UNIT 6

MARKETING CHANNEL

With market forces changing rapidly, marketing has been seen as a change agent — a means of continuous adjustment and adaptation. This refers to significant orientation in marketing management and priorities. The imperatives of market exploitation demand understanding meaningful marketing facts, observations and opinions. The dynamics of successful marketing calls for selecting the right questions, getting answers, organise, evaluate and form strategies to deal with competition and technological changes. Marketing perspective focuses on what we want to find, how and where we find and what we believe it means to the business. It is an integrated approach to generate market power by critical analysis of the market logistically, segment proportion of the customers, understanding profile of customers and the competitors, finding new products and services, customer preferences, customer records as to rentention and defection etc.

Since the market place in the last decade has been registering rapid transformation, we are witnessing the business events reflect a distinct pace and capacity for expansion. The moments signal continuous shift in the way of performing — both in style and behaviour. Market is now being defined and perceived as a group of competitors. Hence there is an entrepreneurship surge in the market — the triumph of the entrepreneur. It suggests great opportunities in the fast growing market where there are many under served market niches. Marketers are always competing to locate the markets that will value the products and would pay for them. It calls for concentrating on market efforts of targeting and positioning the product. "ME TOO" profile of a market man is the formidable force enabling him acquire distinct competence and chalk out specific strategies for business emphasis. The competing dynamics is resulting in reinventing the marketer. It is the only stimulus today in the development of "new" market concepts. Today 'operating salesman' is reborn as a marketer because he is to take strategic decisions in the new market requirements.

Market focus therefore demands —

- — Perceiving market as market intelligence.
- — Targeting customers.
- — Managing for profitability and not sales volume alone.
- — Building customer relationship and loyalty.
- — Growing with the market.

So, *'Compete'* is the buzz word. It is forcing market operators to develop innovative strategies to sway over the market.

Today's salesman, *nay* the marketing man must always edge closer to the market call to transcend the adventurous customers. And excel by solving daunting problems continuously to be different in the market.

Marketing information will become a highly valued asset in today's information age. Monitoring and scanning scenario building and continuous planning would be the marketing priority. As the future will occupy a prominent position in marketing research concerns, marketing research is expected to change both in technique and orientation. Marketing intelligence, therefore will be a critical factor to be given greater attention to. While assessing strategic situation, executives will be focussing on marketing factors and strategies, corporate affairs and public relations activities. Marketing environment is expected to be paradoxical — keenly competitive, but exhibiting more cooperation, making marketing more important in the management hierarchy.

Marketing intelligence is supposed to explore real demands of the customers and the steps the competitors are taking to fulfill the same. Marketing intelligence is a way to understand the customer's perception of values and purchase preference. It shall be imperative for the organisations to be alert about competitor's approach towards marketing determinants like dependability and reliability, consumer-friendly features, technical specification, high quality and service uniqueness.

Marketing intelligence has a greater value today in view of market complexities — consumer preferences *vis-a-vis* the product availability. Consumer, therefore goes wholeheartedly for the quality product and the excellence in services. Based on these premises, the success of marketing organisation should be measured — how far the organisation is adapting itself to the customer's aspirations. It is in this context that marketing intelligence has its importance. It enables the organisation to be pro-active in terms of futurology.

Marketing intelligence addresses to the constant research and a deeper insight of the market changes and consumer preference and the organisation's response in terms of products and services. The recent phenomenon in consumer market suggests a continuous adapting to the changes in technology and products. Today, when there is a shift from micro to macro business environment, it is high time we thought of an organised market intelligence for regular communication and integration for market exploitation at all operational levels.

It is therefore, imperative:

- To go deeper into the mechanism of the sales and profit element of business,
- Assess the market potential,
- Monitor and measure the market place,
- Locate and attract new customers,
- Identify the customer's preferences, review the customer's defection percentage and the reasons thereof,
- Fight competition with competitive edge,
- Adopt competitive technology to enhance performance and profitability.

Market has been aspiring lately for more products and a faster pace. The market operators therefor must rush to move markets using abundant marketing intelligence.

CHAPTER 37

METHODS OF MARKETING

Introduction

The resources required for taking care of the various marketing aspects are obviously lacking with the small-scale sector with which they are not in a position to compete with large well-established business houses and have to face unfair competition. A small detergent manufacturer, for example, cannot compete with Hindustan Lever or Tatas for a market share due to his inability to conduct surveys, create a brand image, establish marketing channels etc. He has therefore to remain content with whatever residual market is left over after the major share is covered by these corporations. The Government has banned the large sector from producing certain items but such preventive measures have not solved the basic marketing problem of making available quality goods at a reasonable price to the consumer, *the ultimate aim of all manufacturing activities.* The consumer's interests must therefore be safeguarded. As a buyer he would certainly like to get quality goods at a reasonable cost without bothering to know whether the goods are produced by a small entrepreneur or by a big industrial house.

The strategy for marketing goods produced by entrepreneur must therefore be ultimately beneficial to the consumer. No consumer is going to purchase goods unless he is satisfied with their quality and wherever necessary by an efficient after-sales service.

The Marketing Concept

It is necessary to distinguish between marketing as a concept and marketing as a group of activities that executives carry out, between marketing as a *'thought-process'* and marketing as a *'doing-process.'* Marketing must start as a concept which defines the purpose of marketing operations rather than as a description of the operations themselves. For when a company has embraced the marketing concept there are many different ways in which the marketing functions can be organised according to the particular circumstances and environment in which the individual company finds itself. There is no universal formula for mobilising and organising the marketing effort and no single mould for casting a firm's marketing structure. There is, indeed, no universally accepted definition of *'marketing.'*

The American Marketing Association (AMA) defines marketing as *'the performance of business activities that direct the flow of goods and services from producer* *to consumer or user.'* As it stands, this definition is purely factual and descriptive. It emphasises activity rather than effective accomplishment. It does not provide an adequate explanation of which goods or services in what quantities and with what characteristics ought to be produced or of the importance of planning and integrating these and related activities concerned with the movement of goods and services from the producer to the consumer. Marketing does not merely take over where production leaves off but is concerned with determining the nature and scale of production and with profitability, exploiting a firm's capacities and technological know-how in relation to marketing opportunities. In other words, marketing decision precedes production decisions and investment decisions. The economies of large-scale production and return from long-range investments cannot be realised unless the output can be sold and the added capacity resulting from investment fully utilised, at least for most of the time. There is nothing so wasteful as doing with great efficiency that which should not have been done at all. Finally, the above definition places the consumer or user at the trail-end of the production-marketing sequence.

J.H.Buck, a Unilever food marketing specialist, gave his organisation's definition of marketing as *'the planning and execution of all aspects and activities of product so as to extent optimum influence on the consumer to result in maximum long-term profit.*[1] The key element in this definition is maximum consumption at optimum price resulting in maximum long-term profit.' A company must first establish the benefits of its products to the prospective purchaser and these benefits must be saleable at a price at least sufficient to cover the cost of initial product development and of getting them across to the purchaser or user. Further, the bundle of benefits represented by the product must be recognised by the potential purchaser as value for the money he is asked to pay. At this stage, marketing aims to ensure that the quality and performance of the product, its penetration and the advertising, all combine to give the most effective share in the market. It is right and proper that this should be so since one of the major criteria by which a company's performance is judged is the profit earned in relation to capital employed in the business.

Allowing for varying degrees of generalisation and emphasis, most of the foregoing definitions are broadly in accord. The danger to be avoided, of course, is ending up with a definition which sacrifices precision for the sake of the generalisation. What is required is a precise and concise definition which is both meaningful to the individual firm, and at the same time, is applicable to all types of business in the consumer and industrial goods and service fields. Therefore, marketing can be defined as the primary management function which organises and directs the aggregate of business activities involved in converting customer purchasing power into effective demand for a specific product or service and in moving the product or service and in moving the product or service to the final customer or user so as to achieve company-set profit or other objectives.*

1. Institute of Marketing and Sales Management, published paper No. 128, April 1962.

* The Institute of Marketing codified a new definition in September 1986, with acknowledgement, and incorporating the following sight word changes: marketing is the management function which organises and directs all those business activities evolved in assessing and converting cutomer purchasing powe: into effective demand for a specific product or services to the final consumer or user so as to achieve the profit target or other objectives set by a company.

Traditional Marketing vs. Modern Marketing

Traditional Marketing	*Modern Marketing*
1. Meaning It deals with production and products to be sold out at any cost to consumers.	It deals with production and distribution, satisfying the needs of consumers.
2. Satisfaction of consumers It deals with circulation of products, irrespective of satisfaction of consumers.	It considers consumer satisfaction as an important aspect.
3. Profit generation Profit-earning has weightage.	Profit motive is secondary to the satisfaction of the consumers.
4. Approach It is product-oriented.	It is consumer-oriented.
5. Mutual relations It does not find any relationship among the various marketing functions.	It takes into account relationship, coordination and integration among all the marketing functions.
6. Social responsibility It has such an approach.	It deals with satisfaction of consumers as a social responsibility. Therefore, it provides quality products, in time at reasonable prices. Moreover to pay taxes in time to govt. and participate in govt. welfare programmes.
7. Research & development It is absent in this regard.	However, it has a basis of research and development of products, marketing research for products, consumers and publicity.

The term *'customers'* in the foregoing definition of marketing, means not only the ultimate consumer or user of product but the manufacturer's own customers, importers, retailers and wholesalers who must be induced to stock, distribute and give active selling support to the product if the final user is to be able to buy it. Effective demand means demand at price the customer is both able and willing to pay and at a profit that makes it worthwhile for a company to make and supply the product. By *'specific product or service'* is meant a product or service which by virtue of its differentiation, real or imaginary, can be readily distinguished from competitive substitute products or services. The differentiation, whether of a characteristic of the product itself, of its packaging or pricing, of its advertising and promotion, must be significant enough to form the basis of preference by the potential customer.

The Institute of Marketing codified a new definition in September 1986, with acknowledgement, and incorporating the following slight word changes: marketing is the management function which organises and directs all those business activities evolved in assessing and converting customer purchasing power into effective demand for a specific product or services to the final consumer or user so as to achieve the profit target or other objectives set by a company.

A very large part of the marketing effort of most companies and an ever increasing share of marketing expenditures, is taken up with keeping the company's products on

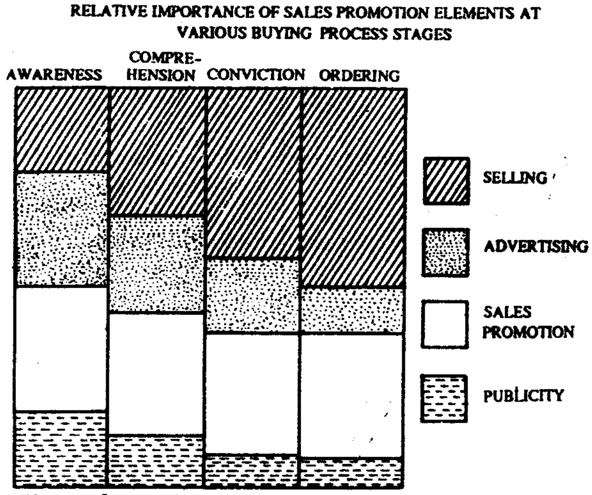


Fig. 37.1

Source: Puzzullo, M.A. (1982), "Marketing for Bankers", American Bankers Association, Washington, p. 298.

the move between the factory's warehouse and the final customer. The whole of the company's sales, effort, through personal selling and advertising, as well as the location of supply — warehousing, depot location, stock control and shipment, represent a major component in marketing costs. Whenever products stop moving for any reason on their journey towards the ultimate user, they accumulate cost — for warehousing and storage, insurance, stock-handling, order processing and packing, stock-obsolescence and deterioration.

Ideally, marketing aims to secure the optimum rate of movements of products from factory to final user, that is to say, that rate which combines the most profitable rates of sale and stockturn and the minimum level of investment in stocks consistent with providing adequate service to customers. This last point can be critically important in the case of certain goods subject to cyclical or seasonal supply and demand. Where

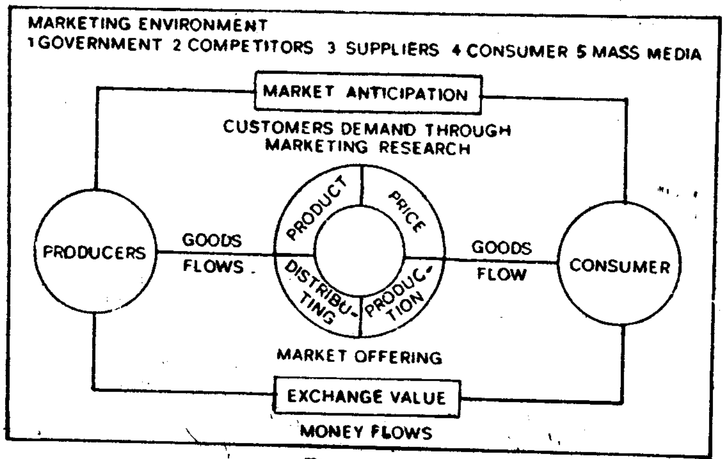


Fig. 37.2

it is necessary to hold strategic reserves of a particular commodity or product then the accumulation of cost by holding heavy stocks may be less than the accumulated cost of frequent or irregular short-run production.

Finally, in our definition no assumption is made as regards the profits maximising or cost-minimising goals of the company. In any given set of circumstances, the profit objective is not the sole measure for judging a company's performance over a given period of time. Factors such as building up the company's prestige or status in the industry, the fear of attracting new entrants to the market, the fear of government intervention and regulations, the desire to an 'average-rate of profit' between the highest attainable short-run profits and the greatest risk of maximum losses are other legitimate objectives or considerations. However, it is fair to say that every company goal, regardless of the language in which it may be couched, has an economic dimension.

The British Institute of Marketing has defined marketing as *'the creative management function which promotes trade and employment by assessing consumer needs and initiating research and development to meet them; it coordinates the resources of production and distribution of goods and services; determines and directs the nature and scale of the total effort required to sell profitably the maximum production to the ultimate user.'*

This definition is more explicit than that used by the AMA since it makes specific reference to the research and development responsibilities of marketing; to the key coordinating role it plays between the linked process of production, selling and distribution. According to the definition, marketing is nothing more or less than the total business function of producing a saleable product.

Salient Features of Marketing

The salient features of marketing are:

(i) It is a creative function;

(ii) It promotes business and employment;

(iii) It co-ordinates finance, production and distribution, and determines and directs the scale and value of the total efforts;

(iv) There is an emphasis on what the customer/borrower wants;

(v) There is an emphasis on the social good, on increasing employment, by giving the customer/consumer the chance to decide; and

(vi) It is a process of exchange between seller and buyer. It may be a commodity or a service.

Business firms in competitive markets must abandon the historical approach of manufacturing what they want to sell and instead manufacture what their customers want to buy. However, this does not mean that through market research, customers can provide the manufacturer with a fairly detailed specification of the product they want. In practice, consumers cannot demand product not already in existence; they are not very articulate when it comes to specifying their particular requirements; they have difficulty in visualising what the product should look like and what they expect it to do for them. The basic idea for a product comes from the manufacturer, arising out of his detailed knowledge and understanding of consumer needs, and his ability and ingenuity in translating, in technological terms, a specific need into a workable product at a price which the consumer is prepared to pay and which gives the manufacturer sufficient profit to make it worth his while to market it.

Thus, management decisions and the policies based on them are taken in the fullest possible knowledge of market factors and awareness of the effects of those decisions and policies on the market. This should not be taken to imply that all management decisions are reached in this way but simply that, in the final analysis, management has the responsibility for making a profit through supplying a marketable output, out of a company's technological facilities and know-how that creates saleable products. Production and investment plans, raw materials procurement and employment programmes can only be based on confidence in what can be sold.

