Marketing Problems of Small Scale Industrial Units- A study of Ambala and Chandigarh Industrial Area

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ABSTRACT

Small and Medium enterprises account for approximately 80 percent of the private sector industrial workers and hence occupy an important position in the industrial structure of India. The employment creating capacity of the small and medium enterprises in India has been seen to be larger than that in Germany or United States. A sample of 60 SSI units was taken from the Ambala and Chandigarh industrial area. Market problems were discussed in this research work.

Key Words: *SSI, Ambala Industrial Area, Marketing problems, Factor Analysis*

Introduction:

The Small scale industry is the hub of many economic activities in a development countries like India. It has emerged over the years as a highly vibrant and dynamic industry of Indian economy. They play an peculiar role in employment creation, resource utilization, income generation, equality, insurance against social tension, distributive effect, creation of social eco system, decentralization etc. helps to promote changes in a gradual and phased manner. Small scale industries varies from one country to another country in their criteria.

Indian economy is an under developed economy. Its vast resources are either unutilized or under utilized. A major section of man power is lying idle. The per capita income is low. Capital is shy and scarce and investment is lean. Production is traditional and the technique is outdated. The out put is insufficient and the basic needs of the people remain unfulfilled. Industrialization is the only answer to this present state of disrupted economy. The problem is of the approach which should be direct, utilitarian and pragmatic. Such industries do not require huge capital and hence suitable for a country like India. The small scale industries have a talent of „dispersal. They can be accessible to the remote rural areas of the country and do not lead to regional imbalances and concentration of industries at one place, which is responsible for many economic resources such as entrepreneurship and capital. The Small Scale Industries Board in 1955 defined, "Small-scale industry as a unit employing less than 50 employees if using power and less than 100 employees if not using power and with a capital asset not exceeding Rs. 5 lakhs". Again the new Industrial Policy in 1991, raised the investment ceilings in plant an machinery to Rs. 60 lakhs for small-scale units and Rs. 75 lakhs for ancillary units. The new Policy Initiatives in 1999-2000 defined small-scale industry as a unit engage in manufacturing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs. 100 lakhs. Small Scale Industry is defined as a unit in which investment in original value of plant and machinery should not exceed Rs. 1.5 crore. However, to facilitate technology up gradation and enhance competitiveness, the investment limit has been raised to Rs. 5 crore in respect of 71 high tech export oriented items in drugs, pharmaceuticals, hand – tools and knitwear sectors, etc. An effective development policy has to attempt to increase the use of labour, relative to capital to the extant that it is economically efficient. Small scale industries are generally more labour intensive than larger organization.

For ancillary industries an additional condition is that the unit must supply or render not less than fifty per cent of its production of services to other industrial units. Tiny enterprises were first defined in 1997 as one with an investment in plant and machinery up to Rs. One lakh and located in rural areas of in urban areas with population of less than 0.50 lakh as par the 1971 Census. The limit was enhanced to Rs. 2 lacs in 1980. In 1991, the locational restriction employed in defining tiny enterprise was dispensed with. Now all units with investment in plant and machinery up to Rs. 25 lakh, irrespective of location, are categorized as tiny enterprises.

Service oriented enterprises were recognized as Small Scale Service Establishments (SSSE) from 1982 onwards. These included identified service related enterprises within investment in fixed assets, excluding land and building, up to Rs. 2 lakh provided they were located in rural areas of in towns with a population up to 5 lakh. This category was reorganized in 1991 as industry related Small Scale Service and Business and Enterprises (SSSBE's) including units with investment in fixed assets, excluding land and building, up to Rs. 5 lakh and irrespective of location. SSSBE's are entitled to all the incentives and facilities that are available to small scale units. This limit has been enhanced to Rs. 10 lakh in 2000.

