

REFERENCE ONLY

**MARKETING CHANNELS OF SMALL SCALE INDUSTRIES  
MANUFACTURING SELECTED FOOD PRODUCTS  
IN ERNAKULAM DISTRICT**

**THESIS SUBMITTED TO THE UNIVERSITY OF COCHIN  
FOR THE AWARD OF THE DEGREE OF  
DOCTOR OF PHILOSOPHY  
UNDER THE FACULTY OF SOCIAL SCIENCES**


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1994**

# Certificate

*This is to certify that the Thesis "Marketing Channels of Small Scale Industries Manufacturing selected Food Products in Ernakulam District", submitted by Mr. Thomas T. Thomas for the Degree of Doctor of Philosophy in Social Science, is the record of the original work done by him under my supervision and guidance. This Thesis is worth submitting for the Degree of Doctor of Philosophy in Management.*

  
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## INDEX

	Page No.	
1.0	Introduction	1
1.1	Title	3
1.2	Relevance of this Research	4
1.3	Small Enterprises	5
1.3.1	Small Enterprises - The Global Scene	5
1.3.2	Small Scale Industries (SSI) - The National Scene	7
1.3.3	Small Scale Industries (SSI) - The State Scene	20
1.3.4	Small Scale Industries (SSI) - The District Scene	22
1.4	Profile of Ernakulam District	25
2.0	Objectives, Scope & Methodology	32
2.1	Objectives	32
2.2	Scope	33
2.3	Research Design	35
2.3.1	The purpose and broad area of Study	36
2.3.2	Preliminary Discussions	36
2.3.3	Literature Review	37
2.3.4	Specific problems and issues	38
2.3.5	Sources of data	38
2.3.6	Sampling	39
2.4	Instruments for data collection	45
2.4.1	Secondary data	45
2.4.2	Primary data	45
2.5	Field work for data collection	56
2.5.1	Secondary data	57
2.5.2	Primary data	57
2.6	Data analysis	58
2.7	Writing the Thesis	59
3.0	Review of Literature	60
3.1	Marketing Channel System	60
3.2	Definitions of Marketing Channels	62
3.3	Channel Participants	65
3.4	Number of Channel Levels	67
3.5	Retailers	68
3.6	Wholesalers	69
3.7	Inter - Organisational Behaviour	70
3.7.1	Power	71
3.7.2	Leadership	73

3.7.3	Communication	74
3.7.4	Conflict	75
3.7.5	Cooperation	77
3.7.6	Dependence	77
3.7.7	Trust	78
3.7.8	Satisfaction	78
3.7.9	Goodwill	79
4.0	Profile and Marketing Arrangements	80
4.1	Sample Profile	81
4.1.1	Bread manufacturing SSI firms	81
4.1.2	Biscuits manufacturing SSI firms	87
4.1.3	Spices Processing SSI firms	94
4.1.4	Pickles manufacturing SSI firms	100
4.2	Problem Areas in General	107
4.2.1	Problem Areas of Bread Manufacturing SSI firms	108
4.2.2	Problem Areas of Biscuits Manufacturing SSI firms	109
4.2.3	Problem Areas of Processed Spices Manufacturing SSI firms	110
4.2.4	Problem Areas of Pickles Manufacturing SSI firms	111
4.3	Marketing Issues	112
4.3.1	Marketing issues relevant to Bread Manufacturing SSI firms	113
4.3.2	Marketing issues relevant to Biscuits Manufacturing SSI firms	121
4.3.3	Marketing issues relevant to Processed Spices Manufacturing SSI firms	129
4.3.4	Marketing issues relevant to Pickles Manufacturing SSI firms	136
4.4	Pricing, Promotion and Feedback	143
4.5	Product Distribution Arrangement	149
5.0	Channel Structures	159
5.1	Marketing Functions	159
5.2	Channel Structures of SSI	160
5.3	Marketing Channels of Bread Manufacturing SSI firms	163
5.4	Marketing Channels of Biscuits Manufacturing SSI firms	169
5.5	Marketing Channels of Processed Spices Manufacturing SSI firms	172
5.6	Marketing Channels of Pickles Manufacturing SSI firms	179

6.0	Analysis and Findings	185
6.1	Channel Relationship and Performance	185
6.2	Power	187
6.2.1	Approach 1: To reward channel members for better performance	191
6.2.2	Approach 2: To punish channel members for poor performance	194
6.2.3	Approach 3: To guide and advice channel members on how to perform	197
6.2.4	Perceived Power Bases of SSI firms	199
6.3	Leadership	201
6.3.1	Approach 4: To take the role of a leader for directing the operations of the channel members	202
6.3.2	Perceived potential for leader role	204
6.4	Communication	205
6.4.1	Approach 5: To insist on regular and periodic communication about activities, problems and results	206
6.5	Relationship	208
6.6	Performance	210
6.6.1	Approach 6: To fix sales targets for the channel members	210
6.6.2	Approach 7: To limit expenses towards channel members.	213
6.6.3	Approach 8: To use own distribution vehicle	215
6.6.4	Approach 9: To distribute products only directly to consumers	217
6.6.5	Approach 10: To use many channels together	219
6.6.6	Approach 11: To select all channel members by themselves	222
6.6.7	Approach 12: To assess periodically the performance of the channel members	225
6.7	Perceived Impact of the Approaches	228
6.7.1	Group One Approaches	229
6.7.2	Group Two Approaches	239
7.0	Conclusions and Recommendations	248
7.1	Profile	248
7.2	Marketing	251
7.3	Channels of Distribution	254
7.4	Observations	259

## ANNEXURES

## INDEX OF TABLES

	Page No.	
1.3.A	Definitions of Small Scale Industry	11
1.3.B	Number of Registered SSI Units (All India)	15
1.3.C	Estimates of production of the SSI Sector as worked out by DC(SSI) with Census data (1972) as base	16
1.3.D	Share of Small Scale Industries in total Exports	16
1.3.E	Total number of units and employment of the small scale sector during seventh plan period	17
1.3.F	Outlays for the Central and State Plan for Small Scale Sector	17
1.3.G	Reservation of Items for exclusive production in Small Scale Sector	19
1.3.H	District wise details of SSI units registered in Kerala as on 1.3.1989	21
1.3.I	Working Status of Small Scale units in Kerala	22
1.3.J	List of Product Groups (Food Products)	24
2.3.A	Regionwise Break-up of SSI units in Ernakulam District (Selected product groups included in this research)	43
2.3.B	Sample size providing for sample loss	44
4.1.A	Investments in Fixed Assets and Working Capital of Bread manufacturing SSI units	82
4.1.B	Employment in Bread manufacturing Units	83
4.1.C	Sales Turnover of Bread manufacturing SSI units during 1989-1991	84
4.1.D	Sales Area and Volume (Bread)	87
4.1.E	Investment in Fixed Assets and Working Capital of Biscuits manufacturing SSI units	88
4.1.F	Employment in Biscuits manufacturing units	89
4.1.G	Sales Turnover of Biscuits manufacturing units during 1989-1991	90
4.1.H	Sales Area and Volume (Biscuits)	93
4.1.I	Investment in Fixed Assets and working capital of processed Spices manufacturing units	95
4.1.J	Employment in processed spices manufacturing units	95
4.1.K	Sales Turnover of Spices processing firms during 1989-1991	96
4.1.L	Sales Area and Volume (processed Spices)	99

4.1.M	Investment in Fixed Assets and Working Capital of Pickles manufacturing SSI units	101
4.1.N	Employment in Spices manufacturing Units	102
4.1.O	Sales Turnover of Pickles manufacturing firms during 1989-1991	103
4.1.P	Sales Area and Volume (Pickles)	106
4.2.A	Comparative Ranking of problem areas in general	107
4.2.B	Ranking of problem areas by SSI units manufacturing Bread	109
4.2.C	Ranking of problem areas by SSI units manufacturing Biscuits	110
4.2.D	Ranking of problem areas by SSI units manufacturing Processed Spices	110
4.2.E	Ranking of Problem areas by SSI units manufacturing Pickles	112
4.3.A	Comparative Ranking of problem areas in Marketing	113
4.3.B	Ranking of problem areas in marketing of Bread	115
4.3.C	Importance of product related factors	117
4.3.D	Importance of price related factors	118
4.3.E	Importance of place related factors	118
4.3.F	Importance of promotion related factors	119
4.3.G	Importance of Competition related factors	120
4.3.H	Importance of Consumer related factors	120
4.3.I	Ranking of problem areas in marketing of Biscuits	123
4.3.J	Importance of product related factors	125
4.3.K	Importance of price related factors	126
4.3.L	Importance of place related factors	126
4.3.M	Importance of promotion related factors	127
4.3.N	Importance of competition related factors	128
4.3.O	Importance of consumer related factors	128
4.3.P	Ranking of problem areas in marketing of Processed Spices	130
4.3.Q	Importance of product related factors	132
4.3.R	Importance of price related factors	133
4.3.S	Importance of place related factors	133
4.3.T	Importance of Promotion related factors	134
4.3.U	Importance of competition related factors	135
4.3.V	Importance of consumer related factors	135
4.3.W	Ranking of problem areas in marketing of Pickles	137
4.3.X	Importance of product related factors	138
4.3.Y	Importance of price related factors	139
4.3.Z	Importance of place related factors	140
4.3.AA	Importance of promotion related factors	141
4.3.BB	Importance of competition related factors	141
4.3.CC	Importance of consumer related factors	142

5.3.1	Selling point and channel members of Bread manufacturing SSI units	167
5.4.1	Selling point and channel members of Biscuits manufacturing SSI Units	171
5.5.1	Selling point and channel members of Processed Spices manufacturing SSI units	177
5.6.1	Selling point and channel members of Pickles manufacturing SSI units	182
6.2.1	Adoption of Approach A1	192
6.2.2	Adoption of Approach A2	195
6.2.3	Adoption of Approach A3	198
6.3.1	Adoption of Approach A4	203
6.4.1	Adoption of Approach A5	207
6.5.1	Indices of relationship between SSI manufacturers and channel members	209
6.6.1	Adoption of Approach A6	211
6.6.2	Adoption of Approach A7	214
6.6.3	Adoption of Approach A8	216
6.6.4	Proportion of units using vehicles for distribution	217
6.6.5	Adoption of Approach A9	218
6.6.6	Adoption of Approach A10	220
6.6.7	Number of channels employed simultaneously	222
6.6.8	Adoption of Approach A11	223
6.6.9	Adoption of Approach A12	226
6.6.10	Perception regarding Approach 12 vs Satisfaction about present performance	227
6.7.1	Index of expected outcome by adopting Approaches relevant to relationship	238
6.7.2	Expected effects of Group Two Approaches on Sales	241
6.7.3	Expected effects of Group Two Approaches on Costs	242
6.7.4	Anticipated impact of Group Two Approaches on goodwill of the firms	243
6.7.5	Anticipated impact of Group Two Approaches on Service efficiency of channel members	245
6.7.6	Perceived impact of Group Two Approaches on relationship with channel members	247
7.0	Turnover/kg of Output vs. Retail Price	250
7.1	Point of Sales (Distance)	253



## INDEX OF FIGURES

		Page No.
5.1.1	The performance of Marketing Functions	161
5.3.1	Channels of Distribution - Bread	168
5.4.1	Channels of Distribution - Biscuits	173
5.5.1	Channels of Distribution - Processed Spices	178
5.6.1	Channels of Distribution - Pickles	184
7.1	A model of SSI Operations	268

## CHAPTER 1

### 1.0 INTRODUCTION

Predominantly an agrarian nation, India has over the years taken major strides towards industrialisation. Indian economic planning has been laying stress on the development of the industrial sector, and the infrastructural facilities required for the same. Post Independence period has seen great enthusiasm and activity in the promotion of large, medium and small scale sectors.

The experience gained over the years had caused drastic shifts in policy pertaining to the definition, promotion, implementation and monitoring of these sectors. The growth of large and medium scale industries led to the development of certain geographical pockets, which inhibited a balanced regional growth. It was observed that some of the states of the country lagged much behind some others in terms of industrial growth and resultant prosperity.

It was at this juncture that the advantages of promoting small scale industries on a wider perspective was realised. The inherent benefits of lower capital outlay per employment generated, lack of location specificity - especially an urban proximity and the potential to mobilise resources and human skills from every part of the country, enhanced the attractiveness and acceptability of this sector.

India is not alone in it's efforts at promoting the small scale industrial sector. A number of countries, both developed as well as developing ones, have already taken major strides towards promoting and maintaining the small scale sector.

The problems and prospects of the modern small scale industrial sector in India, has often been the theme of discussions in many forums, Workshops and Seminars. Elaborate schemes have been introduced for promoting, implementing, nurturing and supporting the small firms. These schemes fall in the commercial, financial and technical spheres of enterprise development. Today, India operates the largest and oldest programme for the development of small industry in any developing country.

These various measures cumulatively did make an impact on the rapid growth of small industries in the country. From a few thousand units at the time of Independence, their numbers grew to a lakh by the end of the sixties and by 1990 their numbers had crossed 18 lakhs. More impressive is the wide range of products being made by this sector, that today number over 5000 and include mass consumption items as well as sophisticated electronic items.

While the growth of this sector has been creditable, the incumbent hazards of supporting and maintaining this sector on a long term perspective has also multiplied. The twists and turns in official policy regarding the small scale sector while setting the field for this steady and significant growth, have also been reason for criticism; especially relating to specific programmes that were introduced but which never really took off.

## **1.1 TITLE**

Marketing channels of Small Scale Industries manufacturing selected food products in Ernakulam District

## 1.2 RELEVANCE OF THIS RESEARCH

Much significant contributions have been made through studies in the area of small industries development, both by individuals and by institutions. These studies have added to the body of knowledge relating to investments in the SSI, employment generation, output, financial assistance sought and received and comparative analysis of these above factors, pertaining to specific product segment as well as to the wide spectrum of all categories.

Very little research has gone into the marketing process, prospects and constraints of the SSI units. This study aims at contributing to the knowledge of how the SSI units perceive the market and approach it. It tries to look at the marketing decisions with reference to one major area - the channels of distributions. As CAL McLanid Jr puts it - 'a company can have the best products in the world; yet without a good distribution system sales will be mediocre or non existent. More small businesses fail due to poor distribution than any other factor'.

### 1.3 SMALL ENTERPRISES

#### 1.3.1 SMALL ENTERPRISES - THE GLOBAL SCENE

The role of small enterprises is significant in many countries as in India. Their contribution to creating new job opportunities is part of their merit. A study made by the US Department of Commerce has identified that the bulk of the inventions that have revolutionised human life in the twentieth century, have come from independent small firms. (Ram k Vepa. Modern Small Industry in India -Problems and Prospects, Sage, 1988 pp 14-17). The flexibility to adapt to the environment is markedly pronounced in the small business as compared to large business. They draw from as well as enable full play of individual initiative and motivation. Norman Mcrae, Editor of the ECONOMIST, after a visit to the USA in 1979, likened the large corporations to the 'dinosaurs' which roamed the earth but perished due to lack of flexibility in adapting to the environment. He predicted that the future lie with the small dynamic production groups that can respond quickly to customer needs.

A Canadian Government document states 'Small owner managed firms are a main stay of employment in cities and towns across the country. They supply goods and services essential to consumer and other businesses and they demonstrate the innovation and entrepreneurship from which successful enterprises must spring '.

China has a predominant small industry sector contributing to the national economy and is said to continue to rely on Mao's aphorism of walking on two legs - 'one small and the other large'.

Korea and Indonesia have of late started focusing more attention on the growth of the small scale industries, by reserving items for exclusive production by the sector. Japan, known for its unique style in management, have developed an integrated system of subcontracting, whereby the small producers stand to benefit from large volumes of market potential.

In Europe, Italy stands out with its efforts at providing for free play of private initiative and motivation in the medium to cottage industries.

The UK consider the small firms as crucial to the future of the country. These firms are regarded as breeding ground for new entrepreneurial talent and new ideas with in-built flexibility to adapt to dynamic business environment.

It is sufficiently clear that the small industry is gaining prominence in the global developmental efforts and is not confined to one country or a continent.

### 1.3.2 SMALL SCALE INDUSTRIES - THE NATIONAL SCENE

1.3.2.1 The Small Scale Industries (SSI) have been given a prominent position in the frame work of Indian economic planning, both on ideological as well as economic considerations.

A few of the major objectives attributed to their promotion are:

- a. generation of immediate employment opportunities for relatively low investment,
- b. promotion of more equitable distribution of national income,



- c. effective mobilisation of untapped capital and human skills, and
- d. dispersal of manufacturing activities all over the country, leading to an equitable development of all regions.

1.3.2.2 The small scale industries first earned the interest of policy makers as a fall out of the Swadesi Movement, as well as the decision to boycott all British goods before the Second World War, causing a major spurt in growth in the large scale Indian industries especially in the cotton mill sector. Mahatma Gandhi's stress on village industries demanded active encouragement for the growth of the cottage and village industries.

With increased attention being given to the sector, there evolved a dichotomy in thinking regarding what constitutes small scale sector. While early definitions related only to the sector now falling within the ambit of the khadi and village industries, others tried to differentiate between cottage and modern small scale industries. Pandit Jawaharlal Nehru submitted a note to the National Planning Committee (NPC) in May 1940 wherein he suggested a three tier definition of cottage, small scale and large

industries. He suggested, cottage industries as those which have either no mechanical power and no hired labour, or those having no mechanical power but used hired labour under ten persons. The small scale industry, in contrast, are those which have either no mechanical power but hire labour above ten persons or use mechanical power under 10 HP but employ no hired labour.

While the NPC definition reflected the Gandhian view, since the formulation of the First five Year Plan, there has been much debate over the precise role of the small scale industries in the evolution of the Indian industry. There rose a strong support for the concept of modern small scale industry which was expected to achieve both decentralised growth and more efficiency in production.

The Industrial Policy Resolution (IPR) of April 1948 crystallised the Government policy on this matter. In essence, it integrated the traditional thinking emphasising the need for cottage industries with the emerging view that future growth of small industries should be on modern lines. This 'dualistic' approach has informed government policy on small scale industry ever since.

1.3.2.3 The definition of small scale industry has changed over time. Initially, criteria of labour employed and usage of power were used as determinants of classifying the SSI. To this was added the criterion that the fixed capital investment should not exceed Rs.5 lakhs. (Ram K Vepa, Small Industry in the seventies, Vikas, Delhi, 1971, p.179 ). By 1960, the employment criterion was removed altogether and an SSI unit was defined as one in which the fixed capital investment was less than Rs. 5 lakhs. (National Small Industries Corporation - Schemes and Progress 1960-61, New Delhi: 1961, pp. 8-9). In addition, units with investment up to Rs.10 lakhs if they were ancillary units were also treated as SSI. These limits for SSI units and ancillary SSI units have been revised five times subsequently.

In 1966 the limit of investment was raised to Rs.7.5 lakhs. Since then, the investment in plant and machinery alone is considered. In 1975, the limits were hiked to Rs.10 lakhs and Rs.15 lakhs for normal SSI and ancillary SSI units respectively. The figures were Rs.20 lakhs and Rs.25 lakhs from 1980, which were further increased to Rs.35 lakhs and Rs.45 lakhs respectively, in 1985. The most recent upward revision was in 1990 since when the limits are Rs 60 lakhs and Rs 75 lakhs respectively (Table 1.3.A).

**Table 1.3.A: Definition of small scale industries**

(By Investment in Plant & Machinery -  
Rs. in Lakhs)

Category	Industrial policy					
	31.5.90	1985	1980	1976	1966	1960
Small Scale Industry	60	35	20	10	7.5	5
Ancillary Industry	75	45	25	15	10	10
Tiny Units	5	2	2	1*		
Small Scale Service Establishments	2	2	0.25			

\* since 1977

Small scale units were first defined in terms of manpower employed, usage of power and capital investment. Over the years through the successive Industrial Policy Statements, the limits with reference to those factors have been revised keeping in mind the environment, economy and overall development, the sector has shown. For instance, the limit for investment in fixed capital (plant and machinery), which was first Rs.5 lakhs was subsequently revised upwards to Rs.10 lakhs and later to Rs.20 lakhs. Further it was hiked to Rs.35 lakhs, till, through the Industrial policy Statement of 31-5-1990, the upper limit for investment in plant and machinery was raised to Rs.60 lakhs. As of today, the ancillary units with investment in plant and machinery up to Rs.75 lakhs will be classified as SSI units, given that 30% of this output will be purchased by one or more large industrial units.

#### 1.3.2.4 Definition

The new Industrial Policy announced by the Union Industry Minister in Parliament on 31 st May 1990 provides the current definition for small scale industries.

##### i. Small Scale Industries

Undertakings having investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or by hire purchase, not exceeding Rs.60 lakhs.

##### ii. Ancillary Industries

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs.75 lakhs, with the following features:

- a. The investment in fixed assets in plant and machinery whether held on ownership terms or by lease or by hire purchase, does not exceed Rs.75 lakhs; and
- b. The undertaking is engaged or is proposed to be engaged in the manufacture or production of parts, components, subassemblies, tooling, or intermediates or the rendering of services and undertaking supplies or

renders or proposes to supply or render at least 30% of its production or services, as the case may be to one or more other industrial undertakings.

Provided that no small scale or ancillary industrial undertaking referred to above shall be subsidiary of or owned or controlled by, any other industrial undertaking.

Small Scale units which undertake the export of at least 30% of the annual production by the third year will be permitted to step up their investment in plant and machinery to Rs.75 lakhs.

#### iii. Tiny units

Undertakings having investment in fixed assets in plant and machinery not exceeding Rs.5 lakhs and situated in rural and backward areas having a population up to 50,000 as per 1981 Census.

#### iv. Small Scale Service Establishments

Establishments / Enterprises engaged in personal or household services in rural areas and towns with population of 5 lakhs or less and having investment in plant and machinery not exceeding Rs.2 lakhs.

1.3.2.5 Among developing countries India has earned the rare distinction of having extensively strived to support the village and small scale industries throughout the post - independence period.

1.3.2.6 The Government of India, through its Small Industries Development Organisation has reaped more than what it had sown. The contributions from the small scale sector is visible in terms of employment generation, number of units, set up, value of output and share in exports.

The progress of small scale sector covering only the SIDO Industries, is reflected in the statistics available.

The term 'Small Scale Sector' is used in a limited sense to indicate small scale industries under the purview of Development Commissioner Small Scale Industries called SIDO Industries. However, Directorates of Industries of States/UTs use the term in a broader sense to include small scale industries outside the purview of the DC(SSSI) also.

The total number of registered small scale units in the country as at the end of 1989 was 12.71 lakhs.(Table 1.3.B). During 1989-90 the production was estimated at Rs.1,31,400

Crores (Table 1.3.C). The total value of exports was Rs.5681.15 Crores which was 28.01% of the total value of all exports by the country in 1988- 89(Table 1.3.D). While the total number of registered units was 12.71 lakhs, the number of existing units including both registered and unregistered units in 1989-90 was 18.27 lakhs. These units provide employment to 118.50 lakh persons.(Table 1.3.E). Altogether, about 5000 different products are being manufactured by this sector.

The plan outlay for the small scale sector had shown a significant increase over the successive plans. The outlay for SSI including industrial estates was Rs.1120.50 Crores in the Seventh Plan Table 1.3.F.

Table 1.3.B: No. of registered SSI units

(All India)	
Upto end of year	no. of registered units cumulative (no.in Lakhs)
1983	6.87
1984	7.57
1985	8.55
1986	9.50
1987	10.58
1988	11.70
1989	12.71

Source: SSI in India - Facts and Figures;  
DC. SSI, Ministry of Industry



Table 1.3.C: Estimates of production of the SSI sector as worked out by DC(SSI) with census data (1972) as base

Year	Production at Current prices (Rs. in Crores)
1980-'81	28060
1981-'82	32600
1982-'83	35000
1983-'84	41620
1984-'85	50520
1985-'86	61228
1986-'87	72250
1987-'88	87300
1988-'89	106400
1989-'90	131400

Source: SSI in India - Facts and Figures; DC, SSI, Ministry of Industry.

Table 1.3.D: Share of small scale industries in total exports

Year	Total value of all exports (Rs. Crs.)	Value of Exports of SSI (Rs. Crs.)	% share of Small Scale Sector
1980-81	6710.71	1643.20	24.49%
1981-82	7805.90	2070.61	26.53%
1982-83	8907.75	2045.03	22.96%
1983-84	9872.10	2163.98	21.92
1984-85	11743.68	2553.11	21.74%
1985-86	10894.59	2773.05	25.45%
1986-87	12566.62	3631.24	28.90%
1987-88	15741.20	4535.00	28.81%
1988-89	20281.00	5681.15	28.01%

Source: SSI in India - Facts and Figures; DC, SSI, Ministry of Industry

**Table 1.3.E : Total number of units and employment of the small scale sector during seventh plan period**

year	no.of units (Registered & Unregistered)	employment (Lakh Nos.)
1985-86	13.55	96.00
1986-87	14.74	101.40
1987-88	15.76	107.00
1988-89	17.01	113.00
1989-90	18.27	118.50

Source: SSI in India - Facts and Figures;  
DC, SSI, Ministry of Industry

**Table 1.3.F : Outlays for the central and state plans for small scale sector**

(Rs. in Crores)		
Plan	Plan period	Outlay for SSI including industrial
First Plan	1951-56	5.20 *
Second Plan	1956-61	56.00 *
Third Plan	1961-66	113.06
Annual Plan	1966-69	53.48
Fourth Plan	1969-74	96.19
Fifth Plan	1974-79	199.66
Annual Plan	1979-80	104.81
Sixth Plan	1980-85	616.10
Seventh Plan	1985-90	1120.51

\* Excluding Industrial Estates.

Source: Table 4.3 of the Seventh Plan Document Vol. II

### 1.3.2.7 Classification of SSI

In the year 1989-90, 836 products had been reserved for exclusive manufacture in the Small Scale Sector. These products were broadly classified into groups viz.

Food and allied industries

Textile products and hosiery

Wood and wood products

Paper products

Leather and leather products

Rubber products

Plastic products

Chemical and chemical products

Mechanical and Engineering excluding transport  
equipment

Electrical and electronics appliances, apparatus and  
machines

Transport equipment

Sport goods

Stationery items and other items

Specific products were listed in each group with individual serial numbers. The total number of reserved items had varied over the years as new products were added and a few dereserved (Table 1.3.G).

Table 1.3.G : Reservation of items for exclusive production in small scale sector

Year	No of Items		Cumulative
	Reserved	Dereserved	
1980-81	28	1	833
1981-82	11	13	831
1982-83	9	3	837
1983-84	35		872
1984-85	1		873
1985-86			873
1986-87	8	31	850
1987-88		4	846
1988-89	3	14	835
1989-90	1		836

1.3.2.8 Discriminatory fiscal levies on large scale sector and even physical controls on the products range and output of the larger units, have had their positive impact leading to the attractive performance of the SSI.