Chart 37.1

Four Basic Business Strategies

	Products	
Markets	*Present Products*	*New Products*
Present Markets	Market Penetration	Products Development
New Markets	Market Development	Diversification

Source: Adapted from, Ansoff, H. (1965), *Corporate Strategy,* McGraw-Hill, New York.

The Principal Marketing Functions

A marketing function may be defined as a major specialised activity or group of activities performed in the marketing of goods and services. Although the performance of a specific function may be inescapable, it is frequently transferable; in other words it has to be performed by someone regardless of his official title and responsibilities. Another characteristic of a function is that whereas its purpose may be unchanging, its content, in terms of the number and kinds of activities involved, may be subject to constant change. Newer and better ways of doing things and carrying out traditional functions are continually being developed.

Traditionally, some seven or eight so-called marketing functions have been listed and normally include *(a)* the exchange functions of buying and selling, *(b)* the physical distribution functions of transporting, warehousing and handling goods between producer and customer, *(c)* what are usually described as the *'facilitating'* functions which take in product standardisation and simplification, commercial and market information, financing and risk-bearing. (It is questionable whether risk-bearing, in the true entrepreneurial sense of committing one's own resources to a speculative venture, really belongs in any list of marketing functions, risk-bearing is a responsibility jointly undertaken by the managers of a business or solely by the chief executive).

This kind of analysis is inadequate as a description of modern marketing activities since it fails to distinguish clearly between major functions and the specialised activities which comprise the different functions. Under the modern marketing concept, there are four principal functions — marketing research and information, product planning, selling and distribution, and advertising and promotion. Chart sets out those major functions and the specialised activities involved in each.

Chart 37.2

The Principal Marketing Functions

Specific function	*Activities involved*
Marketing Information and Research	Economic, business, trade, industry, consumer, user, product, sales and advertising research and analysis. Information handling and data processing. Marketing operations research. Competitive intelligence.
Product Planning	Determining and developing the company's product mix. Matching the products' specifications, packaging, pricing, performance and servicing to customer needs through product and service improvements and new product development.
Sales and Distribution	Field selling Selection of distribution channels Warehousing Transport Sales analysis Sales reporting Sales forecasting Sales budgets and quotas Merchandising Sales communications
Advertising and Promotion	Advertising to the customer or user in all media (press, television, cinema, radio, outdoor posters, etc.) Consumer promotion directed at the customer or user, e.g., reduced price offers, banded pack offers, premiums, competitions, couponing etc. Point-of-purchase display material. Trade promotion, e.g., incentive schemes, display competitions, sales contests.

Extracted from *Marketing in a Competitive Economy* by Lesile Rodger.

Marketing Mix

A successful marketing strategy depends upon a marketing mix of all the marketing elements and resources.

The basic marketing mix is the blending of four inputs or sub-mixes which form the core of the marketing system: (1) Product mix, (2) Place mix, (3) Promotion mix, and (4) Price mix. The outputs are optimum productivity and satisfaction.

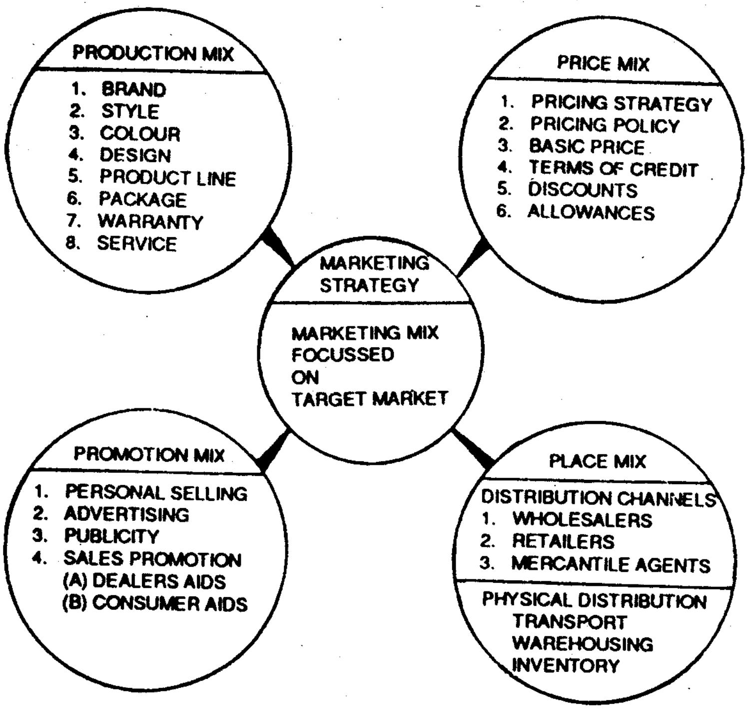


Fig. 37.3: Elements of Marketing Mix

Marketing Process

Marketing involves three basic inputs: the product, the promotional methods and the distribution system. These three are the core of the marketing programme and must be integrated to achieve maximum consumer satisfaction and optimum profits. The marketing process brings together producers and customers — the two important segments in any exchange. An exchange or a transaction takes place when a market offering is acceptable to the customer who is prepared to give something in return for the product he purchases.

The marketing process starts with knowledge of the customer, his needs and ends with a customer purchase and the satisfaction of those needs. Through technical product research and customer research, generalised needs are translated into specific product sales opportunities. Product planning identifies and specifies the particular product-price-package combinations to exploit these opportunities. Products are engineered or formulated (a number of variations of a single prototype may be made up), screened and tested with customers for overall acceptance and performance. Final decisions have to be taken on packaging design, pricing and trade terms. Assuming that one product stands out as eminently suitable in all major respects the next step is to prepare a marketing plan, in writing, setting down all the relevant facts about the product, the market, and the competition, the company's marketing objectives and sales goals and the means by which they are to be achieved.

BOX 37.1 ELEMENTS OF THE MARKETING MIX

1. *General Planning:*
   (–) Establishing an acceptable and possible rate of growth.
   (–) Determining the size and extent of market where business may function profitably.
   (–) Determining the costs and expenses needed for the business operations.
   (–) Estimating the finance needed.

2. *Product Planning:*
   (–) Determining the product or service offered.
   (–) The possible improvement and innovation in the product.
   (–) The brand and packaging policies.
   (–) The importance of servicing and after-sales service.

3. *Pricing:*
   (–) The level and psychological aspects of prices.
   (–) The appropriate margin.
   (–) Research price maintenance.
   (–) Government control, if any.

4. *Channels of Distribution:*
   (–) Selling through wholesalers.
   (–) Appointing sole selling agencies.
   (–) Selling direct through own sales force.

5. *Sales Force:*
   (–) The extent of personal selling.
   (–) Extent of approach to wholesalers and retailers.
   (–) Extent of approach to consumers direct.

6. *Advertising and Sales Promotion:*
   (–) The advertising programme.
   (–) Importance given to display and point-of-sale material.
   (–) Extent of sales promotion aimed at consumers.
   (–) Extent of sales promotion to dealers.

7. *Physical Handling:*
   (–) Transportation.
   (–) Warehousing.
   (–) Inventory policies.
   (–) Possible reduction in costs.

8. *Marketing Research:*
   (–) Sales analysis.
   (–) Field surveys.
   (–) Use of outside agencies.

Market Segementation

No organisation can effectively serve all sections of the market. This is so, because customers are numerous, widely spread over and differ in their buying practices/requirements and perceptions. This is more relevant to SSI units, in view of their resource constraints. It is, therefore, essential to first decide which segments of the market the organisation would be in the best position to serve. This can be facilitated through market segmentation.

This country has many diversities with regard to consumption patterns. Thus, in reality, it is a conglomeration of several markets in which people tend to differ. People can be regrouped demographically, economically, and socially, but even within these groups, each set of consumers can be differentiated further. For instance, individuals sharing a common demographic profile may show variations in terms of a cultural and demographic mosaic. The marketer has to recognise all these differences since each individual represents a unique opportunity.

Segmentation is dynamic and extends beyond the traditional two-dimensional classification. We need to treat it as three- four- or five-dimensional segmenting. Many intelligent companies have been able to do beyond two-dimension. However, it is only the gut feeling of the marketer that will help him venture into the fourth and fifth dimensions of segmentating. Thus, segmentation itself becomes a multi-dimensional issue, and a marketer has to face a complex matrix in terms of positioning products.

Segmentation or subdivision of the market is based upon the modern marketing concept, i.e., market oriented strategy and philosophy. Segmentation places special emphasis on the demand side of the market. It is a more rational and more precise adjustment of the product and marketing effort is tuned to consumer of user needs and requirements. Segmentation implies bending of supply to the will of demand as far as feasible and desirable. It recognises that there are several demand schedules and not necessarily a single demand schedule or curve. For each demand schedule representing a group of buyers with similar needs and characteristics, we can prepare a separate and precise market offering or marketing mix.

Market segmentation is a method for achieving maximum market response from limited marketing resources by recognising *differences* in the response characteristics of the various parts of the market. In a sense, market segmentation is the strategy of *divide and conquer, i.e.,* dividing markets in order to conquer them. Its philosophy is something for everybody, within practicable limits. Marketing strategy is adjusted to inherent differences in buyer behaviour. For different groups of customers, *i.e.,* market segments, we have different sets of marketing strategies. Segmentation strategy is an answer to the question, "*To whom* should we sell our products, and *what* should we sell them?" It is a strategic choice concerned with "doing the right things" as opposed to the tactical choice, "doing things right."

Market segmentation enables the marketers to give better attention to the selection of customers and offer an appropriate marketing mix for each chosen segment, or a group of buyers having homogenous demand. Each subdivision or segment can be selected as a market target to be reached with a distinct marketing mix.

Marketers must go beyond the age-old classifications based on consumer locations, age-profiles, gender, and economic strata, among others, and take into account several other factors that differentiate the market.

Cultural Factors: Societal and cultural factors play a significant role in defining markets for particular products. Unfortunately, although marketers often talk about this, they rarely address it properly. This is particularly true when the product is of a personal nature. Another example of cultural inhibitors is our psyche to avoid wastage. This holds in the consumer durables replacement market. Try and convince a consumer to junk his existing, but outdated, television set for a state-of-the-art set — and even if he fits into the profile of your ideal customer, the chances are that he will refuse to do so. The solution, then, is to offer him some kind of an exchange scheme. As long as he feels that he is getting some value for his old set — in terms of a reduced price — he can be initiated into making a purchase decision. Of course, cultural factors are also dynamic and changing constantly.

Market segmentation consists of the following steps:

(i) identification of segments of a market;

(ii) evaluation of the target group of consumers; and

(iii) product positioning.

Market consists of buyers, who differ in one or more respects. They may differ in their wants, resources, geographical locations, buying attitudes/practices. One may use one or more of these variables to identify suitable segments or target groups of consumers.

(a) Geographic Variables

These comprise district, region, state, nation, climate, etc. The unit will have to decide on one or a few geographical areas to operate in. It depends primarily on the nature of its product.

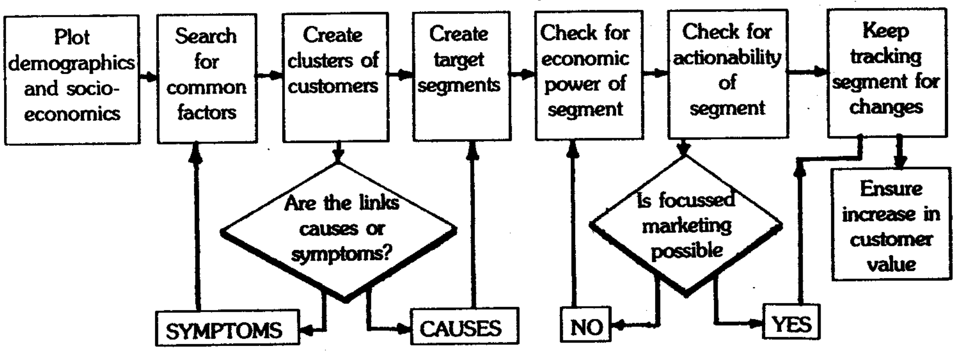
(b) Demographic Variables

These include sex, age, family, size, income, occupation, religion etc. They form an important base for distinguishing consumer groups. For example, a textile unit may use as a demographic variable for market segmentation and may decide to produce sarees, shirting and suiting.

(c) Psychographic Variables

These variables comprise social status, life style and personality traits. Producers of cosmetics, alcoholic beverages and furniture use life style as a base for market segmentation.

How to Add Value Through Segmentation



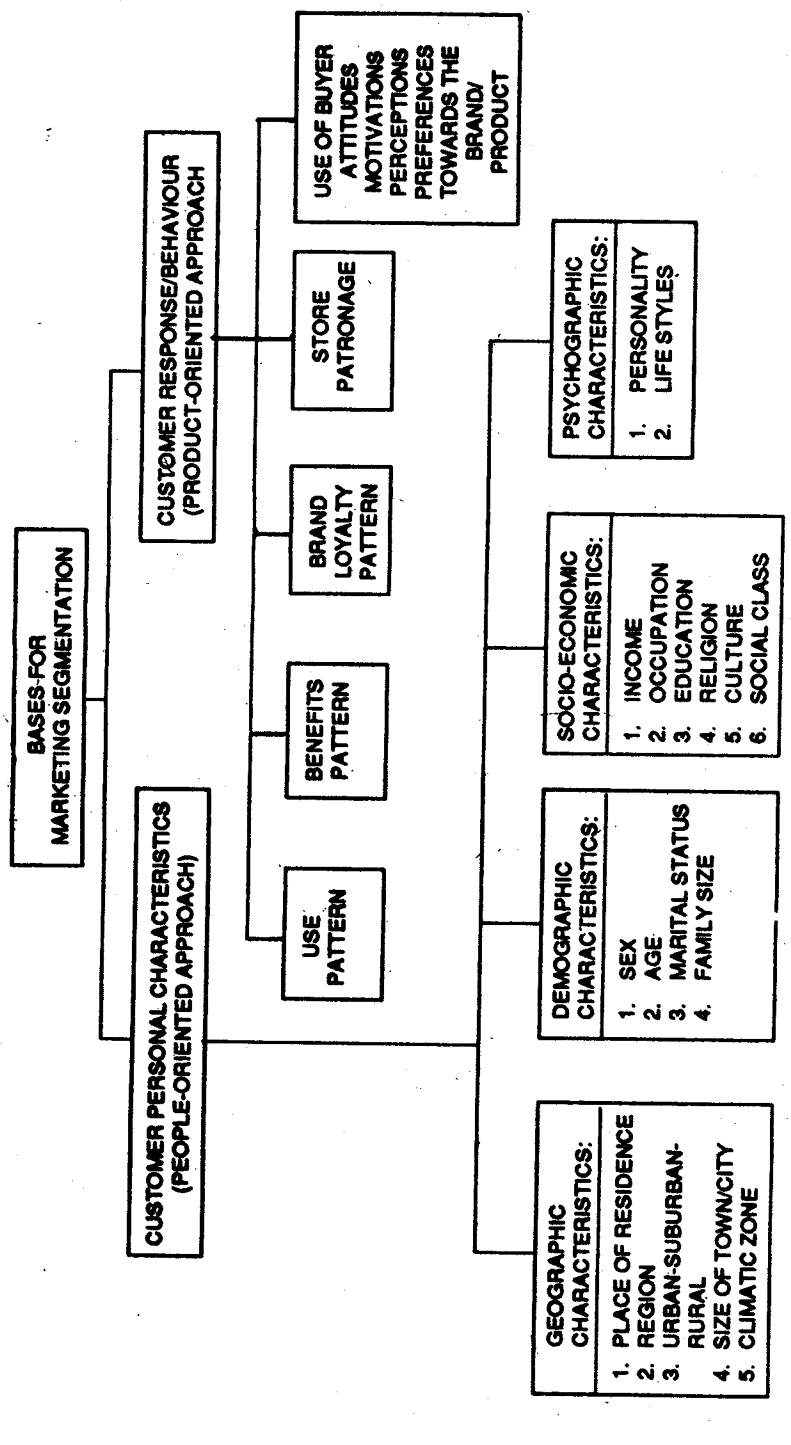

BASES FOR MARKETING SEGMENTATION
CUSTOMER PERSONAL CHARACTERISTICS (PEOPLE-ORIENTED APPROACH)
CUSTOMER RESPONSE/BEHAVIOUR (PRODUCT-ORIENTED APPROACH)
USE PATTERN
BENEFITS PATTERN
BRAND LOYALTY PATTERN
STORE PATRONAGE
USE OF BUYER ATTITUDES MOTIVATIONS PERCEPTIONS PREFERENCES TOWARDS THE BRAND/ PRODUCT
GEOGRAPHIC CHARACTERISTICS:
1. PLACE OF RESIDENCE
2. REGION
3. URBAN-SUBURBAN-RURAL
4. SIZE OF TOWN/CITY
5. CLIMATIC ZONE
DEMOGRAPHIC CHARACTERISTICS:
1. SEX
2. AGE
3. MARITAL STATUS
4. FAMILY SIZE
SOCIO-ECONOMIC CHARACTERISTICS:
1. INCOME
2. OCCUPATION
3. EDUCATION
4. RELIGION
5. CULTURE
6. SOCIAL CLASS
PSYCHOGRAPHIC CHARACTERISTICS:
1. PERSONALITY
2. LIFE STYLES

Fig. 37.4

(d) Behavioural Variables

Consumers differ in knowledge, tastes, attitudes and response. It is, therefore, necessary for a producer to take into account these factors.

