Rs 0.28 lakhs
- Spices: Rs 0.20 lakhs
- Pickles: Rs 0.11 lakhs
This augers well with the objectives of promoting the small scale industries, in terms of low investment per employment generated.

7.1.6 The mean sales turnover for the years 1989-91 for the four product categories are not very encouraging. By plotting mean sales turnover against the mean production for the year 1991 by the respective product groups, it is seen that the realisation per Kg. of production is low. The turnover per Kg of production as compared to the retail price per Kg during the same year are shown below in Table 7.0.

Table 7.0: Turnover/Kg of output Vs. Retail Price.

<table>
<thead>
<tr>
<th></th>
<th>Mean Sales Turn over 1991 (Rs lakhs)</th>
<th>Turn over/kg of production</th>
<th>Retail price Kg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>3.81</td>
<td>5.50</td>
<td>10.00</td>
</tr>
<tr>
<td>Biscuits</td>
<td>0.99</td>
<td>23.00</td>
<td>35.00</td>
</tr>
<tr>
<td>Spices</td>
<td>1.80</td>
<td>5.40</td>
<td>40.00</td>
</tr>
<tr>
<td>Pickles</td>
<td>6.00</td>
<td>14.00</td>
<td>35.00</td>
</tr>
</tbody>
</table>

7.1.7 The utilisation of installed capacity on an average was below 60% in all the product groups. (Bread - 55.5%, Biscuits- 35.3%, Spices-41.5% and Pickles-57%). Assuming that the Break Even Point is 40% of installed capacity in
all the product categories, the performance is not very encouraging. This low productivity has implications on profitability of these units and resultant viability.

7.1.8 An advantage of low productivity is that there would be lesser quantity to sell. But the viscous circle of low production, low sales, low cash flow and imminent sickness would have already set in.

7.1.9 The SSI Firms face much hazards with respect to Marketing and Finance (See section 4.2). While Finance is the most problematic area for Biscuits and Pickles manufacturing units, Marketing is most problematic for the other two groups.

7.2 MARKETING

7.2.1 With reference to marketing, brand names are not used by some firms. As discussed in section 4.1, sizeable proportion of Pickles (75%), Spices (60%) and bread(50%) manufacturing units have branded their products. But Biscuits are marketed mostly as unbranded ones.
7.2.2 With reference to marketing issues, the Place element ie. Distribution, is rated as the most problematic area by all the categories of SSI firms (see section 4.3). This is followed by Competition.

The high pitched promotional efforts by the State has stimulated the coming up of a number of SSI units within the same categories. More over they are spread all over, geographically. Hence these units are bereft of exclusivity and they compete with each other, so much so that each unit is constrained to operate within specific geographic pockets.

7.2.3 The Nearest point of sales is within 5 Km in almost every case in all the categories. The farthest point of sales is also within 5 Km in sizeable proportion of the cases as seen in the Table .7.1

As can be seen from the Table, there are many firms that sell their produce beyond 15 km from their production centre. Hence the distribution of products is an important element in the marketing of these items.
Table 7.1: Point of Sale (Distance-Km)(Proportion-%)

<table>
<thead>
<tr>
<th></th>
<th>Nearest Point</th>
<th>Farthest Point</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;5 5-15 15&lt;</td>
<td>&lt;5 5-15 15&lt;</td>
</tr>
<tr>
<td>Bread</td>
<td>93.8 6.2 -</td>
<td>37.5 18.8 43.8</td>
</tr>
<tr>
<td>Biscuits</td>
<td>100.0 - -</td>
<td>60.0 20.0 20.0</td>
</tr>
<tr>
<td>Spices</td>
<td>93.3 6.7 -</td>
<td>26.7 40.0 33.3</td>
</tr>
<tr>
<td>Pickles</td>
<td>100.0 - -</td>
<td>25.0 - 75.0</td>
</tr>
</tbody>
</table>

7.2.4 In spite of the distant reach by some of the firms, it is seen that majority of the firms do not sell their products outside the district of Ernakulam. The survey shows that firms manufacturing Bread(75%), Biscuits(80%), Spices(80%) and Pickles(25%), sell their entire output within the district. This shows that the SSI firms are to a great extent fettered within geographical boundaries with reference to distribution reach.