1.3.2.9 In spite of all this, serious criticisms and doubts have been raised against the SSI performance. The argument that official data premises are low on reliability since they are deficient on the methodology in compilations, support these objections.

The fact that quite a few small enterprises are unable to substantiate their economic viability and turn sick, casts a shadow on their laudable objective of social merit. Moreover, some of the policies of the Government meant for

promotion of the SSI sector turn out to be counter productive as they are found to be wanting in effective pursuit of the expressed objectives.

### 1.3.3 SMALL SCALE INDUSTRIES - THE STATE SCENE

1.3.3.1 Though considerable attention to traditional and small scale industries was given by the State of Kerala in the early period of post-independence era, meaningful efforts were made only after 1956, when the present Kerala State was formed, consequent to the reorganisation of states.

In tune with the efforts of the Central Government to augment the industrial infrastructure of the country, the State Government too had given much significance to building up an industrial base in Kerala. Institutional support was made more attractive and special incentives were offered to induce industrialists to invest within the state.

1.3.3.2 The state had 55,427 registered SSI units as on 31-3-1989. The total investment was estimated at Rs.65958.13 lakhs. These units employed 3,66,373 persons and their production was put at Rs.172377.97 lakhs in the same year.(Table 1.3.H).

Of the total registered units as on 31.3.89, it was estimated that 47,983 units were working, which form 86.57%. The rest were either sick or closed.(Table 1.3.I)

Table 1.3.H : District wise details of SSI units  
registered in Kerala as on 1-3-1989

District	Registered units as on 31-3-1989	Estimated		
		Invest. Rs.lakh	Prodn. Rs.lakh	Employ. Nos.
Trivandrum	5617	6684.23	17468.87	37128
Quilon	5480	6521.20	17042.80	36223
Pathanamthitta	902	1073.38	2805.22	5962
Alleppey	5049	6008.31	15702.39	33374
Kottayam	4929	5865.51	15329.19	32581
Idukki	1299	1545.81	4039.89	8586
Ernakulam	7543	8976.17	23458.73	49859
Trichur	6048	7197.12	18809.28	39977
Palghat	3883	4620.77	12076.13	25667
Malappuram	3065	3647.35	9532.15	20260
Kozhikode	4652	5535.88	14467.72	30750
Wynadu	660	785.40	2062.60	4363
Cannanore	5561	6617.59	17294.71	36758
Kasargode	739	879.41	2298.29	4885
State total	55427	65958.13	172377.97	366373

Source: Economic Review - 1989, State Planning Board

**Table 1.3.I: Working Status of Small Scale units in Kerala**

Name of District	No of SSI units	Working status as on 31-3-89				units to Total (%)
		Sick Units	Closed Units	Sick closed	Working units	
Trivandrum	5617	235	892	1127	4490	79.93
Quilon	5480	172	363	535	4945	90.23
Pathanamthitta	902	47	99	146	756	83.81
Alleppy	5049	214	366	580	4469	88.51
Kottayam	4929	174	457	631	4298	87.20
Idukki	1294	56	128	184	1115	85.83
Ernakulam	7543	290	732	1022	6521	86.45
Trichur	6048	249	711	960	5088	84.12
Palghat	3883	84	267	351	3532	90.96
Malappuram	3065	181	244	425	2640	86.13
Kozhikode	4652	196	337	533	4119	88.54
Wynad	660	43	69	112	548	83.03
Cannanore	5561	202	531	733	4828	86.82
Kasargode	739	28	77	105	634	85.79
<b>State total</b>	<b>55427</b>	<b>2171</b>	<b>5273</b>	<b>7444</b>	<b>47983</b>	<b>86.57</b>

Source: Economic Review 1989, State Planning Board.

#### 1.3.4 SMALL SCALE INDUSTRIES - THE DISTRICT SCENE

1.3.4.1 Ernakulam district tops the list with respect to number of SSI units. As on 31-3-89, there were 7543 SSI units, (Table 1.3.H), forming 13.61% of the total number of units in the state.

The district with about 50 medium and large scale industries provide an ideal environment for small scale sector to flourish. The availability of resources, infrastructure and skilled manpower, the major factors required for industrial growth, is adequate in the district and augers well for the small scale industries sector.

1.3.4.2 The District had 86.45% of the total number of units working in 1988-89. 3.84% of the total are sick units and 9.71 % are closed units (Table 1.3.I).

The District Industries Centre as part of the Ancillary-Exhibition-cum-Seminar, "INDFEST - 89", held in June 1989, has brought out a SMALL SCALE INDUSTRIES DIRECTORY. Being a unique effort within the state, the Directory provides the name, address and production lines of SSI units registered with the Industries Department up to 30-09-1989. Details are given in two formats; one, local body-wise format and the other, industry-wise format.

In the Directory, the units have been classified into about 170 product groups. Of these, 14 groups list units manufacturing food products.(Table 1.3.J)



Table 1.3.J: List of product groups

(food products)

SL.NO	PR.	Product	Units
1	1	Ice Creams, Kulfi etc.	8
		Other milk products	1
2	2	Fruit Juice Concentrates	9
		Sauce, Jam, Jelly, Ketchup etc.	6
		Pickles, Chutneys etc.	16
3	3	Canned food and vegetables	4
4	4	Vinegar and preservatives	1
5	5	Sun dried fish	3
		Processed and canned fish	6
6	7	Frozen prawns	117
7	8	Flour milling	135
		Rice processing	94
		Dal processing	1
8	9	Bread	119
		Biscuits, Cakes, Pastries	108
9	10	Sugar confectionary, bubble gum	21
10	11	Other edible oils, fats etc.	317
11	12	Tea processing	22
		Coffee roasting, grinding etc.	5
12	13	Cashewnut processing	6
13	14	Ice and ice candy	83
14	17	Ground and processed spices	118
		Pappadam, appalam etc.	1
		Vegetable chips, wafers, spice powder	112
		Other food products	115

Source: SSI Directory, Ernakulam District, INDFEST 1989

## 1.4 PROFILE OF ERNAKULAM DISTRICT

1.4.1 Ernakulam, known as the 'Queen of the Arabian Sea', has had trade and cultural links with other countries from very ancient times. The natural port had contributed to this status. Today Ernakulam District is much ahead with respect to all aspects of development compared to other districts of Kerala.

### 1.4.2 LOCATION

The district is located almost centrally in the state of Kerala. It is bounded by Trichur Dist in the North, Idukki in the East, Kottayam and Alleppy in the south, and Arabian sea in the west. With an area of 2377.70 sq.km, Ernakulam is the seventh largest district in Kerala.

### 1.4.3 TOPOGRAPHY

The land has three natural divisions: the high land, mid-land and low-land. Backwaters stretch along the Western fringes of the midland and are separated from the sea by a narrow section of sandy area, which is generally low and swampy. Varapuzha kayal, Kodungallur kayal and Vembanad lake are the backwaters of the district. The major rivers are Periyar and Muvattupuzha.

#### 1.4.4 CLIMATE

With a tropical humid climate, the temperature is uniform throughout the year. It ranges from 23.5°C to 30.5°C. The annual rainfall ranges from 250 cm to 360 cm.

#### 1.4.5 FOREST AND MINERALS

Though low on mineral resources, the district has deposits of rocks of geological importance, graphite, china clay, illmenite, magnate and iron ore. The limited forest area falls in the Malayattur high ranges and parts of Kothamangalam Taluk.

#### 1.4.6 POPULATION

As per 1991 Census the population of the district is 28,12,306 lakhs. This has shown an increase of 9.92 % as compared to the population as per 1981 census which was 25.33 lakhs. The population as per 1971 Censes was 23.83 lakhs. The density of population is 1168/sq km while it was 1052/sq.km as per 1981 census. The sex ratio is 1000 females to 998 males. By residence, 14.40 lakhs are rural while 13.72 lakhs are Urban based.

#### 1.4.7 EMPLOYMENT

As per 1981 census, of the total population of 25.33 lakhs, 7.07 lakhs were main workers and 0.92 lakhs marginal workers. The unemployment situation is rather grim. The number of educated job seekers is mounting, keeping pace with the total employment figures.

#### 1.4.8 INFRASTRUCTURE

The district has an extensive net work of roads viz. NH 47, NH 17 and MC road. The total length of PWD Roads, including the National Highways of 78 km, is 2084 kms. The district has a broad gauge railway network of 92 km. The inland water ways have also contributed to the overall development of the remote areas which are inaccessible by roads. The Cochin Port and the Air Port add to the national and international linkages of the District. Telegraph and telephone facilities are available throughout the district. The district is well electrified.

#### 1.4.9 LITERACY

Ernakulam District achieved cent percent literacy in 1990. Facilities for primary secondary and professional education are abundant in the district, as primary schools, high schools and arts and science colleges exist in large numbers. Other than the Cochin University of Science and Technology there are the Engineering College, Law College, Homeopathic College, Ayurveda College, Music College, College of fisheries, Polytechnic and a number of technical Schools.

#### 1.4.10 ECONOMY

The district is predominantly agrarian. The land reforms, density of population changes in family style and fast urbanisation has caused a shift in economic activity from agriculture to other sector viz. industry and service. The 1981 Census shows a decline in number of cultivators and an increase in the number of workers in the secondary and tertiary sectors.

#### **1.4.11 AGRICULTURE**

As on 1990 an area of 178822 ha is under various crops. Coconut, Rubber and Paddy form the major crops. Other crops are tapioca, arecanut, pepper, ginger, banana, plantain etc. Agriculture related sectors viz. poultry, dairy and fishery also play a very important role in the economy of the district.

#### **1.4.12 BANKING**

As on March 1990, the district had 397 branches of 39 commercial banks. In addition to these, three branches of two foreign banks, the state offices of Industrial Development bank of India and Small Industries Development Bank of India and the Exchange Control Department of the Reserve Bank of India were also functioning.

#### **1.4.13 ADMINISTRATIVE SET UP**

1.4.13.1 The District Head Quarters is Ernakulam with the Collectorate and Civil station located at Kakkanad. The district is divided into two Revenue Divisions, with head quarters at Muvattupuzha and Fort Cochin. There are seven Taluks under these divisions.

Cochin Division :

Alwaye

Parur

Cochin

Kanayannur

Muvattupuzha Division :

Kunnathunadu

Muvattupuzha

Kothamangalam

1.4.13.2 Under these Taluks are 102 Revenue Villages. The District has 84 Panchayats, 10 Municipal Towns besides the Cochin Corporation.

The Municipal towns are:

Cochin Corporation

Thrippunithura

Alwaye

Kothamangalam

Parur

Eloor

Perumbavoor

Kalamassery

Muvattupuzha

Piravam

Angamali

1.4.13.3 For enhancing the effectiveness of the developmental measures, the District is divided into 15 community development Blocks.

The community development blocks are:

Alengadu Block

Angamaly Block

Edappally Block

Koovappady Block

Kothamangalam Block

Mulamthuruthy Block

Moovattupuzha Block

Palluruthy Block

Pampakuda Block

Parakkadavu Block

Parur Block

Vadavucode Block

Vazhakkulam Block

Vypeen Block

Vyttila Block



## CHAPTER 2

### 2.0 OBJECTIVES, SCOPE AND METHODOLOGY

#### 2.1 OBJECTIVES

This work aims at studying the marketing approaches and practices of the Small Scale industrial units. Specifically this research covers:

- a study of the existing marketing systems and the operations of the SSI units manufacturing selected food products in Ernakulam District.
- analysis of the existing channels of distribution as employed by these units - in terms of patterns employed, tasks undertaken and deficiencies.
- a study of the perceptions of the SSI units as regards the Channels - their importance with reference to performance and relationship.

- The focus is on:

Approaches to Channel Management and their perceived importance.

Approaches to Channel Management and perceived strength of outcomes.

## 2.2 SCOPE

This research pertains to selected categories of Small Scale Industrial Units involved in manufacturing and marketing specified food products. It tries to look into the processes and decisions related to the channels of distribution employed by these units for marketing their produce. Channels of distribution, more referred to as the 'place' element in the marketing mix of a firm, is a controllable variable. The type of product being marketed is the major factor which could influence decisions in this area.

Hence, the small enterprises to be studied had to be from homogeneous groups.

Initially the small scale units in the Mini Industrial Estates (MIE's) were identified. But a preliminary survey of a few MIE's revealed that the incidence of sickness was high among the units. More over these units were engaged in manufacturing, processing and servicing and issues with respect to marketing were not different from those of firms outside the MIE,s. So this category of SSI firms was not taken up for study exclusively.

The state Government in 1988-89 announced five thrust areas in which new SSI projects would get special incentives and concessions. These areas were food, electronics, rubber/leather, pharmaceuticals and garments.

From these categories this research has been restricted to one product group -Food products. Even in this group a variety of products are being manufactured by the SSI.

A study about channels of distribution of all product categories would have made the research cumbersome and would have led to less focused attention to the intricacies of the operations of this function.

So the target categories under study included just those SSI units that manufacture and market Bread, Biscuits,

Spices and Pickles. Only those units that had obtained Permanent SSI Registration from the Industries Department up to 1989 were included in the study. The source list for these units was the Directory of Industries, Ernakulam District published by the District Industries Centre in 1990. This is the only authentic and most recent document available in the state which lists the registered SSI units in the district of Ernakulam. The units have been classified based on the region and products manufactured.

In 1990 a national census of SSI units was commenced by the Development Commissioner (SSI), with the active involvement of the SISI and DICs of the respective districts. According to information obtained from the Directorate of Industries and Commerce, Kerala, though field data collection is over the details are being compiled and the report is yet to be published. Hence, the details from this census could not be used in this research.

### **2.3 RESEARCH DESIGN**

The different phases of this research are discussed in this section. It may not be said that these steps followed one another in the given sequence. At times two or more of them had run simultaneously.

### 2.3.1 THE PURPOSE AND BROAD AREA OF STUDY

The first step was to define the purpose of the research and to identify the broad area of study. Since the researcher has been working in the field of entrepreneurship and small enterprise development, for the past many years (since 1983), he had noticed a number of grey areas with reference to small enterprise development and management, that need a closer study. Marketing the produce of the SSI sector is one area which demands this in-depth scrutiny. A cursory look reveals that though things seem to work, the SSI promoter often face situations where the commercial viability of his project is at stake or even non-existent. While a variety of causative factors can be listed, this study proposes to explore one of the crucial elements of the marketing-mix, ie. channels of distribution, of these Small Scale Units.

### 2.3.2 PRELIMINARY DISCUSSIONS

The area of research having been defined, the researcher had a series of discussions with senior officials and experts of organisations and agencies involved in the promotion of the Small Scale Industries Sector. These persons included:

- General Manager, District Industries Centre, Ernakulam
- Manager(Credit), District Industries Centre, Ernakulam
- Manager (Economic Investigation), DIC, Ernakulam
- Industries Extension Officers, Industries Department, Kerala
- Consultants, Kerala State Industrial and Technical Consultancy Organisation(KITCO), Ernakulam
- Small Industries Promotion Officer, Small Industries Service Institute(SISI), Trichur
- Assistant Director, SISI, Trichur
- Deputy Director, SISI, Trichur
- Faculty Members, Centre For Management Development, Trivandrum
- Entrepreneurs and industrialists in the field

These discussions helped to gain clear perspective about the sector and the dynamics involved.

### 2.3.3 LITERATURE REVIEW

Relevant literature was reviewed. The sources for this included the libraries of:

Centre For Development Studies, Trivandrum

Centre For Management Development, Trivandrum

School of Management Studies, CUSAT, Cochin

#### 2.3.4 SPECIFIC PROBLEMS AND ISSUES

The researcher having been exposed to the operations of the small enterprises sector, could list a series of issues that need deeper understanding. Specific problems and issues were listed for the purpose of gathering relevant data.

#### 2.3.5 SOURCES OF DATA

Primary as well as Secondary data were required for this research.

##### 2.3.5.1 Secondary data

Secondary data pertaining to the subject under study was collected from various sources. The source of secondary data include organisations and agencies viz.

- Directorate of Industries & Commerce, Govt of Kerala
- District Industries Centre, Ernakulam
- Kerala Small Scale Industries Association, Ernakulam Unit, Ernakulam
- State planning Board, Trivandrum
- District Information Office, Ernakulam

- Bureau of Economics & Statistics, Trivandrum
- National Informatics Centre, Trivandrum
- Small Industries Service Institute, Trichur
- National Small Industries Corporation, Trichur
- Lead Bank Cell, Union Bank of India, Ernakulam
- Kerala State Industries Development Corporation,  
Trivandrum
- The Spices Board, Ernakulam
- Libraries

#### 2.3.5.2 Primary Data

Primary data had to be collected from the Small Scale Industries themselves. A representative sample for each product group was taken. A pretested questionnaire was developed and used to collect responses from SSI promoters. Along with the questionnaire, there were detailed unstructured interviews with the promoters.

#### 2.3.6 SAMPLING

##### 2.3.6.1 Sampling unit

For this study only those units which manufacture the selected items of food products viz. Bread, Biscuits, Pickles and Spices are included.



### 2.3.6.2 The source list

The details regarding population of small scale industries registered with the Directorate of Industries and Commerce was taken from the District Industries Centre (DIC), Ernakulam. The DIC, Ernakulam had brought out a Directory of SSI, pertaining to the Ernakulam District in 1990. The directory provides the name and addresses of all registered SSI units in the district of Ernakulam. Classification has been made based on products and also the region, in the Directory.

The food products manufacturing SSI firms formed a major group in the total list. Of the 170 product groups with 7543 firms listed in the Directory, 14 categories involved food products (Table 1.3.J), with 1143 units. ie. this category forms about one seventh of the total number of units in the District.

Of these, it was noted that, a few categories consisted mainly of servicing/job work units eg. oil mill, flour mill, etc. Since such units already had a ready made market, they were excluded from this research.

### 2.3.6.3 Sampling procedure

The sampling was done based on the following factors

- Only units that are involved in manufacturing and marketing were included
- Products of varying shelf-life were included so as to account for the perishability element of the items.
- Exclusively export oriented units were excluded eg. frozen prawns etc.
- Sample was to include firms from rural and urban areas.
- Sample was to be drawn from each of the selected product groups separately.

Stratified sampling was done to select samples for collection of primary data. The strata in the first stage was based on the products manufactured. Only those homogeneous groups of SSI units with respect to the products under study were selected ie. Bread, Biscuits, Spices and Pickles. Within these product groups, the units

were further stratified based on the region in which each unit is located. The regions as given in the directory are Panchayats, Municipalities and Corporations. From the above classification, sample units were picked out randomly with the help of a random number table generated by personal computer (PC).

Table 2.3.A provides details of number of units in each product category falling in the different regions. It was noted that according to the registration details, there were units that manufactured either bread alone or biscuits alone and also units that manufactured both bread and biscuits. Hence samples were drawn from all these three groups though only two products were involved. The pickles and spices manufacturing units formed the other two groups.

As Table 2.3.A shows, there were 119 units manufacturing Bread and 108 units manufacturing Biscuits, with 84 units falling in both categories. Thus the total number of units manufacturing these four products in actual add up to 305. If the numbers are added up product wise, the total would be 389 units.

Table 2.3.A : Region wise break up of SSI units\* in Eranakulam district

	CORP	MUNC	PAN	SUB TOT	TOTAL
Bread	12	6	17	35	119
Bread & Biscuits	32	19	33	84	108
Biscuit	15	5	4	24	
Pickles	5	3	8	16	16
Spices	44	27	75	146	146
Total	108	60	137	305	389

\* Selected product groups included in this research  
Source: SSI Directory, Ernakulam District, INDFEST.

#### 2.3.6.4 Sample size

The population of SSI units under study was 305 units. A census survey was not undertaken due to two reasons:

- a. The topic under study and the research methodology employed was to visit the respective units individually. The geographical spread together with the time and financial constraints ruled the census survey unacceptable.

b. While a census inquiry would appear to be ideal, which would provide the highest level of accuracy in observation, this may not be true in practice. There is a chance of even a slight element of bias getting larger and larger (ref. 27.p.68) as the sample size becomes bigger.

The sample size was fixed as 15% of each product category, including a provision for sample loss. Since the Pickles category had a small population of 16 firms, the sample size is taken as 4 units ie. 25%. See Table 2.3.B

Table 2.3.B : Sample size providing  
for sample loss

Product	Sample (providing for sample loss)
BRD	18
BIS	16
SPI	22
PIC	4

## 2.4 INSTRUMENTS FOR DATA COLLECTION

### 2.4.1 SECONDARY DATA

A check-list was prepared for collecting information from the different sources of secondary data.

### 2.4.2 PRIMARY DATA

A questionnaire was developed as the basic tool for collecting primary data. It was structured so that the primary objectives of this research could be addressed to. The following factors were kept in mind while the instrument was being developed.

- a. to obtain a profile of the SSI units in these product categories.
- b. to understand the extent to which scientific management principles are employed in their operations
- c. to identify major problem areas related to their performance
- d. to study the importance they perceive in a scientific approach to marketing

- e. to identify the channels of distribution engaged by these units
- f. to study the internal arrangements they have for carrying out the marketing operations
- g. to assess the support they receive from the channel members
- h. to gain a view regarding their approach to the function of marketing
- i. to understand their perceptions regarding a few specific approaches they may make and the perceived impact of these approaches on channel member relationship and performance.

2.4.2.1 The following twelve approaches, that the SSI managers can take with respect to marketing their products, were taken up for detailed study:

- 1. To reward channel members for better performance
- 2. To punish channel members for poor performance
- 3. To guide and advice channel members on how to perform
- 4. To take the role of a leader for directing the operations of the channel members
- 5. To insist on regular and periodic communication about the activities, problems and results.
- 6. To fix sales targets for the channel members

7. To limit expenses towards channel members
8. To use own distribution vehicle
9. To distribute products only directly to consumers
10. To use many channels together
11. To select all channel members on their own
12. To assess periodically the performance of channel members.

2.4.2.2 These twelve approaches were chosen from a set of forty, which forms a subset of the innumerable possible ones that any industrial enterprise will have to take in the case of operations. First, forty possible approaches were listed. Of the forty, twenty pertained to aspects of relationship between the manufacturers and channel members. The other twenty pertained to aspects of operations / performance by the channel members. The two sets were then assessed by a panel of experts. The objective was to identify relevant and applicable ones for small enterprises. The experts included consultants, industrial promotion officers, bankers and trainers who have interacted with small enterprises and their promoters for many years.



Of these, five approaches were chosen considering their relevance to relationship between channel members and manufacturers, and seven, to channel performance. These two sets were then included in the research tool to get first hand assessment from the small industrial unit operators / managers on how they view them.

The respondents were first asked to mark if they would take each one of those approaches with reference to the operations of their units. The response could be an 'yes', a 'no' or 'not certain'. Those responding 'yes' were then requested to mark how important that approach was in relation to their unit: 'important' or 'extremely important'. Those who would not take the approaches were to record if it was 'unimportant' or 'extremely unimportant'.

2.4.2.3 It was anticipated that the respondents, could be from any one of the following groups; those using multiple channels for the distribution of their products; those using only a single channel; those using their own outlets and no external organisations; those who are not manufacturing and so are not distributing and finally those from units that are either sick or closed. For recording the response to the above set of approaches one of the following methods had been taken:

- a. the respondent records his option based on present experience(ie. if using single or multi channels)
- b. the respondent records his option based on past experience (ie. when he had earlier been using some external channels of distribution)
- c. the respondent records his choice based on what he would do if in case he plans to use a external channel of distribution in future (where he uses only his own outlet at present)

In the next stage, possible outcomes of the various approaches were listed. The respondents were asked to record their perceptions regarding the possibility of these outcomes if each one of the above short-listed approaches are taken by them. The possibility of each outcome for each decision could be 'extremely positive', 'positive', 'no effect', 'negative' or 'extremely negative'.

The listed outcomes for the five decisions that could affect relationships were different from those plotted against decisions pertaining to operations and performance. (See Questionnaire)

#### 2.4.2.4 Approaches that could affect relationship with Channel Members

Five approaches were identified which could affect the relationship between the SSI manufacturer and the channel members. While it is obvious that every approach the promoter takes would have a bearing on the total performance of the channels, here, these decisions were studied in relation to their perceived effect on relationship.

Considering inter organisational relationships with reference to channels of distribution, power, leadership and conflict are the three basic elements. The power bases are identified as reward power, coercive power, expert power, referent power and legitimate power. (Bowersox. et al. 1980).

Reward power, coercive power and expert power bases were included for analysis. The perception of the SSI manufacturers regarding approaches with respect to the above three power bases were taken for analysis. (D1, D2 & D3 respectively).

Leadership is the use of power to improve an existing system and thus individual performance. To understand the perception of the SSI manufacturers, a possible decision (D4), to take up the role of a leader for directing the operations of the channel members was included.

Communication forms the basis for free flow of information between the channel members and the channel and environment. Effective communication has a direct bearing on the efficiency of the channel. One critical aspect of communication ie. regular and periodic communication of market information from the channel members to the small scale industrialist, (D5), has been taken up for understanding the perception of SSI manufacturers.

The above five decisions were first studied with reference to how the SSI manufacturers perceived their importance in relation to their operation in the market.

Subsequently seven possible outcomes were listed. The respondents were required to state on a five point scale against each decision, to what extent each outcome could be expected ie. 'extremely negative' to 'extremely positive'. The mid-point indicated 'no effect'.

The anticipated outcomes of the short listed approaches were: Co- operation, dependence, satisfaction, trust, conflict, good-will and sales. Of the above, the first five relates to aspects of relationship between the SSI manufacturer and the channel members. The sixth relates to the manufacturer's acceptance in the market and the seventh, to the units performance.

The above are the specific behavioural and relational outcomes sought to be studied with reference to the approaches referred to earlier.

Besides the possibility of these outcomes, the effect of these decisions on sales also, as perceived by the small scale industrialists, was taken up for analysis.

#### 2.4.2.5 Approaches that could affect performance of the unit

Seven approaches were included in this part. Accepting that an industrialist would have to make decisions on a wide spectrum of aspects relating to performance, only those relevant to the area of channels of distribution have been taken up. Even in this area, it was observed that every possible approach could not be taken up for detailed study.

Hence only seven decisions pertaining to a few specific dimensions of operations have been selected from a larger list of twenty.

The first approach in this set (D6) deals with the SSI manufacturers choice to fix sales targets for the channel members in terms of quantity or value. The firm's continued existence depends on steady demand for the product. Sales is generated by different strategies. They would include, catering to specific market segments, adding to time, place or value utility of the product offered or by providing incentives. So broadly, the approach would be based on the market pull or the market push approach. Fixing sales targets would fall in the later category where the channel members, through pressure of punishment or reward are forced to provide a certain level of sales. Considering that the SSI manufacturer too has to ensure a specific level of sales to be economically viable, this decision appeared to be valid and so was included in the study.