Once the broad segments of the market are identified, the producer has to evaluate those segments and select one or a few segment which he can reach and serve.

Building the image of a product is an essential pre-requisite for successful marketing. This is referred to as product positioning and can be effected through one or more of the following ways:

(a) Highlighting specific/special features of the product: Some toothpaste manufacturers attribute Ayurvedic characteristics to their product.

(b) Indicating specific benefits: A two-wheeler manufacturer advertises the high mileage yielded by his product, in order to highlight fuel economy.

(c) Utility for special occasions: identifying usage of product with special occasions, e.g., special occasion sarees or wedding sarees.

(d) Indicating user category: The producer highlights the specific category of consumers for whom the product is meant. For example, calculators are being designed and produced for various groups of consumers, e.g., students, engineers, accountants and scientists.

(e) Comparing against similar product: In this case, a producer tries to show his customers how his product is superior to other products. For example, a TV manufacturer may highlight the quality of picture tubes which are being used in his TV sets.

Market Positioning

The market positioning is the process of distinguishing an enterprise or an product from competitors along real dimensions — products or corporate values that are meaningful to customers — to become the preferred enterprise or product in a market. Essentially, the process involves knowing what the market wants and needs, identifying enterprise and competitors' strengths and weaknesses, and assessing abilities to meet market requirements better than enterprise competitors do. There are three logical steps to translate market positioning into reality. They are:

Step-1: Analyse market opportunities for your company: Identify areas in which your company feels it is likely to enjoy a differential advantage over the competition. For example, if a large manufacturer of vinyl products used in the construction industry wants to evaluate opportunities in Rs. 25 cm. floor-covering market, the marketer will have to select a particularly opportune area and develop a positioning strategy for his company's market entry. He studies sales potential of the new market, its growth rate, buyers and buying influences, suppliers, and their influences, cost to make and sell, prices, profit margins, intensity of competition, market dynamics and channels of distribution. The success factors like market size, market growth, barriers to entry, the negotiating power of buyers and suppliers, price sensitivity and environment may be charted, both quantitatively and qualitatively.

Step-2: Select a market and target a specific sub-group: To fine-tune a positioning strategy, segment the market into sub-groups, for example by product (ceramic tile, brick, sheet vinyl) and by purchaser (residential, institutional or commercial). Any segment can be sub-grouped, for example residential sheet vinyl segments into: (1) new and replacement floor covering by contractors and (2) Do it yourself kit (DIY) – If DIY is selected, research indicates that installation and upkeep are two vital attributes the purchaser looking for in sheet vinyl floor covering. A product space map can be drawn along with the positions of competitors.

Step-3: Devise a competitive strategy: To achieve this, a company must focus primarily on identifying its competitors' weaknesses and capitalizing on its own strengths to differentiate an offer.

A matrix should be drawn, ranking its own and competitors business strengths on a scale of 1 to 5 incorporating, for example, market share, profitability, product range, coverage, corporate profile, financial strength, cost position, product differentiation, quality of management, distribution, technology and company reputation. After such analysis, find gaps to differentiate an offer. Make it look like a benefit bundle, or value package involving products, price, distribution and service mix. If product distinction is not possible, the range of other possibilities is endless: everything from timely response to enquiries, to help in design and application, delivery, warranties, return policies, price and payment conditions, service and maintenance, salesperson skills, process or a strong distribution network.

Box 37.2

THE RIGHT TIME APPROACH

Product Launch

Before time: the product is not relevant to the concerned target audience within the specified geographical area as a function of time; the necessary infrastructure is not available to support the product; the need for the benefits of the product category is more a figment of the marketer's imagination, than based on market realities.

On time: the need-benefit for the product category is just about surfacing; the necessary infrastructure to support the product is in shape or is taking shape; the product is an early mover in its category.

After time: the product's technology is outdated/obsolete or second-grade; the product is the fifth, sixth... entrant in its category.

Promotions

Tie up with the tide (seasonality) if the resources are limited; for a player of size and financial muscle, unconventional timing in promotions can deliver it a strategic marketing edge.

Between elements of the marketing mix/packaging

Synchronise the timing between promotions and distribution to avoid an advertising and product availability trap; packaging can certainly be a means for differentiation, but futuristic packaging reflects more often than not on high product price.

Exit

Exit first with a replacement to maintain/acquire the position of a technology leader; if existing altogether from the producer category, make a lot of noise, let the competition be confused, and get out.

India, like many developing countries, is expanding in the number of efficient marketing organisations. Marketing enterprises engaged in meaningful market research on a continuing basis are very few. There are distributing organisations which have undertaken promotional functions. There is just a beginning of designing the products after a study of customer requirements. Very few so-called marketing organisations possess adequate resources to spend on advertising and so stimulate interest of prospective customers. In a developing country, its economy can be greatly expanded, improved and diversified by efficient marketing organisations, manned by expert personnel. Small Industries need them more. If their share in domestic, Government and foreign markets is to be secured and expanded, the small entrepreneur should develop a new attitude and assist in the process of building up powerful and prosperous marketing organisations.

Conclusion

Industrial liberalisation, globalisation, marketing economy and heightened competition is changing all this permanently. While labour laws have become antiquated and virtually ineffective, Government policies which encourage dispersal of industries into backward area locations have helped improve matters. Market forces are now compelling modernisation, productivity improvement and value of additional efficiency like never before. Some parts of the country where industry had been severally affected by obscurantist trade unionism, are today showing heightened pragmatism to generate and endowed states do not seem to appreciate that in order to stay ahead in the game of economic and industrial development, only one thing counts — efficiency of value addition and an enabling climate along with a degree of ressurance about the future.

Marketing management is responsible for creating customers by persuading them through advertising and personal salesmanship that the company's products or services match their indicated needs and preferences more closely then competitors' offerings, by developing products and services through technical and market research which appear to offer profitable sales opportunities and at a price, time and place the customers want.

As with scienties, so with markets, segments change with the passage of time. Only those companies that can adapt to these changes, and innovate to serve the evolving needs of customer can hope to survive. To do this, marketers will have to continuously go back to the basics, Niches or segments are not made by product managers, the changing needs and perceptions of consumers create them. A smart product manager only identifies them and provides products to fill them up. The future, therefore, belongs to the pro-active challenger.

Marketing Research

In a dynamic economy, marketing research acts as the investigative arm of the marketing manager — a management tool in the planning-control cycle. Marketing research covers: (1) market research; (2) sales research; (3) product research; (4) advertising and promotion research; (5) research on sales methods and policies; (6) distribution research, including dealers research.

Marketing research is an invaluable tool to *plan, measure* and *evaluate* marketing effort so that the marketing management can offer: (1) the right product; (2) the right package, and brand; (3) the right price; (4) the right promotion; (5) the right channels; (6) the right means of physical distribution; (7) the right trade policies, and (8) the right marketing strategies and plans.

The marketing concept also emphasises the role of information as the key resource to accomplish the twin objectives of customer satisfaction and profitability. Thus, marketing research has grown along with the expanded role of marketing as the focus for business decision-marketing:

(1) To identify and define the problem, including the causes.

(2) To suggest reasonable and profitable alternative courses of action.

(3) To determine the most desirable alternative courses of action.

(4) To test the feasibility of particular alternative course of action decided upon by management.

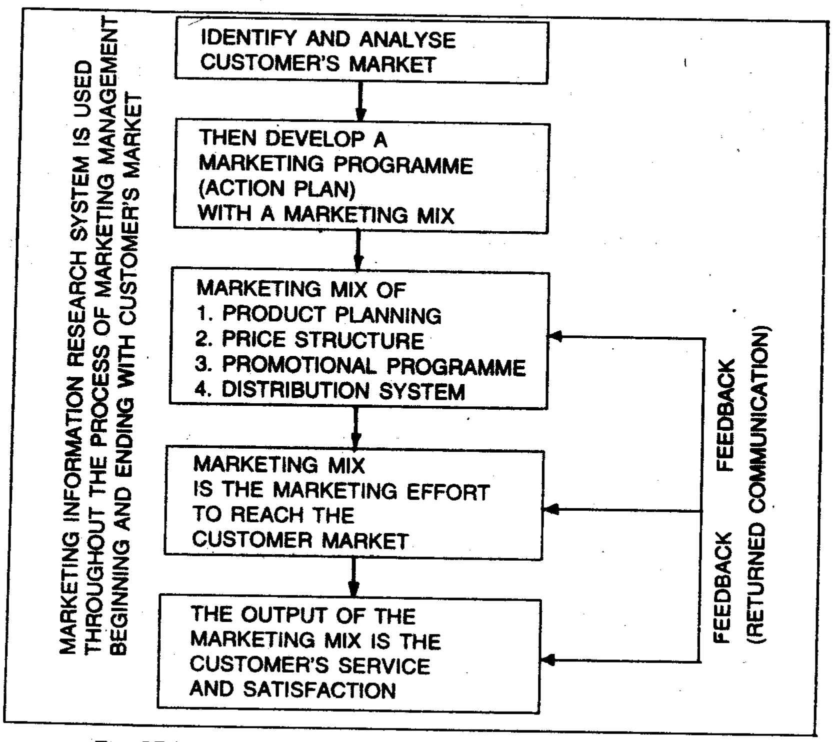


Fig. 37.5 Marketing Research begins and ends with customer

Notes: 1. Company's marketing efforts start and end with customers.

2. Marketing research is a valuable tool to optimise the marketing effort so that we have a minimum of waste and maximum of advantage.

3. Marketing research enables identification and analysis of customer's market.

4. Marketing research is used for devising an appropriate marketing programme.

5. Each component of the marketing mix is formulated on the basis of marketing information and research on product, price, promotion and distribution.
6. Marketing research is also used to evaluate the results of marketing effort when marketing programme is implemented. It provides feedback information on customer's satisfaction and on the achievement of marketing goals.
7. At present, marketing research is also used to evolve the solution of consumers' problems as well as ecological and environmental problems under the societal concept of marketing.

Marketing research is interested in five vital areas of marketing: (1) Market; (2) Product; (3) Price; (4) Promotion; and (5) Distribution. Market survey indicates information on consumer demand. Marketing mix consisting of the 4 Ps indicates the market offering and effort to serve the demand. Fig. 7.1 provides the details of the aforesaid five vital areas of marketing.

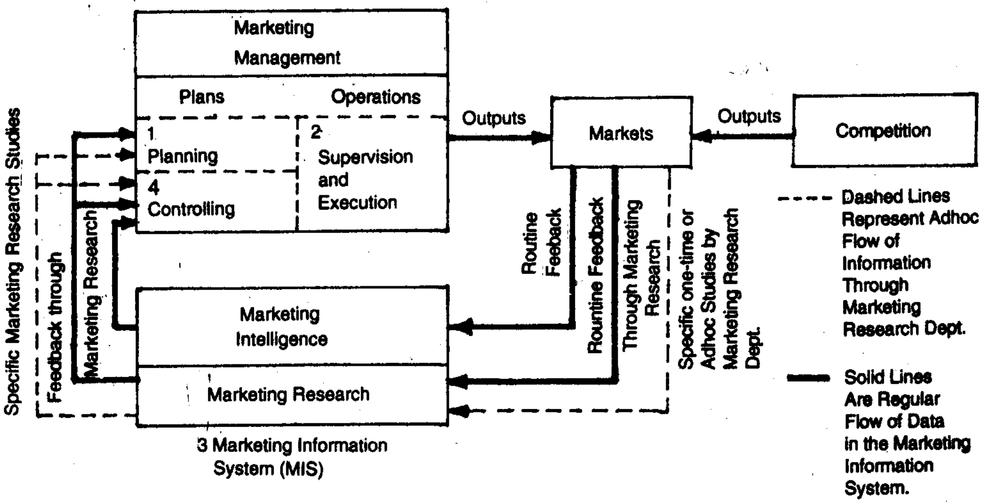


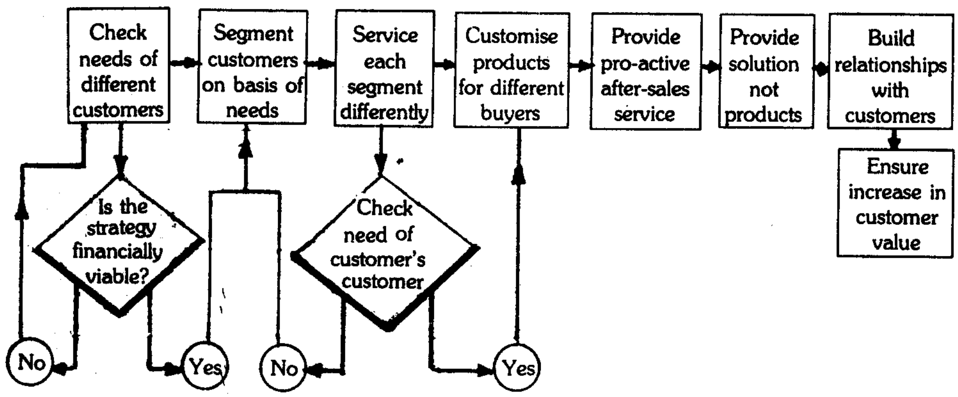
Fig. 37.6 Marketing Research as a Component of Marketing Information System (MIS).

Notes: 1. Planning sub-system decides objectives, policies and strategies and then plans marketing programmes for action.
2. Operations sub-system executes the marketing programme.
3. Marketing information is a sub-system of marketing management. It connects outside environment with the firm. It feeds data on markets, competitors and other external factors. These data are inputs to the control function and to the planning function. The planning function seeks new marketing opportunities and new marketing programmes.
4. Controlling is the fourth sub-system of marketing management. It monitors the marketing operations and their result. If feedback points out deviations from plans, operations are adapted to the changing conditions or objectives (standards) are modified to reflect the changes in the marketing environment.
5. Information is the life-blood of planning, directing and controlling any enterprise. Data circulate, like blood, through the channels or functional areas of a business — production, finance, personnel and marketing. Customers, competitors and external environment interact with marketing.