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Table-1 Investment Ceilings Over The Years

YEAR	SMALL SCALE INDUSTRIES	ANCILLARY INDUSTRIES
1955	Upto Rs. 5 lacs in fixed assets and employment less than 50/100 workers with/without power.	----
1960	Upto Rs. 5 lacs in fixed assets.	---
1966	Upto Rs. 7.5 lacs in plant and machinery	Upto Rs. 10 lacs in plant and machinery.
1975	Upto Rs. 7.5 lacs in plant and machinery	Upto Rs. 15 lacs in plant and machinery.
1980	Rs. 20 lacs	Rs. 25 lacs
1985	Rs. 35 lacs	Rs. 45 lacs
1991	Rs. 60 lacs	Rs. 75 lacs
1997	Rs. 300 lacs	Rs. 300 lacs
1999	Rs. 100 lacs	Rs. 100 lacs

Table2. Performance of Micro and small Enterprises.

Year	Production in Number of Units in Lakh	Production (Rs. In Crore at 2001-02 Prices)	Employment in Lakh	Export in Crore	Registered Unregistered	Total
2002-03	16.03	93.46	109.49 (4.1)	3,06,771(8.7)	263.68(4.5)	86,013 (20.7)
2003-04	17.12	96.83	113.95(4.1)	3,36,344 (9.6)	275.30(4.4)	97,644(13.5)
2004-05	18.24	100.35	118.59(4.1)	3,72,938(10.9)	287.55(4.5)	1,24,417(27.4)
2005-06	19.30	104.12	123.42(4.1)	4,18,884(12.3)	299.85(4.3)	1,50,242(20.8)
2006-07	20.32	108.12	128.44(4.1)	4,71,663(12.6)	312.52(4.2)	N.A

Source: Economic survey 2007 to 2008, Ministry of Finance, GOI.

Literature Review:

Bailey, Muth, and Nourse (1963) introduced the landmark concept of repeat sales analysis. Assuming a house has no changes made to it, to assess how prices change over time, one need only to look at the difference in sale prices of the same house. This approach solves the issue of varying composition which mean and median indices served from. Subsequent researchers have expanded upon this idea by incorporating various additional features, in an effort to improve index estimates. **Case and Shiller (1987, 1989)** who argued that gap times between sales have an effective sale price difference. The Case and Shiller method is used to compute the Conventional Mortgage Home Price Index released quarterly by Freddie Mac and Fannie Mae. These set of indices cover numerous US cities and regions Case and Shiller (1987, 1989)

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Meese and Wallace (1997) test this claim as well by comparing hedonic models using an indicator for repeat sales and incorporating interaction terms between repeat sales and hedonic variables. In their analysis, they found there was a significant difference between repeat and non-repeat sales homes and repeat-sales homes that did not change attributes are slightly smaller, and are in worse condition, than the average for single-sale homes. The repeat-sales homes that did have attribute changes...tend to be slightly larger and in worse condition age changes over time, repeat sale indices are

biased. **Palmquist (1979)** suggests adding in a depreciation factor to the repeat sales procedure to account for this; however, this factor must be independently computed which adds much complexity to the model. **Di Pasquale and Somerville (1995)** who use the homeowner-reported house values and transaction sales prices in the American Housing Survey (AHS) to construct aggregate measures of the changes in house prices over time. Although the homeowner-estimated house values are somewhat higher than the AHS transaction prices, the two house price series track each other and a National Association of Realtors house price series fairly closely. **Agarwal (2005), Kiel and Zabel (1999), and Goodman and Ittner (1992)** follow the second approach and compare homeowner house price estimates with lender or researcher benchmark estimates derived from past transaction sales prices and house price indexes. These studies tend to find that the discrepancy between the homeowner and lender estimates is fairly small: home owner estimates are generally 3 to 6 percent higher on average than the benchmark estimates, with an average absolute difference around 14 percent. **Kennickell and Starr-Mc Cluer (1997)**, an example of the third approach, is the only previous study to examine how accurately respondents report housing data in the SCF. They exploit the unique structure of the 1983–89 SCF panel, which contains cross-sectional information on household portfolios in 1983 and 1989 as well as retrospective questions (asked in 1989) about changes in household portfolios over the 1983–89 period. They find that only 5 percent of households in the panel provided retrospective data about home sales and purchases that was inconsistent with the cross-sectional data. They attribute this high consistency rate to the fact that home purchases and sales are "well-defined, highly salient events." **Chun and Deng (2002)** examine the workout strategy decisions of commercial mortgage backed securities special servicers on loans that are 60-days delinquent. They find that cash flow considerations are relevant. This study differs from the present one in that they are not concerned with the eventual outcome of the mortgage, but with whether or not the loan receives a restructuring modification. **Ambrose and Capone (1996)** costs and benefits to various alternatives to foreclosure on residential mortgages are modeled and parameterized. They find that multiple alternatives can be optimal, including foreclosure and restructuring, depending on factors such as the interest-rate environment and movement of house prices. Ambrose and Capone (1998) empirically examine the effect of the loan, property and borrower characteristics on the eventual outcome of a residential mortgage in default. **Ambrose and Buttimer (2000)** modify the boundary conditions of the mortgage pricing model to include the value of the right to reinstate a mortgage in delinquency, and

