

# A Study on The Industry Profile of The Servo Stabiliser Manufacturing SSI Units of The Coimbatore Region

\* Dr.Krishnaveni Muthiah    \*\* Ms.Sudha Venkatesh,

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## Abstract

*India is undergoing a shift from a developing economy to a developed economy. Generally any advanced economies concentrate on industrial and service sector. In India the service sector shows a consistent and satisfactory growth than the industrial sector hence more attention must be given to industrial sector. India aims to achieve a targeted ten percent GDP growth rate and it's GDP for 2007–2008 is estimated at nine percent. To reach the target it is necessary to overcome the constraints in three areas namely, agricultural sector, the small and medium enterprises and the infrastructure sector. In advanced economies like Japan and USA, SSI plays an important role. In thickly populated country like India whose population is 1.07 billion SSI plays a major role in relative terms of employment, exports and GDP. This present study covers the Servo Stabilizer Industrial sector, where most of the units are SSI units. The main aim of the study is to understand the business profile of the SSI units in this business and the industry profile of this sector. The findings of this study, stands as an example of how practical realities lay for SSI units in the Indian Industrial scenario. Keywords – Entrepreneurs, Servo stabilizers, GDP, SSI units, Industry profile.*

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## Introduction

India thrives to achieve a target of ten percent GDP growth, which is now at nine percent.<sup>[1]</sup> If this target is to be achieved then, according to Mr. A.K. Purwar, Chairman, Banking Committee, FICCI, constraints in three areas are to be overcome namely, the agricultural sector, the small and medium enterprises (SMEs) and the infrastructure sector.<sup>[2]</sup>

SMEs are of special importance to transition countries for a number of reasons. Firstly, they are able to provide

economic benefits beyond the boundary of the individual enterprise in terms of experimentation, learning and adaptability. These characteristics are especially important in economies undergoing radical transformation such as has occurred in the formerly centrally planned countries. Secondly, in most transition countries, the SME sector was largely neglected and even discriminated against in the early transition period with emphasis placed on the rapid privatization of large scale enterprises and not the development of the SME sector. This has arguably resulted in

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\* Asisstant Professor, PSG Institute of Management, Coimbatore, India. muthiah992000@yahoo.co.in

\*\* Co- ordinator, Annamalai University, DDE – Computer Training Centre. Coimbatore.

less resources and attention being paid to the needs of SME development. In addition, research in transition countries shows, that even if SMEs do not generate net new jobs, they reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled yet unemployed workers (EBRD, 1995).

## **Review of Literature**

### **SME and Entrepreneurship**

In the last ten years, governments in the transition countries have introduced a number of policies aiming to promote entrepreneurship through SME development. The main impetus for this 'intervention' is the specific constraints encountered by SMEs. It is argued that though the SME sector can be much more responsive and flexible to changes in the marketplace, it is also much less able to influence such developments. Limited access to finance, a low degree of professionalism, difficulties in recruiting qualified personnel, dependency on clients and suppliers and the absence of economies of scale are identified as the core SME sector weaknesses and the main areas where SMEs may require special attention (Burns, 2001).

Since small businesses are often considered a nursery of entrepreneurship, such businesses may be expected to relate to their environment by changing the pattern of environmental linkage, for instance, by identifying opportunities, developing products, introducing new

products and entering new markets. In order to do that, small firms have to be innovative, risk-taking and proactive, characteristics which are dimensions of entrepreneurship. Since entrepreneurial behaviour and marketing behaviour are similar in nature (Hills and LaForge, 1992), the responsibility of marketing as emphasized by (Murray, 1981) is to analyze environmental evolution and translate its observations into recommendations for the redesign of the corporate resource base and its product-market portfolio.

### **Job Creation**

According to the Australian Bureau of Statistics (ABS, 1999) there are approximately 900,000 businesses currently operating in Australia of which 94-96 per cent are considered SMEs. These enterprises have generated more than half of Australia's employment growth and are seedbed for innovation and the formation of large corporations (Australian Bureau of Statistics, 1999). However, a wide array of evidence rejects the view that small firms are the engines of job formation (Dunne, Roberts, and Samuelson, 1989; Leonard, 1986; Brown, Hamilton, and Medoff, 1990). For instance, Davis, Haltiwanger and Schuh (1993) show that while gross rates of job creation and destruction are higher in small firms; there is no systematic relationship between *net* job creation and firm size.