Marketing Plan

The marketing plan is the key document which sets down precisely who is to do what, when, where and how. There must be liaison with production to determine product requirements and scheduling; ample stocks of the product must be available at the times required by the sales advertisation. The advertising & promotional programme must be worked out in detail-the amount of money to be spent, the media to be used, the kind of advertising to be run. What is to be the basis of the advertising appeal, to reach what kind of audience with what degree of frequency and impact? Are there to be any introductory consumer efforts, coupons, premiums of competitions? On the sales side distribution and product sales targets must be set, by sales territory and by individual sales representatives. Physical distribution facilities have to be organised, delivery schedules worked out and so on. The financial people have to provide costings and profit estimates based on proposed expenditures and forecasted sales volume. Every part of the marketing plan has to be costed out and budgets prepared.

HOW TO ADD VALUE IN INDUSTRIAL MARKETING



The next stage in the implementation of the paper plan through coordination and interaction of the physical field selling and distribution effort and the company's advertising and promotional activities. The functions of the former are to see to it that the company's distributions and sales targets are met, that a wholesale, retail and direct customers are efficiently surviced and at all times carry adequate stock to meet their anticipated requirements, and that customer information is fed back regularly to sales management in the form of daily, weekly or monthly reports. An efficient field intelligence system is of the utmost importance in keeping headquarters appraised of the latest situation expect developments in the market and in checking and controlling actual field performances against planned performance.

Advertising and sales promotion activities run parallel with the physical selling and distribution operations, and include advertising and display material aimed directly at the consumer user; trade and technical press advertising to distributors, trade buyers, professional groups, etc., direct main, trade receptions, and planned sales presentations to trade buyers, committees or associations; consumer and trade incentive schemes, such as special offers, bonuses, competitions, premiums etc.

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CHAPTER 38

MARKETING CHANNELS

Introduction

In the modern world, production and distribution have become very complex. Goods are produced in a far away place, whereas consumers are scattered throughout the country and abroad. Under the circumstances, the producer will not be able to sell goods directly to the ultimate consumers. The reasons are many: the producer lacks the financial resources, he has to maintain a large sales force, the products may not justify the establishment of separate sales outlets, problems of management and control arise, instead of spending a lot of time and energy on distribution, he can concentrate on production.

The task of distribution involves transfer of ownership and physical possession of products and services from the manufacturer to the consumers. Transfer of ownership is an exchange process and it comprises the channels of distribution. Transfer of possession involves problems of warehousing and transportation, called physical distribution.

The Concept of Marketing Channel

A channel of distribution may be defined as "an organised network of agencies and institutions which, in combination performs all of the activities required to link producers with users, and users with producers in order to accomplish the marketing tasks." The channel enables the seller to find out the users of its merchandise and helps the buyer to obtain the products he wants.

In the words of Stanton, "A channel of distribution (sometimes called a trade channel) for a product is the route taken by the title to the product as it moves from the producer to the ultimate consumer or industrial user." A channel is the pipeline through which a product flows on its way to the consumer. The manufacturer puts his product into the pipeline or marketing channel and various marketing people move it along to the consumer at the other end of the channel.

According to John A. Howard, marketing channels are a combination of agencies through which the seller who is often, though not necessarity, the manufacturer, moves his product to the ultimate user. Marketing channels play an important role in the selling of goods. Generally, a channel includes three parties — the manufacturer, the middleman (wholesaler/retailer/agent middleman) and the consumer.

A channel of distribution represents the path for the movement of title, possession and payment for goods and services. Therefore, several types of flows take place through the marketing channel (Fig. 38.1).

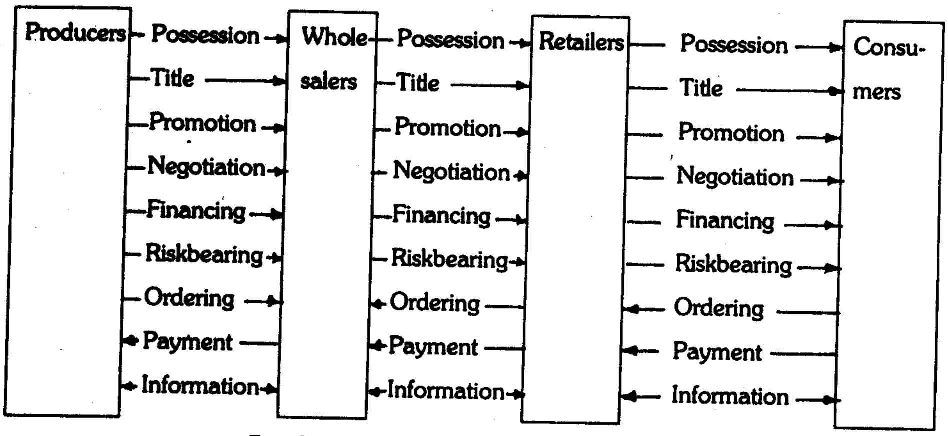


Fig. 38.1 Flows in a Marketing Channel

Connecting Link

There are different ways of supplying the goods. Each method is a sort of *connecting link* between the producer and the consumer. The distribution system is this link. Since, in modern business, production is undertaken in anticipation of demand, distribution plays a vital role in maintaining production. In fact, production and distribution, that is *marketing*, are interdependent. Distribution is an incentive to production. If the goods are effectively marketed, production will be steeped up. It may be truly said than an efficient distribution or marketing of goods gives an impetus to production. It is equally true that the volume of marketing will determine actual levels of production. Production and marketing go hand in hand.

All goods have to move through some sort of channels of distribution. Some channels take the form of direct sale from the producer to the consumer, or they may include an indirect form of sale from the producer through middle-men to the consumers. The distribution channel may be defined as *"the movement of goods and services between the point of production and the point of consumption through organisations that perform a variety of marketing activities."* The term *distribution structure* is used to include all the available distribution channels in a particular industry. The distribution channel may be direct from the producer to the consumer, as it is for industrial machinery. It may be indirect from the producer to the wholesaler, to the retailer and then to the consumer, as it is for any standard article. To ensure that the distribution process is successful, the marketing manager should evaluate the advantages of the various distribution channels. There must be co-operation, compromise and a sense of interdependence among producers, wholesalers, retailers and other intermediaries, such as brokers and agents, in the distribution channel system.

In conventional distribution, the channel includes generally three levels — producers, wholesalers and retailers.

Distribution Channels

The distribution of goods is the most important activity in the process of marketing. We can define the distribution channel as the set of marketing institutions, participating in the marketing activities in the movement or the flow of goods or services from the primary producer to the ultimate consumer.

The small-scale industralist has to take positive steps to bring his products to the attention of potential customers in order to create a demand for them. Once a product is accepted by a customer, the small-scale industrialist has to consider ways and means of arranging for its supply to his consumers. The links between the producer and the consumer are varied; therefore, a small-scale entrepreneur has to select the best channel suitable for his product.

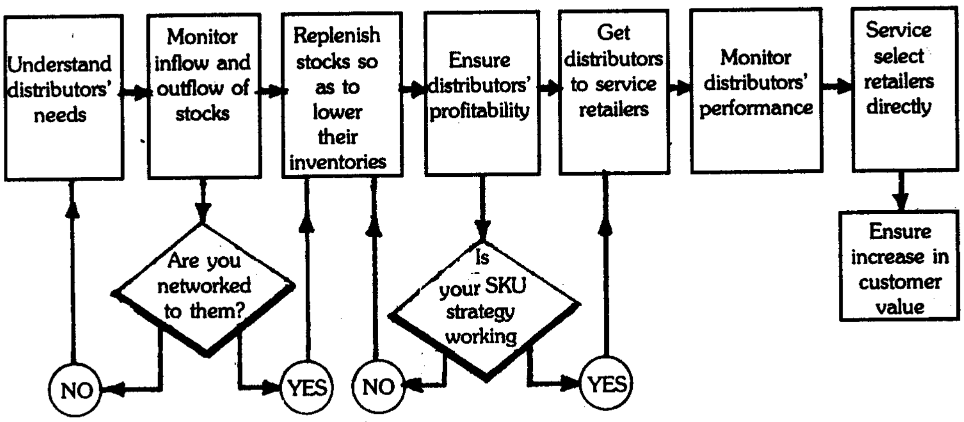
Consumers are grouped into two categories: *(i)* Consumers of industrial products and *(ii)* of consumer goods.

Distribution Channel: A distribution channel is a channel or a route along which goods flow from producer to consumer. The purchase *channel of distribution* is used to refer to various alternative links which connect the products with consumers. Distribution channels are grouped into two major groups: *(i)* Direct and *(ii)* Indirect (middlemen).

In a direct channel or route, there are no middlemen and marketing functions are performed by the producer or manufacturer and goods directly pass on from him to the consumer.

In an indirect channel or route, there are more than one middleman in distribution, linking producer and consumer. They perform the marketing functions.

HOW TO ADD VALUE THROUGH DISTRIBUTION



Middlemen in Distribution: There are two types of middlemen in distribution:

(i) Merchant middlemen, who buy and sell goods on their own account and their own risk, *e.g.,* the wholesaler and the retailer;

(ii) Agent middlemen, who do not take ownership title to the goods but actively negotiate the transfer of ownership right from the seller to the buyer, e.g., selling commission agent or broker.

In the process of marketing a small-scale industralist has to come to three decisions bearing on:

Defining the distribution channel as the set of marketing institutions participating in the marketing activities in the movement or the flow of goods or services from the primary producer to the ultimate consumer.

- The selection of a general channel of distribution;
- The number of middlemen at each level and in each segment of the market;
- The selection of a *particular* middleman for selling *"goods"* with or without any exclusive rights of distribution.

Channels of Distribution: The most common routes for bringing the products to the market from the product to the consumer are shown in the figures shown below:

COMMON ROUTES OF DISTRIBUTION

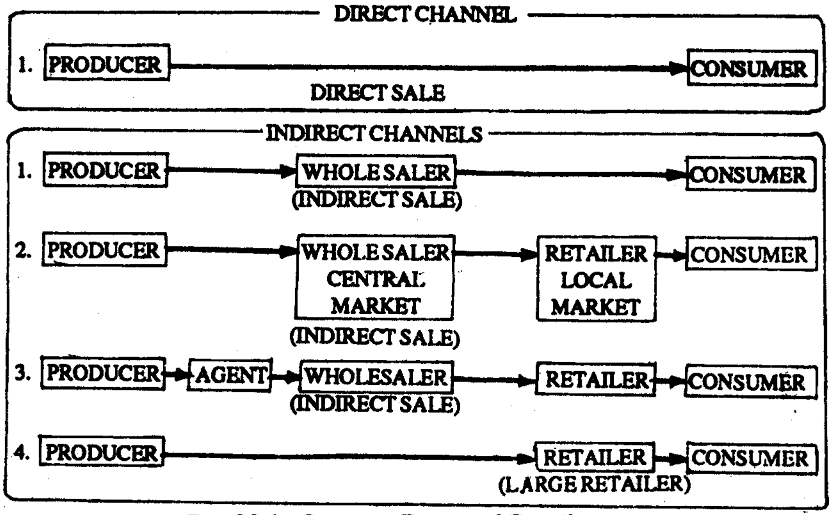


Fig. 38.1 Common Routes of Distribution

FOR INDUSTRIAL PRODUCTS
(CHANNELS OF DISTRIBUTION)

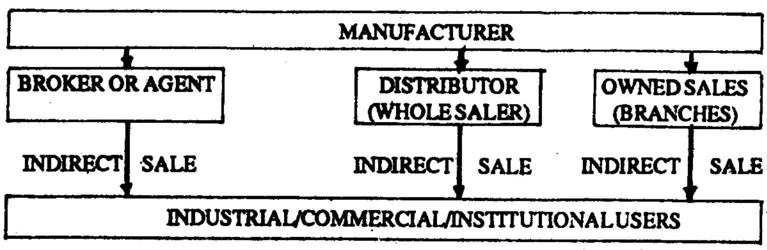


Fig. 38.2 Channels of Distribution for Indusrial Products

Note: Industrial goods are bought for use in further production and not for resale.

Note: *(i)* The path followed by a product in the movement from production to consumption is known as its channel of distribution. *(ii)* A manufacturer may use different channels, at different times, for different products in different markets. *(iii)* A channel represents three flows: *(a)* Goods flow downwards from producer to consumer; *(b)* The upwards flow from consumer to producer, representing payment for goods; *(c)* Information flows in both directions, downstream and upstream, representing a two-way traffic of communication. The upward flow of information is known as feedback information, *i.e.,* consumer feelings, desires and reactions.

FOR CONSUMER GOODS
(CHANNELS OF DISTRIBUTION)

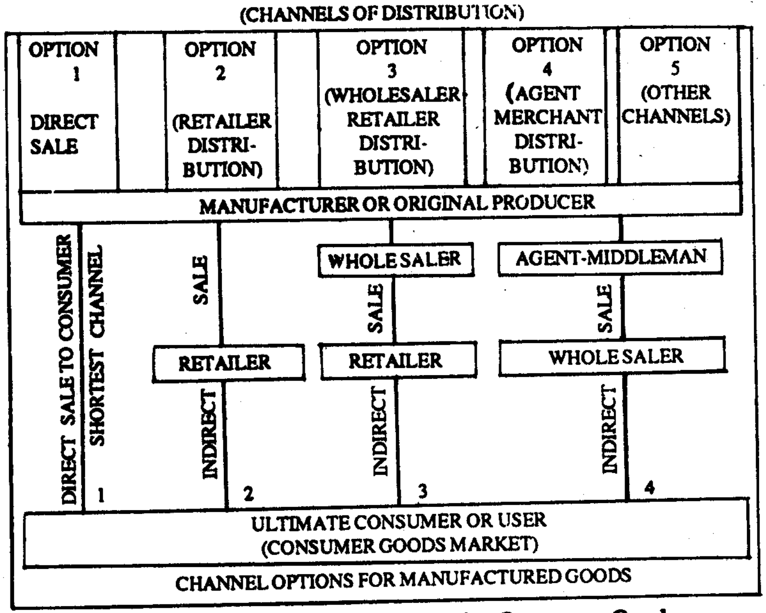


Fig. 38.3 Channels of Distribution for Consumer Goods

Importance of Marketing Channels

Channels of distribution have a vital role to play, especially in the distribution of consumer goods. The most innovative product offered at an attractive price would be of no use unless there is an efficient distribution system. The consumer will not search for the product, it has to be made available at a convenient place from where he can obtain it easily. The distribution channel provides three types of utilities — time, place and ownership. Time utility means the products should be made available when consumers want them, e.g., newspapers and milk in the early morning. Place utility is provided by making the product available at a location where a consumer wants it. It means that the product available at a location where a consumer wants it. It means that the product is delivered to the right place, e.g., a refrigerator manufactured in Delhi is of no use to a consumer in Kochi, unless it is made available to him by a dealer there. Ownership utility is created when the physical possession and title to the product are transferred to the consumer.

Market channels play a far more important role than the mere transporting of goods from producers to users. The economic function of the various institutions that make up a channel are cost reduction, financing, co-operation in setting prices, communication link between the buyer and the user, promotional assistance, and reduction in the number of transactions.

Functions of Marketing Channels

The channels of distribution perform the following functions:

(1) Channels provide the route to link the producers and users. Goods produced in far away places are made available to the users.

(2) Goods are stored by the middlemen in the channel and released to the market depending on demand. They facilitate storage of goods.

(3) Introduction of new products/merchandising is made easier. They bring to the notice of their customers new products (by display etc.) and help the manufacturer in demand creation. They also act as good salesmen in promoting new products.