Another approach (D7) relates to controlling the costs incurred towards channel members by reducing expenses on incentives, gifts and other promotional tools aimed at channel members. By containing the total expenses, the small industrialist would be able to increase his profit

margin. It was felt that the SSI manufacturers' perception about this decision would be important so as to understand how he viewed its effect on performance.

The third approach (D8) studied was regarding the SSI manufacturers need for using own vehicle as against hired vehicles for distribution of the products to the next level in the channel. In cases where the manufacturer directly sold to the consumers also, the choice of using own vehicle was studied.

Another aspect that was probed into was about the manufacturers' approach (D9) to avoid all external organisations in the channel and effect sales directly to consumers. The manufacturer's assessment of how effectively they could reach on their own, their consumers, would provide insight into their dependence on the channels of distribution.

Multiple channel approach (D10) was taken up for study with reference to the SSI. Usage of many channels simultaneously, while posing problems of complexity in management and horizontal competition, would aid in distributing the product to a wider area to a larger number of consumers. To understand how the small industries

managers view this arrangement was the purpose in including this decision.

The manufacturer's need for controlling the action of the channel members so as to get the best results is taken as the premise for posing a situation where all the channel members involved in distribution of his products are selected by the small industrialist himself. Will such a decision be taken or not; or is it an irrelevant approach decision. The SSI managers' views on this aspect was sought.(D11).

Yet another approach (D12) listed, was one to assess periodically the performance of channel members. This decision entails that the manufacturer critically evaluates the performance and achievements of the channel members on a regular basis. It also requires the SSI manager to have a structured data/information gathering mechanism. This decision also reflects the manufacturers' power over the channel members in as much as demanding and recording performance details.

The respondents initially stated if they would take these approaches in relation to their units operations; and to what extent they were important or unimportant.



Subsequently, the perceived effect of these approaches on aspects viz. sales, distribution costs, good will, customer service efficiency and relationship with channel members were studied. The respondents stated if there would be a positive or a negative impact on these measures if each one of these decisions were taken by them.

Aspects viz. sales and goodwill and the possible effects on them were studied in relation to all the twelve listed approaches. The respondents were also asked to state the existing level on a five point scale from 'EXTREMELY HIGH' to 'EXTREMELY LOW' as regards various factors with reference to their experience in the market. These factors included cooperation, dependence, satisfaction, trust and conflict - all relevant to relationship between the manufacturer and channel members. Factors relevant to performance, including sales, costs, goodwill and efficiency in customer service were also rated on the above five point scale.

## 2.5 FIELD WORK FOR DATA COLLECTION

The study required both secondary data and primary data.

### 2.5.1 SECONDARY DATA

The Senior Executives or the officers-in-charge of Small Enterprise development activities of the bodies involved in this were contacted in person. The researcher received much insight into the process of planning, implementation and practical issues influencing the achievement or non-achievement of targets, through these discussions.

The registers and documents maintained by the above departments or agencies and their publications if any were used as source of secondary data.

### 2.5.2 PRIMARY DATA

Primary data was collected by the researcher himself from the sample units. These units spread over the entire district were approached over a period of two months.

A questionnaire-cum-interview method was adopted to elicit all required information from the units. The researcher called at each unit and met the promoter, the manager or the person in charge of the operations to gather information as per the questionnaire. After the questionnaire was filled, a closed book approach was taken

during the unstructured interview. In many cases, it was felt by the researcher, that the defensive tone taken by the respondents earlier was suddenly lost. This approach helped gather much real issues and facts that the respondent would not have otherwise revealed.

Some of the units had to be approached more than three times before the proprietor could be met in person. There had been two cases where the proprietors refused to co-operate.

Generally, the response had been encouraging as most of them were sincere and exhaustive in responding to the various queries. There were quite a few units that could not be traced as either the address was incomplete or the unit had been shifted to new premises unknown to the old neighbourhood. Some of the units that had been closed also could not be studied as the responsible persons could not be contacted ; either because they had left the station or because they did not want to co-operate.

## **2.6 DATA ANALYSIS**

Once the data collection was over, the filled questionnaires were checked and edited. Incomplete

questionnaires were removed. Contradictory responses were crossed checked where ever possible.

The responses recorded in the acceptable questionnaire were then fed into the computer. Data was entered using the DBASE III PLUS software package. The entered data was further cross checked with a manually recorded transcription sheet with the same data. The questionnaires were coded with a unique key number and a category code:

Biscuits - BIS  
Bread - BRD  
Spices - SPI  
Pickles - PIC

Interpretation of the data was based on contingency tables prepared using EPI software package. The DBASE III PLUS package also was employed for interpretation purpose.

## 2.7 WRITING THE THESIS

The thesis was finally drafted based on the various phases and findings of the research.

## CHAPTER 3

### 3.0 REVIEW OF LITERATURE

#### 3.1 MARKETING CHANNEL SYSTEM

A marketing channel system predominantly 'focuses on the process of ownership and physical transfer of commodities, products and services' [ref 13.p.1]. Typically, a number of different enterprises other than the manufacturer of the products or services, get involved in the marketing function. The perception that they form part of an inter-related system may not exist among most channel participants (ref 13.p.2). Since the guiding principle behind any channel member's staying within the system would be their perceived needs, relative state or degree of risk within the arrangement, channels invariably are dynamic.

In contrast to the above loose channel arrangements, highly organised systems are also found to exist in some specific

cases. Such arrangements, while offering some degree of stability to the channel members, tend to be dominated by any one or group of channel members. The perceived stability too is relative, as compared to the loose channel arrangements over extended time periods (ref 13.p.2).

Simultaneous membership in different channel arrangements by many institutions make the understanding of marketing channels more complex. This participation in different channels by the members may be by strategic policy or by accident. As perspectives shift from that of the consumer to researcher to that of the manufacturer, the channels of distribution take on different meanings. The state of the economy, the socio-cultural settings and consumer needs and desires are found to have a bearing on the nature and functions of the marketing channels.

From the vantage point of the manufacturer, channels of distribution hold equal status alongside the product, pricing and promotion components, forming an integral part of the marketing mix. For the manufacturer it represents the means of transferring goods to the final buyers and users. The success of any organisation is dependent on the extent to which it can reach its customers, and

satisfy their shopping needs and cater to their habits. The cost constraints of the seller works as the restraining factor.

But 'without a good distribution system, sales will be mediocre or non existent', even in the case of the best product of a company. (ref 21.p.368). A channel of distribution involves a manufacturer, wholesaler, retailer and a variety of facilitating institutions, engaged in buying and selling relationships among themselves and hence can be viewed as a system.

The manufacturer thus has a specific concern in developing an appropriate channel strategy for his products so that his offering match the specific requirements of his target market. The objectives as expected to be fulfilled by the channels has to be spelled out clearly. For the small manufacturer the channel of distribution is a significant factor.

### **3.2 DEFINITIONS OF MARKETING CHANNELS**

Traditionally the channel of distribution is viewed as the sequence of firms involved in moving a product from the producer to the user (ref 14. J H Donnelly Jr. 1976 ). It is

'an organised network of agencies and institutions which, in combination, perform all the activities required to link producers with users and users with producers in order to accomplish the marketing task.(ref 9.R Cox and T T Schutte, 1975).

The American Marketing Association defines channels of distribution as 'the structure of intra - company organisation units and extra company agents and dealers, wholesalers and retailers,through which a commodity, product or service is marketed. (ref 9. A M A 1960). L P Bucklin, (1966) says, 'A channel of distribution shall be considered to comprise a set of institutions which perform all of the activities (functions) utilised to move a product and its title from production to consumption'. (ref 24).

Bert Rosenbloom (1978) says, 'the marketing channel may be defined as the external contractual organisation which management operates to achieve its distribution objectives'. (ref 15). The course taken in the transfer of the title to a commodity constitutes its channel of distribution. (Beckman T N ;Maynard H M & Division W R; Principles of marketing, 1957 p.7).



'Marketing channel ..... is a path traced in the direct or indirect transfer of ownership to a product, as it moves from a producer to ultimate consumers or industrial users'. (ref 23. Cundiff, Still & Govoni. 1980).

Another definition by Bowersox, et al (1980) says; Marketing channel is defined as a system of relationships that exists among institutions involved in the process of buying and selling (ref 13).

There are a large number of other definitions. But as can be seen, the definitions vary with the differing perspectives. While some define the marketing channel as a network of organisations engaged in the transfer of goods and title to the same from producer to consumers, some other definitions view it as a system of relationships that exist among institutions engaged in the process of buying and selling. Channels are also perceived as a path traced by title to goods and services, as they move through various agencies. Marketing channel is also described as a loose coalition of business firms who have banded together for the purpose of trade (ref 15).

'PLACE' is one of the controllable variables of the marketing mix which looks into where, when and by whom the

product will be distributed, so that the target market derives the best utility in terms of time and value.

It thus evolves that, marketing channel is not a predesigned structure of different organisations existing to take up the distribution of any manufacturers' products. Rather, a channel does not exist till the negotiatory functions have taken place between the series of organisations. This in effect opens up a path for the flow of goods and their titles to the consumers from the producer. Obviously, a marketing channel is organisation specific, or more precisely, product specific.

The sequence of organisations and their relationship evolve through a negotiatory function which is predominantly guided by the distribution objectives of the manufacturer. The activities of the manufacturer have to be coordinated with those of the middlemen used in the distribution of any given product.

### **3.3 CHANNEL PARTICIPANTS**

The structure of a marketing channel describes the arrangement and linkage of its members. With the variety of intermediaries available, and considering the varying

requirements of consumers, the number of distribution paths open to the manufacturer is very large. The ideal path or a combination of paths has to be chosen, which is possible only with a clear perception of the type of intermediaries, their interests and the roles each one can take up.

A marketing channel is considered to be a group of inter-related intermediaries involved in the flow of goods and their titles to the consumers. Though there are a wide variety of participants in the channel, all are not considered to be members. Going by the definition (ref 15) of the channel by B Rosenbloom, the participants are identifiable by the 'thread' of negotiation that links them together. Thus membership in the channel is based on the performance of negotiatory functions viz. buying, selling and transfer of title to goods. Non-performers of the negotiatory functions, though they are participants of the channel, are not members.

The members of the marketing channel are the producer and the consumer at either end, with the retailer and the wholesaler in between, as intermediaries.(ref 17). The intermediaries can either be merchants or agents. This contactual organisation forms the traditional marketing channel as described by most authors.

In the context of management perspective.....it is more appropriate to view final users as target markets which are served by the commercial subsystem of the channel (ref 15). The commercial channel by definition excludes users or consumers. This view also preserves the lofty position the consumers have as prime benefactor and final judges of the desirability of a given marketing process.

Facilitating institutions, though they do not perform any negotiatory functions are participants of the channel as they contribute to the smooth functioning of the channel. They include all agencies undertaking transportation, banking, insurance and publicity other than negotiating purchases or sales, so as to play a supportive role in the effective performance of the channel. They tend to engage in multiple channel relationships as they do not generally accept the risk involvement necessary to qualify as a primary participant.

#### **3.4 NUMBER OF CHANNEL LEVELS**

Marketing channels vary based on the number of levels in each sequence. A channel level is comprised of an institution which performs some function so as to bring the product or service one step closer to consumption. The

number of levels in a channel represents the channel length.

Zero level channel or direct marketing channel involves the manufacturer selling his products directly to the consumer. A one-stage channel involves a retailer who distributes to the consumer after having purchased the items from the producer. In a two stage channel, wholesalers take-up the job of distributing to the retailers, who sell to consumers. A three level channel structure includes a jobber who performs between the wholesaler and the retailer. Multi-stage channel structures are also observed, but with less frequency. (ref 24.p.414).

Today, vast numbers of intermediaries or specialists exist within distribution channels. Manufacturer has to rely on some type of specialist for sale of their products to customers. The function of exchange which was once restricted to the central market place has now been taken over by wholesalers and retailers.

### **3.5 RETAILERS**

The US Bureau of Census defines retailers as "all establishments engaged in selling merchandise for personal

or house hold consumption and rendering services incident to the sale of such goods". (ref 13). A retailer is characterised by its selling, directly to ultimate consumers. Though generally sales are effected in small lots by retailer, this is not an essential feature.

The retailer could either be a merchant or an agent. Broadly, four categories of retailers are identifiable; Mail Order Houses - a recent development in India, restricted to certain regions; Automatic merchandising machines operators - using vending machines which are yet to become popular in the country; Direct selling firms - a much employed door to door canvassing effort and Retail establishments - dominating the scene in terms of numbers.

### 3.6 WHOLESALERS

The US Bureau of Census defines wholesalers as " all establishments or places of business primarily engaged in selling merchandise to retailers; to industrial, commercial, institutional or professional users; or to other wholesalers; or acting as agents in buying merchandise for or selling merchandise to such persons or companies.(ref 13).

Wholesalers are characterised by that, as middlemen, they do not generally sell to ultimate consumers. Though most wholesalers deal in large lots, this is not an essential feature of wholesalers. While they usually make sales for purpose of resale, there are many who sell to industrial or institutional users. There are also instances when wholesalers make sales in small lots to house hold consumers as well, but considering their total transactions, this is not very significant.

Broadly, three categories of wholesalers are identified: Merchant Wholesalers - including merchants and distributors; Manufacturers Own Sales Branches and Merchandise Agents and Brokers - who involve in the process based on a variety of terms and conditions.

### 3.7 INTER-ORGANISATIONAL BEHAVIOUR

From a manufacturer's perspective, the performance of the sequence of organisations within the channel he employs has a direct bearing on his success. To ensure that every member contributes to this objective, he has to appreciate that the channel represents a coalition of dissimilar firms that have banded together for mutual advantage (ref 24

p.429). Each member of the channel would have a specific set of objectives for being part of the channel. The collective set of objectives of all the members must synchronise so that the system would operate in a smooth and efficient manner.

Thus the relationship between channel members is a predominant factor which determines the success of the system. Each firm has to define its relation with the other members in the channel. This definition of roles has been distinguished into five types by McCammon (ref 24 p.428).

Power, leadership and conflict form three of the basic elements of inter-organisational behaviour in the context of marketing channels. (ref 13 p.99).

### 3.7.1 POWER

Power is generally defined (Dahli) as the ability to get someone to do something that would not otherwise be done.(ref 13 p.94). It is viewed by Etzione as the ability to induce change in the face of resistance.(ref 15.p.84). Miller and Butler say, power refers to a person's ability to control the behaviour of others. For Price, the essence



of power is the capacity to influence the behaviour of others. (ref 15.p.84).

In the context of marketing channels, the term 'Power' is used to refer to the capacity of channel member(s) to control or influence the behaviour of other channel member(s). The understanding of the use of power by any of the channel member of the manufacturer, rests on the sources or bases of power that the member is capable of drawing from.

Reward power, coercive power, expert power, legitimate power, and referent power are accepted as the major bases of power that a channel member can draw from (Bowersox, pp 102-105).

While, Reward power refers to a channel member's ability to give something of value to the other members so as to facilitate their goal accomplishment, Coercive power refers to the capacity to deprive something or give punishments, unless the other members co-operate. Expert power is derived from the superior knowledge and expertise of a channel member, which the others will need for their own goal accomplishments.

Referent power which emanates from a member's image in the market is a psychological source of power (ref 13.p.103). The SSI manufacturer by virtue of his low- budget promotion and resultant low profile, is unable to command a referent power over the market and thereby the channels, which would compel the channel members to desire identifying with the unit.

Legitimate power, which Bowersox calls the most complex source of power, is linked to the acceptance that one channel member has the 'right' to define the behaviour of others. It could be based on position, role or reputation. It is more of an automatic attribution of power. Here again the SSI manufacturer would have constraints. Preliminary interviews with a few SSI manufacturers revealed that they seldom enjoyed this positional power.

It is also accepted that power in the context of marketing channel behaviour does not follow the above typology absolutely. Often power positions result from a combination of different bases.

### **3.7.2 LEADERSHIP**

Leadership is derived from a channel member's possession of power and the tolerance of other firms in accepting

direction. Leadership is the use of power to improve a system as well as individual performance. The tolerance of other members of these attempts at improvement, determines the level of leadership a member can exert over them. The power base from which a particular member would operate and the balance level of the other members must both be determined before the member decides to take on a leadership role within the channels.

### 3.7.3 COMMUNICATION

Another element of channel relationship is communication. Communication sets the basis for free flow of information between the channel members and also between the channel and environment. Efficient performance of the channels is determined by the perfect understanding between the channel members. This is made possible by an effective flow of information within the channel.

While communication assumes prominence in channel performance, it is plagued by two behavioural problems (ref 15 P. 95-96). Wittreich summarises them rather succinctly:

"The people who manufacture the goods and the people who move the goods into the hands of the ultimate consumer do not share the same business philosophy (goals) and do not talk essentially the same language ".

Effective communication, thus is hindered by differing goals of the channel members and also the difference in terminology used by them. The perceptual difference on a wide variety of issues coupled with the tendency of some members to be secretive, affect the effectiveness of channel communication negatively. The possibility of omission, deletion and distortion of information, especially in a competitive environment makes communication a critical element of channel relationships.

#### 3.7.4 CONFLICT

In all social systems the presence of conflict is inevitable. As Stern and German points out, "A state of conflict may exist when two or more components of any given system of action....become objects of each others frustrations". Frustration is caused in one member when he is deprived of or inhibited from attaining some of his goals. When another member of the system is perceived as

the cause of this frustration, conflict arises between the two.

Another definition of channel conflict by Bowersox et.al.(ref 13.p.73) states, 'it is a situation in which one member of a distribution channel perceives another member as an adversary engaging in behaviour designed to injure, thwart or gain scarce resources at it's expense". Conflict follows a cyclic pattern in that it originates, grows, steadies and then is resolved.

Conflict originates from a variety of causes and often from a combination of factors. Conflict at times is expressed while it may also exist covered by routine behaviour of channel members (ref 13 p.73). Stern and Heskett (ref 13 p.73) argues that though conflict may exist, in many cases the frustrated members may not take any specific action to change their behaviour or that of the other channel members.

While conflict is known to be of horizontal inter type or vertical nature, here in this study, we take only the vertical conflict situation. Vertical conflict refers to stress and frustrations between different levels within a given channel.

### 3.7.5 CO-OPERATION

Co-operation between channel members is more basic than what is obvious. On the one hand, the members are driven by the force of 'monostasy', the desire to be independent; each one wanting to define one's own goals and means of accomplishing the same, while on the other, exists the realisation that by working together, more can be accomplished; stimulating a desire for standing together - 'systasy'. When systasy predominates, co - operation will result (ref 13 p.113).

### 3.7.6 DEPENDENCE

Dependence is a state in which channel members are put into, when each one finds it difficult to perform all the functions necessary for a successful existence in market. It results from diverse functional requirements for accomplishing the various goals of the members. Functional specialisation of the members contribute to their dependence on each other to the extent they wish to achieve their goals.

### **3.7.7 TRUST**

Trust is that element which ensures continued interaction between channel members. While trust is at times referred to as a fall out of co operation (James C Anderson & James A Naruss Journal of marketing, JAN 1990.p.48), it may also be that an environment of trust is a pre-requisite for co-operation. A causal relationship between the two has not yet been empirically established. But trust develops and grows between two members only in an atmosphere of mutual acceptance and adequate understanding of each others strengths. An efficient communication link between the two helps them to have a proper perception about each other.

### **3.7.8 SATISFACTION**

Satisfaction is the positive feeling one derives on accomplishment of desired objectives. The channel member sets his own goals. Decisions and actions are taken towards attaining these goals. The resultant reaction of his target groups or that of other members provide the required feed back on actions he had initiated. The extent to which the actual outcomes match the expected, determines the level of satisfaction a channel member derives. The cyclic sequence of goal setting, action, feedback and

satisfaction is dynamic. Goals are redefined and new ones set, as soon as earlier ones are attained and satisfaction experienced.

### 3.7.9 GOODWILL

Goodwill is understood as the sum of all positive images the organisation has been capable of evoking among the public. It is the resultant of good decisions and deeds supported by positive public relations and customer satisfaction. While goodwill is not amenable to quantification, it can be perceived in the attitude and response of the public, including those of the consumers, towards the organisation in general and its proposals in particular.



## CHAPTER 4

### 4.0 PROFILE AND MARKETING ARRANGEMENTS

In all cases, the promoter or chief executive had been contacted for collecting the primary data. Where ever the units are in-operational, care has been taken to elicit information as pertaining to the period when the unit was involved in the activity under research. Since the area being studied is related to channels of distribution as employed by the projects, a retrospective analysis was found to be acceptable. It also helped to shed some light on the causative factors that led to the unit becoming sick or defunct.

One unit had changed its original name to a new one and the proprietor refused to meet the researcher. In another case the promoter had left for overseas employment and the unit was purchased from him by landlord who is still running the unit.

There was one case where the proprietrix has temporarily lost interest because of a fraudulent salesman who absconded with the cash collected from the retailers. There were a few cases where the promoters have completely stopped activities in the original product lines and have switched to new product lines or services.

#### 4.1 SAMPLE PROFILE

##### 4.1.1 BREAD MANUFACTURING SSI FIRMS

###### 4.1.1.1 Types of organisation

Proprietary concerns form the majority 87.5%, while 12.5% are partnership firms.

###### 4.1.1.2 Location

Less than (31.2%) of the units were located within 10 kilometre from the district head quaters; 50.0% between 10 and 30 kms and 18.8% beyond 30 km.

#### 4.1.1.3 Investments

The mean total investment in land, building, machinery, vehicle and working capital, observed in the sample was Rs.2.49 lakhs and the standard deviation was 2.57.

The range in which the investments fall with respect to land, building, plant and machinery, vehicle and working capital are shown in Table 4.1.A

Table 4.1.A : Investment in fixed assets and working capital of bread manufacturing units.

(Rs.lakhs)				
Item	Sample Mean	Std. Dev.	Range	
Land	0.22	0.24	0	0.80
Building	0.56	0.56	0	2.00
Plant&Mc	0.86	1.06	0.10	4.00
Vehicle	0.42	0.63	0	1.50
Working Capital	0.42	0.46	0	1.30
Total	2.49	2.57	0.10	9.00

#### 4.1.1.4 Employment

The average total employment observed in the sample is 9 persons. The range in which the employment in each category falls is shown in Table 4.1.B.

**Table 4.1.B : Employment in Bread manufacturing SSI firms**

Category	(No. of persons)		
	Sample Mean	Std. Dev.	Range
Skilled workers	1.50	0.89	1 4
Semiskilled workers	1.81	2.76	0 8
Unskilled workers	2.31	3.82	0 15
Sales persons	1.50	1.46	0 6
Others	1.75	4.36	0 15
<b>Total</b>	<b>8.81</b>	<b>7.69</b>	<b>1 26</b>

#### 4.1.1.5 Sales turnover

The total sales turnover of bread manufacturing units in the sample, for three years, ie. 1989, 1990 and 1991 were recorded. These figures were computed from details of quantity sold and prices of the products as reported by the different units. The average turnover in 1991 was Rs 3.81 lakhs while it was Rs 3.32 lakhs in 1990 and Rs 2.63 lakhs in 1989. See Table 4.1.C. The turnover in 1991, observed in the sample ranged from Rs 0 to Rs 34 lakhs. The observed range in 1990 was 0.10 to 30 lakhs and that for 1989 was 0 to Rs 25 lakhs.

**Table 4.1.C : Sales turnover of Bread manufacturing SSI firms during 1989 to 1991 (Rs.lakhs)**

Year	Sample Mean	Std: Dev:	Range	
1991	3.81	8.57	0	34
1990	3.32	7.52	10	30
1989	2.63	6.29	0	25

#### 4.1.1.6 Installed capacity

The installed capacity observed in the sample ranged from 14 tons to 720 tons per annum; the mean being 125.50 tons and standard deviation 202.82.

#### 4.1.1.7 Productivity

The maximum output per annum as reported by the units ranged from 2 to 450 tpa, over the period 1989 to 1991. The mean works out to 69.69 and the standard deviation, 134.39.

#### 4.1.1.8 Capacity utilisation

It is seen that 62.5% of the sample use less than 50% of their production capacity. 31.3% have capacity utilisation between 50% and 70%. Only 6.2% have had an output above 80% of installed capacity.

#### 4.1.1.9 Credit availed

Of the sample, 87.5% have availed of some form of credit. Of these, 64% claimed they are regular in repaying the loan. The others are defaulters.

##### 4.1.1.9.1 Term loan

The Term loan availed by the sample units varied from nil to Rs 7 lakhs. 50% of the units had taken less than Rs.1 lakh as loan. 25% have not taken term loan and had funded their project through own sources. Only the others have loan above Rs 1 lakh.

##### 4.1.1.9.2 Working capital loan

Of the units sampled, 75% had not availed of any working capital loan. Considering those units that have taken working capital loan, the average is Rs 0.48 lakhs.

##### 4.1.1.9.3 Other loans

One fourth of the sample had taken other loans, the average being Rs.10000/-.

#### 4.1.1.9.4 Total loans

Taking into account the total of loans availed by the bread manufacturing SSI units, the mean works out to Rs. 1.24 lakhs and the standard deviation, 1.95. The total loans availed by the units, as observed in the sample, varies from zero to Rs 7 lakhs. While 75% of the units have taken loans of zero or upto Rs 1 lakh, 25% have taken loans above Rs 1 lakh.

#### 4.1.1.10 Brand name

Only 50% of the sampled units have given Brand names to the Bread they manufacture.

#### 4.1.1.11 Sales area

Considering the area in which sales are carried out, 25% units sell between 5% and 40% of their output within the block. Another 31.2% sell between 50 and 80 percent within the block. 43.8% units sell their entire produce within the Block. Table 4.1.D

**Table 4.1.D : Sales area and volume (Bread)**

Area	% of sales in the area			
	Nil	1 to 49	50 to 99	100
Block		25.0	31.2	43.8
Taluk		18.8	24.9	56.3
District		6.3	18.7	75.0
Neighbour district	75.0	12.5	12.5	
State				100.0

75% of the respondents sell cent percent of their output within the district. No one has a market outside the state.

#### 4.1.1.12 Selling point

The nearest selling point was within 5 km for 93.8% of the units, and within 10 km for the others. The farthest selling point was within 5 km for 37.5% of the units, between 5 and 15 kms for 18.8% and beyond 15 km for 43.8% of the units.

#### 4.1.2 BISCUITS MANUFACTURING SSI FIRMS

##### 4.1.2.1 Types of organisation

Almost 90% of the units manufacturing biscuits were proprietary concerns and 10% partnership firms.



#### 4.1.2.2 Location

Of the units, 30% were located within 10 kilometre from the district head quarters, 60.0% between 10 and 30 kms and 10% beyond 30 km from the district head quarters.