Lewis W.A. (1954), strongly advocated the application of labour intensive techniques of production to have a steady and smooth economic growth. He opined that many important works can be done by human labour with very little capital. Efficient labour could be used to make even capital goods without using any scarce factors. In this sense, small scale and cottage industry should be developed and promoted especially in an economy where capital is scarce. He recommends the use of capital intensive techniques only when they are necessary. **Leibenstein and Galenson (1955)** took an opposite stand and tried to show that labour intensive techniques might generate immediate output but little surplus since the wage bill would be large. Economic development preceded investment but the use of labour intensive techniques leaves little surplus for investment. Hence, according to them, use of capital intensive techniques in the process of production will increase the re-investible surplus by minimizing the wage bill. **Graham Bannock (1981)** presents a vivid picture of the practical problems of the individual small business, showing how they relate to the wider issues of economic policy. He believes the release of the economic dynamisms inherent in the small business sector could help to generate the social and economic change needed for the resumption of inflation-free growth. **Roy Roth Well and 'Water Zegveld (1982)** reveal that SME have been and in general, continue to be, technologically innovative. Technology based new SMEs plays an important part in the emergence of new technology and in economic growth SME, particularly, young technology based SMEs also make an exceptional contribution to employment creation. Indepenclent SME, and their larger counterparts, does represent an important vehicle for regional regeneration.

Narayana Reddy (1983) in his doctoral thesis reports that SSI units are to equip themselves with better and improved methods of marketing, disseminated through proper training programmes cc~nducted by the Institute of Marketing, which may be started exclusively. Hence there is a need for creating the Institute of Marketing for small industry at national level. **Chita and Carl Lied Holm 'O (1985)** in a comprehensive study of SSI in Sierra Leone provide a new insight into the role of SSI in providing production, employment and earning opportunities. Besides giving an overview of the role of the rural and urban Industry in Siena Leone, the determinants of the demand for and supply of SSI products are examined. The report of the sub group on small-scale industries for the Seventh Plan had found that the efforts of the government have not met with the same degree of success in different parts of the country nor have they removed the basic weakness of the small-scale sector. **Ashok Kumar Singh (1985)** in his thesis made an effort to study the incentives and assistance provitled by the government and the infrastructure facilities available in Bihar. A brief account of the potentialities and prospectus of SSI in Bihar is also given. **Tara Nand Singh Tarun and**

Devandra Thakar (1986) reveal that the fundamental problem of Industrial development in India is the problem of transplanting and acclimatizing the fruits of technology so as to raise the whole level of productivity. Nisar Ahmad (1971) has made an effort to critically examine, both at micro and macro levels, the operational and other problems of the small-scale and cottage Industries in India with special reference to the state of Jammu and Kashmir. Sandesara (1988) study of assistance programmes for small-scale industries. The study revealed that units producing items in the reserved list did not show away superior performance over other units, mainly because the easy entry for new small-scale units had intensified the competition among the small units. Nasir Tyabji (1989) analyses the structure of small-scale Industries and role of small Industry policy as a component of the Indian development process and changes in the structure of Industry and nature of small enterprise development Sidhartha Shankar Dash and others (1990) in a study under taken in Balasori district in Orissa attempt to analyse the operational problems

in launching SSI units. They conclude that although policies are good, often delay in implementation and faulty implementation upset the entrepreneur's plan and in many cases lead the production process to a standstill.