(4) Consumers can purchase a variety of products from the retailers, because retailers usually stock various products manufactured by different manufacturers. Besides, they "break the bulk," i.e.,products are offered in small quantities to the buyers.

(5) Channels provide the financing function. They advance money to the manufacturers and render credit facilities to the retailers.

(6) They give advice regarding the price which is acceptable to the producer and the consumer.

(7) Physical possession and transfer of title to goods are made easier.

(8) They provide market information to the buyers.

(9) They bring products nearer to the consumer. In some cases to the doors of the consumer.

(10) They play a crucial role as price regulator of products.

Important Distribution Channels

The distribution of goods takes place through one of the following channels:

(i) From the manufacturer direct to the consumer.

(ii) From the manufacturer to the retailer and then to the consumer.

(iii) From the manufacturer to the wholesaler; from the wholesaler to the retailer and then to the consumer.

(iv) From the manufacturer to the commission agent; from the agent to the wholesaler, retailer and the consumer.

(v) From the manufacturer to the wholesaler and then to the consumer. There are alternatives in a direct sale to the consumer:

(a) Sale through advertising and direct methods (mail order selling);

(b) Sale through a travelling salesman (house-to-house) canvassing;

(c) Sale through retail shops of small entrepreneurs, *i.e.,* mills cloth shops, etc.

I. Manufacturer → Consumer

This is the shortest channel a product can follow to the market. Small-scale industrial goods may be sold directly to industrial buyers. Usually, we have numerous and scattered consumers who buy in very small quantities. Hence, this channel is not very popular for a wider market. It is invariably adopted by ancillary units.

II. Manufacturer → Retailer → Consumer

This channel is preferable when buyers are large retailers, *e.g.*, a department store, a discount house, chain stores, a supermarket, a big mail-order house or co-operative stores. The wholesaler can be bypassed in this trade route. It is also suitable for products which are perishable, or when speed in distribution is essential. Automobile appliances, men's and women's wear, shoes, etc., are sold directly to retailers. However, the manufacturer has to perform the functions of a wholesaler; he is responsible for storage, financing of inventories, and transport.

III. Manufacturer → Wholesaler → Retailer → Consumer

This is a normal, regular and popular channel option used in groceries, drugs, drug goods etc. It is possible for a producer if:

(a) He has a narrow product line;

(b) He has limited finance;

(c) Wholesalers are specialised and can provide strong promotional support;

(d) Products are durable and not subject to physical deterioration or changes in fashion.

Better means of transport and communications, the growth of big retailers, computer handling of small innumerable orders of retailers, advances in automatic data processing, information explosion, etc. — all these reduce the need and importance of wholesalers.

IV. Manufacturer → Agent → Wholesaler → Retailer → Consumer

In this channel, the producer uses the services of an agent — middleman, such as a sales agent, for the initial despatch of goods. The agent in turn may distribute goods to wholesalers, who sell to retailers. Many textile mills have sales agents for purposes of retailers. Many textile mills have sales agents for purposes of distribution. We may have a large national distributor, such as Voltas, acting as a sole agent for many manufacturers. Agent middlemen generally operate at the wholesale level. They are common in agricultural marketing.

In the marketing of manufactured goods, agent-middlemen are used by manufacturers so that they themselves may not have to worry about marketing goods. An agent-middleman sells on commission basis directly to a wholesaler or a large retailer.

V. Manufacturer → Wholesaler → Consumer/User

A wholesaler may bypass the retailer when there are large and institutional buyers, such as the Government, consumer co-operatives, hospitals, educational institutions, business houses, etc.

A study of 1,000 leading small-scale units manufacturing consumer and industrial products has shown their preferences of distribution channels as follows:

Consumer Goods: While 70% of the small units continue to use the traditional wholesale outlets for some or all of their products, only 21% of them use wholesalers, while 65% sell the whole or a part of their output direct to retailers. Of the 41% that use a single channel of distribution, only about 21% of their goods routed through wholesalers; 2% sell direct to the consumer and 18% through retailers. Of the units using a multi-channel system of distribution, only 8% route their products through retailers; about 50% route them through wholesalers and retailers.

Industrial Goods: About 75% of the units resort to the wholesalers for some or all of their sales. Only 16% of the units, mainly ancillary industries, have resorted do direct selling. However, for purposes of diversification of market segments, industrial goods are routed through a dealer. Of the units using a multi-channel system of distribution, about 53% route their products through wholesalers and then to dealer and to users, and only 6% route them through a dealer.

The study emphasises the fact that wholesalers and retailers/dealers play a vital role in the distribution of goods. They are vital marketing links.

Channel Choice

The problem of selecting the most suitable channel of distribution for a product is a complex one. A number of factors have to be considered; for example, the nature of a product, market trends, competition outlook, pricing policies, typical consumer goods and the needs of the manufacturer himself.

Product: *(a)* If a commodity is perishable or fragile, a producer prefers a few controlled levels of distribution. For perishable goods, a speedy movement needs a shorter route of distribution. *(b)* For durable and standardised goods, a longer and diversified channel may be necessary. *(c)* For a custom-made product, direct distribution to a consumer or an industrial user may be desirable. *(d)* A system approach calls for a package deal, and a shorter distribution channel serves the purpose of marketing. *(e)* For a technical product requiring specialised selling and serving talent, we have the shortest channel. *(f)* Products of a high unit value are sold directly by travelling salesmen and not by middlemen.

Market: *(a)* For the consumer goods market, retailers are essential, but from the industrial market we may eliminate the retailer. *(b)* If the market size is larger, we have many channels; in a small market, direct selling may be profitable. *(c)* For highly concentrated markets, direct selling is adequate enough; but for widely scattered and diffused markets we must have many channels. *(d)* The size and average frequency of consumers orders influence the decision about the use of a particular channel of distribution. For the sale of food products, we need both the wholesaler and the retailer.

A market implies people who have money and who are willing, to purchase want-satisfying goods. The age, income group, sex, vocation, and religion of the customers will have to be studied to secure adequate information about market segments or target markets. The buying habits of customers and dealers will also influence our choice of a channel. A customer-and-dealer analysis will give us data on the number, type, location, buying habits of consumers and dealers. For example, desire for credit, preference for one-stop shopping, demand for personal services, the amount of time and effort the consumer is willing to spend — all these are important factors in determining the choice of a channel.

If the number of buyer is very large; if the order of each is small; if the order frequency is great and buyer insist on the right to choose from a wide variety of brands/goods, we must have three or even more levels of distribution. Market considerations also govern mass distribution (through multiple channels) or selective/exclusive distribution through a few or even one dealer. When aftersales service is required, *e.g.,* for TV sets, refrigerators, etc., selective distribution is preferable.

Middlemen: Middlemen are those merchants/agents who act as intermediaries between producers and consumers in the distribution of goods. Broadly speaking, they are divided into two main categories: *(i)* functional middlemen or mercantile agents and *(ii)* merchants. Fig. 38.4 shows the organisational structure of middlemen.

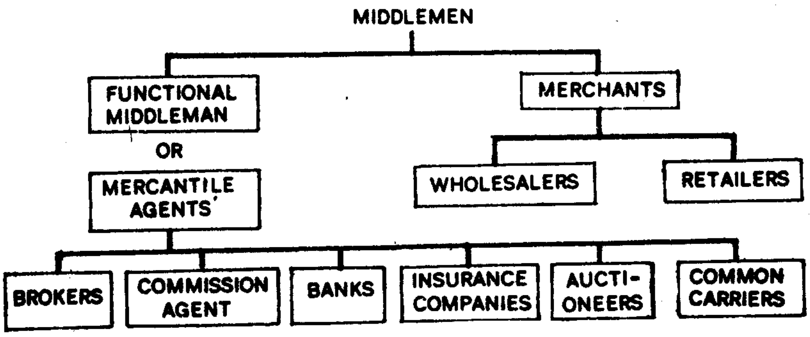


Fig. 38.4 Organisation Chart of Middlemen

Brokers: They serve to bring buyers and sellers together. They are intermediaries who negotiate the purchase and sale of goods on behalf of buyers and sellers. They work on percentage commission on the business transacted.

Commission Agent: Commission agents sell goods on behalf of sellers. Unlike the brokers, they not only negotiate the sale of goods but also take possession of the goods and arrange for the transfer of the tittle to them.

Banks, Insurance Companies: While banks provide the facility of making and receiving payment on account of the business transacted, insurance companies bear the risks of the goods in transit.

Auctioneers: Auctioneers arrange for the auction of goods on behalf of a seller. They work on percentage commission on the auctions of the goods of the railways, airways, roadways, ships, etc.

Common Carriers: Common carriers are responsible for the movement of goods from one place to another. They perform the important function of creating a place utility in goods by arranging for their transportation from the places of supply to the places of need.

Merchant Middlemen: Both wholesale and retail merchants work for profit. They acquire title to goods in their own right and sell them.

Units: *(a)* A unit's size determines the size of the market, the size of its larger accounts and its ability to get the co-operation of middlemen. A big firm may have a short channel.

(b) A unit's product mix influences the pattern of channels. The broader the product line, the shorter the channel. If the product mix has greater depth or specialisation, the unit may favour selective or exclusive dealership.

(c) A unit with substantial financial resources need not rely too much on middlemen and can afford to reduce the levels of distribution. A weaker company, however, has to depend on middlemen to secure financial and warehousing relief.

(d) New units rely heavily on middlemen because of their lack of experience and managerial activity.

(e) A unit desiring to exercise greater control over channels will prefer a shorter channel, for it will facilitate better co-ordination, communication and control.

(f) Heavy advertising and sales promotion can motive middlemen to handle displays and join enthusiastically in promotion compaigns and cooperative publicity. In such cases, even a longer chain of distribution may be profitable. Thus, the quantity and quality of marketing services provided by a unit directly influence the choice of a channel.

Channel Decision

A unit must choose whether to attempt extensive, selective or exclusive distribution or a combination of all the three. The decision is taken after a careful analysis of the product, consumer preference, dealers, company objectives and policies, competition and other relevant factors. The company must solve the conflict within the channels and bring its product profitably to the market.

Once a unit has determined its basic channel design and levels of distribution, it has to select middlemen, appoint them, motivate their efforts, evaluate their utility periodically and, if necessary, it has to reorganise the channels in the light of experience.

Each channel of distribution performs the typical marketing functions which are exclusively assigned to it. Retailing, wholesaling and physical distribution (transport, storage and inventory control) are treated as separate entities in distribution for purposes of easier understanding. From the viewpoint of marketing management, the whole process is a continuous one and constitutes the distribution system in which the ownership and possession of goods flow to consumers. To locate customers, meet their demand and offer them service and satisfaction — these are the basic tasks of the manufacturers, wholesalers and retailers, who combine to form an integrated channel of distribution. Joint cooperative and united efforts alone will ensure the successful distribution of a product.

Market Coverage

Once a unit decides on the general channels to be used, it has to determine the number of middlemen it needs in each channel, *i.e.,* the intensity of distribution. There are three alternatives:

(i) Intensive Distribution: We have the maximum number of retail outlets for mass distribution of convenience goods, for consumer's immediate satisfaction of their wants and that, too, at the most convenient retail shops.

(ii) Selective Distribution: When special services are needed, *e.g.,* for TV sets, or when a right prestige image is to be created, *e.g.,* certain cosmetics are sold only through chemists, we have selective distribution. The number of outlets at each level of distribution is limited. When we have a limited number of middlemen, they can spend more on sales promotion and offer the maximum cooperation in the company's promotion campaign. If the product has a long and useful life and if consumer brand preference can be established, selective distribution will be very profitable.

(iii) Exclusive Distribution: When final buyers do not need any product service, mass or intensive distribution is adopted. If the product service expected by the final buyers is considerable, exclusive distribution is preferable. Here we have one wholesaler or retailer for a given market, who has been given distribution rights in that market. Similarly, if a brand commands not only brand preference but also brand insistence, and if consumers refuse to accept substitutes, selective or even exclusive distribution would be preferable. Exclusive distribution creates a sole agency or sole distributorship in a given market area. Such a distribution is very useful in the sale of consumer speciality goods, *e.g.,* expensive men's suits. The manufacturer can have greater control over prices and markets and he can get the maximum co-operation from middlemen. An exclusive dealer can carry the complete stock and offer after-sales services to customers.

Wholesalers

Wholesalers are those individuals, merchants, or business firms (partnership or private limited) who act as intermediaries between the primary producers, manufacturers or importers on the one hand and industrial consumers, retailers and general consumers on the other. The wholesalers purchase goods in large quantities and, if necessary, repack them into smaller lots. They are divided into three types, as indicated below.

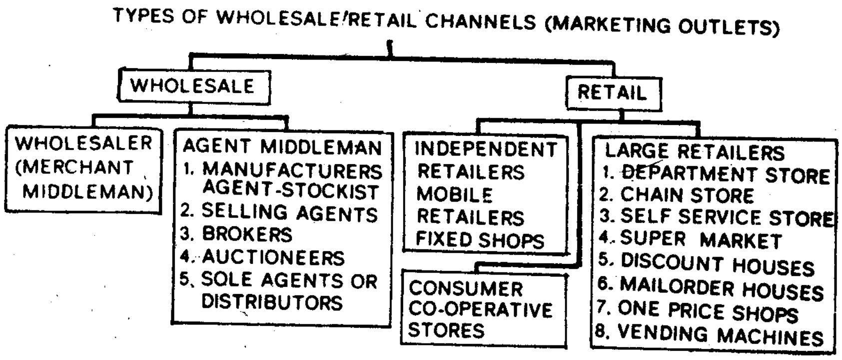


Fig. 38.5 Types of Wholesaler/retail Channels

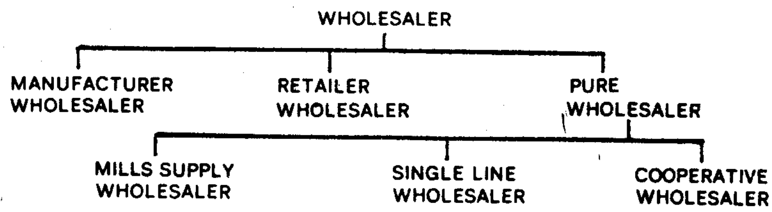


Fig. 38.6 Types of Wholesalers

Functions: The wholesaler performs the following important functions of distribution:

(i) Assembling; *(ii)* Dispersion; *(iii)* Warehousing; *(iv)* Transportation; *(v)* Financing; *(vi)* Risk-assuming; *(vii)* Pricing; *(viii)* Grading and Packaging; *(ix)* Processing; and *(x)* Storage.

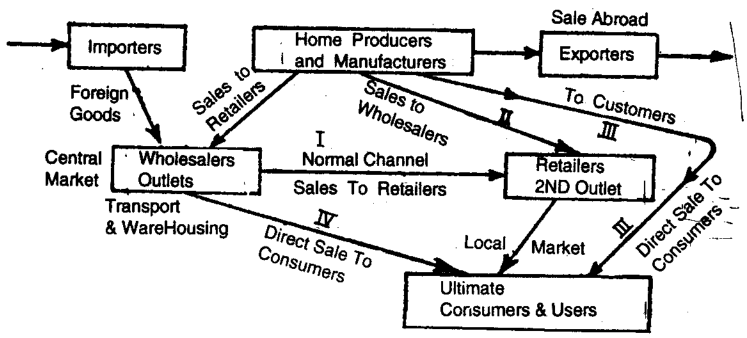


Fig. 38.7 Chain of Distribution Diagram

Wholesale Vs. Retail Trade

Wholesalers operate on a large scale in the central market and act as the first outlet in distribution; and the usually specialise in one or a group of allied articles. Retailers operate on a small scale and in local markets, selling directly a wide variety of goods to consumers to satisfy their numerous and changing wants.