#### 4.1.2.3 Investments

The mean total investment in land, building, machinery, vehicle and working capital, observed in the sample was Rs.1.97 lakhs and the standard deviation 2.59.

The range in which the average investments fall with respect to land, building, plant and machinery, vehicle and working capital are shown in the Table 4.1.E

Table 4.1.E : Investment in fixed assets and working capital of biscuit manufacturing SSI units.

(Rs. Lakhs)				
Item	Sample Mean	Std. Dev.	Range	
Land	0.22	0.18	0	0.50
Building	0.39	0.59	0	2.00
Plant&Mc	0.77	1.19	0.10	4.00
Vehicle	0.22	0.47	0	1.50
Working Capital	0.38	0.41	0	1.00
Total	1.97	2.59	0.10	9.00

#### 4.1.2.4 Employment

The average total employment observed in the sample is 8 persons. Table 4.1.F.

#### 4.1.2.5 Sales turnover

The total sales turnover for three years ie. 1989,1990 and 1991 were recorded. These figures were computed from details of quantity sold and prices of the products as reported by the different units. The average sales turnover in both 1991 and 1990 was Rs 0.99 lakhs, while it was Rs 0.77 lakhs in 1989. See Table 4.1.G.

Table 4.1.F : Employment in Biscuits  
manufacturing SSI firms  
(Persons)

Category	Sample Mean	Std Dev.	Range	
Skilled workers	1.40	0.70	1	3
Semiskilled workers	1.80	2.86	0	8
Unskilled Workers	1.20	1.14	0	3
Sales persons	1.2	0.92	0	3
Others	1.80	4.73	0	15
Total	7.40	7.40	3	26

**Table 4.1.G : Sales turnover of  
Biscuit manufacturing  
SSI units during 1989  
to 1991**

(Rs lakhs)				
Year	Sample Mean	Std. Dev.	Range	
1991	0.99	0.99	0	3.00
1990	0.99	0.74	0	2.00
1989	0.77	0.62	0	1.50

The turnover in 1991, observed in the sample ranged from Rs.nil to Rs.3 lakhs. The observed range in 1990 was 0 to Rs 2 lakhs and that for 1989 was nil to Rs.1.5 lakhs.

#### **4.1.2.6 Installed capacity**

The installed capacity observed in the sample ranged from 3 tons to 30 tons per annum; the mean being 12.20 tons, with standard deviation of 8.9.

#### **4.1.2.7 Production**

The maximum output per annum as reported by the units ranged from 0 to 15 tpa, over the period 1989 to 1990. The mean worked out to 4.30 and the standard deviation 4.32.

#### 4.1.2.8 Capacity utilisation

It is seen that 70% of the sample use less than 50% of their production capacity. 20% have capacity utilisation of 50% and 10% of the firms use cent percent of installed capacity.

#### 4.1.2.9 Credit availed

Of the sample 70% have availed of some form of credit. Out of these 60% claimed they are regular is repaying the loan. The others are defaulters.

##### 4.1.2.9.1 Term loan

The Term loan availed by the sample units varied from Nil to Rs 7 lakhs. 60% of the units had taken less than Rs.1 lakh as loan, 30% have not taken term loan and had funded their project through own sources. The mean loan Rs.0.91 Lakhs.

#### 4.1.2.9.2 Working capital loan

Of the units sampled, 80% had not availed of any working capital loan. Considering those units that have taken working capital loan, the average is Rs 0.30 lakhs.

#### 4.1.2.9.3 Other loans

20% of the sample had availed of other forms of loan, the average being Rs 10000/-.

#### 4.1.2.9.4 Total loans

Taking into account the total loans availed, the mean works out to Rs 1.02 lakhs, with standard deviation 2.13. The total loans availed by the units, as observed in the sample varies from zero to Rs 7 lakhs. 90% of the units have loans of zero or upto Rs.1 lakh. Only 10% have taken loans above Rs.1 lakh.

#### 4.1.2.10 Brand name

Only 10% units have given brand names for their products. 90% do not have any brand names and prefer to market them as 'bakery biscuits'.

#### 4.1.2.11 Sales area of Biscuits

Upto 99% of the output of biscuits is sold within the block by 30% of the units. 70% of the units sell their entire produce within the block.

Of the respondents, 80% sell cent percent of their output within the district. No one has a market outside the state.

Table 4.1.H : Sales area and volume(Biscuits)

Area	% of sales in the area			
	Nil	1 to 49	50 to 99	100
Block		10	20	70
District			20	80
Neighbour District	80	10	10	
State				100

#### 4.1.2.12 Selling point

The nearest selling point was within 5 kms for all units. The farthest selling point was within 5 kms for 60% of the units, between 5 and 10 kms for 20% and beyond 15 km for 20% of the units.

### 4.1.3 SPICES PROCESSING SSI FIRMS

#### 4.1.3.1 Types of organisation

Of the units sampled, 73.3% were proprietary concerns, 20% partnership firms and 6.7% Co-operative societies.

#### 4.1.3.2 Location

About 20% of the units were located within 10 kilometre from the district head quaters; 73.3% between 10 and 30 kms and 6.7% beyond 30 km.

#### 4.1.3.3 Investments

The mean total investment in land, building, machinery, vehicle and working capital, observed in the sample was Rs.1.82 lakhs and the standard deviation 3.07. The range in which the average investments fall with respect to land, building, plant and machinery, vehicle and working capital are shown in the Table 4.1.I

**Table 4.1.I : Investment in fixed assets and working capital of processed spices manufacturing units**

(Rs.lakhs)

Item	Sample Mean	Std. Dev.	Range	
Land	0.24	0.40	0.00	1.50
Building	0.46	0.86	0.00	3.00
Plant&Mc	0.54	0.66	0.10	2.00
Vehicle	0.17	0.40	0.00	1.50
working Capital	0.41	1.01	0.00	4.00
<b>Total</b>	<b>1.82</b>	<b>3.09</b>	<b>0.30</b>	<b>12.00</b>

#### 4.1.3.4 Employment

**Table 4.1.J : Employment in processed Spices manufacturing firms**

(Persons )

Category	Sample Mean	Std. Dev.	Range	
Skilled workers	1.13	0.64	0	2
Semiskilled workers	2.60	6.66	0	19
Unskilled workers	2.47	3.78	0	11
Sales persons	0.73	0.80	0	2
Others	2.00	7.75	0	30
<b>Total</b>	<b>8.93</b>	<b>10.18</b>	<b>1</b>	<b>36</b>



The average total employment observed in the sample is 9 persons. Table 4.1.J provides the details.

#### 4.1.3.5 Sales turnover

The total sales turnover for three years ie. 1989,1990 and 1991 were recorded. These figures were computed from details of quantity sold and prices of the products as reported by the different units. The average turnover in 1991 was Rs 1.80 lakhs while it was Rs 2.40 lakhs in 1990 and Rs 1.76 lakhs in 1989. See Table 4.1.K . The turnover in 1991, observed in the sample ranged from Rs.0 to Rs. 21 lakhs. The observed range in 1990 was 0 to 20 lakhs and that for 1989 was 0 to Rs 15 lakhs.

**Table 4.1.K : Sales turnover of  
Spices processing firms  
during 1989 to 1991**

(Rs lakhs)

Year	Sample Mean	Std. Dev.	Range	
1991	1.80	5.37	0	21
1990	2.40	5.05	0	20
1989	1.76	3.79	0	15

#### 4.1.3.6 Installed capacity

The installed capacity observed in the sample ranged from 3 tons to 450 tons per annum; the mean being 80.93 tons, with standard deviation of 134.

#### 4.1.3.7 Production

The maximum output per annum as reported by the units ranged from 1 to 270 tpa, over the period 1989 to 1990. The mean worked out to 33.60 and the standard deviation 72.77.

#### 4.1.3.8 Capacity utilisation

It is seen that 80% of the sample use less than 50% of their production capacity. The others had output between 50 and 60% of installed capacity. None of the units had utilised their capacity above 60%.

#### 4.1.3.9 Credit availed

Of the sample 73.3% have availed of some form of credit. Out of these 45.45% claimed they are regular in repaying the loan. The others are defaulters.

#### 4.1.3.9.1 Term loan

The Term loan, availed by the sample units varied from Nil to Rs.1 lakh. 93.3% of the units had taken less than Rs.1 lakhs as loan, 46.7% have not taken term loan and had funded their project through own sources. The average loan taken is Rs.0.35 lakhs.

#### 4.1.3.9.2 Working capital loan

Of the units sampled, 86% had not availed of any working capital loan. Considering those units that have taken working capital loan, the average is Rs 0.40 lakhs.

#### 4.1.3.9.3 Other loans

It is seen that 12.5% of the sample had taken other loans, the average being Rs.25000/-.

#### 4.1.3.9.4 Total loans

Taking into account the total loans availed, the mean works out to Rs 0.28 lakhs, with standard deviation of 0.37. The total loans availed by the units, as observed in the sample, varies from zero to Rs 1.2 lakhs.93.3% of the

units have loans of zero or upto Rs 1 lakhs. Only 6.7% have taken loans above Rs 1 lakh.

#### 4.1.3.10 Brand name

Of the sampled units, 60% have given Brand names to their products.

#### 4.1.3.11 Sales area

Considering the area in which sales are carried out 20% units sell between 33.3% and 46.7% of their output within the block. Another 13.3% sell a portion of their output outside the district of Eranakulam. While 93.3% sell within the state only, 6.7% units have export market.

Table 4.1.L : Sales area and volume  
(processed Spices)

Area	% of sales in the area			
	Nil	1 to 49	50 to 99	100
Block	00.0	20.0	33.3	46.7
Taluk	00.0	6.7	33.3	60.0
District	00.0	00.0	20.0	80.0
Neighbour district	86.7	13.3	00.0	00.0
state	00.0	00.0	6.7	93.3
export	93.3	6.7	00.0	00.0

80% of the firms sell cent percent of their output within the district. About 13.3% of the firms have made entries into neighbouring districts. About 7% of the firms are exporting their products.

#### 4.1.3.12 Selling point

The nearest selling point was within 5 km for 93.3% of the units, and within 10 km for the others. The farthest selling point was within 5 km for 26.7% of the units, between 5 and 15 kms for 40% and beyond 15 km for 33.3% of the units. This last category also include the firms that are exporting.

#### 4.1.4 PICKLES MANUFACTURING SSI FIRMS

##### 4.1.4.1 Types of organisation

From the sample, 75% were proprietary concerns and 25% partnership firms.

##### 4.1.4.2 Location

With reference to location, 50% of the units were located within 10 kilometre from the district head quarters; 25% between 10 and 30 kms and 25% beyond 30 km.

#### 4.1.4.3 Investments

The mean total investment in land, building, machinery, vehicle and working capital, observed in the sample was Rs 3.42 lakhs with standard deviation 3.75. The range in which the average investments fall with respect to land, building, plant and machinery, vehicle and working capital are shown in the Table 4.1.M.

**Table 4.1.M : Investment in fixed assets and working capital in Pickles manufacturing SSI firms**

(Rs.lakhs)

Item	Sample Mean	Std. Dev.	Range	
Land	0.17	0.15	0.00	0.30
Building	0.25	0.21	0.00	0.50
Plant&Mc	1.35	1.79	0.10	4.00
Vehicle	0.05	0.06	0.00	0.10
working Capital	1.60	2.28	0.20	5.00
Total	3.42	3.75	0.90	9.00

#### 4.1.4.4 Employment

Table 4.1.N : Employment in Spices manufacturing firms

(in Persons )				
Category	Sample Mean	Std. Dev.	Range	
Skilled workers	5.25	6.13	1	14
Semiskilled workers	-	-	-	-
Unskilled workers	2.50	2.38	0	5
Sales persons	3.25	2.87	1	7
others	18.75	31.19	0	65
Total	29.75	38.63	3	86

The average total employment observed in the sample is 30 persons. The 'others' include persons employed on casual basis especially during season, when raw material is available in plenty and bulk procurement and production is effected. If this group is not included the mean employment would be 11 with standard deviation of 8.12

#### 4.1.4.5 Sales turnover

The total sales turnover for three years ie. 1989,1990 and 1991 were recorded. These figures were computed from details of quantity sold and prices of the products as reported by the different units. The average turnover in 1991 was Rs.6 lakhs, while it was Rs 5.80 lakhs in 1989. See Table 4.1.0. The turnover in 1991, observed in the sample ranged from Rs 0 to Rs 23 lakhs. The observed range in 1990 was 0.60 to 22 lakhs and that for 1989 was 0.60 to Rs 18.0 lakhs. .

Table 4.1.0 : Sales turnover of Pickles manufacturing firms during 1989 to 1991

(Rs lakhs)				
Year	Sample mean	Std dev	Range	
1991	6.00	11.34	0	23
1990	6.95	10.17	0.60	22
1989	5.80	8.26	0.60	18

#### 4.1.4.6 Installed capacity

The installed capacity observed in the sample ranged from 6 tons to 250 tons per annum; the mean being 75.50 tons, with standard deviation of 116.95.



#### **4.1.4.7 Productivity**

The maximum output per annum as reported by the units ranged from 1 to 150 tpa, over the period 1989 to 1990. The mean worked out to 43.0 and the standard deviation 71.57.

#### **4.1.4.8 Capacity utilisation**

It is seen that 50% of the sample use less than 50% of their production capacity. 50% have capacity utilisation above 50% of which 25% of the firms use cent percent of installed capacity.

#### **4.1.4.9 Credit availed**

All the units have availed of loans of which 75% claim they are regular in repaying the same. The others are defaulters.

##### **4.1.4.9.1 Term loan**

The Term loan availed by the sample units varied from Nil to Rs0.80 lakhs. 50% of the units had taken less than Rs.1 lakhs as loan, 50% have not taken term loan and had funded

their project through own sources. The mean loan is Rs 0.40 lakhs.

#### **4.1.4.9.2 Working capital loan**

Of the units sampled, 50% had not availed of any working capital loan. Considering those units that have taken working capital loan, the average is Rs 0.35 lakhs.

#### **4.1.4.9.3 Other loans**

Of the sample, 25% had taken other loans, including support for export.

#### **4.1.4.9.4 Total loans**

The mean of total loan availed is Rs 1.52 lakhs. 50% of the units have availed less than Rs 1 lakhs loan.

#### **4.1.4.10 Brand name**

Of the sampled units, 75% have given brand names to their products.

#### 4.1.4.11 Sales area

Considering the area in which sales of pickles are effected by the SSI firms it is seen that 25% do not sell their output within the block . 50% sell between 1 to 49% of their output and 25% sell their entire produce within the block.

Table 4.1.P : Sales Area and Volume

Area	% of sales in the area			
	Nil	1-49	50-99	100
Block	25	50		25
Taluk		50	25	25
District		50	25	25
N.District	25	75		
State		50		50
All india		25	25	50
Export	50		50	

Fifty percent of the units export between 50 and 99% of their production. Those who do not export sell over 50% of their output within the district. Only 25% of the units have a market outside the state of Kerala, excluding exports.

#### 4.1.4.12 Selling point

The nearest selling point was within 5km for all the firms. The farthest selling point was within 5km for 25% and beyond 15km for all the others.

#### 4.2 PROBLEM AREAS IN GENERAL

It is high lighted in many forums, that SSI units face a series of problems. To understand the broad areas where such issues exist would be relevant, before plans can be evolved to tackle them by State or Agency intervention. The problem areas were broadly grouped as Financial, Personnel, Marketing, Production and Administration. The units ranked these areas, one to five, as 'most problematic' to 'least problematic'. The five areas as ranked by the four categories are shown in Table 4.2.A.

Table 4.2.A : Comparative ranking of problem areas in general

Problem Areas	SSI units manufacturing			
	Bread	Biscuits	Spices	Pickles
Finance	2	1	2	1
Personnel	4	4	5	4
Marketing	1	2	1	2
Production	3	5	3	3
Administration	5	3	4	5

Finance and Marketing are stated to be the areas where SSI units face most problems. Marketing is the most problematic area for Bread and Spices while Finance is ranked first for Biscuits and Pickles units. See Table 4.2.A. Production is the third most problematic area for all the products except biscuits, where it is the least problematic area. Interestingly Personnel is reported as offering low levels of issues by all product groups. Obviously for these categories, labour is not the major problem area.

Even Administration is stated as less problematic. The fact that promoters look after their own units provides little room for concern, as when compared to a wider administrative structure involving more number of persons as in the case of larger firms.

#### **4.2.1 PROBLEM AREAS OF BREAD MANUFACTURING SSI UNITS**

Table 4.2.B shows the ranking of these areas by the bread manufacturing SSI units.

**Table 4.2.B : Ranking of Problem areas by SSI units manufacturing Bread**

Problem Areas	Ranks (showing % response)					Score
	1	2	3	4	5	
Finance	18.8	37.5	25.0	12.5	6.2	350.2
Personnel	18.8	6.2	6.2	31.3	37.5	237.5
Marketing	43.7	37.5	12.5		6.2	412.2
Production	6.2	18.8	43.8	12.5	18.8	281.4
Administration	12.5		12.5	43.7	31.3	218.7
Total	100.0	100.0	100.0	100.0	100.0	

Assuming a weightage of 5,4,3,2 and 1 for ranks 1 to 5 respectively, the five areas can be listed in the order most problematic to least problematic as shown below:

1. Marketing
2. Finance
3. Production
4. Personnel
5. Administration

#### 4.2.2 PROBLEM AREAS OF BISCUIT MANUFACTURING SSI UNITS

Assuming a weightage of 5,4,3,2 and 1 for ranks 1 to 5 respectively, the five areas can be listed in the order most problematic to least problematic as shown below:

1. Finance
2. Marketing
3. Administration
4. Personnel
5. Production

Table 4.2.C : Ranking of problem areas by SSI units  
manufacturing Biscuits

Problem Areas	Ranks (showing % response)					Score
	1	2	3	4	5	
Finance	40.0	20.0	30.0		10.0	380.0
Personnel	30.0			30.3	40.0	250.0
Marketing	10.0	70.0	10.0		10.0	370.2
Production		10.0	40.0	30.0	20.0	240.0
Administration	20.0		20.0	40.0	20.0	260.0
Total	100.0	100.0	100.0	100.0	100.0	

#### 4.2.3 PROBLEM AREAS OF PROCESSED SPICES MANUFACTURING SSI UNITS

Table 4.2.D : Ranking of problem areas by  
SSI firms manufacturing processed spices

Problem Areas	Ranks (showing % response)					Score
	1	2	3	4	5	
Finance	20.0	33.3	13.3	26.7	6.7	333
Personnel		6.7	33.3	20.0	40.0	207
Marketing	66.7	13.3		13.3	6.7	420
Production	13.3	26.7	33.3	13.3	13.3	313
Administration		20.0	20.0	26.7	33.3	227
Total	100.0	100.0	100.0	100.0	100.0	

Assuming a weightage of 5,4,3,2 and 1 for ranks 1 to 5 respectively, the five areas can be listed in the order most problematic to least problematic as shown below.

1. Marketing
2. Finance
3. Production
4. Administration
5. Personnel

#### **4.2.4 PROBLEM AREAS OF PICKLES MANUFACTURING SSI UNITS**

Assuming a weightage of 5,4,3,2 and 1 for ranks 1 to 5 respectively, the five areas can be listed in the order most problematic to least problematic as shown below:

1. Finance
2. Marketing
3. Production
4. Personnel
5. Administration



**Table 4.2.E : Ranking of problem areas by SSI units manufacturing Pickles**

Problem Areas	Ranks (showing % response)					Score
	1	2	3	4	5	
Finance	75			25		425
Personnel			25	75		225
Marketing	25	50	25			450
Production		50			50	250
Administration			50		50	250
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	

#### 4.3 SOME PROMINENT ISSUES IN MARKETING

A Comparative study of the four product categories show that, 'Place' is the aspect where most problems are encountered. Table 4.3.A . Since this aspect is ranked first across the four groups, it can be taken that in the process of marketing, channels of distribution and their management form the major hazards to the SSI units. Competition is stated to be the next problematic area. Large number of units and their inability to identify a niche market coupled with the lack of any unique selling proposition, leads to a situation where every one tries to aim at the same market segment.

Deciding on the price appears to be the third difficult area, except in the case of pickles where it comes as fourth. In the case of pickles, promotion is the third major problematic area. In the case of biscuits, the 'product' is also rated as a problem aspect along with pricing, at the third slot.

Table 4.3.A : Comparative ranking of problem areas in Marketing

	BRD	BIS	SPI	PIC
Product	5	3	5	6
Price	3	3	3	4
Place	1	1	1	1
Promotion	7	6	6	3
Competition	2	2	2	2
Consumers	4	7	4	7
Government	6	5	7	5

#### 4.3.1 MARKETING ISSUES RELEVANT TO BREAD MANUFACTURING SSI FIRMS

##### 4.3.1.0 Shelf-life of Bread

According to the respondents, bread manufactured by them has a mean shelf-life of 3.88 days. The range was reported as 2 to 7 days with standard deviation of 1.63.

#### 4.3.1.1 Problem areas in marketing Bread

Seven areas with references to marketing were listed and the promoters of the units ranked them according to their experience; 'most problematic' to 'least problematic'.

Assuming a weightage of 7,6,5,4,3,2 and 1 for ranks, one to seven respectively, these seven areas can be listed in the order - most problematic to least problematic.

1. Place
2. Competition
3. Price
4. Consumers
5. Product
6. Government
7. Promotion

It is observed that the bread manufacturing SSI firms face most difficulty in the area of distribution. Competition, due to the existence of a number of similar units, is seen to be the next most problematic area. This is followed by problems related to pricing. The fluctuations in prices of raw materials, has affected the SSI units, since they are unable to refix the prices of their products frequently.

Table 4.3.B : Ranking of problem areas in marketing of Bread

Problem areas	Ranks (showing % response)							Score
	1	2	3	4	5	6	7	
Product	06.25	06.25	18.75	12.50	06.25	37.50	12.50	331.25
Price	18.75	25.00	18.75	-	12.50	18.75	06.25	456.25
Place	37.50	18.75	18.75	-	18.75	-	06.25	531.25
Promotion	-	06.25	-	25.00	37.50	18.75	12.50	300.00
Competition	18.75	31.25	25.00	12.50	06.25	-	06.25	518.75
Consumers	06.25	06.25	18.75	25.00	06.25	25.00	12.50	356.25
Government	12.50	06.25	-	25.00	12.50	-	43.75	306.25
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

Promotion appears to be the least problematic area, possibly because these small units do not spare much effort in this direction. In the sample only 37.5% units use some method of promotion. Even these are restricted to efforts when the products were first launched. A few slides in local theaters, notices distributed along with the newspapers and a few banners form almost all of the promotional efforts.

#### 4.3.1.2 Significant factors in marketing of Bread

The marketing experiences of the SSI units would have caused them to identify some critical factors that can influence their performance. Some of these factors were rated by the respondents. The importance of each factor was marked as 'Extremely High', 'High', 'Low', 'Extremely Low' or 'Not Relevant'.

##### 4.3.1.2.1 Product related factors

Quality of the product is stated by all the sampled units as having high or extremely high significance. Though quality may have varied dimensions, here the product being a food product, quality is taken as referring to taste and edibility, by the units.

Packaging of bread is not a relevant factor for 12.5% of the respondents while 31.1% say it has low or very low significance. But 56.3% say that packing of bread is an important factor.

Table 4.3.C : Importance of product-related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Quality	81.2	18.8	-	-	-
Packaging	43.8	12.5	6.3	25.0	12.5
Name	12.5	25.0	6.3	25.0	31.3
Not essential	31.3	12.5	-	12.5	43.8

While 37.5% of the respondents said that Brand Name is a factor which contributes to the acceptability of bread, 31.3% said that Name has low significance. For 31.3%, it has no relevance.

Bread, not being an essential item is a factor affecting the marketing of bread, for 43.8%. While 12.5% say this is not a significant factor, 43.8% feel it is irrelevant.

#### 4.3.1.2.2 Price related factors

Price at the consumers end is a significant factor says 75% of the respondents. The rest say it is either not significant or irrelevant.

A high profit margin is a major criterion for 75% of the respondents, while it has low priority for the others.

Table 4.3.D : Importance of price related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Selling price	37.5	37.5	12.5	6.3	6.3
Margin	31.3	43.8	25.00		

#### 4.3.1.2.3 Place related factors

Table 4.3.E : Importance of place related factors

Factors	Extremely High	High	Low	Extremely Low	Not relevant
Own distribution set up	50.0	25.0	-	-	25.0
Role of distributors	62.5	6.3	-	6.3	25.0
Remunerating distributors	50.0	12.5	-	-	37.5

The role of distributors meaning external channels, is important according to 68.8%, while having own set up for distribution is significant for 75%. Interestingly,

remunerating the distributors is not taken as a relevant factor by 37.5%.

#### 4.3.1.2.4 Promotion Related Factors

Incentives to consumers as a means of promotion does not find favour with 81.2% of the respondents. Only 18.8% feel it is significant as a promotion measure.

Incentives to distributors are considered to be significant only by 56.3% of the respondents. The others feel it is irrelevant.

Table 4.3.F : Importance of Promotion Related Factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Incentives to consumers	6.3	12.5	25.0	37.5	18.8
Incentives to Distributors	43.8	12.5	-	-	43.8

#### 4.3.1.2.5 Competition Related Factors

That there are too many competing brands in the market, worries 81.3% of the sample. 75% find that the new units



entering the market with similar products affect their marketability.

Table 4.3.G : Importance of competition related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Competing Brands	62.5	18.8		12.5	6.3
New Firms	50.0	25.0		18.8	6.3

#### 4.3.1.2.6 Consumer related factors

They are unanimous that awareness about their product is important. Their experience regarding changes in attitudes and preferences of consumers is varied. Of the respondents, 75% feel that these changes have a high impact on their marketability, while 25% feel that it is low.

Table 4.3.H : Importance of Consumer Related Factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Consumer awareness	68.8	31.3	-	-	-
Shifts in attitudes & preferences	37.5	37.5	12.5	12.5	-

#### **4.3.1.2.7 Government related factors**

With reference to the significance of support from the Government in marketing operations, 37.5% feel it is important. 25% feel it is not so significant. But 37.5% feel it is not relevant. Every respondent said that there has not been any concentrated effort from the Government to help them in marketing.

A few mentioned some elements of the regulatory mechanisms which in effect cause serious hazards to the marketability of the product.

#### **4.3.2 MARKETING ISSUES RELEVANT TO BISCUITS MANUFACTURING SSI UNITS**

##### **4.3.2.0 Shelf-life of Biscuits**

According to the respondents, biscuits which are manufactured by them have a mean shelf-life of 30.9 days. The range was 14 to 60 days and standard deviation 11.42.

#### 4.3.2.1 Problem areas in marketing of Biscuits

Seven areas with references to marketing were listed and the units ranked them according to their experience; most problematic to least problematic.