There are abundant opportunities and ample means available to the nation to achieve the objective of creating additional employment opportunities. The public

organized sector however cannot be the target area, since it will continue to shed jobs for quite some time. Although the growth of the private organized sector will contribute significantly to the growth of the economy, its contribution to employment generation will be quite modest, since total employment in this sector at present represents only 2.5 per cent of all jobs. The largest number of new jobs will be created by small and medium enterprises (SMEs), which contribute the vast majority of private sector jobs in more advanced economies such as the USA, Japan and Korea. International experience confirms that SMEs are better insulated from the external shocks, more resistant to the stresses, and more responsive to the demands of the fast-changing technology adoption, globalization and entrepreneurial development. Employment has nearly tripled in India's small and medium sector over the past 20 years. A repetition of this performance would generate an additional 150-200 million jobs by 2020. (Gupta, 2002).

### **Economic Development**

Small and medium-sized enterprises make a substantial contribution to economic growth and employment in most countries around the world (Organization for Economic Co-operation and Development, 1997). The individual impact of SMEs is relatively small, but their collective impact is substantial. SMEs typically represent about 95% of all private sector firms in most modern nations, and so form a major portion of all economic activity (Schaper, 2002). Furthermore, they account e.g. for 35 % of exports from Asia

and approximately 26% of exports from developed countries including the United States (Organization for Economic Cooperation and Development, 1997). In selected countries such as Italy, South Korea and China, SMEs contribute as much as 60% of total national exports (Knight, 2000). In Belgium, they represent 95% of all businesses and employ 40% of the labour force in private companies.

Small firms are capable of producing a larger quantum of consumer goods than before to meet the possible increase in demand that would arise on account of the spurt in incomes, generated by fresh investments in heavy and basic industries. It is also taken for granted that small firms would, in the process, create additional employment opportunities. Implicit also is the assumption that SSIs are less capital intensive and more labour absorbing. This is regarded as an important gain of promoting SSIs, given the country's resource endowments, namely labour abundance and scarcity of capital. <sup>[3]</sup>

SMEs in India constitute more than 80% of the total number of industrial enterprises and form the backbone of industrial development but yet suffer from problems of sub-optimal scales of operations and technological obsolescence. As the countries integrate into the global village, the small and medium enterprises will have to respond accordingly. They deserve special attention as they play a pivotal in a country's socio-economic development. To enable SMEs to mitigate their problems and enhance their access to new technologies

for increasing their competitiveness in the international market, it is imperative to give conducive environment, which in present context of globalization, calls for an human-centered approach with tacit knowledge playing a predominant role (Kharbanda, 2001).

### **Need For The Study and Objectives**

According to the Report on 'Market forecasts and Indicators for 2002-2012' by the Centre for Industrial and Economic Research (CIER) India, stabilizers are one of the fastest moving items. The sector is likely to stabilize between 5 and 7 per cent growth rate. The market for stabilizers was about 5.25 million pieces a year (2002) in India. As per the Report, for 2007 the demand estimation is 7.3 million pieces. The estimation is that by 2011-12, this demand will go up to 9.3 millions. More than 80 per cent of the stabilizers are made in the small and informal sector. Thus it is a sector, in which there is scope for bringing forward the typical business situation of an Indian manufacturing sector having predominantly small scale units, a sector which would also reflect the entrepreneurial spirit needed for sustenance and growth.

#### **Objectives**

- (i) To identify the business profile of the servo stabilizer manufacturing enterprises.
- (ii) To study the industry profile of the sector in the Coimbatore region.

### **Methodology**

Servo stabilizers are a product commonly used in all industries. Industries depend on servo stabilizers in the proper running of their machinery. The manufacturing centres of servo stabilizer in India are mainly in the following nine centres namely, Delhi, Mumbai, Pune, Ludhiana, Noida, Bangalore, Hyderabad, Chennai and Coimbatore. Out of nine manufacturing centres, Coimbatore centre has been chosen for this study.