Wholesale business needs large capital. Wholesale prices and margins are relatively lower; and the business can be carried on with or without facilities for display.

Typical Wholesale Services

Wholesalers offer typical services as middlemen between producers and retailers in the central market:

(i) Maintenance of sales service;

(ii) Storage;

(iii) Delivery to retailers;

(iv) Financial help to both manufacturer and retailer;

(v) Merchandising, *i.e.,* preparing goods for sale (packing, grading, branding, etc.);

(vi) Sales promotional work;

(vii) Product servicing;

(viii) Marketing information; and

(ix) Risk-bearing.

Services to the Manufacturer or Producer

(i) Order Collector: Retailers are usually scattered, their orders are small and they are too many in number. The wholesaler acts as an order-collecting and marketing agency for the manufacturer, who can then concentrate on production and need not worry about distribution.

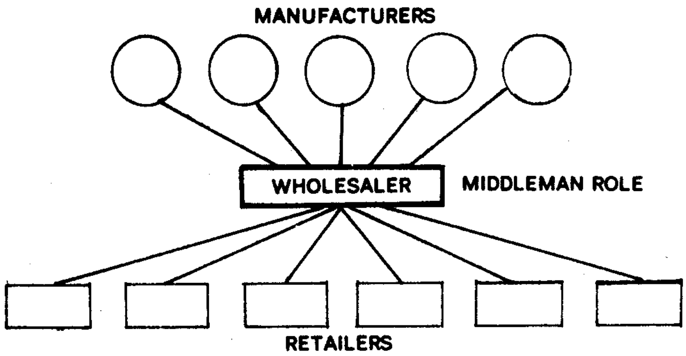


Fig. 38.8 Marketing through merchant wholesalers.

(ii) Risk Transfer: A wholesaler usually places huge advance orders with the manufacturer, who is thus insured for sale or disposal. He need not carry large stocks and can concentrate fully on manufacturing goods as per the orders of the wholesaler. The manufacturer is, therefore, free from bearing any risk of loss.

(iii) Concrete Relief: The wholesaler's organisation may be used by the manufacturer for the disposal of his goods. He need not maintain a huge sales organisation for the collection of numerous orders and for the despatch of many small parcels of goods to scattered retailers. He need not grant credit to retailers. Wholesalers do not demand credit from the manufacturers; as a matter of fact, they sometimes offer advance payment to small manufacturers. Thus, the manufacturer enjoys financial relief and employs his capital for more productive purposes, *viz.,* expansion of his manufacturing activities.

(iv) Expert Advice: The wholesaler knows the pulse of the market. He can secure first-hand information of the consumer's wants through the retailer's orders. The wholesaler's orders on the manufacturer can act as an indicator of trends or of public taste and demand. The manufacturer can regulate his production activity in the light of this trend and make the necessary modifications in his product so that it will give the desired satisfaction to the consumer.

Services to the Retailers

(i) No Need to Hold Large Stocks of a Variety of Goods: A retailer has to maintain adequate stocks of a variety of commodities especially if his turnover is not quick and he has a relatively larger number of customers. He encounters two difficulties in holding large stocks of each type of commodity. One is the dearth of capital and the other is lack of space. Hence, he cannot maintain adequate stocks of a variety of articles. In the circumstances, the wholesaler's warehouse acts as a reservoir or a constant source for the retailer to draw his supplies from them as and when he needs to do so. Thus, the wholesaler gives a retailer a definite assurance that his stocks will be replenished at frequent intervals. In this way, the retailer gets considerable financial relief, for he does not have to lock up his capital.

(ii) Prompt delivery of goods: In the absence of a wholesaler, the retailer may have to wait for a long time for the execution of his order, or he may have to place advance orders with the manufacturer. When a wholesaler is available, supplies to the retailer can be made very quickly, for the goods are already in the wholesaler's warehouse for delivery. In this way, the retailer gets a prompt delivery of goods.

(iii) Benefits of specialisation: The wholesaler performs some marketing functions for the retailer who would generally buy from the best wholesaler who, in turn, would secure supplies from the best manufacturer. Some of the advantages of specialisation can be passed on to the retailers who carry variety of goods. Therefore, he cannot claim expert knowledge of market conditions of each article. The wholesaler specialises in one line of goods and knows the pulse of the market. Therefore, he can advise the retailer when to buy and how much at a time. He can also give him information on the product's quality.

(iv) Announcement of new products: The wholesaler informs the retailer about the arrival of the new products which may have been advertised by the manufacturer. These products may be kept in the showroom, and his travelling salesmen may create a demand for them by personal salesmanship. The wholesaler may help the retailer in having an efficient window display of the new products in his shop.

(v) Credit: Wholesalers grant credit to their permanent customers. The average size of a retailer's order is large, and it may be placed with different departments of the wholesaler's organisation. Secondly, the retailer makes frequent purchases: a cash settlement for each purchase may lead to inconvenience and waste of time. Hence the wholesaler usually grants monthly or quarterly credit to the retailer and sends periodical statements of accounts to him. Such financial help increases in effect the working capital of the retailer. However, he has to forego his cash discount when he accepts credit from the wholesaler.

The wholesaler may grant credit to those retailer whose sales turnover is slow, whose transactions are on credit and who are required to maintain large stocks at a time. Quick sales turnover and cash sales do not necessitate any large stocking of goods. Hence the wholesaler may not grant credit to such retailers.

The Wholesale organisation: The amount of capital required for wholesale business is usually greater than that required for retail business.

The wholesaler has to carry huge stocks of each commodity. He has to maintain big and up-to-date warehouses with cold storage facilities, if necessary, and a big showroom for the display of goods. Trained travelling salesmen are needed for different territories to canvass and book orders from retailers. The wholesaler may have to maintain a fleet of motor vans for prompt delivery to his customers. He has to place advance orders with, and make advance payments to, manufacturers. He has also to offer extensive credit to retailers. Hence, wholesale trade is usually carried on a by a limited company and managed by a Board of Directors. The Board formulates the policy, reviews trends in business, and determines whether any major modification should be affected in the conduct of the business. The day-to-day affairs are dealt with by the managing director with the help of expert departmental managers. The set-up of a wholesale organisation is represented in Fig. 38.9.

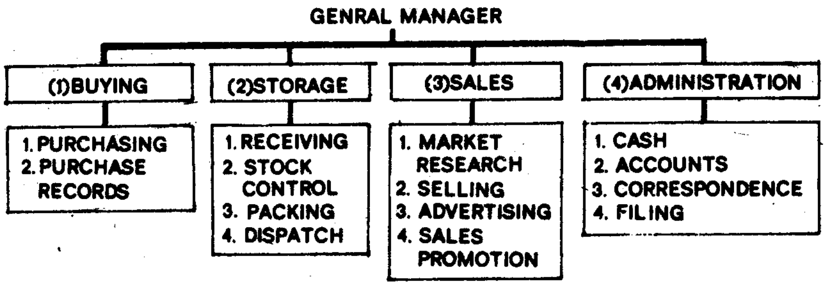


Fig. 38.9 Wholesale organisation

Retailer

The retailer is the last middleman in the chain of distribution, which commences with the producer and ends with the consumer. The word *"retailer"* originate from the French word *retailer,* which means "to cut." Evidently, the retail trade is viewed as one that cuts off small portions from larger lumps of goods. The retailer is the most important intermediary, for he maintains a direct and constant link with the consumer. He occupies a strategic position in the wholesale system of distribution.

Types of retail business: Retailers are broadly classified into two categories: *(i)* Mobile retailers and *(ii)* Stationary retailers. This broad classification is shown in Fig. 38.10.

Retailers may perform the following marketing functions:

(i) Buying and selling; *(ii)* Storage; *(iii)* Dividing, packing and pricing; *(iv)* Delivery of goods to consumers; *(v)* Credit to customers; *(vi)* Risk-taking; *(viii)* Sales promotion; *(viii)* Market information; *(ix)* Service after sales; and *(x)* Professionalised service to customers.

Pre-requisites in the Retail Trade: Success in retail trade primarily depends on a proper combination of six factors:

(i) Location: The ultimate success of most retail operations is determined by a favourable location. A prime location ensures continuing prosperity.

(ii) Price: An appropriate price strategy has the greatest market appeal, particularly in times of inflation. A low price with a reasonable quality of the product and a proper service after sales can work wonders in retail trade.

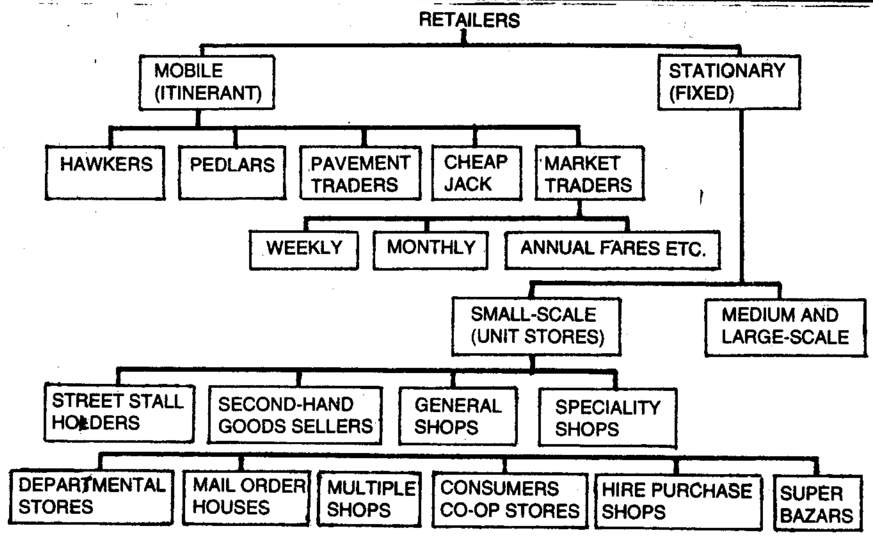


Fig. 38.10 Types of Retailers.

(iii) Promotion: The unique advantages of promotional campaigns account for the success of retail trade. The retailer is the toughest in the channel of distribution. If the goods do not cross the retail counter with the help of sales promotion, *e.g.,* point-of-sale purchase display, all other sales efforts will prove to be futile. An active co-operation between manufacturer and retailer in the promotion mix can guarantee a flourishing sale, assuming that the product or service is intrinsically sound and the price is quite reasonable. Time and money can make promotion effective.

(iv) Buying: A retailer can acquire highly desirable goods if he has shrewd buying practices and a sound decision-making ability. He should act as an expert buying agent on behalf of his customers. Intelligent buying decisions yield rich dividends in the retail trade. The acid test of success in retail trade is consumer satisfaction.

(v) Service: Retailers give non-price competition essentially through personalised services. Prompt and courteous service, quality assurance, sale on approval, money-back guarantee, service after sale, free home delivery, grant of credit, securing goods to satisfy individual taste and liking, offer of expert advice to customer, and comfort and convenience in the store — all these are welcomed by customers and their patronage goes to those retailers who aim at securing profit through service. The retailer must follow the policy illustrated, by such quotations as *"The customer is always right," "It pays to be customer minded," "The customer is king/queen"* and *"He who serves best will profit most"* — these emphasise the concept of *"service, not profit,"* which should be the chief objective of the seller. Most customers prefer a warm and friendly atmosphere.

(vi) Efficient Management: Better planning, organisation and control make efficient retail operations possible. A proper selection, training, remuneration and motivation of the sales force will ensure a higher efficiency. If a retailer plans his inventories in detail and buys and sells in accordance with a plan, he will have his pre-determined profits at the end of the year.

By and large, the goal of a retail store should be:

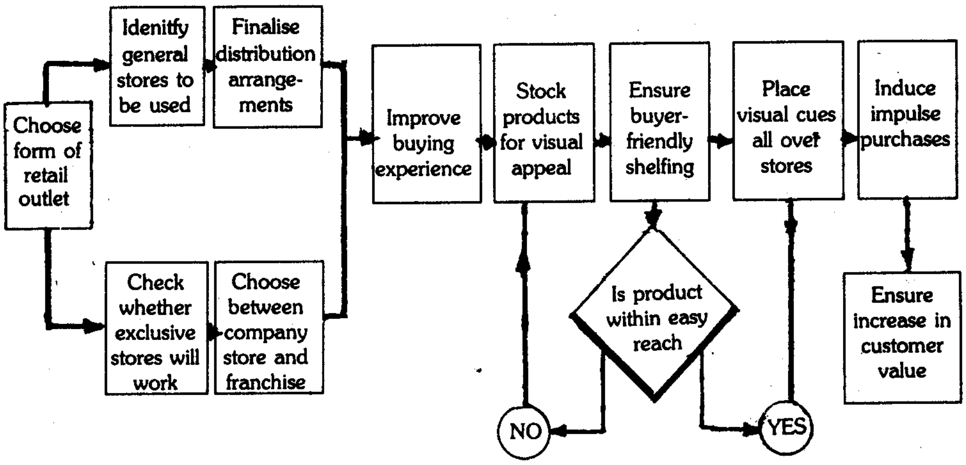
(i) To serve the community;

(ii) To provide employment opportunities for people; and

(iii) To make a reasonable profit.

In a very large measure, the success of a retailer depends on his ability to serve the real needs of the people. The retail store has an obligation to its employees, who have to be well-motivated and kept contented. Profit is an important consideration in the management and operation of a store. High taxes, keen competition and increased cost of sales, all have an unfavourable effect on the profits of retailers. But an efficient stock control, a wise merchandise investment, a cut in unwanted expenses and a general expense control, and personalised service to customers — these do ensure the success of a retail enterprise. The adoption of modern principles of management, etc., are some of the other progressive measures by means of which retailers can ensure reasonable profit margins for themselves.

HOW TO ADD VALUE THROUGH RETAILING



Mobile Retailers: These retailers are represented by hawkers, pedlars street vendors, stall-holders at fairs and exhibitions. In this form of retail trade, the seller has no fixed locality: he carries his goods from place to place. This form of trade is very ancient. The hawker is a very familiar figure in our villages and towns; sometimes he carries goods on a wheeled and movable stall. The prominent features of such mobile retailers are:

(i) They have no fixed place of business;

(ii) They require little capital and put in a very limited organising effort;

(iii) They keep limited stocks on hand and have a very quick turnover;

(iv) They offer the greatest convenience to consumers by giving delivery of the goods at their doorsteps.

(v) They have no establishment expenses;

(vi) Their trade is suitable for the sale of such perishable goods as vegetables, fruits, milk, bread, eggs, etc.

Some retailers offer a very keen competition to small-scale retail shops, which look upon them with disfavour. Hawkers and pedlars will continue to exist as long as they offer:

(i) Local convenience to purchasers;

(ii) Charge lower prices because they have no establishment charges to bear and because they buy from wholesalers at wholesale rates; and

(iii) Sell useful goods by way of house-to-house canvassing and home delivery.

General or Special Shop: A small retail shop may be a general shop selling a wide variety of goods or it may specialise in a particular line of goods. Grocery shops and provision stores are general retail shops, while radio and jewellery shops are specialised ones. Independent small retail shops account for more than 80% of all retail organisations in any country. However, with the growth of large-scale retailers and of multiple-shops, super-markets, and department stores, they now account for hardly 60% of the total volume of retail trade. A large number of retail shops are usually organised by sole traders or by partners, and are generally owned by households. A unit store or retail shop often serve as a side business or a supplementary source of income for many families.

Survival of Small Traders: The traditional retail shopkeeper has a few selling points. He can:

(i) Offer great local convenience to customers;

(ii) Personal attention and services;

(iii) Temporary credit;

(iv) Longer shop hours;

(v) Free home delivery service; and

(vi) Guidance to customer in making a wise selection of goods.