7.2.5 With limited product innovations possible or being tried by the firms, unique selling propositions are scarce as far as the SSI products are concerned. Hence the developing of demand outside the immediately surrounding area calls for more aggressive marketing efforts.

7.2.6 Product quality is considered as an important factor in the case of food products, by all the firms. While packing is given some significance, a Brand Name is not considered a very serious issue in marketing.
considered a very serious issue in marketing, (section 4.3) though majority of them have branded their products.

7.2.7 Price is treated as a sensitive issue as the demand is considered to be influenced by the same.

7.2.8 But compared to price, competition is stated as a more problematic area, and is ranked second by all the four product groups (section 4.3).

7.3 CHANNELS OF DISTRIBUTION

7.3.1 Though target market segments are not precisely defined. The four product groups studied have over the years been catering to both institutional buyers and end-use consumers.

7.3.2 In spite of lack of any planned approach to identifying and structuring channels of distribution, these SSI firms have increasingly grown to use an assorted variety of channel structures for reaching their customers. These channels and their deployment are discussed in Chapter 5.
7.3.3 It is seen that the SSI firms manufacturing food products are more dependent on the channel members than vice versa. They view themselves as less powerful than the channel members. They believe that they cannot exert power over or demand a specific behaviour from the channel members. Their control over the actions of these external organisations is perceived as negligible or non existent.

7.3.4 These small enterprises have over time developed a form of relationship with the channel members which they prefer to protect. This could either be because they generate the 'best' performance from them or because the service received is the best they can realise and any change of approach towards the channel members may produce adverse outcome. Considering the low productivity and quantum of sales, the later can be taken as true.

Three dimensions of relationship - power, leadership and communication were examined in this context.

7.3.5 With reference to power, the SSI firms perceive themselves as subjugant to the channel members. (Sec. 6.2) The units indicate a negative capability to exert reward power or coercive power over the channel members. This means that neither the 'carrot' nor the 'stick' can prompt
the channel members to behave the way the SSI units want them to. Where expert power is concerned, the SSI firms feel that they have an edge over the channel members; the expertise being confined to product storage and handling.

7.3.6 Collectively, the SSI firms perceive themselves as ineffective in taking up a leader role in the operations of the channel. Initiating and driving the channel members to perform according to the requirements of the manufacturing SSI firms is not perceived as their own strength by these firms. (Sec. 6.3.2)

7.3.7 With reference to communication these firms believe that they can effectively communicate to the channel members and consider it an important factor. (Sec. 6.4) Still in practice the methods of communication are not systematically employed for effectiveness or better performance by these firms.

7.3.8 The perception that they have limitations in influencing the channel members, guides the general attitude and behaviour of the SSI firms. They tend to rely on the goodwill they have been able to generate and take extra care to safeguard this relationship with the channel members and the public. They prefer to avoid decisions and
situations that could undo the favourable liaison they have developed with the public. This status is at times at the cost of foregoing advantages that could have been capitalised by taking a tougher stand on various issues.

7.3.9 With reference to employing external contractual agencies in distribution of the products, it is observed that the geographical reach and the choice of channels do not follow any specific pattern. The SSI firms follow a trial and error approach for deciding on the channels. (Chapter 5). They consolidate on those channels that ultimately provide them relatively better results.

7.3.10 The fact that about one fourth the units studied use their shops/ outlets for selling their products reveals a preparedness on their part to reach the market on their own and not fully depend on external bodies to help distribute their products. But in such cases, the output levels are low, the capacity utilisation ranging between 8% to 50%. The geographical reach is also restricted, expect in a few cases where the product quality bring in consumers from far away places.

7.3.11 The SSI firms do not define their objectives in terms of performance viz. sales targets (Sec. 6.6.1) to the field force or even themselves.
7.3.12 The lack of potential to control the channels on the part of the SSI firms indirectly affects control on costs; especially the costs related to promoting the channels. (Sec. 6.6.2)

7.3.13 The need for having own vehicle for distributing the products is prominently felt by the firms (Sec. 6.6.3).

7.3.14 But it is also found that these SSI units would not totally adopt an approach to directly distribute the product to consumers thus eliminating external organisations. (Sec. 6.6.4) In fact there is a positive attitude towards a multi-channel approach. (Sec. 6.6.5) With personal selection of channel members to some extent and periodic assessment of their performances, the SSI firms hope to get a fair support from the channels of distribution so as to successfully market their products and justify their existence in the field. (Sec. 6.6.)