This research is exploratory in nature since many of the enterprises are unregistered SSI units. This sector does not have any association and therefore the list of such manufacturing firms was collected through various sources like Coimbatore District Small Industries Association, District Industrial Centre, Raw material suppliers, Just Dial and Kovai call. The selection of these units for study was based on three criteria. The first criteria was to consider the manufacturing firms hence business firms only trading in servo stabilizers were not considered. In tune with the objective, the second criteria were to consider only manufacturers situated in Coimbatore. The last criteria, only enterprises manufacturing servo stabilizers are considered and not entrepreneurs manufacturing line voltage stabilizers for domestic purposes. From the list of manufacturers compiled, it was found that one big enterprise has stopped manufacturing servo stabilizers. Three manufacturers do not exist in their addresses and hence considered as closed down enterprises. Out of the 12

manufacturing enterprises, 7 agreed to participate and the remaining declined to participate due to unwillingness to reveal their sales and profit details. A structured interview schedule was constructed with the advice of the experts in this field. The entrepreneurs were contacted and the details of the interview schedule were explained to them. With the consent of the entrepreneurs convenient timing was fixed to facilitate them to participate in the interview. The executive managers of the units were also met personally to collect the business details of the firms. The data thus collected were analyzed using frequency analysis, ranking method and Porters five force model of industry analysis.

## Results and Discussions

**Business profile of the units:** Of the units studied only one unit has been a new entrant in the last five years, all the other six units have been in this business for the past five to ten years and above.

Sole proprietorship, partnerships and private firms are equally found to be the forms of ownership in this servo stabilizer manufacturing sector. Products profile shows that these units though their main production is servo stabilizers they also now and then produce UPS (Uninterrupted Power Supply) devices and power inverters.

Capital employed, that is, initial capital plus additional capital employed, among these units varies from Rs.2,00,000 to Rs.10,00,000. The average initial investment among these firms is Rs.340,000 . The latest entrant has started

the business with a capital of Rs.300,000 . In the capital structure the debt equity of these firms taken together shows that 64 per cent is own capital, 18 per cent is borrowings from banks and another 18 per cent is borrowings from friends and relatives. Education level of the entrepreneurs shows that they are either general graduates or diploma/degree holders in Engineering.

The production capacity created with the capital employed varies from Rs. 10 lakhs to Rs.100 lakhs. The present units report a capacity utilization of 50 -80 per cent. The sales volume for the past three years shows that it lays between Rs.25 - 100 lakhs for these firms. The profit margin for most (70 per cent) of the firms is up to 10 per cent and for few (30 per cent) it is 10-20 per cent. The number of employees in these firms varies from 12 to 20 workers. Though the numbers are small these entrepreneurs also report that they face the problem of retaining trained skilled workers.

**Inference: Enterprising people who have knowledge in this industry, capable of generating capital through their own effort start this business. If it is a sole proprietorship the work is shared between the spouse and the family members. In partnership firms the work is shared between the partners and thus employee very few employees.**

**Industry profile of servo stabilizer manufacturing:** Through the various responses collected from the participating units on various aspects related to their

details about their production, employment, sales, customers and competition reveals the industry profile of the selected manufacturing centre of study to be as depicted in figure-1.

**Industry profile of servo stabilizer manufacturing [based on Porter's five force Model] Figure-1**

	<p><b>THREAT OF ENTRY</b></p> <ul style="list-style-type: none"> <li>- low barriers to entry             <ul style="list-style-type: none"> <li>- low capital</li> <li>- easy learning of technology</li> </ul> </li> <li>- easy access to inputs             <ul style="list-style-type: none"> <li>- no restrictive government policy</li> <li>- majority are unorganized sector</li> <li>- limited employees</li> </ul> </li> <li>- brand identity, not mandatory</li> <li>- low switching costs             <ul style="list-style-type: none"> <li>- easy access to distribution</li> </ul> </li> </ul>	
<p><b>SUPPLIER POWER</b></p> <ul style="list-style-type: none"> <li>- no problem in finding supply sources</li> <li>- importance of sales to supplier is commendable</li> <li>- available substitutes for inputs</li> <li>- low switching costs for firms in the industry</li> <li>- good presence of alternate inputs</li> <li>- very low threat of forward integration</li> </ul>	<p><b>DEGREE OF RIVALRY</b></p> <ul style="list-style-type: none"> <li>- low exit barriers</li> <li>- industry concentration in clusters</li> <li>- nominal fixed costs, - nominal value addition</li> <li>- mostly products are supplied on demand</li> <li>- more or less non existent product differences</li> <li>- more or less non existent switching costs</li> </ul>	<p><b>BUYER POWER</b></p> <ul style="list-style-type: none"> <li>- high bargaining power of the buyers</li> <li>- increased free service maintenance</li> <li>- supplying standby products</li> <li>- very high price sensitivity</li> <li>- no threat of backward integration, so negotiation is important</li> <li>- notable buyer concentration</li> <li>- very liberal credit facilities</li> </ul>
	<p><b>THREAT OF SUBSTITUTES</b></p> <ul style="list-style-type: none"> <li>- high substitute switching costs</li> <li>- buyer not inclined to substitute</li> <li>- quite critical price-performance trade-off of substitutes</li> </ul>	