A small retail shop or unit needs a limited amount of capital and organising power and limited managerial skill. It has low establishment charges. It hardly needs publicity, for the manufacturer or wholesaler advertise the product. The proprietor has a flexible selling policy. He offers concessions to please a good customer — something which is not possible for the branch manager of a multiple shop. That is why a unit shop still survives even against competition from big retailers.

Large-scale distribution techniques cannot reap all the advantages of large-scale operations because, in distribution, we have to satisfy thousands of people who are scattered over a wide area in all countries. Hence, there are two unique demands of consumers, viz., *(i)* local convenience in purchase and *(ii)* personalised service to satisfy the ever-changing psychology of consumers. Large-scale retailers find it difficult to meet these two basic demands of consumers. But small unit shops can, and do, offer complete satisfaction in these respects. In normal trading conditions, there is no doubt that large retailers are able to undersell their unit shop rivals. Even so, for reasons mentioned above, until shops will survive in retail trade for a very long time.

Measures to Overcome Competition from Big Retailers

A small retailer suffers from certain handicaps:,

(i) Unfair price competition from big retailers;
(ii) Lack of modern sales promotion devices, e.g., attractive window display;
(iii) Inadequate advertising;
(iv) Unfavourable terms of purchase because of small orders;
(v) Lack of capital;
(vi) Lower-risk-bearning ability.

Small retailers try to overcome some of these disadvantages in the following manner:

(i) Co-operative Buying: Bulk purchase is the key to cheaper prices. Group buying can secure more favourable terms and prices because it enables small units to meet chain-store competition. Small retailers may form a cooperative association to conduct joint purchases on a large scale and reap the benefit of bulk purchases. This trend is noticeable in the grocery trade.

(ii) Modern Business Principles: Small retailers may undertake modernisation of their business practices and operations to secure maximum economy and efficiency in their trade.

(iii) Cash-and-Carry Warehousing: Some wholesalers sell at lower prices instead of offering credit to retailers and free delivery services. Small retailers can, therefore, buy at somewhat lower prices and sell at prices which match those of their rivals in multiple shops.

(iv) Wholesaler's Specialised Services: Small shopkeepers can take full advantage of the specialised services of the wholesaler. On goods whose prices are fixed by the manufacturer, the small trader has the same gross profit as the big retailer.

(v) Co-operative Groups or Chains: Wholesalers as well as small retailers have been adversely affected by large-scale retail traders. They have, therefore, got together to fight against their common enemy, the large retailers. They have formed a voluntary co-operative chain which enables them to get the benefits of large-scale purchases.

A voluntary chain is an association of independent retailers sponsored by a wholesaler, who furnishes various services to member retailers buying all their merchandise from him. Because of their very large collective purchases, the wholesaler is able to buy at prices competitive with those at which large chain stores buy their merchandise. A co-operative chain of retailers functions on the same basis as voluntary chain of small traders.

Innovative Retailing

Try searching for new and innovative ways to reach the customer. For, the right channel cannot only improve your reach. For instance, the Rs. 1,000 crore PepsiCo (Pepsi) has changd solft-drink retailing by installing over 4,000 Pepsi Fountains in 40 cities in the country. It's a strategy to increase impulse purchase. Pepsi is now using the Ahmedabad-based Abad Dairy's milk booths to sel its soft drink. The company, which also stocks the snack-food Ruffles, offers a dial-a-crate scheme in Ahmedabad that delivers soft drinks — and flavoured milk.

Case Against Middlemen

There are many who argue for the elimination of middlemen on the following grounds:

(i) Middlemen add considerably to the cost of marketing and are responsible for a rise in prices. Their profit comes partly from profit of the producers and partly from the price that the consumer has to pay. The fact that middlemen make as much as 35 % to 55% of every rupee that is paid by the consumer for his purchases underlines the fact that he is a heavy burden on consumers and producers.

(ii) Their places of operations are more or less superfluous roadside stations where goods are unnecessarily halted on their journey from manufacturers to consumers. In other words, middlemen act as a bottleneck in the channel of distribution.

(iii) Although they are affected by industrial risks, they exploit the situation to their advantage and add to their profits.

(iv) In times of scarcity, middlemen sit tight over the stocks they hold, corner the available stocks, manipulate prices and indulge in black marketing.

Although middlemen perform some of the most important marketing functions, they are not indispensable. Their number can easily be reduced by a rationalisation of marketing and other functions of a business enterprise.

Marketing Consortium

The best way to face and fight the above distribution problems is the formation consortia. One such experiment has been reported from the Delhi Industrial Area. Small units from this area manufacturing electronic equipments formed a consortium. Within a period of 5 years, this consortium captured 3/4th of the market *vis-a-vis* that of big manufacturers.

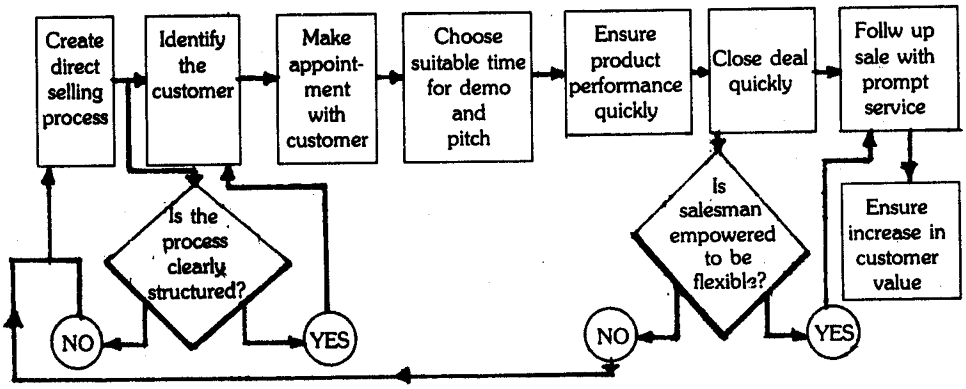
Thus, a number of small units preferably with common interest or lines of manufacture should form a well-knit consortium. The common factors considered could be (1) a common brand name, (2) a common advertisement programme with a cess channeling from the members, (3) a common network of distribution agencies for channeling their common pool of products, (4) a standard system of discounts for the retailers/distributors, commonly arrived at, (5) a common pool of funds formed for designing and development of the product.

Thus, a single channel distribution system, a quick flow of finance and the popularity of a brand will help to increase the overall sales and the consortia will be able to create a large turnover capital ratio.

Direct Selling

It could be the ultimate in offering value to the customer: direct selling. Or, when a company bridges the last link in the generic value-chain between the retailer and the residence — and sels its product at the customer's doorstep itself. It's also the ultimate in increasing the customer's value to the marketer. After all, what could be more effective than a face-to-face dialogue between a salesperson and a customer in an environment where the latter is utterly receptive — her home — through a process the former is completely in conrol of — one-on-one with the customer — to communicate the attributes of his product?

HOW TO ADD VALUE THROUGH DIRECT SELLING



The Lessons

(i) Keep the process flexible enough to accommodate individual needs;

(ii) Simplify the process of negotiations to save the customer's time;

(iii) Use your customer to sell your product to other customers; and

(iv) Ensure that your direct seller conclude a deal immediately.

Conclusion

Marketing is of outstanding importance. It is a key to the rationalisation of production and helps in improving quality standards, productivity and economical purchasing.

The systems approach in marketing helps provide complee satisfaction to the customer rather than just offering a product. If the purpose of business is to create a customer, and at a profit, then the needs of the customer have to be carefully attended to. In the consumer soft and consumer durable areas marketers have forged ahead in understanding this, but in the industrial products and services areas his concept is yet to gain a real foothold. Wherever it has been adopted by industrial marketing companies, the systems approach expresses itself in two ways — the creation of a complete product system sold as a unit.

The future of a large number of small-scale industrialists who deal directly with consumers depends on the marketing mechanisms in operation. In some cases, departmental stores, such as the Khadi Bhandar and the Bata Shoe Co., have become very successful in marketing the goods of the small-scale sector. This channel has to be strengthened and expanded to cover other items of production in the small-scale sector. It is, therefore, absolutely essential to rationalise the marketing system by reducing the number of middlemen, so that the entrepreneur may sell at a competitive price, and at the same time, get a good return on his investment in the manufacture of his products.

ANNEXURE 1
STAGES OF DEVELOPMENT IN MARKETING MANAGEMENT

Production Orientation	*Sales Orientation*	*Customer/Market Orientation*
Market is viewed as dependent variable and production capacity as the independent variable. Production Dept.→ Market	Market as dependent variable and sales department capacity as the independent variable. Sales Dept. → Market	Market and the firms are mutually interdependent; firm' is highly dependent on market; it is an extension of the market. Market → Firm
Emphasis is *on the production process* — on technical unit. Focus is on problems of manufacturing/finance.	Emphasis is on own products of the firm — *on sales.*	Emphasis is on the customer needs and wants — *on demand.* Focus is on problems of marketing.
Marketing means: 'Sell what is produced.'	Marketing means: 'A good product does not sell by itself. It has to be pushed. Customers have to be manipulated.'	Marketing means: Targeting on customer needs/present or future purchasing patterns of demand.
Prevalent in a situation of absolute scarcity, or during seller's market.	Prevalent in a situation of surplus production, surplus capacity, or when the market has not been surveyed properly.	Prevalent in a situation of relative affluence or during buyer's market.
Prevalent in the West prior to 1930. Prevalent in areas, e.g., developing nations at a production economy stage.	Prevalent in the West during 1930-1950 and when demand declined in certain industries.	Prevalent in the developed and affluent countries since 1955.
Production was the centre of the universe.	Salesmanship and promotion acted as the focus of marketing universe.	Customer satisfaction is the focus of marketing universe.
It was assumed that best product could attract buyers automatically. Consumer choice could be based on quality in relation to price.	It is assumed that goods are not bought. They have to be sold at any cost, and profit is through sales volume.	It is assumed that goods are bought and not sold and profit is through customer satisfaction only.
No need of aggressive salesmanship and publicity. Company sells what it can make.	Special selling efforts and promotion to capture and maintain demand.	If demand clicks with supply, no special selling efforts are necessary, problem is only of distribution. i.e., servicing of demand. Company makes what it can sell.

Note: Since 1965 under environmental approach, marketing concept has been widened in the West. Government, market and pressure groups influence the firm and its marketing strategy. The firm has to adopt socially responsible marketing strategies. It has to cater to the needs of consumers as well as society-market needs in a social framework. It has to ensure quality of life, *e.g.*, absence of food, air and water pollution. Consumerism and Government should achieve consumer protection and environmental protection. The firm now aims at benefits for both sides, i.e., customer satisfaction and profitability. Societal or social marketing concept appeared in many affluent countries from 1965. It is slowly spreading over also in other developing countries. It is now said that the so-called affluent countries have become really effluent countries. Developing countries should not be effluent countries.

ANNEXURE 2
VARIANCE OF SALES MANAGEMENT

Progressive Condition (1)	*Average Condition (2)*	*Weak Condition (3)*
Sales Merchandising:		
(i) Sound sales programme based on known customer needs. Market research and analysis supported by good advertising and sales programme.	*(i)* Sales programme based on past customer experience. Market potential not known; advertising not selective.	*(i)* Sales coverage incomplete; knowledge of competition limited.
(ii) Sales budgets classified by products, customers, salesmen, territories.	*(ii)* Sales total estimated but not budgeted by products, customers and territories.	*(ii)* No sales budgets
(iii) Sound pricing based on standard costs, giving effect to all cost factors.	*(iii)* Price structure rigid; accurate product costs not used in fixed sales prices; competition partially governs pricing.	*(iii)* Selling prices based on competition or what the market will bear, cost information not generally used in fixing prices.
(iv) Profit or loss determined by salesmen, territories, customers and products.	*(iv)* No attempt to analyse gross and net profit by salesmen, products and customers.	*(iv)* No sales analyses.
(v) Selective selling efforts directed towards maximum profit possibilities.	*(v)* Selling effort not directed towards best profit possibilities.	*(v)* No selective selling programmes.
(vi) Trained sales force intelligently directed and compensated.	*(vi)* Salesmen closely supervised but training programme inadequate.	*(vi)* Sales force neither well trained nor supervised; compensation not comparable to competitors.

Table 'A'
PROMOTION STRATEGY

Push Strategy	*Pull Strategy*	*Push-Pull Strategy*
It is called a pressure strategy. Emphasis is on personal selling at all stages in distribution. We have aggressive and high pressure salesmanship. Conditions favouring push strategy: 1. Quality product with unique product features and talking points for salesmen. 2. High-priced product. 3. Higher profit margins to resellers. Advertising plays a minor role in push strategy.	It is called a suction strategy. Emphasis is on extensive advertising to generate consumer demand. Product is literally pulled thorough the marketing channel by consumer. Salesmen are mere order takers and distributing agents. Less emphasis on personal selling at all stages in distribution. Lower trade margins are offered to resellers. Lower retail prices but higher turnover rates. Heavy emphasis on consumer advertising and large investment required.	In consumer goods market very large companies generally adopt a push-pull or a combination adopt a pushpull or a combination strategy to sell their products. Salesmen are employed to push products, through the marketing channels. Extensive advertising is also employed to accelerate sales and to increase the market share. We need extensive promotion expenditures and only very big national companies can resort to combination strategy. All tools of promotion work together as a total communication process.

Note: 1. Strategy lays down plan of action to secure an advantage over competitors, demonstrate attractiveness to buyers and try to achieve fuller exploitation of company resources.
2. Pull strategy gives emphasis on mass promotion. Push strategy gives emphasis on personal selling.
3. Conditions indicating a favourable opportunity to promote are: 1. a favourable trend in demand, 2. major product differences, 3. hidden qualities (purity in drugs, cleaning power in detergents, flavour in foods). 4. emotional buying motives to change the psychological motivation and partly using promotion as a form of non-price competition.
4. In the push strategy, the middleman has an active role for creating demand. In the pull strategy he is responsible for serving demand.

Table 'B'
PROMOTION PLANS

Advertising Plan	*Publicity Plan*	*Personal Selling Plan*	*Sales Promotion Plan*
An advertising plan covers advertising: 1. Targets. 2. Objectives. 3. Strategy. 4. Appeal. 5. Copy theme. 6. Media schedule. 7. Budget. 8. Methods for measuring advertising results.	A publicity plan covers: 1. Targets and objectives. 2. Schedule of company products and events with news value. 3. Media possibilities. 4. Budget. 5. Means of measuring the results of publicity.	A Personal selling plan covers: 1. Sales targets. 2. Objectives. 3. Strategies. 4. Major appeals. 5. Budget. 6. Methods of measuring personal selling results.	A sales promotion plan covers: 1. Sales promotion targets. 2. Objectives. 3. Strategies. 4. Schedules of events. 5. Budget. 6. Methods of measuring the results of sales promotion

Note: 1. Objectives indicate where a firm wants to go: strategy shows the way or means of going there and achieving objective.

2. Promotion and plans should be: 1. relevant, 2. practical, 3. complete and detailed. They should include specific costs and schedules of activities. They should be co-ordinated. They should allocate definite responsibilities and give necessary authority to those who are required to carry out each part of the plan.

3. Typical promotion objectives are: 1. increase sales, 2. improve market share, 3. create or improve brand recognition, acceptance, insistence etc.,4. inform and educate the market, 5. create a competitive difference, 6. create a favourable climate for future sale. Please not that promotion is only one tool to achieve these objectives.

4. A strategy is a plan for achieving objectives through the use of scarce resources in the face of intelligent competition.