Methodology:

The sample of this study comprised of 60 Industrial Units from the Ambala and Chandigarh. Mainly industrial units are from the scientific instruments and handicraft. These units require large amounts of workers and in Ambala and nearby region skilled labour related to these types of industries is easily available. A closed-ended questionnaire was prepared to understand the problems faced by the industrialists. Various statistical tool like cross-tabulation, ANOVA, chi-square etc. were used to analyze the questionnaire.

Analysis:

In response to the question which type of organization you have in which you working, following table was generated:

Table:3: Type of Company

Type of Industry	No. of Respondents	Percentage of Respondents
Sole Proprietor	41	68.33
Partnership	19	31.67
Joint-Stock Company	0	0
Total	60	100

Almost 70 percent of the respondents responded that their company is a sole proprietor type of the company and rest of them said that it is a partnership company.

In response to the query that what is the size of the company preferred by the proprietors, following response table generated:

Table: 4 Size of the Company

Size of the company	No. of Respondents	Percentage
Less than 20	20	33.33
Between 20-40	16	26.67
Between 40-60	15	25
More than 60	9	15

33.33 percent of the respondents said that size of the company is less than 20 workers. This shows that the one third of the company are very small in size. Almost 52 percent of the companies are having workers from 20 to 40. Rest 15 percent

of the companies have employee size more than 60 workers.

Factor analysis was adopted for knowing what are the main problem or problems faced by the SSI in this area of Ambala and Chandigarh

Table: 5.1 KMO Test

KMO and Bartlett's Test[a]		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.515
Bartlett's Test of Sphericity	Approx. Chi-Square	390.135
	df	45
	Sig.	.000
a. Based on correlations		

KMO Test was adopted, whose values comes out to be 0.515. This shows that factor analysis is fit for the sample taken for survey as the value is more than 0.5.

Table: 5.2 Total Variance Explained Table

Total Variance Explained

	Component	Initial Eigenvalues[a]			Extraction Sums of Squared Loadings		
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Raw	1	27.653	55.172	55.172	27.653	55.172	55.172
	2	4.943	9.862	65.034	32.596	9.862	65.03
	3	4.268	8.515	73.549			
	4	3.062	6.110	79.659			
	5	2.534	5.055	84.714			
	6	2.259	4.507	89.221			
	7	1.882	3.756	92.977			
	8	1.465	2.923	95.899			
	9	1.159	2.312	98.211			
	10	.897	1.789	100.000			
	10	.897	1.789	100.000			

Extraction Method: Principal Component Analysis.