Assuming a weightage of 7,6,5,4,3,2 and 1 for ranks 1 to 7 respectively, these seven areas can be listed in the order "most problematic" to "least problematic".

1. Place
2. Competition
3. Product
4. Price
5. Government
6. Promotion
7. Consumers

It is observed that the SSI firms manufacturing biscuits face most difficulty in the area of distribution. Competition, due to large number of similar units, is seen to be the next most problematic area. This is followed by problems related to the product and pricing.

Table 4.3.I : Ranking of Problem areas in marketing of Biscuits

Problem areas	Ranks (showing % response )							Score
	1	2	3	4	5	6	7	
Product	10	10	30	10	10	20	10	400
Price	10	30	10		10	30	10	400
Place	40	30			20		10	530
Promotion		30	20	20	30	20	10	320
Competition	20	20	30	10	20			510
Consumers			10	30	10	30	20	280
Government	20	10		30			40	360
	100	100	100	100	100	100	100	

Broadly, the product acceptability in the market is the factor referred to as problematic. The fluctuations in raw material prices, which has been mostly on the ascend, has affected the SSI since they are unable to refix the prices of their products frequently.

The least problematic area is the consumers. Promotion appears to be the second least problematic area, possibly because the SSI do not spare much efforts in this direction. In the sample only 37.5% units use some method of promotion. Even these were restricted to efforts when the products are first launched. A few slides in local theaters, notices distributed along with the newspapers and a few banners form almost all of the promotional efforts.

#### 4.3.2.2 Significant factors in marketing of Biscuits

The marketing experiences of the SSI units would have caused them to identify some critical factors that can influence their performance. Some of these factors were rated by the respondents. The importance of each factor was marked as 'Extremely High', 'High', 'Low', 'Extremely Low' or 'Not Relevant'.

##### 4.3.2.2.1 Product related factors

Quality of the biscuits is stated by all the sampled units as having high or extremely high significance in its marketing. Though quality may have varied dimensions, here the product being a food product, quality is taken as referring to taste and edibility.

Packaging of biscuits is not a relevant factor for 10% of the respondents while 40% say it has low or very low significance. But 50% say packing of the product is important.

**Table 4.3.J : Importance of Product-related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Quality	90	10	-	-	-
Packaging	40	10	-	40	10
Name	-	30	-	30	40
Not essential	30	-	-	10	60

Brand name is not a relevant factor as far as biscuits are concerned, says 40% of the respondents while 30% say it has very low significance. Only 30% say that it has some importance. Not being an essential item is a factor affecting the marketing of biscuits for 30%. While 30% say this is not a significant factors, 60% feel it is irrelevant.

#### 4.3.2.2.2 Price related factors

Price at the consumers end is a significant factor, says 60% of the respondents. 30% say it is not very significant while for 10% it is irrelevant. A high profit margin is a major criterion for 70% of the respondents while it has low priority for the others.

**Table 4.3.K : Importance of Price related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Selling price	10	50	20	10	10
Margin	30	40	20	10	-

#### 4.3.2.2.3 Place related factors

The role of distributors meaning external channels, is important according to 50% while others consider it as insignificant or irrelevant. Remunerating the channel members is not a relevant factor according to 50% while 40% say it is significant. Own distribution system is considered as an important factor by 80% while it is irrelevant for 10%.

**Table 4.3.L : Importance of Place related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Own Distribution set up	60	20	-	10	10
Role of distribution	50	-	10	10	30
Remunerating distribution	30	10	-	10	50

4.3.2.2.4 Promotion related factors

Incentives to consumers as a means of promotion does not find favour with 60% of the respondents. Only 40% feel it is significant as a promotion measure. Incentives to distributors are considered to be significant only by 40% of the respondents. While 10% feel it has extremely low significance the other 50% feel it is irrelevant.

Table 4.3.M : Importance of Promotion related factors

Factors	Extremly High	High	Low	Extremely Low	Not Relevant
Incentives to consumers	20.0	20.0	30.0	30.0	-
Incentives to Distributors	30.0	10.0	-	10.0	50.0

4.3.2.2.5 Competition related factors

That there are too many competing brands in the market worries 80% of the sample. 70% find that the new units entering the market with similar products affect their marketability.



Table 4.3.N : Importance of Competition related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Competition Brands	40.0	40.0	-	20.0	-
New Firms	30.0	40.0	-	30.0	-

#### 4.3.2.2.6 Consumer related factors

While they are unanimous in that awareness about their product is important, their experience regarding changes in attitudes and preferences of consumers is varied. 90% feel that these changes have a high impact on their marketability, 10% feel that there is low level of impact.

Table 4.3.0 : Importance of Consumer related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Consumer awareness	80.0	20.0	-	-	-
Shifts in attitudes & preferences	30.0	60.0	-	10.0	-

#### 4.3.2.2.7 Government related factors

With reference to the significance of support from the Government in the marketing operations, 60% feel it is important. 30% feel it is not so significant. 10% feel it is not relevant. Every respondent said that there has not been any concentrated effort from the government to help them in marketing their products.

Some of the firms mentioned a few elements of the regulatory mechanisms which in effect cause serious hazards to the marketability of their product.

#### 4.3.3 MARKETING ISSUES RELEVANT TO PROCESSED SPICES MANUFACTURING SSI FIRMS

##### 4.3.3.0 Shelf-life of processed Spices

According to the respondents, processed spices which are manufactured by them has a mean shelf-life of 67 days. The range was 15 to 360 days with standard deviation 85.77.

##### 4.3.3.1 Problem areas in marketing processed spices

Seven areas with reference to marketing were listed and the units ranked them according to their experience; most problematic to least problematic.

Table 4.3.P : Ranking of problem areas in marketing of Spices

Problem areas	Ranks (showing % response)							Score
	1	2	3	4	5	6	7	
Product	20.0	06.7		06.7	20.0	33.3	13.3	347
Price	06.7	20.0	26.7	06.7	13.3	26.7		421
Place	33.3	33.3	20.0	06.7	06.7			580
Promotion			13.3	26.7	26.7	20.0	13.3	307
Competition	33.3	33.3	13.3	13.5	06.7			573
Consumers	06.7		26.7	40.0	20.0		06.7	407
Government		06.7			06.7	20.0	66.7	167
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

Assuming a weightage of 7,6,5,4,3,2 and 1 for ranks 1 to 7 respectively, these seven areas can be listed in the order; most problematic to least problematic.

1. Place
2. Competition
3. Price
4. Consumers
5. Product
6. Promotion
7. Government

It is observed that the SSI firms manufacturing processed spices face most difficulty in the area of distribution. Competition, due to large number of similar units, is seen to be the next most problematic area. This is followed by problems related to pricing. The fluctuations in raw

material prices which has been mostly on the ascend, has affected the SSI since they are unable to revise the prices of their products as frequently.

Promotion for this category appears to be more problematic than the Government related problems. The interface with Government as far as marketing is concerned is stated as minimal or non existent. Hence the lowest rank for this aspect as a problem area.

#### 4.3.3.2 Significant factors in marketing processed spices

The marketing experiences of the SSI units would have caused them to identify some critical factors that can influence their performance. Some of these factors were rated by the respondents. The importance of each factor was marked as 'Extremely High', 'High', 'Low', 'Extremely Low' or 'Not Relevant'.

##### 4.3.3.2.1 Product related factors

While 80% of the respondents state that the quality of the processed spices is highly significant, 13.3% state it has extremely low importance. 6.7% feel it is not at all relevant in the marketing of the product. Packaging of

spices is not a relevant factor for 20% of the respondents while 33.3% say it has low or very low significance. But 40% say packing of spices is important.

While 40% of the respondent said that Brand Name is a factor which contributes to the acceptability of processed spices, 33.3% said that Name has low significance. 26.7% feel it has no relevance.

Table 4.3.Q : Importance of Product-related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Quality	66.7	13.3		13.3	06.7
Packaging	26.7	20.0	33.3	-	20.0
Name	20.0	20.0	06.7	26.7	26.7
Not essential	13.3	20.0	06.7	-	60.0

Spices, not being an essential item is a factor affecting its marketing for 60% of the firms. While 6.7% say this is not at all a significant factors, 60% feel it is irrelevant.

#### 4.3.3.2.2 Price related factors

Price at the consumers end is a significant factor says 60% of the respondents. For 33.3% it is not significant and for 6.7 % it is irrelevant. A high profit margin is a major

criterion for 53.3%, while for 40% it is insignificant. 6.7% say it is irrelevant.

**Table 4.3.R : Importance of Price related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Selling price	40.0	20.0	20.0	13.3	6.7
Margin	20.0	33.3	26.7	13.3	6.7

#### 4.3.3.2.3 Place related factors

The role of distributors, meaning external channels, is important according to 66.7% while having own set up for distribution is considered as significant by 60% of the firms. Remunerating the distributors is not considered a relevant factor by 13.3%.

**Table 4.3.S : Importance of Place related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Own distribution set up	46.7	13.3	20.0	-	20.0
Role of distributors	40.0	26.7	06.7	13.3	13.3
Remunerating distributors	46.7	26.7	00.0	13.3	13.3

#### 4.3.3.2.4 Promotion related factors

Of the sampled firms 66.7% feel that incentives to consumers is a contributing factor to the marketing of processed spices. 20% feel it is not significant and 13.3% consider it irrelevant. For distributors, incentives are considered to be significant only by 60% of the respondents. 26.6% feel it has low significance and 13.3% say it is irrelevant.

Table 4.3.T : Importance of Promotion related factors

Factors	Extremly High	High	Low	Extremely Low	Not Relevant
Incentives to consumers	40.0	26.7	6.7	13.3	13.3
Incentives to Distributors	40.0	20.0	13.3	13.3	13.3

#### 4.3.3.2.5 Competition related factors

That there are too many competing brands in the market worries 86.7% of the sample. 93.3% find that the new units entering the market with similar products affect their marketability.

**Table 4.3.U : Importance of Competition related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Competing brands	60.0	26.7	13.3	00.0	00.0
New firms	80.0	13.3	6.7	00.0	00.0

**4.3.3.2.6 Consumer related factors**

While 93.3% feel that consumer awareness about their product is important, their experience regarding changes in attitudes and preferences of consumers is varied. 53.3% feel that these changes have a high impact on their marketability, 40% feel that there is low level of impact and 6.7% feel it is irrelevant.

**Table 4.3.V : Importance of Consumer related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Consumer awareness	80.0	13.3	00.0	00.0	6.7
Shifts in attitudes & preferences	33.3	20.0	33.3	06.7	6.7



#### 4.3.3.2.7 Government related factors

With reference to the significance of support from the Government in the marketing operations, 46.7% feel it is important. 40% feel it is not so significant. 13.3% feel it is not relevant. Every respondent said that there has not been any concentrated effort from the government to help them in marketing their products. A few even mentioned some elements of the regulatory mechanisms which in effect cause serious hazards to the marketability of the product.

#### 4.3.4 MARKETING ISSUES RELEVANT TO PICKLES MANUFACTURING SSI FIRMS

##### 4.3.4.0 Shelf-life of pickles

According to the respondents, pickles which are manufactured by them has a mean shelf life of 302 days. The range was 30 to 700 with standard deviation of 299.37.

##### 4.3.4.1 Problem areas in marketing pickles

Seven areas with reference to marketing were listed and the SSI firms ranked them according to their experience; 'most problematic' to 'least problematic'.

Assuming a weightage of 7,6,5,4,3,2 and 1 for ranks 1 to 7 respectively, these seven areas can be listed in the order, most problematic to least problematic.

1. Place
2. Competition
3. Promotion
4. Pricing
5. Government
6. Product
7. Consumers

Table 4.3.W : Ranking of problem areas in marketing of Pickles.

Problem areas	Ranks (showing % response )							Score
	1	2	3	4	5	6	7	
Product				25	50	25		300
Pricing		25	25		25		25	375
Place	25	25	50					575
Promotion		50		25		25		450
Competition	50		25		25			550
Consumers				25		50	25	225
Government	25			25			50	325
Total	100	100	100	100	100	100	100	

It is observed that the SSI face most difficulty in the area of distribution. Competition, due to large number of similar units, is seen to be the next most problematic

area. The third most problematic aspect in the case of pickles is promotion, which is followed by pricing. Consumers appear to give least trouble to the units.

#### 4.3.4.2 Significant factors in marketing pickles

The marketing experiences of the SSI units would have caused them to identify some critical factors that can influence their performance. Some of these factors were rated by the respondents. The importance of each factor was marked as 'Extremely High', 'High', 'Low', 'Extremely Low' or 'Not Relevant'.

##### 4.3.4.2.1 Product related factors

Every one of the respondents state that the quality of pickles is highly significant in the marketing of the product.

Table 4.3.X : Importance of Product-related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Quality	75	25			
Packaging	50	50			
Name		50		50	
Not essential	25		25		50

Packing of pickles is an important factor for all units. With reference to Brand Name 50% say it has high significance while others say it has extremely low importance.

Fifty percent of the firms sampled feel the idea that Pickles are not essential items does not have any relevance in its marketing. 25% feel it does have a significant effect.

#### 4.3.4.2.2 Price related factors

Price at the consumers end is a significant factor says 75% of the respondents. For 25% it is not significant. A high profit margin is a major criterion for all the promoters.

Table 4.3.Y : Importance of Price related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Selling price	25	50	-	25	-
Margin	50	50	-	-	-

#### 4.3.4.2.3 Place related factors

The role of distributors meaning external channels, is important according to 75% of the firms, while having own set up for distribution is significant for 50%. Remunerating the channel members is taken as a significant factor by all.

Table 4.3.Z : Importance of Place related factors

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Own distribution set up	25	25	25	-	25
Role of distribution	75	25	-	-	-
Remunerating distributors	75	25	-	-	-

#### 4.3.4.2.4 Promotion related factors

Incentives to consumers is stated by all as a significant aspect of marketing pickles; 25% stating it is extremely significant. For distributors too, incentives are stated as important. Here, 75% say it is extremely important.

**Table 4.3.AA : Importance of Promotion related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Incentives to consumers	25	75	-	-	-
Incentives to distributors	75	25	-	-	-

#### 4.3.4.2.5 Competition related factors

That there are too many competing brands in the market worries only 25% of the sample. 25% find that the new units entering the market with similar products affect their marketability. For one fourth the units sampled, entry of new firms is not at all a relevant factor.

**Table 4.3.BB : Importance of Competition related factors**

Factors	Extremely High	High	Low	Extremely Low	Not Relevant
Competiting brands	-	25	25	50	-
New firms	-	25	-	50	25

#### 4.3.4.2.6 Consumer related factors

While they are unanimous in that awareness of consumers about their product is important, their experience regarding changes in attitudes and preferences of consumers is varied. Half the units, (50%) feel that these changes have a high impact on their marketability. 50% feel that there is very low level of impact.

Table 4.3.CC : Importance of Consumer related factors

Factors	Extremly High	High	Low	Extremely Low	Not Relevant
Consumer awareness	25	75	-	-	-
Shift in attitudes	25	25	-	50	-

#### 4.3.4.2.7 Government related factors

With reference to the significance of support from the Government in the marketing operations, 75% feel it is important. 25% feel it is irrelevant.

#### 4.4 PRICING, PROMOTION AND FEEDBACK

##### 4.4.1 Bread

###### 4.4.1.1 Assessing market potential of Bread

About 18.8% units have some arrangements for assessing the market potential. Though scientific market research is not used they try to assess demand based on product movement. The others mentioned that this is not a serious issue though general 'market' is taken as the indicator.

4.4.1.2 It is noted that the decision on how much to produce is taken more by hunch rather than by a proper analysis of the market.

###### 4.4.1.3 Pricing

While 62.5% take cost as the basis for pricing, 50% consider demand. For 37.5% the competition is a factor. There are cases where two or more of these aspects are taken together while pricing the bread.

###### 4.4.1.4 Promotion

Only 37.5% make any effort at promoting their bread, through promotional campaigns.



#### 4.4.1.5 Credit sales

In the case of half the total units, sales of bread is on cash down basis. Credit of one to four days is allowed by 43.7% cases. In 6.3% the credit allowed is upto one month.

4.4.1.6 None of the bread manufacturing units give sales targets to salesmen.

#### 4.4.1.7 Feed back

Only in 12.5% cases there is a regular arrangement for gathering information about consumers. But 68.8% say they get feedback about their product directly from the consumers. For 37.5%, the channel members provide the feed back.

#### 4.4.2 Biscuits

##### 4.4.2.1 Assessing market potential of Biscuits

None of the units had an effective mechanism for assessing the market potential. But 20% maintained that they periodically made some effort to assess the market potential.

4.4.2.2 The decision regarding how much to produce each day was in all cases an adhoc decision and was made with reference to movement of product that had taken place during the past few days.

#### 4.4.2.3 Pricing

The price was decided based on cost in all the cases. While 20% also considered the competition, 40% considered the demand for fixing the price.

#### 4.4.2.4 Promotion

Forty percent of the units have advertised their products through some media.

#### 4.4.2.5 Credit sales

In 60% cases no credit was allowed. One fifth the firms allowed upto seven days credit and in 10% cases the credit period was upto one month.

4.4.2.6 Salesmen are not given any sales targets in any of the cases.

#### 4.4.2.7 Feed back

In 90% of the cases there is no regular mechanism for collecting information regarding their consumers. 70% of the units get feedback directly from the consumers and 30% from the channel members. Very few had any regular arrangement for gathering information about customers. Just 10% claimed they had some mechanism for this.

#### 4.4.3 Processed spices

##### 4.4.3.1 Assessing market potential of processed spices

None of the spices processing firms have any regular mechanism for assessing the market potential

4.4.3.2 The decision of what quantity of spices to process during a specific period is in all cases a 'guesstimate'.

##### 4.4.3.3 Pricing

Cost is the basis for pricing in 60% cases while one third of the firms take demand as the norm. 26.7% consider competitors pricing as the basis for their decisions.

#### 4.4.3.4 Promotion

Only 26.7% of the firms advertise their products.

#### 4.4.3.5 Credit sales

In 26.7% of the cases, sales were effected on cash down basis. 40% of the units had to give one week credit, 13.3% up to two weeks and 20% units had to wait upto three weeks for cash to flow back.

4.4.3.6 Just about 7% of the units said that sales targets are given to their sales men.

#### 4.4.3.7 Feed back

Forty percent of the firms receive feed back regarding their products directly from the consumers and an equal number from the channels. None of the units had any regular mechanism for gathering information regarding their consumers.

#### 4.4.4 Pickles

##### 4.4.4.1 Assessing market potential of Pickles

Half the firms studied mentioned that they have a regular arrangement to collect information for assessing the market potential.

4.4.4.2 The decision on how much to produce is mostly dependent on availability of raw materials. The items to be pickled being seasonal is a major influencing factor for deciding on the quantity to produce.

##### 4.4.4.3 Pricing

The pricing of pickles is based on cost, competition and demand in 25% of the cases. In the other 75% only costs and demand are considered.

##### 4.4.4.4 Promotion

Almost three fourth of the units advertise their products. Only in one case extensive efforts have been taken. In another instance promotional efforts had been exhaustive when the product was launched.

#### 4.4.4.5 Credit sales

Sales are on cash down basis in 25% cases. In 25%, one week's credit is allowed and in the remaining, up to one month is allowed.

#### 4.4.4.6 Sales target

Only in 25% cases are the sales men being given any sales targets.

#### 4.4.4.7 Feed back

In 50% cases the units get feed back directly from the consumers and in 50% cases from the dealers. There is no regular arrangement for gathering information regarding consumers in 75% of the cases.

### 4.5 PRODUCT DISTRIBUTION ARRANGEMENTS

#### 4.5.1 Bread

##### 4.5.1.1 Distribution arrangement - Bread

For distribution of bread, almost 43.8% of the units studied have their own arrangements. While 31.3% depend on

external organisations, the others ie. one fourth the firms engage both internal systems and external organisations for distribution of their products.

All the firms that use own distribution arrangements sell their products through their own outlets. Of these about two thirds of the units sell their entire output through their own outlets.

The channels of distribution engaged by the bread manufacturing units include the retailers, wholesalers and also occasionally, distributors. (Chapter 5)

4.5.1.2 For distribution of bread, 31.3% units have their own van . 12.6% have own autorikshaws and an equal number have their own cycles. 18.8% use hired vans and a similar number use hired autorikshaws.

#### 4.5.1.3 Number of outlets

A minority of 6.3% of units stock their bread in no other outlet. They supply their entire output to institutional buyers. 50% of the units have less than 10 retailers. Another 25% have upto 50 retailers. The remaining firms have 100 or more retailers dealing in their products.

#### 4.5.1.4 Identification of channels of distribution

##### 4.5.1.4.1 Who

The proprietor decides on the channels to be employed in 87.5% of the cases. In 6.3% of the units studied, a partner was the decider and in an equal proportion of the cases the marketing executives took the decision.

##### 4.5.1.4.2 When

Only in 50% of the cases was the choice of channels made before the project was commissioned. In 31.3% cases the choice was made as soon as production commenced. In about 12.5% cases the decision was made after six months from commencement of production while in the rest of the cases it just evolved over time.

##### 4.5.1.4.3 How

One third the firms studied finalised on the channels of distribution based on trial and error. The competitor's channels were employed by 12.5% of the firms while for one fourth the units it was not a deliberate decision point.



## 4.5.2 Biscuits

### 4.5.2.1 Distribution arrangements - Biscuits

For distribution of the biscuits to the consumers, 60% of the units have their own system. 20% use external organisations and 20% employ both these mechanisms. Of those having own distribution arrangements, all the units use their own outlets. While 60% of the units market their entire production of biscuits through their own shops, 20% sell only partly through this mode.

Twenty percent of the units depend entirely on external bodies to market their products. The external agencies involved by the units are retailers - in the case of 40% and wholesalers and retailers in the case of 10% of the respondents.

In the marketing of biscuits by the Small Scale Industries, the system of distribution appears to be less complex. Other than retailers and wholesalers no other group is found to be a member of their channel. Interestingly, almost 90% of the units are not satisfied with the performance of their existing channels of distribution.

4.5.2.2 In 10% cases, the units used own van for distribution, 10% had autorikshaws and 20% used cycles. Hired van or autorikshaws were employed by 10% of the units contacted.

#### 4.5.2.3 Number of outlets

The firms manufacturing biscuits and using their own outlets, do not stock their product in any other outlets. 30% of the units have upto 50 retail outlets stocking their products. 10% have over 100 retail units dealing in their products.

#### 4.5.2.4 Identification of channels of distribution for Biscuits

##### 4.5.2.4.1 Who

The identification of channels was done by the Proprietor in 90% of the cases and by the marketing executive in the other cases.

##### 4.5.2 4.2 When

The channels employed by these units were selected before the projects were commissioned in 30% of the cases. In 40% of the cases it was done as soon as production started

while in 20% of the cases it was done six months after commercial production started. For 10%, the existing structure had gradually evolved.

#### 4.5.2.4.3 How

The identification of channels was through trial and error in 20% of the units. 20% just adopted what the competitors did. In 50% of the cases it was not a deliberate effort and in 10% cases the respondent was not sure how it had been selected.

#### 4.5.3 Processed spices

##### 4.5.3.1 Distribution arrangement - Processed Spices

For distribution of the processed spices to the consumers, 13.3% of the units use their own system. 26.7% use external organisations and 60% employ both these mechanisms.

Twenty percent of these units use their own outlets for marketing their processed spices. In a sizeable number, 40%, the promoters themselves make door-to-door sales, while in 13.2% cases sales representatives are employed for door-to-door sales.

Eighty percent of the units distribute above 75% of their output through external agencies.

The channel members for spices include retailers and wholesalers. 26.7% employ whole-salers. 66.7% have retailers in the channel.

It appears that almost 95% of the units are happy with the existing channels and feel they are getting the best results.

4.5.3.2 While 6.7% used own van for distribution of the spices, 20% used own autorikshaws, 13.3% used two-wheelers and 33%, cycles. Hired autorikshaws were employed by 13.3% of the units.

#### 4.5.3.3 Number of outlets

One fifth of the firms studied stocked their product only in one outlet. 60% have upto 50 outlets and 20% have more than 100 outlets stocking their products.

#### 4.5.3.4 Identification of channels for spices

##### 4.5.3.4.1 Who

It was the promoter who decided on what channel to use in 80% cases. In 6.7% cases it was the consultant and in an equal number it was the marketing executive.

##### 4.5.3.4.2 When

The selection of channels was done before the project was commissioned in 26.7% cases. In 33.3% it was done as soon as commercial production started. In an equal number, 33.3%, it was decided only after six months of commencing commercial production.

##### 4.5.3.4.3 How

In almost 46.7% cases, the decisions on what channels to use was based on trial and error. In 20% cases there was no deliberate effort. In 13.3% cases competitor's channels were faithfully adopted while in an equal number the channel members approached the units for taking up the distribution of the products.

#### 4.5.4 Pickles

##### 4.5.4.1 Distribution arrangement - Pickles

For distribution of pickles to consumers, 25% of the units have their own arrangements. While 25% use only external agencies for distribution, 50% use both the means. The units with own arrangements, use their own outlets for marketing the entire output. Those using external agencies, market almost 90 to 100 percent of their output through them. In 50% cases sales representatives are used for door-to-door sales.

The channels of distribution for pickles include retailers in all cases, wholesalers in 50% cases and distributors in 25% cases.

##### 4.5.4.2 Own van is used by 25% units for distributing the products.

50% use own autorikshaws, 25% own two wheelers and 25% own cycles. Some of the unit have more than one of these means. Only 25% of the units sampled used hired vans for distribution

##### 4.5.4.3 Number of outlets

Units using their own outlets do not stock their product in any other retail stores. 25% units have less than 50 retail

outlets while 50% units have more than 100 retail outlets selling their products.

#### 4.5.4.4 Identification of channels of distribution of Pickles

##### 4.5.4.4.1 Who

The identification of the channels is done by the promoter in all the cases.

##### 4.5.4.4.2 When

The channels were selected even before the projects were selected in 50% cases and in other cases it was done as soon as commercial production started.

##### 4.5.4.4.3 How

In 25% cases the channel selection was a trial and error effort. In 50% units the competitors channels formed the basis, and in other cases it just evolved.