7.3.15 The SSI firms are seen to be operating on very 'thin ice' with respect to relationship they have with channel members. Their expectation about various outcomes viz-a-viz the adoption of different approaches is analysed in Sec. 6.7.1. As can be seen, these SSI firms tend to adopt a very safe role. While giving lee way to the channel members on
most issues, they express themselves sparingly on issues where they are sure that the relationship will not be adversely affected.

7.3.16 The SSI firms are also observed to be very diffident as to their attitude towards adopting approaches that could have implication on the performance of the channels. At times, decisions are taken while the outcome is known to be not very encouraging. In many cases decisions are avoided even while the outcome of such decisions are expected to be positive. The analysis of this diverse orientation is detailed in section 6.7.2.

7.4 OBSERVATIONS

7.4.1 The small scale industrial sector appears to exist and perform in an environment which simultaneously nurtures and places impediments. The attractive promotional support offered is often a great stimulant for prospective entrepreneurs to walk into the field.

7.4.2 The enthusiasm to expand the small scale industrial base on the part of the State, often leads to presenting an over simplified preliminary phase which helps draw in the prospects faster. Once the prospect makes his initial
moves, the reality in the form of procedural wrangles and delays dawns on him. Many a time, these promoters would have committed themselves to such an extent that withdrawing from the project would entail heavy financial losses. At the same time, going ahead with the project may call for increasing financial outlay and cost overruns.

7.4.3 The system is not the only culprit. The promoters themselves are not always equipped. They may not be adequately informed or may take many things for granted. Many a time they expect to be spoon fed. To compound the issue, each support mechanism has a pace of its own so much so that integrating all the required elements, demands tremendous effort and deftness on the part of the promoters.

7.4.4 The planning of a small scale industry ideally follows a sequence of activities which includes identifying opportunities, assessing resources and their sources, obtaining licences and clearances, documentation, preparation of project feasibility report, tying up with promotional and supporting agencies and finally the process of project implementation. Obviously some of these steps can be taken up simultaneously.
7.4.5 A thorough understanding of the requirements of each stage is essential for an industrialist to be effective and be cost efficient. This is not always the case, as quite a number of prospective industrialists, in quest for speed, end up assigning the organisation of some or all of these stages to free-lancing consultants or agencies. This, while easing them out of the responsibility of running after mundane procedural activities, also leaves them unaware of the significance or relevance of many such formalities and stipulations.

7.4.6 One such major aspect that has lost serious forethought is Marketing. It is observed that many a project is conceived on the basis of:

a. the technical expertise of the promoters
b. the access to personal sources of funds
c. the availability of skilled but economic labour
d. the fact that an existing project is performing well in the area.

These and many such reasons guide the selection of a project. A detailed assessment of the market potential is seldom if ever taken up, either by the promoters or by the...
promotional agencies. The promoter gets away by stating "Good Demand" against the query - "Market potential for the project", in the application form for Provisional SSI Registration. Even if a studied presentation is made by the promoter, the Industries Department does not have the mechanism to verify or examine the same and confirm its authenticity.

Thus the onus of identifying the market and devising methods for tapping it rests exclusively on the promoters. But the promoters, it is observed, rarely do a thorough study of the market or its potential before the project is implemented.

7.4.7 Moreover, it appears that the marketing dimension which is fundamental to the development and survival of the SSI sector is not given the required forethought by the State while planning development of this sector. Project proposals are more academic exercises rather than based on hard realities of the environment and market.

7.4.8 It must be stated that elementary support is being provided to supplement the marketing efforts of a few categories of SSI units and their products. The stores purchase scheme, wherein a series of products are reserved
by the Government of India for purchase exclusively from the SSI is one instance. The National Small Industries Corporation (NSIC), acts as a coordinator for SSI to register under this scheme and also channelise information and products. Interestingly, it is understood that not much of activity has taken place in this count from within the state of Kerala.

7.4.9 The District Industries Centres, conceptually, were designed to also provide marketing support to the small enterprises. By structure, each DIC has on section headed by a Manager, to look after the marketing requirements of the SSI. This again is found to be an inadequately employed support facility. Given the limited man-power available with the Department and considering the need for a case-by-case handling of marketing issues of the SSI, this facility is not found to be effective nor is any assistance being sought for by the Small enterprises.