Scree Plot
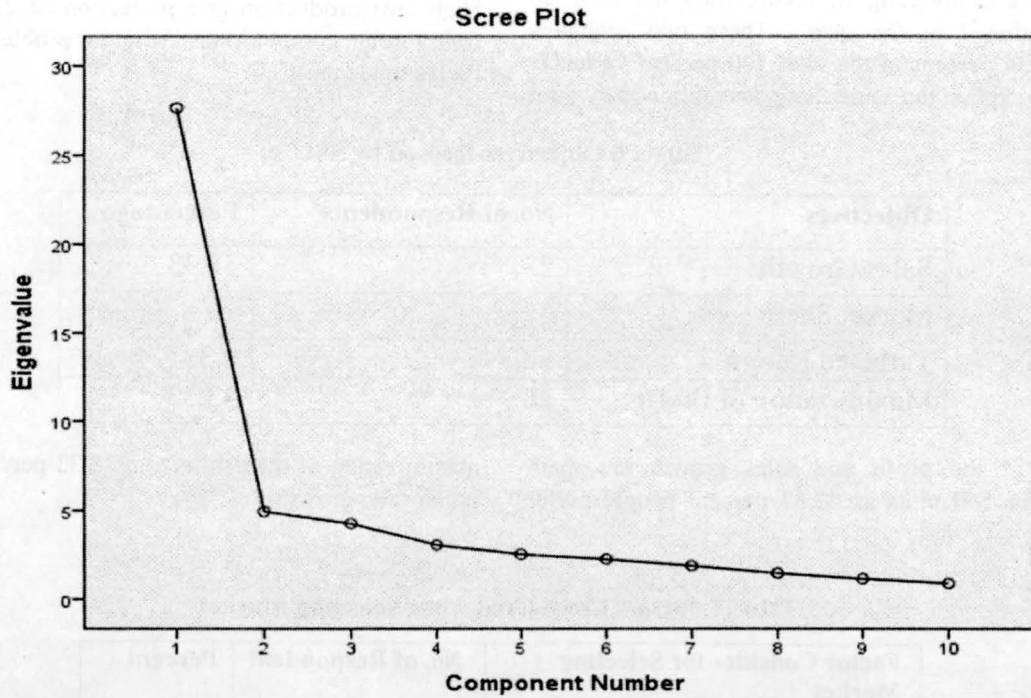
Component Matrix*

	Raw	Rescaled
	Component	Component
	1	1
Lack of Finance	-.272	-.188
Improper Segmentation	-.098	-.064
Price Fixation	.082	.049
Sales Promootion	.058	.036
Quality of Products	.244	.151
Lack of efficient executive	-.050	-.032
Technology up gradation	.193	.116
Protection of Domestic trade from Foreign Countries	.258	.169
High Cost of Production	5.232	1.000
Regulation of Export market	-.148	-.088

Extraction Method: Principal Component Analysis.

Total Variance table explained that there are two problems which are more dominating in nature than the total 10 problems mentioned in the query. These two problems explained 65.034 percent of the total 100 percent variance. Scree plot also explain the same thing as mentioned by total experience table.

High cost production and protection of domestic business from foreign completion is the major problems mentioned by the respondents.

Table: 6 Objectives focused by SSI

Objectives	No. of Respondents	Percentage
Sales Growth	23	38.33
Market Share	6	10
Targeted Return	5	8.33
Maximization of Profits	26	43.33

Maximisation of the profit and sales growth are main objectives of the SSI units as 43.33 percent people prefer maximization of the profits and 38.33 percent of the people prefer sales growth.

Table:7 Factors Considered while Selecting Market

Factor Consider for Selecting Market	No. of Respondent	Percent
Socio Culture	0	0
Market Potential	12	20
Per Capita Income	7	11.67
Life Style of Consumer	6	10
Economic Viability	14	23.33
Potential Ability	17	28.33
Innovation	0	0
Extent of Competition	4	6.67

Economic viability and potential ability are the main two factors considered while selecting market for the products manufactured by the SSI units. Almost 52 percent of the people preferred these two reasons. Life style of the consumers, per capita income are the other major reasons etc.

Table:8 Pricing Policies Adopted for Increase in Sales and Profit

Policies for Increasing Sales and Profit	No. of Respondent	Percent
Skimming	1	1.67
Penetration	0	0
Cost plus price	34	56.67
Marginal cost pricing	25	41.66

98.33 percent of the respondents prefer cost plus price and marginal costing as the major pricing strategies. Penetration is not preferred by any respondents.

Conclusion:

Most of the respondents prefer worker based strategies for marketing and their process running. Cost plus price is the major pricing strategies by SSI units. As sole proprietorship is the major organization structure so profit maximization is the major strategies preferred by them. High cost production and protection of domestic business from foreign completion is the major problems mentioned by the respondents.

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