5.1.1 A model of the marketing functions originally proposed by R.F Breyer (The marketing institution; New York: Mc Graw Hill; 1937 & Quantitative Systematic Analysis; New York :Mc Graw Hill; 1949) and reproduced by J.Taylor Sims et al (Marketing Channels; Systems and strategies; Harper & Row, New York 1977) is given in Figure 5.1.1

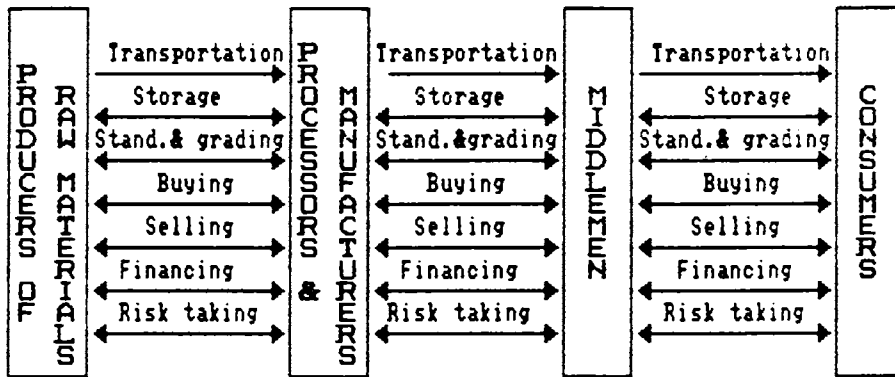
5.1.2 These marketing functions cannot be avoided or eliminated. The manufacturer, the consumer and the middlemen in the distribution process together make up the total network of marketing systems. The structure evolves from the functions that are to be performed. The elimination of a middleman, thus does not eliminate a function. It follows that, if a middle man is to be eliminated such functions will have to be performed by the manufacturer or by other middlemen. So the structure of channel systems would refer to the organisation of functional activities within each component of the channel systems and subsystems.

## 5.2 CHANNEL STRUCTURES OF SSI

The channel structures adopted by the Small Scale Industrial units follow the typical marketing channels for consumer goods, to some extent. Generally, channels

Figure :5.1.1

THE PERFORMANCE OF MARKETING FUNCTIONS



Source: R.F. Breyer as reproduced in "Marketing channels & Strategies"  
Sims J. Taylor; et.al., Harper & Row Publishers; New York; 1977

selected by the manufacturer depends on the product, consumer purchasing habits and the over all economic structure of the firm.\*

Depending on whether the product is an industrial product or a consumer product, the channel structure has to be defined. While direct sale to users is common in industrial products, a broad spectrum of middlemen become prominent in the case of consumer goods. The most common channel in the distribution of consumer goods is the manufacturer - wholesaler - retailer - consumer channel \*.

(\* Marketing Channels, systems and strategies; J Taylor Sims; J Robert Foster; Arch G Woodside; New York; Harper & Row Publishers; 1977)

This is only an attempt at generalisation, for field experience shows that a variety of channels are employed by many products. There is no single best channel suitable for all products.

The small scale industries, manufacturing food products in Ernakulam District have evolved their own channel systems. From the field survey, it is seen that the choice of channel structures has not been in all cases, a deliberate

effort. Interestingly, most of the units studied, have not defined their consumers in any definite manner. Since the market segments that are to be catered to have a direct bearing on the channels selected, it may be stated that the SSI units tend to have a casual approach towards channel selection.

The channels of distribution employed by the SSI units fall into two broad classes:

- a. Those channels that include external contactual organisations.
- b. Those channels that do not include external organisations.

### 5.3 MARKETING CHANNELS OF BREAD MANUFACTURING SSI UNITS

5.3.1 Bread has a shelf life of 3-4 days. This product which has an increasing demand in the state is available in an assorted range; quality, flavour, weight and packing being the distinguishing features. The addition of preservatives, it is reported, helps to increase the shelf life of bread upto one week. But this is done at the expense of taste and freshness.

In general, bread is distributed such that, the output of one day reaches the outlets by noon of the second day. This is to ensure that the bread is sold off from the outlets latest by the third day and consumed soon after.

### 5.3.2 Consumers

All the units studied had initially targeted their products at the end-use consumers. At the time of this study, it was found that 6% of the units sell their product exclusively to institutional buyers who use it for non-commercial purposes. An equal proportion sell a part of their output to institutional buyers, including caterers who use the bread for commercial purposes. The others continue to target their products to the end users.

### 5.3.3 Channels

Both institutional buyers and end-use consumers are being catered to by these units.

The channels used by these manufacturers are :-

a. With external organisations :

1. Manufacturers - Distributors - Wholesalers - Retailers - Consumers.

2. Manufacturers - Distributors - Retailers - Consumers.
3. Manufacturers - wholesalers - Retailers - Consumers.
4. Manufacturers - Retailers - Consumers.

b. Without external organisations

1. Manufacturers - (Direct sales from production centre) - Consumers.
2. Manufacturers - (Door-to-Door sales by sales representatives) - Consumers (Institutional).
3. Manufacturers -Own outlets -Consumers.

The 'manufacturer - retailer - consumer' channel is the predominant one with 56% of the units using the same. Half the total units use their own outlets for marketing bread. While 38% of the units sell their entire output through own outlets, 25% use external retailers alone.

Units that utilise the services of distributors and wholesalers are those that distribute their products to centres beyond 30 km from the production site. These units have high production capacities and have capacity utilisation of over 60%. For physical distribution of their products, these units use own or hired vans or

autorikshaws. There are cases where the units initially had franchise arrangements with large marketing organisations. But as they grew, they have set out on their own with their own brandname.

Those units that use only the retailers are also observed to reach centres beyond 30 km from their respective production sites. Hence the geographical spread viz-a-viz the type of channels employed, does not seem to be following any definite pattern.

The firms that market their bread through own outlets have a geographical reach of upto 5 kms. Table 5.3.1 provides the details of SSI units manufacturing bread, that were studied. The nearest selling point, the farthest selling point, installed capacity(annual-in Tons), capacity utilisation (maximum achieved - %) and channels employed are shown in the Table 5.3.1.

The flow of the product from manufacturers to consumers through various channels, as reported by the SSI units is depicted in Figure 5.3.1

Table 5.3.1 :Selling Point and Channel members of Bread manufacturing SSI units

Sl No	NSP	FSP	CAP Ton	C.U (%)	CHANNEL MEMBERS					
					F	S	O	R	W	D
1	0	35	135	56	F			R		
2	5	50	720	50				R		
3	0	35	45	22				R		
4	0	0	42	14			O			
5	0	0	84	43			O			
6	0	15	45	49			O	R		
7	5	35	135	67				R	W	
8	0	0	45	18			O			
9	0	0	45	11			O			
10	0	11	14	14			O	R		
11	5	120	540	83				R	W	D
12	10	10	45	16		S				
13	0	40	36	64				R		
14	0	0	36	8			O			
15	0	25	23	52				R		
16	0	0	18	33			O			

Source : Primary data

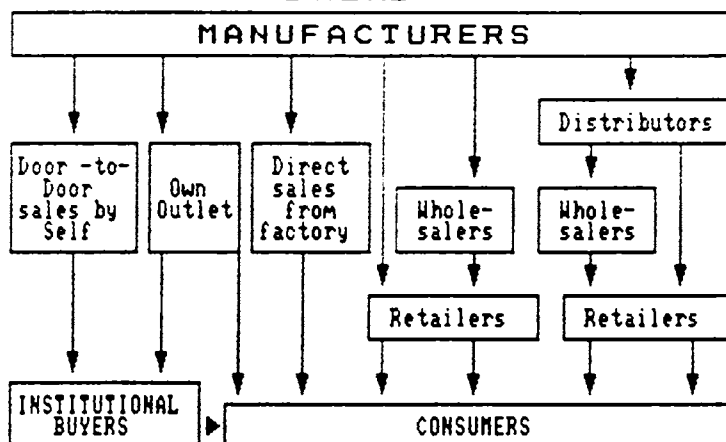
Key :

- NSP - Nearest Selling point (distance in kms from the firm)
- FSP - Farthest Selling point (distance in kms from the firm)
- CAP - Installed Capacity (Tons)
- C.U - Capacity Utilisation (%)
- F - From factory ;direct
- S - By self ;door-to-door
- O - Own outlet
- R - Retailers
- W - Wholesalers
- D - Distributors



FIGURE : 5.3.1

CHANNELS OF DISTRIBUTION -  
BREAD



BREAD - CHANNELS

INTERNAL ARRANGEMENT

IA - Door-to-Door by Self	- 1	- 6%
IC - Own Outlet	- 8	- 50%
ID - From Factory	- 1	- 6%

EXTERNAL ORGANISATIONS

EA - Retailers	- 9	- 56%
EB - Wholesaler - Retailer	- 1	- 6%
EC - Distributor - Wholesaler - Retailer	- 1	- 6%
ED - Distributor - Retailer	- 1	- 6%

CONSUMERS

CA - Domestic (Enduse ) Consumers	- 15	- 94%
CB - Institutional Buyers (Church)	- 1	- 6%
CD - Institutional Buyers (Caterers)	- 1	- 6%

#### 5.4 MARKETING CHANNELS OF BISCUITS MANUFACTURING SSI UNITS

5.4.1 The Biscuits manufactured by the SSI units are stated to have mean shelf life of about one month. The changing life style of the people of Kerala have influenced the market for biscuits and a wide variety of the items, branded and otherwise, are consumed extensively both in urban and rural sectors.

Being less perishable than bread, the time lag from production to the final sale is longer as compared to that of bread. The mean as stated by the SSI units is 29 days. This could be one reason for fewer number of channels, being engaged in the distribution of biscuits.

Very few manufacturers have branded their biscuits. The others, though they give a name to each variety of biscuits, do not have a general brandname to identify the items in the open market. Most of these items are sold under the general nomenclature, 'Bakery Biscuits'. Since these items have to compete with the branded items from larger established manufacturers, from outside the district they tend to depend more on the retailers. These retailers provide the shelf space, display and required promotion to generate sales.

#### 5.4.2 CONSUMERS

The SSI units manufacturing biscuits are observed to cater to both institutional buyers and end-use consumers. The products are mostly aimed at end-use consumers, and all the units employ channels so as to reach these consumers. A few units sell their products to institutional buyers which include caterers.

#### 5.4.3 CHANNELS

The marketing channels used by these SSI manufacturers are:-

a. With external organisations :

1. Manufacturers - Wholesalers - Retailers - Consumers
2. Manufacturers - Retailers - Consumers

b. Without external organisations :

1. Manufacturers - Own outlets - Consumers (End use)
2. Manufacturers - Own outlets - Consumers (Institutional)

In the marketing of biscuits by the small scale units, the manufacturers - own outlets - consumers channel appears to be the most prominent one. 80% of the units use this channel. The manufacturer - retailer - consumer channel comes next with 40% of the manufacturers using the same.

The units that use their own outlet, are generally found to have a restricted geographical market. But there are cases where other institutional buyers make purchases from these outlets. In such cases the reach is even upto 10 km. See Table 5.4.1.

Table 5.4.1 : Selling Point and Channel Members of Biscuits manufacturing SSI units

Sl No	NSP	FSP	CAP Ton	C.U %	CHANNEL MEMBERS		
					O	R	W
1	0	35	30	50		R	
2	0	0	10	10	O		
3	0	10	3	33	O	R	
4	5	35	6	100		R	W
5	0	5	21	24	O	R	
6	0	0	21	14	O		
7	0	10	9	44	O		
8	0	0	5	40	O		
9	0	0	5	20	O		
10	0	0	12	50	O		

Source : Primary data

Key :

- NSP - Nearest selling point (distance in kms from the firm)
- FSP - Farthest selling point (distance in kms from the firm)
- CAP - Installed Capacity (Tons)
- C.U - Capacity Utilisation (%)
- O - Own outlet
- R - Retailer
- W - Wholesaler

The manufacturers using retailers are found to reach centres five to thirty five km from the factory. In 10% of

the sample, wholesalers, are used to distribute the product at distant places. Such units are observed to deal with other products as well, where wholesalers are being used. The units that reach distant markets use their own vehicles to transport the items to the middlemen. The flow of biscuits from the manufacturers to consumers through various channels is shown in Figure 5.4.1

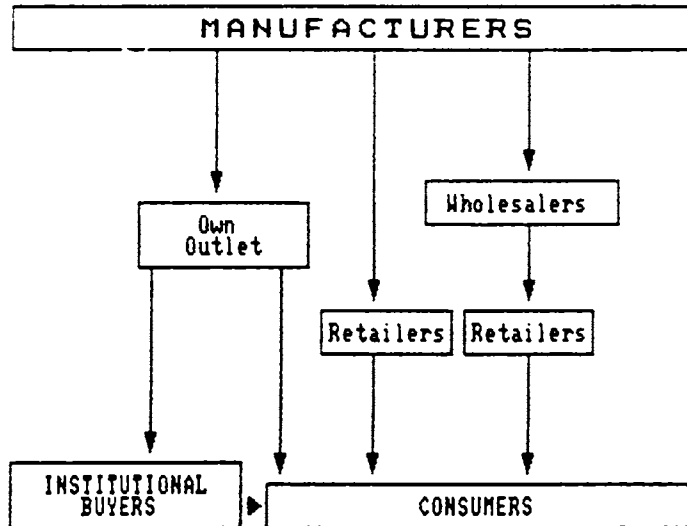
## 5.5 MARKETING CHANNELS OF PROCESSED SPICES MANUFACTURING UNITS

5.5.1 The Processed spices are reported to have a mean shelf life of slightly over two months (67 days). This makes it possible for manufacturer to take 3 to 4 days to move the product to the consumers. There are cases where the packed item reach the retail outlets after seven days from date of manufacture.

The processed spices from the SSI sector is marketed within the state and also in the neighbouring states. A few units are exporting their products.

The increasing demand for convenience food products and the large number of units in the spices processing sector makes the market dynamic. The sprouting up of a series of SSI

**FIGURE : 5.4.1**  
**CHANNELS OF DISTRIBUTION -**  
**BISCUITS**



**BISCUITS - CHANNELS**

**INTERNAL ARRANGEMENT**

IC - Own outlet - 8 - 80%

**EXTERNAL ORGANISATIONS**

EA - Retailers - 4 - 40%

EB - Wholesalers - Retailers - 1 - 10%

**CONSUMERS**

CA - Domestic (Enduse) Consumers - 9 - 90%

CD - Institutional Buyers - Caterers - 1 - 10%

units in the sector has caused a spurt in competition and in turn, large number of casualties. Reaching the consumer with speed and efficiency, determines the sustenance of these units. This product group is found to use the most number of channels for distributing the products.

### 5.5.2 CONSUMERS

These units cater to both institutional buyers as well as end-use consumers. All units have domestic end-use consumers. Institutional buyers include commercial and non-commercial organisations. Hostels, restaurants, and employee cooperative stores, fall in the commercial institutional-buyers category.

### 5.5.3 CHANNELS

The channels of distribution of these units are :-

a. With external organisations :

1. Manufacturers - Retailers - Consumers
2. Manufacturers - Wholesalers - Retailers - Consumers
3. Manufacturers -Distributors - Wholesalers - Retailers - Consumers.
4. Manufacturers - Institutional Marketers (Franchise)
5. Manufacturers - Institutional Marketers (Employee Cooperative Stores ) - Consumers (Members)
6. Manufacturers - Shipping Agents - [Export Market]

b. Without external organisations :

1. Manufacturers -(Door-to-Door sales by self) - Consumers
2. Manufacturers -(Door-to-Door sales by self)- Consumers (Institutional Buyers)
3. Manufacturers- (Door-to-Door sales by sales representatives) - Consumers.
4. Manufacturers - (Door-to-Door sales by sales representatives) - Consumers (Institutional Buyers)
5. Manufacturers - Own outlets - Consumers

The Manufacturer - Retailer - Consumer channel is the most prominent one, used by 80% of the manufacturers. The manufacturer-wholesaler-retailer-consumer marketing channel comes second with 33% of the manufacturers using the same.

Door-to-door sales by the promoters themselves is a means used to augment the distribution efforts by these SSI units. 27% of the units use this channel along with the channels involving retailers. Sales representatives are also used to effect door-to-door sales. The units using retailers do not use them in exclusion of other channel members. Though very few units use their own outlets for marketing their processed spices, a minority among them use this channel alone.



This sector also witnesses a different channel in that a few SSI units work as franchisees of larger marketing organisations. This channel for reaching the market, saves these manufacturers some of the problems related to marketing, and hence they have time to concentrate more on the production related aspects. Moreover such units are found to be reaching limited areas geographically on their own. Of these, except for a minority, most of the units also use other channels to market their products directly to the consumers. Units that do not have channels other than the franchiser are found to be uninterested in the other channel options available. Interestingly, it was mentioned by such units that they had earlier used some of the other channels, before tying up with the larger marketing firms.

About 13% of the units are exporting their products. Their awareness regarding the channels for exporting, is limited to the extent of the shipping agents. They also have regional markets, and reach upto 35 km from the location of the units.

Table 5.5.1 provides the details of the processed spices manufacturing SSI units.

**Table 5.5.1 : Selling Point and Channel Members of Processed spices manufacturing SSI Units**

SL NO	NSP	FSP	CAP Ton	C.U %	CHANNEL MEMBERS									
					S	P	O	R	W	D	N	C	E	
1	0	0	10	30			O	R						
2	0	15	30	50	S	P		R						
3	0	0	40	12			O	R						
4	10	10	10	20			O							
5	2	20	15	13		P		R						
6	0	20	225	20		P		R	W					
7	5	10	450	60				R	W		N			E
8	0	35	300	42				R	W	D				E
9	0	10	40	30	S			R						
10	0	30	18	56	S	P		R	W				C	
11	0	12	10	10				R						
12	0	0	24	8							N			
13	0	30	3	33	S			R	W					
14	0	5	30	27				R	W					
15	0	6	9	33	S			R						

Source : primary data

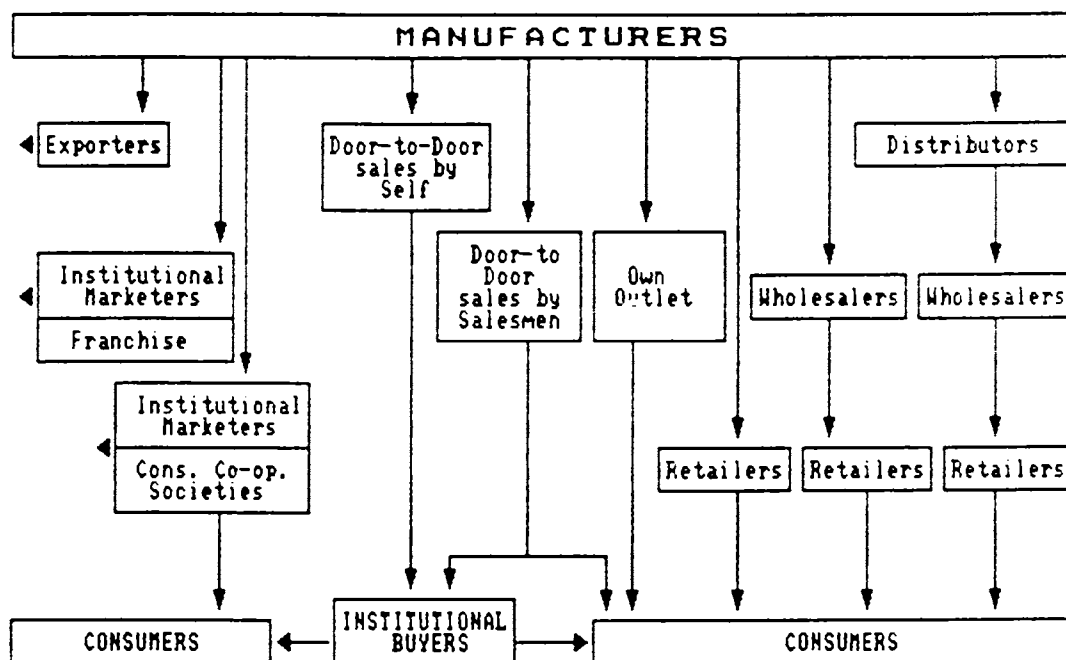
Key :

- NSP - Nearest selling point (distance in kms from the firm)
- FSP - Farthest selling point (distance in kms from the firm)
- CAP - Installed Capacity (Tons)
- CU - Capacity Utilisation (%)
- S - By self ;door-to-door
- P - By sales representatives ;door-to-door
- O - Own outlet
- R - Retailers
- W - Wholesalers
- D - Distributors
- N - Franchiser
- C - Co-operative consumer stores
- E - Exporter (shipping agency)

The flow of processed spices from the manufacturers to the consumers is shown in Figure 5.5.1.

FIGURE : 5.5.1

CHANNELS OF DISTRIBUTION - SPICES



SPICES - CHANNELS

INTERNAL ARRANGEMENT

IA - Door-to-Door sales by Self	- 5	- 33%
IB - Door-to-Door sales by Salesman	- 4	- 27%
IC - Own Outlet	- 3	- 20%

EXTERNAL ORGANISATIONS

EA - Retailers	-12	- 80%
EB - Wholesalers - Retailers	- 5	- 33%
EC - Distributors - Wholesalers - Retailers	- 1	- 7%
EF - Institutional Marketers (Franchise)	- 2	- 13%
EG - Institutional Marketers (Co-operative Societies)	- 1	- 7%

EXPORT

XA - Exporters (Shipping Agents)	- 2	- 13%
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CONSUMERS

CA - Domestic (Enduse) Consumers	-11	- 73%
CB - Institutional Buyers	- 3	- 20%
CC - Institutional Buyers (Hotel, Restaurant)	- 1	- 7%

## 5.6 MARKETING CHANNELS OF PICKLES MANUFACTURING SSI UNITS

5.6.1 The pickles have a mean shelf life of 302 days as reported by the SSI manufacturers of these products. While tastes of consumers differ, there is a general feeling that pickles are more palatable, the more mature they are.

Since the fruits that are mostly pickled are seasonal in availability, the manufacturers procure the same in bulk and pickle them for distribution during off-seasons. Hence speed in distribution is not a major factor for marketing these products.

Three-fourth the manufacturers have branded their products. This is a pre-requisite for a product like pickle, which is observed to be preferred generally based on the brand-name.

### 5.6.2 CONSUMERS

Pickles manufactured by the SSI units are found to be entirely aimed at the end-use consumers. Institutional buyers have not been reported by the sampled units. This could be realistic, considering the fact that preparation of pickles is not a technically complex process. Commercial establishments, including hotels, restaurants, caterers, and

hostels which need pickles, have their own arrangements for preparing the same. In-house preparation of pickles would be cost-effective for such institutions. This stresses the need for the SSI pickle manufacturing units to target the end-use consumers rather than the institutions.

### 5.6.3 CHANNELS

The marketing channels used by these SSI units are typical ones employed by the consumer goods manufacturers.

a. With external organisations :-

1. Manufacturers - Distributors - Retailers - Consumers
2. Manufacturers - Wholesalers - Retailers - Consumers
3. Manufacturers - Retailers - Consumers
4. Manufacturers - Shipping Agents - [Export Market]

b. Without external organisations :-

1. Manufacturers - Own outlets - Consumers(end-use)
2. Manufacturers - (Door-to-Door-sales by self)- Consumers
3. Manufacturers - (Door-to-Door sales by sales - representatives) - Consumers.

The door-to-door sales efforts serve more as a promotional function than as a distribution system. But for these SSI units, the distinction between the two functions is not readily noticeable. For marketing pickles, the channels more frequently used are the manufacturer - wholesaler-retailer - consumer channel and the manufacturer - retailer - consumer channel. These channels are used by half the sample units.

Some of the units are found to rely on their own outlet for distributing their entire output of pickles. These units effect sales only from their own outlets.

Some of the units which also export their products entrust the distribution of pickles within the state with distributors. The distributors use their own systems for transferring the products to the retailers directly.

Half the units sampled have export markets for their products. These units transfer the product to their shipping agent, who in fact, looks after the requirements beyond that level. The manufacturing units could not provide much information regarding the subsequent stages of the marketing process or channel structures.

The units that depend on the wholesaler-retailer channel are observed to distribute their products upto 35 km from the location of the units.

Majority of the units are found to have own vehicles for transporting the products. The need for safe physical handling of products, especially since the packing is done in bottles, necessitates the units to use their own transportation facilities which would ensure lower levels of loss due to damages.

The details of units manufacturing pickles that were studied are given in Table 5.6.1

Table 5.6.1 : Selling Point and Channel  
Members of Pickles manufacturing  
SSI Units

SL NO	NSP	FSP	CAP TON	C.U %	CHANNEL MEMBERS					
					S	P	O	R	W	D E
1	0	200	250	60		P		R		D E
2	0	200	34	44				R	W	E
3	0	0	6	17			O			
4	0	35	12	50	S			R	W	

Source : Primary data

Key :

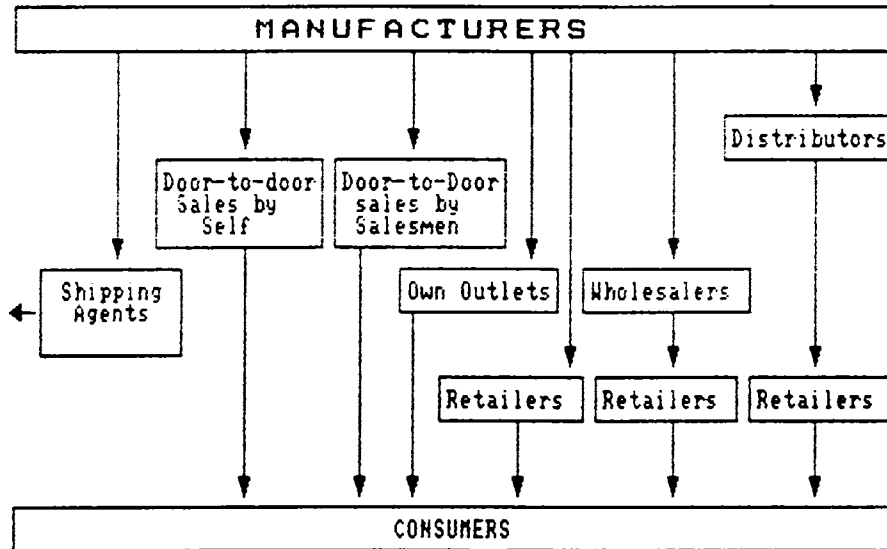
- NSP - Nearest selling point (distance in kms from the firm)
- FSP - Farthest selling point
- CAP - Installed Capacity (Tons)
- C.U - Capacity Utilisation (%)
- S - Door-to-door sales by self
- P - Door-to-door sales by sales representatives
- O - Own outlet
- R - retailers
- W - wholesalers
- D - Distributors
- E - Exporters (Shipping Agent)

The Figure 5.6.1 depicts the flow of pickles from the manufacturers to the consumers through the various channels.