Entry barriers are very low. **Threat of entry** is very high. The view shared is that, the 'firms' own employees can easily start competing business getting to know the customers while working for the firm. Yet the number of players is quite low. Competition is from many players who are trading servo stabilizers. Usually competition is from the players in the local manufacturing cluster, in exceptional cases buyers might resort to sourcing from far off manufacturing clusters. But this practice is highly limited because of speedy on time after-sales-service extended by the firms in the local cluster.

On the **degree of rivalry**, they are indulged in quantity sales rather than quality sales. Moreover to increase the market share, the units are ready to sell at one percent profit or even at the cost price of the product. In the long run none of the units are benefited. In order to compensate the loss of market share the units have to expand the area of operation. Business expansion is possible for the participating units. There is scope for more business. Higher the investment, more returns, higher risk, greater pressures. Market share is there to the extent, the entrepreneur wants to expand his business.

On the point of **threat of substitutes**, currently as a product substitute there exist only Uninterrupted Power Supply (UPS) instruments which are far high priced than the servo stabilizers of similar capacity, so there is more or less no threat of substitutes. If government can supply

uninterrupted and regulated power supply, then these stabilizers will loose there place and necessity. This again is not a position feared for years to come. Another threat is a situation wherein there might be cheaper Chinese products, like CNC machines with in-built stabilizers entering the market. Only for lower capacity of servo stabilizers, the customers have switched to uninterrupted power supply. The prices of the substitutes is much higher than the servo stabilizers, if the price of the substitute products reduces or otherwise the price of the servo stabilizer increases then the buyers will opt for substitute products.

**Bargaining power of the buyers:** Reducing the prices to retain the customers has become essential, in order to make service revenues in the future. The buyer who is able to make payments immediately has a dictating power over the manufacturers. They get the least price and other benefits in this negotiation. Differentiation in the product is not much and so there is always competitor of the firm who is ready to supply the product. Cost is the only main differentiating factor. Hence supply on credit has become the norm. So this leads to critical working capital management. Every order gets decided on an order-by order basis. Delayed payments and bad debts are common working capital challenges to be met.

**Bargaining power of the suppliers:** The situation the 'firm' faced with the buyers is now for its suppliers with the 'firm'. Switching over the supplier is quite

easy. So negotiations play an important role. Credit terms of supply are easily demanded.

### To sum up

Today's knowledge based economy is fertile ground for entrepreneurs in India. India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs<sup>[4]</sup>. This study has helped to find the role of SSI units in a selected industrial sector. The insights gained through this study, would provide a platform for the existing SSI units and potential units to frame up the future plan of action.

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- <sup>1</sup>The economic Outlook for 2007-08 prepared by the Prime Minister's economic advisory council (EAC)
- <sup>2</sup><http://www.ficci.com/media-room/speeches-presentations/2006/mar/march10-purwar.htm>
- <sup>3</sup> Address by Mr.Vepa Kamesam, Deputy Governor, Reserve Bank of India at OECD "Workshop on Entrepreneurship in a Global Economy : Strategic Issues and Policies" at Budapest in the panel "Identifying the Real Policy Issues" in the Session on "Improving Financing for Entrepreneurship and SMEs" on September 9, 2003
- <sup>4</sup>Satish C.Ailawadi,"Entrepreneurship Challenges in 21st. Century", Indian Institute of Materials Management.