7.4.10 A recently emerging method for supporting the marketing efforts of the SSI is by organising exhibitions-cum-sales for their products. The regional associations of the SSI firms along with the Industries Department take the initiative for such activities, which to a great extent provide the firms a visibility that otherwise would have
cost them much higher. The effectiveness of promoting SSI products through exhibitions and fairs is enhanced by organising them for specific product groups, so that specific market segments may be targeted at. A variety of product groups including electronic products, engineering goods, building materials and textiles have been promoted through such exhibitions. But exclusive exhibitions for Food Products from the SSI sector have not been reported so far.

7.4.11 Even with all these, it must be stated that the support and guidance for marketing the SSI products is scanty, irregular and unorganised.

7.4.12 Market information is inadequate. There is no effective system by which relevant information is collected, compiled and efficiently disseminated. It must be said that some of the promotional agencies do maintain libraries where quite a substantial volume of information is available. The catch here is in the retrieval of relevant information. Easy and quick access to precise and relevant information is seldom possible in these places.

7.4.13 It must thus be inferred that the adhoc approach to promoting the SSI with scanty appraisal of the
marketability is a bane on this sector. Unscientific promotion of the SSI units without adequate consideration of their commercial viability leads to colossal investment in assets that are neither productive nor are reemployable.

7.4.14 While small enterprises are known to be inhibited by hazards of varying dimensions in all the managerial functional areas, it is found from this study that Finance and Marketing are the two areas where the SSI units face most problems. The issues related to finance include, as listed by these firms:

- Paucity of working capital
- Under-financing by financial institutions
- Inordinate delay in financing
- Inadequate cash-flow

7.4.15 The issues related to marketing are multifarious.

These include:

- product image and acceptability - Building up an image and resultant acceptability proves to be a difficult job for most SSI units. Generally, these SSI units do not have a standard pattern of product which stands out with some uniqueness. With many units manufacturing
similar range of products, the scope for specific recognition of a product viz-a-viz any specific unit is difficult. As a result a large number of these units reach the market with "ME TOO" products.

- Market intelligence - The absence of an effective market information system, either within the organisation or outside, puts the SSI units in a precarious position.

- Marketing decisions tend to be adhoc - with even basic information being inadequate, many of the decisions tend to be adhoc or intuitive. The urgency of each situation force the industrialists to take decisions that may even have long term implications. This tendency to work by hunches inevitably inhibits a careful cost-benefit analysis of any particular decision.

- Management education is limited - It is also seen that with the high literacy level of the state, all the SSI promoters have had elementary education. But any form of formal management education among them is scarce. Less than ten percent of these individuals have had some exposure to scientific management principles, by attending short duration Management/Entrepreneur development programmes. The others are understood to be guided by hunch, heuristics or wisdom.
In-effective production planning - It can be seen from this study that a majority of the units have not resorted to proper production planning which is in line with the actual demand in the market. The fact that a majority of units in each category (between 50% and 80%) use less than half their installed capacity is revealing. This would mean that a sizeable number of units barely break-even.

Low productivity can be attributed to two basic factors -

a. Insufficient working capital
b. Difficulty in marketing the products

Though not mutually exclusive, these factors have a cyclic cause - effect relationship. This has a resultant impact on the survival of the SSI enterprises. See Figure 7.1

7.4.16 It is jocularly said that banks are happy to finance a project whose promoters are financially sound and do not essentially need financial support. Whereas these financial institutions shy away from projects that do not have adequate resources of their own but genuinely require support.
7.4.17 With reference to marketing, it is observed, across the product groups, that the channels of distribution and their management pose the maximum difficulties for the small enterprises. A variety of factors can be identified with respect to 'place', which are discussed in detail in chapter 6.

7.4.18 Competition is a factor that the SSI firms find difficulty in managing. The mushrooming of small units manufacturing similar range of products, catalysed by the promotional schemes, has created a supply situation far in excess of the demand. Incidentally, the demand is something which has not been estimated as a prerequisite for promoting these projects.

Hence there is a proliferation of SSI firms engaged in or equipped for manufacturing similar products, and they end up nibbling at each other's market. The age old concept of survival of the fittest prevails, and we are left with a series of sick or closed SSI units.