FIGURE : 5.6.1

CHANNELS OF DISTRIBUTION - PICKLES



PICKLES - CHANNELS

INTERNAL ARRANGEMENT

IA - Door-to-Door sales by Self	- 1	-	25%
IB - Door-to-Door sales by Salesmen	- 1	-	25%
IC - Own Outlet	- 1	-	25%

EXTERNAL ORGANISATIONS

EA - Retailers	- 2	-	50%
EB - Wholesalers - Retailers	- 2	-	50%
ED - Distributors - Retailers	- 1	-	25%

EXPORT MARKET

XB - Shipping Agents	- 2	-	50%
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CONSUMERS

CA - Domestic	- 4	-	100%
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## CHAPTER 6

### 6.0 ANALYSIS AND FINDINGS

#### 6.1 CHANNEL RELATIONSHIP AND PERFORMANCE

The small scale industrialists operate within a series of constraints. Noticeable among them are :

- a paucity of financial resources, which restrict them in generating adequate awareness about themselves.
- an inability to build-up a creditable image among the consumers, which would have otherwise lead to high levels of loyalty to their products/brands.
- a lack of scientific approach to marketing, resulting in improper deployment of resources and less effective processes.
- a tendency to imitate rather than evolve plans or strategies to make full use of strengths to exploit potential market.
- ill defined channel objectives, so much so that an evaluation of channel performance does not provide an

adequate measure of expectation and realisation of the SSI units.

An attempt has been made in this study to examine the extent to which the SSI manufacturers can influence the behaviour of the external channel members. In this analysis, only the perceptions of these SSI units with reference to their capability, to influence the channel members in performing according to their expectations, is considered. The inter-organisational behaviour down the line in each different channel employed by the SSI manufacturers, determines the longevity and effectiveness of the relationship. This relationship has a direct impact on the effectiveness in accomplishment of objectives.

For this study, the relationships and perceptions are examined from the manufacturers perspective. The perception of the manufacturers regarding the power and leadership that they can exert over the channels were recorded. Since communication is the linking element in development and maintenance of relationships, the manufacturers also recorded their perception about the extent to which they can control communication between themselves and the channel members.

Other than relationship, the performance of the channels, in terms of operations, was also studied. The extent to which the manufacturers can influence the channel operations is reflected by their willingness to take some specific approaches. Hence, the two sets of approaches were taken up for detailed study.

The first stage in this study involved the recording of manufacturers orientation towards the two sets of Approaches as listed earlier in section 2.4.2. In the next stage, the manufacturers recorded their perceptions regarding different outcomes that could emanate from adopting the listed Approaches.

## 6.2 POWER

The ability of one channel member to influence or alter the decisions of other channel members indicates the power the member can exert in channel relationship. The marketing manager must understand the sources of and the points at which the power exists. The small industrialist who generally looks after all the managerial functions, rarely with any support from professionals, are observed to move by 'hunches'. It is yet to be proved whether these hunches are intuitive or based on a systematic study of the environment.

A hypothesis that is sought to be tested is that the small scale industrialist is deficient in the power that he can exert in managing the marketing channels he employs.

Power is not always discernible in all interactions among channel members. It is present as a potential force to be engaged, at the required place and time by the one who possesses it. The effectiveness of this potential power depends on how it is perceived by others. The member who is perceived to be powerful can influence the behaviour of the others.

The perception of relative power advantage between the different channel members refers to the degree of power held by any single channel member in relation to the others. This variation determines the evolution of subjugation, dependence or conflict in channel relationships.

The extent of power that any channel member can exert on any other channel member is dependent on the strength of the force the former can induce on the other, less the strength of the resisting force the other can activate in the opposite direction. The power relationships that exist

in the marketing channels are identified as originating from a few power bases.

These power bases are Reward power, Coersive power, Referent power, Expert power and Legitimate power.

Reward power - This is based on a firm's capability to compensate another for its loyalty or support. The magnitude of the reward and the probability that the reward will be forthcoming are two aspects that determine the existence of this power. It is manifested as the ability of one firm to bestow positive benefits and to remove or reduce negative outcomes.

Coercive Power - This is based on a firm's capability to impose penalty for not performing according to expectation. The coercive power is existent on the magnitude of the punishment and the probability that the punishment is forthcoming. The ability to inflict negative penalties and to remove or reduce positive outcomes are manifestations of this power.

Attraction Power - Also termed 'referent power', this is the basis for channel members to identify with one another. This helps close association between two members as it

instills a feeling of closeness or oneness. The sense of identification, prompts the members to seek avenues for working together towards mutually complementary objectives. This in effect also helps each member to realise its own individual goals by being supportive to the others.

It is noticed that the reward power and coercive power leads to or deters from the development of attraction power. The existence of this power among the small scale industrialists is a factor that needs deeper analysis as the SSI can perform much better with higher levels of this power.

Expert Power - This is based on the premise that a channel member has superior resources of knowledge and information on specific aspects. The relatively higher information base perceived in a channel member instigates others to seek advice or guidance from him, in matters of managing operations. This power is limited in range to very specific areas of competence.

Legitimate Power - This is based on the acceptance by a channel member that another has the right to dictate terms and to prescribe its behaviour. This power exists at high levels of credibility. Social values and structures that

have evolved culturally, play a prominent role in the perception of this power. These values and structures could be internalised ones or those authenticated by an outside 'legitimising agent'.

The small scale industries that operate in the food sector were studied with respect to their perception about which power base they could activate for influencing the marketing channels. The reward power, coercive power and expert power bases were taken up.

Three approaches that the small scale firms could take, based on the above three power bases were examined. These approaches, if adopted by the firm, would indicate that the respective power base is being activated and that the firm being aware of its advantage with respect to that power base, would exert the same to influence the channel members so as to get its decisions implemented.

#### **6.2.1 APPROACH A1 :- To reward channel members for better performance**

This approach indicates the use of a firm's reward power base. For this study, reward is taken as monetary or other benefits that the manufacturer offers the channel members



for behaviour or response as the manufacturer would desire. The reward, in any form, would indicate an acceptance and appreciation for providing the desired response. This would act as a stimulant for repeated positive responses by the other channel members in future.

The small scale industrial units manufacturing and marketing food products responded variedly to a query, if they would adopt an approach to reward the channel members for better performance. The proportion responding positively that they would adopt such an approach was 0.29 and those negatively was 0.47. Those who were undecided was 0.24. Collectively the sector does not view this approach as a very positive one. A product-wise analysis reveals a clearer picture. Table 6.2.1

Table 6.2.1 : Adoption of Approach A1

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.19	0.10	0.46	0.50	0.29
DK	0.25	0.30	0.27	0.00	0.24
NO	0.56	0.60	0.27	0.50	0.47

BRD - Bread  
 BIS - Biscuits  
 SPI - Spices  
 PIC - Pickles  
 COM - Combined  
 DK - Don't Know

The SSI units in the bread and biscuits lines are more inclined not to take this approach. About one-fourth in both groups are not sure of their preference. As a major segment of these groups are apprehensive about adopting this approach, it can be taken that these groups are not high as far as the perceived reward power base is concerned. This indicates that these firms realise that their offers of reward will not influence the behaviour of the channel members.

The processed spices manufacturing units have a higher level of perceived reward power base. Nearly half the units would go for this approach. Over one-fourth of the units are not sure, while an equal proportion will not adopt such an approach.

Similar to the spices units, the pickles manufacturing firms too have a higher level of perceived reward-power-base. But in this group, as different from the spices group, half the units would not take such an approach. On further analysis of available primary data, it is seen that these units have reached a stage where they have realised that rewards do not stimulate the channel members to perform as they would prefer.

A perceived-factor-index was developed to denote the extent to which the SSI manufacturers perceive that they have the factor. The index is computed as the weighted sum of the responses, to specific queries as to how 'important' each approach is considered to be, by the manufacturers. The weightage is based on a 5 point scale with 'extremely important' scoring +2 and 'extremely unimportant' scoring -2. The neutral states are scored zero.

The perceived-reward-power base index as computed for the four product groups is shown below :

Bread	=	-0.188
Biscuits	=	-0.300
Spices	=	0.100
Pickles	=	0.125
Collective	=	-0.089

#### 6.2.2 APPROACH A2 :- To punish channel members for poor performance

This approach refers to the use of a firm's coercive power base. Coersion manifests in different forms. Not supplying the product to the errant member to with-holding favoured treatment or monetary benefits are penalties generally administered to channel members by the coercive power dominant firm. This is aimed at deterring the erring or non-performing member to mend ways and behave as per norms expected.

The SSI sector is found to be deficient with reference to the coercive power base. Taken collectively, it is observed that a minority would adopt an approach to punish channel members. The proportion perceiving their inability to take a positive stance is 0.60 . Over 30% of the total are not sure of their position.

This would imply that the SSI firms are incapacitated in that they cannot engage the coercive power base.

Taken separately, product group wise the picture is not much different. See Table 6.2.2

**Table 6.2.2 : Adoption of Approach A2**

	(Proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.13	0.10	0.07	0.00	0.09
DK	0.37	0.50	0.20	0.00	0.31
NO	0.50	0.40	0.73	1.00	0.60

This approach will not be adopted by any of the pickles units. The apprehension that any penalty would lead to loss of channel members appears to be the major consideration.

Almost three fourth the spices units and half the bread units prefer to avoid this approach. Slightly less than half the number of biscuits units too prefer not to adopt this approach.

But for a minority in the above three groups, the others are not sure about their stand.

It has to be inferred that, when it comes to imposing penalties or punishments on channel members for non-performance, the small scale sector would avoid such decisions. The effect of such a policy is that the manufacturers will have to resort to other options for getting their objective accomplished by the channel members. Penalties are viewed as negative strokes affecting the manufacturer-channel member relationship.

The perceived coersive power base index as computed for the four product groups are shown below

Bread	=	-0.375
Biscuits	=	-0.250
Spices	=	-0.533
Pickles	=	-0.750
Collective	=	-0.433



Table 6.2.3 : Adoption of Approach A3

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.50	0.50	0.53	0.50	0.51
DK	0.31	0.30	0.27	0.50	0.31
NO	0.19	0.20	0.20	0.00	0.18

Half the respondents from all the four product categories responded that they would adopt this approach in managing the marketing channels. Discussions revealed that this perception of the manufacturers was based on the impression that channel members need to be advised and guided to perform according to expectations. More than half the units that feel the existing channels are not giving the best of results think that this approach is extremely important.

Around 20% of the respondents in each group, except that of pickles, would not adopt this approach. Interestingly, it is noted that these firms are engaging external channels for distribution. The channel members are perceived to be more dominant with respect to the expert power base, by these manufacturers.

Proportionately, half the pickles units and about 30% of the other product groups are not definite about their stand.

The perceived expert-power base index computed for the four product categories are

Bread	=	0.188
Biscuits	=	0.200
Spices	=	0.233
Pickles	=	0.500
Collective	=	0.233

#### 6.2.4 Perceived power bases of SSI firms

The different sources of power are discussed in detail in marketing literature and presents a typology. But rarely does a particular power base become the exclusive source for a firm to attempt influencing others. It would be more correct to state that a power position results from a combination of power bases.

The three power bases - reward, coersive and expert, were taken together to obtain a combined measure of the perceived power bases, viz-a-viz the marketing channels. This index was computed for each product group individually.

Bread	=	-0.125
Biscuits	=	-0.117
Spices	=	-0.067
Pickles	=	-0.042
Collective	=	-0.096

The indexes are all negative values which implies that the SSI firms operate with negative perceived power base.



Though individual units may be capable of influencing the marketing channels, collectively, the sector views itself as powerless compared to the channel members.

This in effect affects the smooth operation of the marketing system unless the manufacturers are willing to comply with the dictates of the channel members. The initiative rests with the channel rather than with the manufacturers.

The collective index for perceived power base for all categories together is -0.096. The score could have ranged from +1 to -1; indicating extremely high power state to extremely low power state respectively.

The SSI will have to analyse the reasons for this negative situation. The factors which contribute to their perceiving themselves as less powerful than the channel members must be identified. Adequate in-house systems will have to be evolved or necessary modifications in the existing support systems will have to be made so as to offset this disadvantage.

It may be inferred that with a low level of perceived power, the SSI units prefer to maintain existing

relationship by not resorting to activating the power bases. By taking specific care not to upset relationship with the channels, and by not judiciously engaging the potential power, the SSI manufacturers operate within the extent of support offered by the channel members. In effect these small firms are observed to be influenced in their operations by the preferences of their channel members rather than vice versa.

### 6.3 LEADERSHIP

The different members of the marketing channel operate on varying policies and with diverse objectives. Unless the activities of these channel members are coordinated to achieve synchronisation, higher costs, wastage and other unfavourable outcomes may result. On the other hand very tight coordination would restrict the channel members to one single option which may not always be advisable. The harmony in operations of the different members at different levels should lead to increased efficiency and reduced risks and costs.

Coordination can be achieved by the leadership that a member can exercise in a channel. The leader role helps to influence the behaviour of other channel members leading to

better relationship and resultant efficiency in performance.

Leadership is derived from the channel members possession of power and from the tolerance of other firms in accepting direction. The fundamental purpose of leadership is to use power in improving not only the system, but also individual performance as well. Hence, the capability of a channel member to elevate itself to a leadership status is relevant to the relationship between the members. It also reflects the relative power differential existing or perceived in the system.

**6.3.1 APPROACH A4 :- To take the role of a leader  
for directing the operations of  
the channel members**

The SSI manufacturers perceived themselves as incapable of exercising a leadership role in the channel. Collectively these firms perceive a negative status for themselves in their capacity to take up leadership. The firms included in the study responded to a query whether they would adopt an approach to take the role of a leader for directing the operations of the channel members.

Only less than one third the respondents felt they would adopt the approach. Proportionately, four out of every ten would not adopt this approach. The others are undecided.

Table 6.3.1

Table 6.3.1 : Adoption of Approach A4

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.31	0.30	0.27	0.50	0.31
DK	0.38	0.40	0.27	0.00	0.31
NO	0.31	0.30	0.46	0.50	0.38

Product wise analysis shows that the four categories follow a pattern similar to the collective one. The perceived leader-role index for each group was computed.

Bread	=	0
Biscuit	=	0
Spices	=	-0.167
Pickles	=	-0.250
collective	=	-0.033

The bread and biscuits groups indicate a zero level of perceived leadership potential. The other two categories indicate negative potential. Collectively the index reads -0.033 indicating a negative potential to exercise leadership in channel management.

### 6.3.2 Perceived potential for leader role

Marketing literature highlight the existence of mutual dependence in channel relationships. The degree of mutual dependence determines the extent of power that exists, which helps influence behaviour. The concept of dependence and relative power helps define channel interaction better. Channel leadership evolves where a power advantage is perceived. Though not general, the power related to specific issues in any channel member promotes it to assume a leadership role.

The small scale industries in the food sector are found to perceive a negative leadership potential in their interactions with the other channel members. This is further authenticated by the fact that the collective perceived power index also is negative.

This signifies a very critical status of the SSI sector. The lack of perceived power and leadership potential puts the sector at the receiving end. The image projected may not be supportive to better performance, since the link between themselves and the consumers - the channel, is not perceived to be amenable to their control.

A noticeable fact is that, on an average over 25% of the units are not clear about or are not aware of these factors and are undecided as to what their approach would be.

Considered separately, the groups are found to vary in their level of unawareness. The average proportions who are undecided in each group, regarding the factors, power and leadership, considered above are given below

Bread	=	0.34
Biscuits	=	0.38
Spices	=	0.25
Pickles	=	0.13

It appears that this sizeable proportion of firms just 'drift along' with out adequate tuning to manage the dynamics of the channel, thus forfeiting the initiative to control the market.

#### 6.4 COMMUNICATION

Communication is the means by which channel members interact. The process of communication being neutral, any type of interaction, be it cooperative or conflicting, is made possible within the channel system. But ineffective communication not only hampers constructive or productive interaction but also affects a cooperative relationship adversely.

Effective communication acts as a deterrent to conflicts. With development of common objectives, communication also help eliminate or diffuse conflict situations.

An attempt was made to assess the extent to which SSI firms appreciate the relevance of communication in effective channel management.

6.4.1 APPROACH A5 :- To insist on regular and periodic communication about the activities, problems, and results

The SSI firms were queried on whether they would adopt an approach to build up a systematic communication arrangement with the channel members. The aspects communicated could embrace all matters connected with operations, including problems and frustrations. A streamlined communication would aid better acceptance of each other and boost cooperative interaction.

This approach is considered as positive by about half the respondents. A product wise analysis shows the pickles and biscuits groups are relatively more favourable to adopting this approach as compared to the other two groups. Table 6.4.1

Table 6.4.1 : Adoption of Approach A5

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.50	0.60	0.40	0.75	0.51
DK	0.25	0.30	0.40	0.00	0.29
NO	0.25	0.10	0.20	0.25	0.20

Except for the pickles group, over twenty five percent of the respondents from other product categories are not sure about their option.

The index denoting the favourableness to the approach, of the four product groups are as given below:

Bread	=	0.156
Biscuit	=	0.350
Spices	=	0.067
Pickles	=	0.500
Collective	=	0.200

The index is positive for all the four product categories. The value is very high for the pickles group indicating that communication is a factor which plays a prominent role in the execution of various decisions in managing the marketing channels of these items. The firms manufacturing biscuits also consider communication a critical factor.



Interestingly, spices processing firms do not seem to give communication, much significance. It could be stated that competition, as the one faced by this group in the market, calls for better coordination of the channels and communication demands a serious place in strengthening channel relationship. But the response of these firms presents a different picture. It is also seen that none of the firms have a systematic arrangement for gathering information regarding the market.

#### 6.5 RELATIONSHIP

The relationship that exists between the SSI manufacturers and their respective channel members provides an interesting picture. The assessment of the perceptions of this sector reveals that, these firms count themselves low as regards the power levels they can engage to get the channel members behave as per their requirements. The index computed is negative which shows that the SSI firms to that extent perceive themselves as subordinate to the channel members. The channel members are perceived to have the power advantage which they employ to influence the behaviour of the manufacturers.

Table 6.5.1 : Indices of relationship between SSI manufacturers and channel members

	Pr	Pc	Pe	P	L	C
BRD	-0.188	-0.375	0.188	-0.125	0.00	0.156
BIS	-0.300	-0.250	0.200	-0.117	0.00	0.350
SPI	0.100	-0.533	0.233	-0.067	-0.167	0.067
PIC	0.125	-0.750	0.500	-0.042	-0.250	0.500
COM	-0.089	-0.433	0.233	-0.096	-0.033	0.200

Pr - Power (Reward)  
Pc - Power (Coercive)  
Pe - Power (Expert)  
P - Power  
L - Leadership  
C - Communication

The leadership potential is also collectively perceived as negative. The inability to assume a leader role, place the SSI units in an unenviable position. The operations of the channel members, since not streamlined according to the requirements of the manufacturers, would not provide the desired results.

But it is seen that almost 85% of the respondents feel that the channels they employ are providing the best results. Given that the average capacity utilisation of these units is about 35%, this sense of satisfaction appears to be a 'put on'. Or does it reflect a feeling of helplessness and an attitude to be happy with what is available?

These units take specific care to maintain whatever relationship they have with the channel members. They prefer to avoid any move, which though good for the firm, may antagonise the channel members.

## 6.6 PERFORMANCE

A few approaches that are relevant to the operations of the SSI firms were examined with reference to the perception of these firms.

### 6.6.1 APPROACH A6 :- To fix sales targets for the channel members.

A sales target denotes the expectation of a marketing firm regarding its performance. It indicates that the firm has developed a marketing plan and the target is an expression of the same. A defined sales target provides the marketing channel a reference point to measure its own productivity in relation to expectation of the manufacturers.

Being an approach which reflect concern for better performance, the SSI firms were asked to respond whether they would adopt an approach to give sales targets to the channel members.

Considering the four groups together, the proportion that would adopt the approach is 0.20 while that which would not is 0.42. A sizeable proportion, ie. 0.38, is undecided.

Table 6.6.1 : Adoption of Approach A6

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.19	0.20	0.13	0.50	0.20
DK	0.37	0.40	0.40	0.25	0.38
NO	0.44	0.40	0.47	0.25	0.42

Only in the case of pickles manufacturing units, does this approach get a significant acceptance. In the other three product categories sizeable proportions view it unfavourably or are undecided.

This situation supports the earlier observation that the SSI units do not define their objectives in terms of marketing performance. That they do not fix sales targets would also indicate an apprehension about their inability to make the channels perform as per their guidelines. This leads to a state where performance cannot be evaluated against specified norms. Without an effective performance evaluation system being possible, it becomes difficult for

the SSI to spot inefficiency and deficiencies on the part of the channel members.

Sales targets are not given to even the salesmen by the SSI firms. Very few of them, with larger number of salesmen report that they have some incentive scheme for salesmen who generate sales above stipulated targets.

It is also observed that almost all the units decide on the quantity of the item to produce each time, based on experience.

Past sales though is mentioned as a parameter forming a basis for this decision, these units do not have any formal system to assess the actual sales generated. The figures are based on the off-take from the production stage.

An index depicting the extent to which the SSI firms would favour adopting an approach to fix sales targets for the channels is given below :

Bread	=	-0.250
Biscuits	=	-0.250
Spices	=	-0.333
Pickles	=	0.250
Collective	=	-0.230

#### 6.6.2 APPROACH A7 :- To limit expenses towards the channel members

This approach is stated for this study, as an effort at controlling costs related to operating marketing channels. It would include limiting those expenses towards incentives, compliments, and gifts by way of promotion only. The other costs related to transportation, communication, and opportunity costs of time and efforts have not been considered.

Collectively, about half the respondents were not sure of their stand. This in-decision is the manifestation of their lack of awareness regarding the different options. During the interview, it was expressed by many of these units that, other than the sales commission offered to the channel for every unit of the item sold, no other promotional schemes are operated. More over after further explanations by the researcher, it was mentioned that the working capital availability, restricts implementing such schemes, even though the results may be better than what is being achieved at present.

Except for the spices processing firms, the other three categories are divided as to their adopting this approach.

The spices processing units who are clear about the implication, would not take such an approach. It appears that their products need to be pushed by the channel members and this calls for specific promotional schemes/incentives.

Table 6.6.2 provides the proportion of units in each product category with varying perspectives regarding adopting this approach.

Table 6.6.2 : Adoption of Approach A7

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.19	0.20	0.00	0.25	0.13
DK	0.44	0.60	0.47	0.50	0.49
NO	0.37	0.20	0.53	0.25	0.38

The index of acceptability of this approach computed based on the strength of favourableness or unfavourableness of the units is given below :

Bread	=	-0.125
Biscuits	=	0.00
Spices	=	-0.470
Pickles	=	0.00
Collective	=	-0.200

According to these indices, it is noted that the categories of bread and spices units are negatively oriented towards

adopting an approach to reduce costs towards channels. Bread because of its short shelf-life and spices because of stiff competition appear to need the channel to promote them in the market. These manufacturers, more so the spices manufacturers prefer to offer incentives to the channel members. The biscuits and pickles units collectively are neutral as far as this aspect is concerned.

#### 6.6.3 APPROACH A8 - TO USE OWN DISTRIBUTION VEHICLE

Referring to the physical transfer of goods from the firm's production centre to the next member in a channel, the method utilised is a relevant factor. There is a general observation that SSI units go for unnecessary initial investments including vehicles. But to what extent do the SSI units consider own vehicles for distribution as important, is a pertinent question.

Depending on the individual, a vehicle with an SSI firm may have different connotations. For the banker it may be a non essential investment. The promotional agency may view it as a part of the project while the consultant would prefer to include the vehicle in the project. But from the distribution point of view, the SSI units would have their own perception. This has been captured as shown in Table 6.6.3.



Table 6.6.3 : Adoption of Approach A8  
(proportions)

	BRD	BIS	SPI	PIC	COM
YES	0.75	0.60	0.67	1.00	0.71
DK	0.13	0.20	0.26	0.00	0.18
NO	0.12	0.20	0.07	0.00	0.11

Collectively, nearly three fourth the units say that their units should have own distribution vehicles. Only minority feel that own vehicles is not an essentiality.

All the pickles manufacturers feel that the need for own distribution vehicles. The possibility of damages, since pickles are mostly packed in bottles, is the factor which holds them from depending fully on the channel members for transporting. Majority of the bread manufacturers too, considering the bulk of the product and possibility for spoilage, prefer to use own vehicles for distribution.

As per the primary data available, about 50% of the units use their own vehicles for distribution of the products. These include vans, autorikshaws, motorised two wheelers and cycles. It is seen that even those who do not own vehicles feel that for distribution of products they should use own vehicles. The proportions that at present use own vehicles, hired ones or both are given in Table 6.6.4.

Table 6.6.4 : Proportion of units using vehicles for distribution

	BRD	BIS	SPI	PIC	COM
Own	0.31	0.20	0.33	0.50	0.31
Hired	0.13	0.00	0.00	0.00	0.04
Both	0.19	0.10	0.13	0.25	0.16
None	0.37	0.70	0.54	0.25	0.49

The index of favourableness of the four product categories towards the approach to use own distribution vehicle is given below

Bread	=	0.599
Biscuits	=	0.350
Spices	=	0.467
Pickles	=	0.625
Collective	=	0.500

#### 6.6.4 APPROACH A9 :- To distribute products only directly to consumers

This approach was included in the study to verify the dependence of the SSI on external channel members for reaching the market. It presumes that the SSI firms can effectively market their products through their own outlets, or their own arrangements without depending on channels which include external organisations.

This approach would entail, the firm being restricted in reaching distant places, except at the expense of higher costs of maintaining more personnel and transportation facilities. Direct marketing to the consumers would also call for greater effort and involvement of the manufacturer.

To the query on the SSI manufacturer's perception about adopting an approach to distribute their products directly to the consumers, the response was mixed. Table 6.6.5 gives the details.

Table 6.6.5 : Adoption of Approach A9

	(proportions)				
	BRD	BIS	SPI	PIC	COM
YES	0.31	0.60	0.13	0.00	0.29
OK	0.19	0.20	0.27	0.00	0.20
NO	0.50	0.20	0.60	1.00	0.51

The pickles manufacturing units would not adopt such an approach. Though specific reasons for employing external channel members were not mentioned, it emerged from the discussions that product credibility is a prominent factor that affects acceptance by the consumers. The firms believe that the FPO licence along with availability of the product in prominent retail outlets signify quality in the minds of

consumers. Door-to-door sales though being employed cannot be the sole method for marketing this product. This mode has more impact as a promotional effort.

Bread and spices manufacturing firms too to a great extent would not adopt this approach. But majority of the biscuit manufacturers tends to favour distributing directly to consumers. These units use no other means but their own outlets for selling their products.

The index of favourableness of each product category in adopting this approach to distribute products only directly to consumers, is given below :

Bread	=	-0.156
Biscuits	=	0.250
Spices	=	-0.366
Pickles	=	-0.875
Collective	=	-0.200

#### 6.6.5 APPROACH A10 :- To use many channels together

This approach was included on the premise that a manufacturer would desire efficiency in distribution of his products. This could be achieved by either a single streamlined channel or a proper mix of different channels. Organising and monitoring of the channels become complex as

the number increases. The SSI units with their inherent qualities will have to go for an option/choice.

Employing many channels simultaneously involves greater challenge, and necessitates better organisational skills on the part of the SSI firms. How these small firms view this approach, is examined here.

Table 6.6.6 provides the details indicating the responses of the SSI firms that were studied.

Table 6.6.6 : Adoption of Approach A10

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.44	0.40	0.67	0.25	0.49
DK	0.19	0.30	0.26	0.75	0.29
NO	0.37	0.30	0.07	0.00	0.22

Collectively about half the units prefer to have a combination of many channels. Almost 30% are not sure how a multi-channel approach would be acceptable while the others feel negatively about it.

Analysing the perspective of each product group separately, it is seen that there is variation amongst them. See Table 6.6.6. Spices and pickles manufacturing groups have

negligible negative orientation towards this approach. But majority of pickles units are not sure of their stand while majority of the spices units prefer to have many channels.

In the case of both bread and biscuits, more manufacturing units prefer to have a multi-channel approach than a single-channel one. But the negatively oriented group is over one fourth the sample, indicating that a single channel approach is found to be acceptable by them.

6.6.5.1 A look at the number of channels that are at present being used by the SSI firms, it appears that though they would like a multi-channel approach, a majority of the firms in the above two categories use only a single channel.

The spices manufacturing units have a high index of 0.500, showing that they are more favourable to have a multi-channel approach. This is reflected in their actual usage of more than one channel. See Table 6.6.7. Though majority of pickles manufacturers also use more than one channel, it is seen that their perception regarding the benefits or otherwise is not defined, as revealed by a low index.

Table 6.6.7 : Number of channels employed simultaneously

Category	Channels			
	1	2	3	4
BRD	0.69	0.25	0.06	0.00
BIS	0.70	0.30	0.00	0.00
SPI	0.20	0.47	0.27	0.06
PIC	0.25	0.00	0.75	0.00
COLL	0.49	0.31	0.18	0.02

The positive and negative orientations to this approach of using many channels together, were weighted and an index number developed with regard to each group. The figures read as shown below :

Bread	=	0.00
Biscuits	=	0.100
Spices	=	0.500
Pickles	=	0.125
Collective	=	0.200

6.6.6 APPROACH All :- To select all channel members on their own

The selection of the marketing channel is a crucial marketing decision to be made by the manufacturer. The type and number of channel members determine the capability of the firm to accomplish its long term objectives of profit and growth through effective servicing of consumers. This selection of middlemen has strategic implications as it

places the firm in a secure position with respect to competition. It also has strategic consequences affecting all aspects of the manufacturer's marketing mix.

The SSI manufacturers collectively view this approach as a positive one. Proportionately, about 44% of the units feel that they should select the middlemen on their own. But 29% feel that they should not, while 27% are undecided. Table 6.6.8

Considered separately, the four product categories, do not show much variation. While there is a feeling that the selection should be done by themselves there is also an apprehension whether they should really do it. Interestingly, a sizeable proportion are neither negative nor positive about adopting this approach. It indicates the level of awareness of the SSI firms and the thought given by them towards a systematic marketing effort.

Table 6.6.8 : Adoption of Approach 11

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.50	0.40	0.40	0.50	0.44
DK	0.25	0.40	0.20	0.25	0.27
NO	0.25	0.20	0.40	0.25	0.29



It is seen that almost half the SSI manufacturers are either negative or undecided about this critical aspect of deciding on the marketing channel. The peculiar status of the SSI firms holds them from being totally choosy about who should be the middlemen within their marketing arrangements. This is a situation where the selection of the channels is effected more by default than by purposeful and decisive involvement of the SSI manufacturers.

This state highlights the possibility that these SSI firms are dependent on the existing resellers in the market, and irrespective of the result these channels may provide, these firms can approach their consumers only through these middlemen. They avoid being selective and try to get the best coverage in the market.

An index of the acceptability of the approach is given below.

Bread	=	0.280
Biscuits	=	0.300
Spices	=	-0.033
Pickles	=	0.375
Collective	=	0.188

6.6.7 APPROACH A12 :- To assess periodically the performance of channel members

The management of channel systems call for constant monitoring of the activities and performance of the channels. The objectives to be accomplished are specified initially. Ideally the channel structures are designed and channel members identified so that these objectives are best satisfied. The targets are then compared with actual performance so that deviations are determined in the specific aspects for corrective measures subsequently.

For assessment of performance, the manufacturers should have a structured mechanism for collection of information, its compilation and analysis. This regular monitoring would help check deficiencies in the structure, and also identify poorly performing channel members.

The perception of SSI firms regarding an approach to periodically evaluated the performance of channel members was studied. Their response to whether they would adopt such an approach is shown in Table 6.6.9

Table 6.6.9: Adoption of Approach A12

	(proportion)				
	BRD	BIS	SPI	PIC	COM
YES	0.63	0.60	0.47	0.75	0.58
DK	0.25	0.30	0.40	0.25	0.31
NO	0.12	0.10	0.13	0.00	0.11

About one third the units are not sure if they should have such an approach. About one tenth feel they do not need such an approach. Only the others consider this approach as positive and relevant.

Considered separately, all the product groups feel positively about this approach. The perception regarding this approach was cross tabulated with the firm's response to whether they were happy with the present performance of the channels. The product wise details are shown in Table 6.6.10.

**Table 6.6.10 : Perception regarding approach 12 Vs.  
Satisfaction about present performance**

	BRD		BIS		SPI		PIC		COM	
	S	N	S	N	S	N	S	N	S	N
EXI	0.32		0.40	0.10			0.25	0.25	0.21	0.40
IMP	0.25	0.06	0.10			0.47		0.25	0.11	0.20
NON	0.19	0.06	0.20	0.10	0.20	0.20		0.25	0.18	0.14
UNI		0.06		0.10		0.13				0.10
EXU		0.60								0.02
TOT	0.76	0.24	0.70	0.30	0.20	0.80	0.25	0.75	0.50	0.50

**Note :**

EXI - Extremely Important  
 IMP - Important  
 NON - Not Relevant  
 UNI - Unimportant  
 EXU - Extremely Unimportant  
 TOT - Total  
 S - Satisfied  
 N - Not Satisfied

It is seen that majority of the bread and biscuits manufacturing units are happy with the performance of their existing channels.

Predominantly, these units feel that performance appraisal of the channel members is essential. A minority in the biscuits manufacturers who are happy about the performances of the channel feel there should be periodical appraisal.

The spices and pickles manufacturers are mostly dissatisfied with the performance of their channels. While the pickles manufacturers feel there should be periodic assessment of performance of channels, the spices manufacturers have a mixed reaction.

The index of favourableness for adopting an approach to periodically assess the performance of the channels by the different product categories is as shown below:

Bread	=	0.375
Biscuits	=	0.500
Spices	=	0.166
Pickles	=	0.625
Collective	=	0.356

#### 6.7 PERCEIVED IMPACT OF THE APPROACHES

The different approaches listed earlier towards managing the marketing channels, were studied in relation to the expected outcomes.

These approaches were grouped into two:one, referring to relationship and the other to operations and performance. The two groups were considered separately with respect to the outcomes anticipated by the SSI firms. The firms rated the possibility of each outcome, on a five point scale, Extremely positive (+2) to Extremely negative (-2) with No effect (zero) as the median, for each approach that they may adopt.

#### 6.7.1 Group one Approaches

The first group of approaches included :

- A1. to reward channel members for better performance
- A2. to punish channel members for poor performance
- A3. to guide and advice channel members on how to perform
- A4. to take the role of a leader for directing the operations of the channel members
- A5. to insist on regular and periodic communication about activities and problems

The anticipated outcomes plotted against each of these approaches were

- Co operation
- Dependence
- Satisfaction
- Trust
- Conflict
- Goodwill
- Sales

The respondents were grouped into three with respect to their orientation towards the different approaches, ie. those who would adopt the approach, those who would not and those who are undecided. Each of these groups recorded the effect they anticipated if the approach is actually adopted by them.

#### 6.7.1.1 Co-operation

In a marketing channel, the members have entered into a relationship because they are unable to perform efficiently all the functions which must be completed to accomplish their objectives. Co-operation, which arises from a need for achieving goals, is considered the most common behaviour in channel relationships.

Co-operation, while a prerequisite for channel members to work collectively, is influenced by shifts in attitudes or approaches of the members. The existence of extensive or limited co-operation is dependent on the goal expectations. So it could exist on a voluntary basis or as a result of conflict resolution by the channel leader.

The SSI manufacturers report experiencing varying degree of cooperation from the channel members. One third the firms studied feel co-operation is not a relevant factor for them as they are not using external channel members for distribution of their products. While half of the others feel they are receiving high level of co-operation the remaining firms feel that the co-operation they receive is low or just satisfactory.

Given their varying experiences, these units were requested to record the extent of co-operation they anticipate for the different approaches they may adopt as listed earlier. The approaches A1 to A5 were considered for this. The respondents initially recorded one of the three options with reference to adopting an Approach - 'yes' , 'no' or 'don't know'. Subsequently the expected outcomes in adopting the approach was marked on the 5 point scale - 'Extremely positive', 'positive', 'No effect', 'Negative' and 'Extremely negative' .

Firms that would adopt the approaches consider there would be co-operation. The index read 0.4286, indicating that absolute co-operation is still not expected. The firms that are unsure if they would adopt the five approaches collectively feel that there would be a negative impact



though marginal; index being = 0.0076 Those firms that would not adopt the approaches expect a negative effect; index -0.2317 . See Table 6.7.1

#### 6.7.1.2 Dependence

Mutual dependence exists in all channel systems. Each channel member exerts some degree of power over the other members. This power - dependence interface helps understand the channel members motivation in interacting with each other so that each one can accomplish its own goals.

The SSI units, though a large number of them are dependent on the external channel members, also include a sizeable group that does the distribution of the products on their own. From this study it is noted that one third of the units distribute their entire products without assistance from external agencies. These units state that their dependence on the external channel and vice versa are for them, irrelevant.

With respect to the other units, one third feel their channel members are dependent on them to a high level. While 23% feel it is neither low nor high, 40% find that dependence of channel members on the SSI units is of low

level. With these given experiences the units recorded the expected outcome with reference to dependence if they adopted the five approaches A1 - A5.

The units that would adopt the approaches collectively feel that there would be dependence. The index computed is 0.2662. The units that would not adopt the approaches anticipated very negative outcome. This indicates that the firms fear that the channel members would prefer to stay away from them as negative dependence is expected. The index of this group is -0.4390.

The firms that are not sure if they would adopt the approaches also show a negative index of -0.0530. Table 6.7.1.

#### 6.7.1.3 Satisfaction

The satisfaction a firm derives is based on the realisation of its objectives. The decisions and approaches of one channel member could affect the realisation of objectives of other channel members positively or negatively. The SSI firms also have a similar influence on the satisfaction levels of the external channel members that link them up with the consumers.

Since one third of the sampled firms do not use external channels, satisfaction of the channel members is stated as irrelevant by these firms. That high levels of satisfaction is experienced by channel members, is reported by 40% of the firms that engage external channels. About 36% feel that the level of satisfaction is normal while the others feel it is low.

With reference to the five Approaches, the firms that would adopt them show an index of 0.2662 regarding level of satisfaction of the channel members. The firms that are undecided provide an index of -0.0682 and those that would not adopt the approaches have an index of -0.2561. Table 6.7.1

#### **6.7.1.4 Trust**

Trust emanates from the perceived credibility of the firms entering into the relationship. It evolves from the mutual acceptance that both can contribute positively to the goal accomplishment of each other.

The SSI firms engaging external channels generally feel that they hold the trust of their channel members. Almost 57% feel that they enjoy high trust of the channel members.

While 30% feel that the trust level is normal the other minority of 13% feel that the trust they enjoy is low. The above points to a fact that majority of the SSI firms stay in business because they could earn the trust of their channel members.

The firms that would adopt the five Approaches A1 - A5, show an index of 0.3896 with reference to the trust level. This shows that higher levels of trust are expected by these firms while adopting these approaches. The firms that would not adopt these approaches show an index of -0.2317. Even the firms that are undecided show negative index of -0.0682. Table 6.7.1

#### 6.7.1.5 Conflict

A basic tenet of conflict theory is that if no interdependence exists in a social system there is no basis for conflict. This leads one to argue that mutual dependence is the cause for conflict. This argument overlooks the fact that conflict does not always result from a state of dependence and that co-operative behaviour is more likely to prevail.

Some of the primary causes of conflict within the ambit of marketing channels are grouped as : Goal incompatibility, domain - position - role incongruence, communications break down, varying perceptions of reality and ideological differences.

It should be stated that the reasons for conflict or disagreement does not exist in isolation and often, a combination of reasons may cause hostile behaviour.

The SSI firms engaging external channels report experiencing conflict in varying dimensions. Half these units feel that conflict between them and their channel members is high. One-fourth others find the conflict levels manageable. The others experience low conflict levels.

Analysis of the perceived effect of adopting the five approaches A1 -A5 is revealing. Those who would adopt the approaches feel that there would be a decrease in conflict. The index is -0.1623. Those units that would not adopt the five approaches collectively have an index of 0.2622, indicating positive levels of conflict or a negative relationship. Those firms undecided on the issue of adopting those approaches too, anticipate a positive level of conflict ie. negative relationship. Table 6.7.1.

#### 6.7.1.6 Goodwill

A positive image leading to favourable attitude and mutual acceptance is a prominent factor in channel relationship. The SSI firms are observed to bank heavily on this element. Since often the SSI firm does not command a predominant status in channel relationships, it is the promoter who is the reason for development of goodwill.

Almost two third the SSI firms studied feel that they enjoy high levels of goodwill, within the existing marketing arrangements. Except for a minority among the others, most of them find the goodwill they hold is satisfactory.

The firms that would adopt the five approaches feel that there would be a very positive increment in goodwill; the index being 0.4286. Those firms that would not adopt the approaches anticipate negative effect if they do adopt them; -0.2195. Even the undecided group expect negative impact; with an index of -0.0379. Table 6.7.1.

#### 6.7.1.7 Sales

The generation of sales being the most crucial factor in channel management, every manufacturer effect variation in

approaches to influence the operations of the channel members.

About half the units report that their sales turnover is high. Twenty percent find that their sales is low. The others feel it is just satisfactory.

With reference to the five approaches, the firms that would adopt them indicate an expectation that the sales figures would improve - index 0.4220.

The firms that are undecided feel a negative impact would result as indicated by the index figure of -0.0455. Those firms which would not adopt the approaches anticipate negative effect with index at -0.2073.

**Table 6.7.1 : Index of expected outcome by adopting Approaches relevant to relationship**

Outcome	Adoption of Approaches(A1 to A5)		
	Yes	Don't know	No
Cooperation	0.4285	-0.0076	-0.2317
Dependence	0.2662	-0.0530	-0.4390
Satisfaction	0.2662	-0.0682	-0.2561
Trust	0.3896	-0.0682	-0.2317
Conflict	-0.1623	0.0530	0.2622
Goodwill	0.4286	-0.0379	-0.2195
Sales	0.4220	-0.0455	-0.2073

### 6.7.2 Group Two Approaches

The second group of approaches that were studied include:

- A6. to fix sales targets for channel members.
- A7. to limit expenses towards the channel members.
- A8. to use own distribution vehicles.
- A9. to distribute products only directly to consumers.
- A10. to use a multichannel approach.
- A11. to select all channel members on their own.
- A12. to assess periodically the performance of channel members.

The outcomes plotted and studied against each approach were:

- Sales
- Costs
- Goodwill
- Customer service efficiency
- Relationship with channel members.

As in the previous group of approaches, the respondents were divided into three based on their orientation towards these listed approaches. Each group recorded the effect they anticipated for adopting these approaches.

#### 6.7.2.1 Sales

The effect of the different approaches on the sales as visualised by the firms is shown in Table 6.7.2



In the case of adopting an approach to limit the expenses towards channel members (A7), even the firms who would adopt the same expect a negative effect on the sales. In all the other approaches the firms who are positively oriented towards the same expect positive outcome with respect to sales though in varying degree.

Though using own distribution vehicle is seen as a positive contributor to sales (A8), there are firms who would not adopt the approach and there are others who are not decided on their stand. Collectively, this approach is stated as having most positive effect on sales.

Even in the case of selecting channel members on their own (A11) and also periodical assessment of performance (A12), the firms who would not adopt the approaches visualise positive effect on sales in case they do adopt them.

Collectively, the approaches to fix sales targets for channel members, to limit expenses towards channel members and to distribute products only directly to consumers are perceived as having negative impact on the sales.

Table 6.7.2 : Expected effect of group two Approaches on Sales

	YES	DK	NO	COM
A6	0.3333	-0.0294	-0.2368	-0.0222
A7	-0.1667	-0.4091	-0.7353	-0.4333
A8	0.7656	0.1250	0.1000	0.5778
A9	0.3462	0	-0.5000	-0.1556
A10	0.7727	-0.1154	-0.3000	0.2778
A11	0.6750	0	0.1923	0.3556
A12	0.6731	0.0357	0.2000	0.4222

#### 6.7.2.2 Costs

The effect of the group two approaches on the costs related to marketing is generally anticipated as negative. As seen in Table 6.7.3 , very few cases indicate a decrease in the costs involved by adopting some of the approaches.

The firms who are positively oriented towards adopting an approach to distribute products directly to consumers feel that there would be increase in costs as well. Similarly, the firms that would use multichannel approaches and also those that would go for a periodic assessment of performance of the channel members anticipate a negative impact on the marketing costs.

Collectively, the firms expect a very marginal control on the costs by adopting two of the approaches. ie. one, to

limit expenses towards channel members and two, to select all channel members on their own.

**Table 6.7.3 : Expected effect of group two Approaches to Costs**

	YES	DK	NO	COM
A6	0.1667	-0.1471	-0.1579	-0.1556
A7	0	-0.0682	0.2353	0.0556
A8	0	0.1250	-0.6000	-0.0444
A9	-0.1923	0	-0.0652	-0.0889
A10	-0.1591	0.1538	-0.8000	-0.2111
A11	0.2000	0.0417	-0.1154	0.0667
A12	-0.0962	-0.0357	0	-0.0667

The firms who would adopt the approaches to limit expenses towards channel members and to use own vehicle for distribution collectively feel that these approaches do not affect the total cost of marketing.

While the firms together perceive a negative impact on costs if they assess periodically the performance of the channel members, those firms that would not adopt the approach feel that it has no bearing on the costs.

### 6.7.2.3 Goodwill

From the personal interviews with the promoters of the SSI firms it emerged that most of them depended on the goodwill

they could generate in their channel members and in their consumers. Since resource constraints restrict their efforts at creating a high profile brand image in the market and also maintain a constant top-of-the mind awareness in the prospective customers, these firms resort to less costly means of generating goodwill. It appears that these firms are more dependent on the goodwill they have rather than on any other single factor. This leads to an observation that these SSI firms believe that every decision they take or every approach they adopt would contribute by adding to the goodwill they have.

Table 6.7.4 : Anticipated impact of group two Approaches on Goodwill of the firm

	YES	DK	NO	COM
A6	0.3333	0	0.0789	0.1000
A7	-0.3333	-0.1818	0.4118	0.0222
A8	0.6250	0.1875	-0.1000	0.4667
A9	0.5385	0.0556	-0.0217	0.1556
A10	0.6364	0.1154	0.0500	0.3556
A11	0.7250	0.1667	0.2692	0.4444
A12	0.5962	0	0.3000	0.3778

Alternatively, it may be stated that these firms would generally shy away from anything that would affect their goodwill negatively.

From the Table 6.7.4 , it may be noted that collectively all the approaches studied are perceived by the firms as having some positive effect on the firm's goodwill. But the approach to limit expenses towards channel members is perceived to have a negative influence on goodwill according to even firms that would adopt the same.

While the approaches to use own vehicle for distribution and that to distribute products directly to consumers are perceived by those firms who would not adopt them, as having negative effect on goodwill, all the other approaches are believed to have a positive influence.

#### 6.7.2.4 Customer Service efficiency

Service efficiency denotes the promptness and care with which the channel members operate in terms of dealing with the SSI firm's products so that the end users or consumers are offered a high level of satisfaction. Maintaining this positive orientation is one of the basic requirements for the survival of the SSI firms.

On a collective basis, the SSI firms believe that the listed approaches would have a positive effect on the service efficiency of the channel members except for the

approaches to limit expenses to channel members and that to distribute products directly to consumers. Limiting expenses towards channel members is perceived as a negative influence on service efficiency even by those who would adopt that approach.

Using own distribution vehicle is perceived as having a very high positive impact on service efficiency of the marketing channel as a whole. So is the case with using a multichannel approach in distribution, selecting all channel members on their own and also periodical assessment of performance of the channel members. Considering the last two approaches ie. selecting all channel members on their own and periodic assessment of the performance, the units that would not adopt them feel that there would be positive effect if they do adopt them.

**Table 6.7.5 : Anticipated impact of group two Approaches on Service Efficiency of Channel Members**

	YES	DK	NO	COM
A6	0.2222	0	0	0.0444
A7	-0.3333	-0.2045	-0.5588	-0.3556
A8	0.7344	0.1250	-0.1000	0.533
A9	0.3077		-0.5000	-0.0556
A10	0.6122	-0.0385	-0.0500	0.3111
A11	0.7750	0.0833	0.3846	0.4778
A12	0.6731	0.0714	0.4000	0.4556

#### 6.7.2.5 Relationship with channel members

The relationship of the channel members in the perspective of their better performance was examined from the small scale firms view point. They collectively feel that fixing sales targets, limiting expenses towards the channels and also distributing products directly to the consumers all have a negative influence on the relationship.

Even in the other cases, the anticipated positive effect on the relationship with channels is not indicated as very high.

Interestingly, those firms that would adopt approach to limit channel expenses feel that there would be very high negative impact.

Selecting all channel members on their own is perceived as a positive contributor to relationship.

A multichannel approach also is generally seen as a positive influence on relationship with channel members.

Table 6.7.6 : Perceived impact of group  
two Approaches on Relationship  
with Channel Members

	YES	DK	NO	COM
A6	0	-0.0882	-0.2895	-0.1556
A7	-0.7500	-0.3182	-0.8235	-0.5667
A8	0.5938	0.0625	0.1000	0.4444
A9	-0.1154	-0.1111	-0.4348	-0.2778
A10	0.5682	-0.1154	-0.3000	0.1778
A11	0.6750	0.0417	0.1538	0.3556
A12	0.4423	-0.0714	0.1000	0.2444



## CHAPTER 7

### 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.

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

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 vicious 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-%)

	Nearest Point			Farthest Point		
	<5	5-15	15<	<5	5-15	15<
Bread	93.8	6.2	-	37.5	18.8	43.8
Biscuits	100.0	-	-	60.0	20.0	20.0
Spices	93.3	6.7	-	26.7	40.0	33.3
Pickles	100.0	-	-	25.0	-	75.0

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, (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 latter 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 liason 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 contactual 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, except 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 fore - thought 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 More over, it appears that the marketing dimension which is fundamental to the development and survival of the SSI sector is not given the required fore thought 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 in-adequately 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.

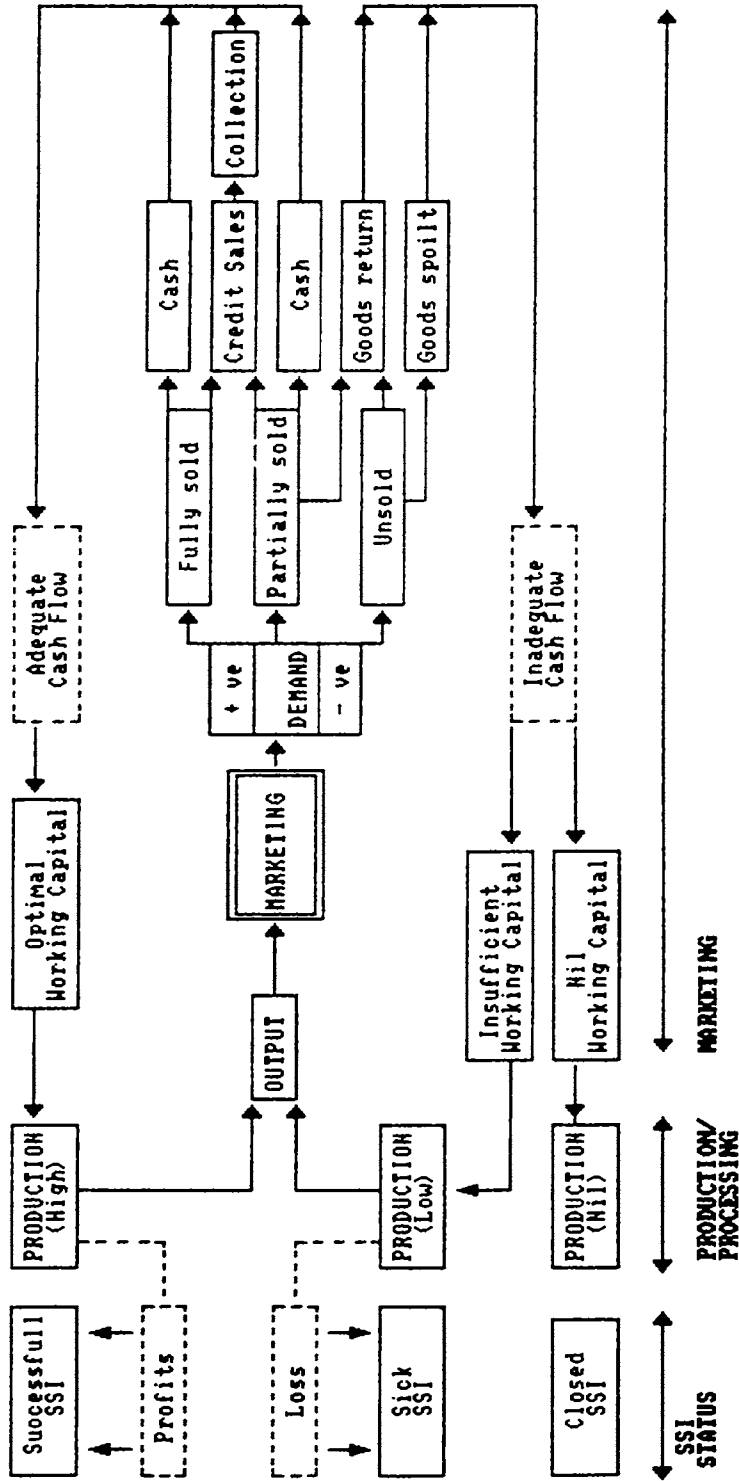
Low productivity can be attributed to two basic factors -

- 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.

**FIGURE 7.1**  
**MODEL OF SSI OPERATIONS**



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 others 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 rawmaterials 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 lacadaisical 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 mediocracy.

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.

7.4.27 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.

7.4.28 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.

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