7.4.19 The pricing is listed as the third most critical area where the SSI face problems. For quite a number of SSI units the low turnover and inadequate cash-flow calls for a
higher price structure, which due to obvious market forces is not an easy proposition for the SSI firms. Any variation in price affects the market adversely.

Moreover, the small enterprise promoters say that the frequent fluctuations in prices of raw materials too have had a retarding effect on their growth, as managing finance with reference to escalating raw material prices against stagnant finished goods prices often takes its toll.

These firms cannot go in for periodic increases in their product prices as that would affect their credibility and erode even the existing sensitive demand.

7.4.20 The channels of distribution being the prime concern of this research, an in depth analysis of the operations in this area was taken up.

A primary observation is that a majority of units have not defined their customers precisely, so much so that they tend to initially adopt the typical marketing channel structure ie. manufacturer - wholesaler - retailer - consumer. The target market segment not being defined in most cases, the distribution strategies too are lacadaisical.
7.4.21 The fact remains that the SSI are dependent on the channels of distribution to reach their products to the consumers. Hence the major function of the channel members as far as SSI are concerned is identification of consumers. The visibility of any SSI firms is dependent on the channel members. This is more so since the small enterprises have limitation in going in for extensive promotional measures.

7.4.22 The channel of distribution is a critical element in the marketing of SSI products. The exposure and reach of the SSI firms is in effect enhanced by the channel members. Especially with limited resources left with the SSI firms for extensive promotional efforts, the channel members have a prominent role in influencing the sale of SSI products.

7.4.23 This research reveals that the SSI firms by and large do not have a clear perception about the functions that channels can effectively take up. The functions of risk bearing, economising effort, extending credit, financing, providing market information and constant monitoring of market and trends are not being fully utilised by the SSI. There appears to be a lack of awareness regarding these aspects. As observed elsewhere in this report there is a need for extensive education of
these SSI promoters in general management and specifically in the fundamentals of marketing management. So far, barring a minority, the SSI owners operate based on trial and error and in the process end up wasting precious time, effort and money.

7.4.24 There is a general air of resignation and an attitude to accept just what comes their way. A lack of awareness about their real potential keeps them complacent about and at times even satisfied with the extremely low productivity levels and market penetration that they are able to achieve.

This is a manifestation of their low concern for systematically assessing the market potential, and a laudable approach towards gathering feedback from subscribers as well as the channel members. While a few firms do claim to have some arrangement for obtaining feedback from the subscribers, they seldom take up a proper evaluation of their customers and their preferences. The paucity of information regarding their customers profile and their attitudes and preferences inhibit the SSI units in evolving better marketing strategies so as to gain a competitive edge over other firms. Lack of a strong will to do better lead these units to mediocrity.
The absence of a fighting spirit culminates in the promoters of these units trying to maintain them just as a source of employment and income and not as an avenue to project their skills or achieve excellence. Hence we have a collection of SSI firms trying to just survive and not be vibrant and growing.

7.4.25 It is also observed that these SSI firms do not have a clear definition about their customers. Market segmentation is rarely done, as most of the firms have a product orientation. The customer orientation that is yet to set in would have given them a precise direction while planning the channels of distribution.

7.4.26 As such, since the targets are not precise, the SSI end up with hazy approach strategy and hence channels, that incorporate channel members who need not necessarily deliver the goods. The vicious circle of a wrong channel, low sales and low profitability leading to sickness is the order that is mostly observed. This again is a pointer to the need for providing adequate managerial education to the promoters of the small enterprises.
The SSI firms need to be helped to realise and identify their own strengths. This would help them in boosting the confidence which they presently lack.

The SSI firms have to develop a market orientation so that they have a clear perception about their target market segments. This is of utmost concern as the SSI firms have to have properly defined marketing strategy and prior distribution plans so that the limited resources at their disposal can be optimally utilised. Marketing plans must be drawn up even while the project feasibility report is being prepared prior to project implementation. The present practice of being hazy about the market and presenting sweeping observations about the market prospects must be purposefully avoided.

Adequate attention should be given to evolving a systematic information dissemination mechanism. The SSI firms operating in similar fields should get together so that information of common interest could be shared. Alternatively, these units could, with the help of existing Government machinery, streamline the data compilation and retrieval system so that decisions may be based on more accurate and relevant premises.