Table 'C'

TYPES OF COMMUNICATION (PROMOTION) INFLUENCING VARIOUS STAGES IN BUYER BEHAVIOUR

Components or Dimensions of Attitude	*Movement toward Purchase (Six-stage Sequence)*	*Types of Communication Relevant at each stage*
1. The Conative (Behavioural) Dimension It is the region of drives or motives, i.e., activated unsatisfied wants. Advertisements and sales promotion must stimulate and direct desires so as to motivate the consumer to buy a product. The buyer should be made ready to respond and he should have the conviction that the purchase would be wise. Purchase is the last step converting this attitude into actual purchase.	6 Purchase Conviction	Point-of-purchase Material, Retail Store Advertising, Special Deals, 'Last Chance Offer', Price Appeals, Testimonials, Source Credibility, i.e., expertness and trustworthiness of the source, personal selling, interpersonal communication, word of mouth communication are essential in evaluation and adoption stages. Believability of company as a communicator is called source creditability.
2. The Affective (Feelings and Emotions) Dimension It is the region of feelings and emotions. Consumer moves from knowledge to liking and preference, he develops a favourable attitude toward the product (liking) and then develops the point of preference. Promotion tools must stress the affective aspect of behaviour, i.e., the area of feelings and emotions must be tapped. Advertisements and sales promotion will change emotions and feelings.	4 Preference 3 Liking	Competitive Advertising, Argumentative Advertising Copy, Image Advertising, Status, Glamour Appeals stress on changing emotions and feelings of buyers. Opinion leaders are used as a good source of information and opinion — to change attitude of buyers through interpersonal communication.

3. The Cognitive Dimension It is the region of awareness and knowledge. Promotion tools must emphasize the cognitive aspects of buyer behaviour in order to create awareness and knowledge. Advertising provides adequate information and facts.	2 Knowledge 1 Awareness	Announcements Advertising, Descriptive Advertising Copy, Classified Advertisements, Slogans, Jingles, Sky Writing, Television, Radio Advertisements. Mass media must be adopted to create awareness, provide knowledge and information.

CHAPTER 39

MARKETING INSTITUTIONS AND ASSISTANCE

Introduction

Over the years, India has worked on beneficial strategies and incorporated technology resulting in the emergence of efficient marketing organisations and distribution centres, thus seeing a shift from the inadequacy of these firms. However, this is just a beginning of designing the products after a study of customer requirements. Very few, so-called marketing organisations possessed adequate resources to spend on advertising and so stimulate interest of prospective customers. In a developing country, its economy can be greatly expanded, improved and diversified by efficient marketing organisation, manned by expert personnel. Small industries need them more. If their share in domestic, government and foreign markets is to be secured and expanded, the small entrepreneur should develop a new attitude and assist in the process of building up powerful and prosperous marketing organisations.

Institutional Support

The success of marketing depends solely on well established institutional set-ups and timely assistance without any hassels. Although the institutional set up for marketing has been broad-based, it is biased towards international marketing in preference to internal markets. Another feature is that a majority of there institutions are in the public sector.

With a view to assisting small-scale industries, the government and other agencies have reserved certain items to be purchased from them. The National Small Industries Corporation and State Small Industries Corporations assist small-scale industries in selling their products to the Government.

The Khadi and Village Industries Commission and the Handicrafts and Handlooms have their own distribution agents and their own marketing arrangements.

Moreover, the government has established trade centres to cater to the marketing needs of the small-scale industries sector. The NSIC and the STC help this sector to export its products.

Let us discuss in detail the methods of the marketing of the products of the small-scale industries sector:

Central Government Stores Purchase Programme

The Central Government Stores Purchase Programme provides an outlet for the products of industrial units in the country. This programme was then operated by the Director-General of Supplies and Disposals, Government of India. Under the programme, the DGS & D is responsible for arranging the purchase and delivery of all the stores required by the Central Government, certain specified items from the scope of this department. It also purchases the stores needed by State Government, public sector organisations and other government and semi-government bodies.

The two major recommendations of the Stores Purchase Committee set up under the chairmanship of the Deputy Minister of Works, Housing and Supply, and accepted by the Government of India relating to the small-scale sector were:

(i) Price preference to products of cottage and small-scale industries, including reservation of certain items of stores for purchase only from this sector; and

(ii) Greater facilities for the registration of cottage and small industries.

The objective was to encourage the production and utilisation of industrial products manufactured by the small-scale sector by State purchases. To achieve this objective, the items of Government purchases have been divided into the following four groups by the DGS & D:

Group I: Items which are of no interest to small-scale units and can be procured only from the large-scale sector.

Group II: Items which, by their very nature, require large-scale firms as prime contractors but permit substantial scope to purchase components and parts from small-scale units.

Group III: Residuary items which both small-scale as well as large-scale firms can supply. Tenders for items falling under the groups are invited from all parties, including small-scale industries.

Group IV: Items which are reserved for exclusive procurement from small-scale units. The present list consists of 379 items.

Special Facility for Small-scale Sector

The present policy offers the following special facilities to small-scale units:

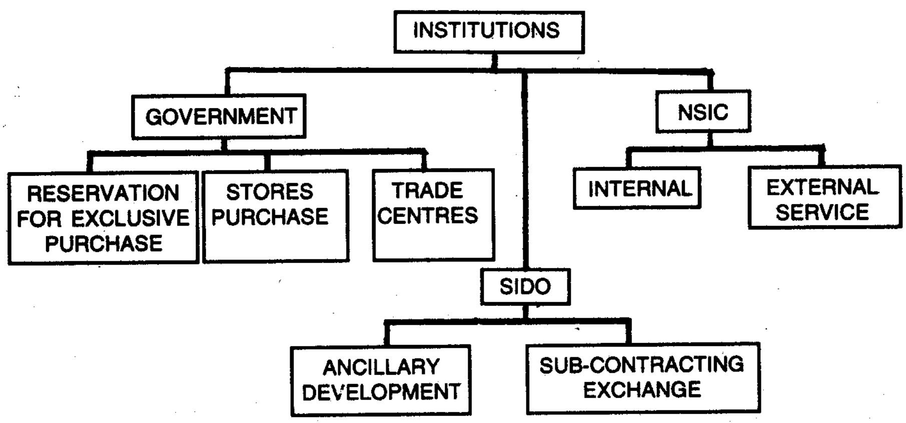


Fig. 39.1 Institutional Market Support to Small-scale Sector

(i) Application forms for initial registration and renewal are issued free of charge;

(ii) No registration fee is charged;

(iii) Free tender forms are supplied;

(iv) Tenders are accepted without a security deposits from those small-scale units which are registered with the NSIC and whose competency is certified by the Council;

(v) In certain cases, purchase of items in group III is also confined to small-scale industries;

(vi) Where basic considerations like quality and delivery conditions are comparable, or where small-scale industries have an advantage over large-scale industries, or where the former have established themselves as suppliers to the Government on competitive terms, the products of small-scale industries are given preference over products of other manufacturers; and

(vii) In the case of Group III items, which are purchased from both large-scale and small-scale units, the small-scale units are accorded suitable and reasonable price preference up to a maximum of 15%. The actual quantum of price preference is decided in each case on merit.

This price preference is not, however, granted automatically and is subject to certain conditions. The basic consideration is conformity to specification, quality, delivery, capacity, etc.

Price preference is not granted in the following cases:

(a) Where the items are reserved for exclusive purchase from small-scale units;

(b) Where competition against tender enquiries exists amongst the small-scale units alone; and

(c) Where tenders are received from both small-scale units and large-scale units and the lowest offers are from small-scale units and their capacity is more than sufficient to meet the demand.

The offers received from middlemen for the products of small-scale industries are treated as offers from small-scale units for the purpose of price preference. All small-scale units, whether registered with the DGS & D, the NSIC or the Directors of Industries are eligible for price preference.

The sub-committee appointed in 1975 under the chairmanship of the DC (SSI) by the High Power Committee had made recommendations concerning the following aspects:

(i) Categorisation and review of items under groups (referred to above);

(ii) Uniform purchase and price preference to be adopted by all Central and State Government Departments for small-scale units;

(iii) Increased association of DCSSI with decisions affecting small industries;

(iv) Sub-contracting of orders to small-scale units;

(v) Registration procedure;

(vi) Wider circulation of tenders among small-scale units;

(vii) Monitoring of small-scale units' performance by the NSIC;

(viii) Mandatory registration with the NSIC of the small-scale units interested in the Government Purchase Programme;

(ix) Statistics of purchases for small-scale industries; and

(x) Regional imbalance in procurement from this centre.

Reservations of Items for Exclusive Purchase from Small-Scale Sector

The reservation of items for exclusive purchase from the small-scale sector has been effective from 1956-57. To begin with, 16 products were reserved. Later 40% products were listed. This apart, 22 items, which were, till now, reserved for civil requirements were to be treated as reserved for purchase from the small-scale sector for defence requirements also. 11 items were notified under the list Group V for graded purchase reservation to the extent of 75% and 15 items to the extent of 50% under the List Group VI.

There was an appreciable increase in the total number of firms registered under the Central Government Purchase Programme during the last five years. But small-scale units have shown a slightly higher rate of increase than the large-scale units. However, the number of large-scale units is much greater than that of small-scale units registered under the programme.

Small-scale Industries' Share in Indigenous Purchases

The small-scale units' share of the indigenous purchases of the DGS & D has increased substantially over the years. There is, however, a larger scope for small-scale industries to increase their share in these purchases, considering the fact that their share in the total industrial production in the country is nearly 50%. Group-wise Purchases from small-scale industries. Fig. 39.2 gives the progress of reservation of items for exclusive purchases from 1974-75, 1956-57, 1979-80 and 1994-95.

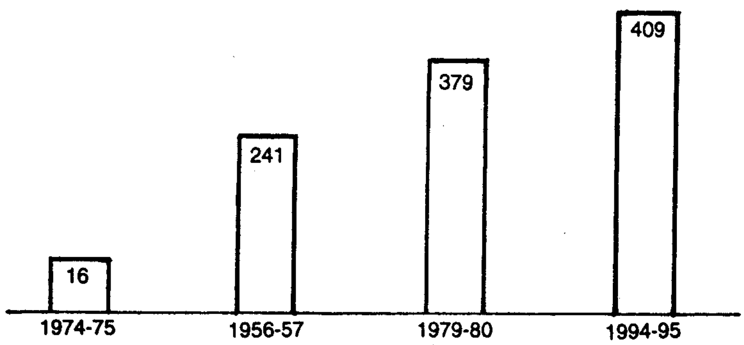


Fig. 39.2 Progress of Reservation of Items for Exclusive Purchase

All the firms in India and abroad, dealing in stores purchases by the DGS & D, are eligible for registration under the categories of manufacturers; stockists of imported and certain indigenous stores; sole selling agents of Indian manufactures; and agents of overseas principals.

Registration with the DGS & D has to be renewed every five years.

Until recently, the procedure was that a small-scale unit could participate in the Government Purchase Programme by getting itself registered either directly with the DGS & D, or with the NSIC. For registration with the NSIC the unit could approach any of its regional offices or go through the SISI, the Directorate of Industries and District Industries Officers with an application containing information on the plant and machinery, installed capacity and production, and the specific products for which the unit requests registration. On receipt of the application by the SISI, its officers visit the factory, assess the unit's technical competence to manufacture the products in question and recommend registration with the NSIC.

Subsequently NSIC would enlist the units and issue competency certificates in their favour. Such units are then supplied with tender forms as and when the DGS & D issues them for specific products. The NSIC and the SSIs help the units to fill up the tender forms wherever required; but they are submitted directly to the DGS & D.

Revised Procedure: A policy decision was recently taken by the Department of Supplies that small-scale units registered with the NSIC would be treated on par with those units registered with the DGS & D. The application form for registration has been suitably revised, all new applications by small-scale units have now to be submitted only on the revised forms to the concerned SISIs.

This has been applicable only in the case of those units enlisted by the NSIC under the revised procedures and which have applied on the new application forms, subject to the condition that the NSIC has followed the registration procedure and observed the conditions laid down by the DGS & D. The revised procedure eliminates the formalities related to the production of various documents, etc., at the time of submission of tenders to the DGS & D, which were necessary earlier. After having satisfied itself of the units' competence, the SISIs will make suitable recommendations to the NSIC, which will register these units, initially for a period of two years, and issue the necessary certificate.

Only manufacturers and sole selling agents will be registered by the NSIC. However, suppliers of safety/difficult items, as specified, will not be registered by the NSIC but by the DGS & D directly, even though they belong to the small-scale sector.

Gradually, all the small-scale units already registered with the DGS/SIC, will be covered under the new procedure. The NSIC, has taken up the registration of firms under the new single-point scheme with effect from 1st May, 1976.

Marketing services offered by SIDO

The organisation provided marketing assistance to small-scale units by providing promoting ancillarisation, marketing intelligence and information, establishing trade centres, encouraging small entrepreneurs to participate in the purchase programmes of the Central and State Governments, setting up sub-contracting exchanges, organising exhibitions, seminars and training programmes in marketing and publishing information booklets etc.

Ancillary Development

One of the important activities undertaken by the SIDO is the promotion of ancillary industries in order to help in the marketing of the products of the small-scale sector in collaboration with Bureau of Public Enterprises (BPE) and other Central Government agencies.

The Small Industries Services Institutes are actively engaged in identifying promoting new items for ancillarisation, besides rendering technical and managerial assistance to the existing ancillaries. Region-wise seminars, exhibitions and buyer-seller meetings are arranged to promote mutually beneficial relationship between small and large industries through ancillarisation.

Sub-Contracting Exchange

With a view to providing effective support to small-scale units in securing sub-contracting jobs from large and medium undertakings in the country, the SIDO established 16 sub-contracting exchanges at the SISIs. The main functions of these sub-contracting exchanges are:

- To invite small-scale units to register with the exchange their spare capacity on specific machines;
- To approach large industries with a view to listing out items which may be manufactured in small-scale units;
- To render technical assistance to small-scale units in creating new capacity for specific processes or for the manufacture of items/stores which are required by large-scale undertakings; and
- To furnish information on firms from whom enquiries can either secure orders to meet their requirements or on sub-contract their requirements.

The 16 sub-contracting exchange (SCEs) established in the SISIs provide a suitable linkage between large industries and small-scale feeder units to maintain up-to-date information on spare capacities available within the small-scale units and the requirements of large industries.

The Standing Committee on Ancillary Development appointed by the Small-Scale Industries Advisory Board held sittings in all the regions and gathered information from such agencies as the Association of Industries, private institutions (private/public are undertakings), etc., and their recommendations on ancillary development are under preparation. The committee was also furnished with a full techno-economic analysis of all the industries. Suitable recommendations on regular programmes, licensing and direct incentive systems have been made.

Government Purchase Schemes: NSIC

In 1956, the small-scale industry had not grown sufficiently in the technology of manufacturing processes and skills to be able to produce goods according to the rigid specifications of the Government Purchasing Agency. A scheme was, therefore, evolved, according to which the National Small Industries Corporation would take prime contracts from the Purchasing Agencies and get such contracts executed by farming them out to a number of small-scale units scattered all over the country.

This arrangement for the pre-emption of the orders of the corporation was soon stalled by a basic problem. Some small units would quote through the Corporation and others directly; as a result, the Corporation inadvertently became the sponsor of one set of the small units against another when, constitutionally, it was to serve them all equally well. Besides, there were the operational problems of co-ordinating the production of units located in different parts of a vast country. A fresh thinking was, therefore, called for on the issues involved. The scheme was re-oriented. The corporation now acts as a liaison agency to enable small-scale units to secure a larger share of government business. The salient features of the scheme are:

(a) Instead of purchasing tenders sets from the DGS & D, the small units enlisted with the corporation automatically get them, free of cost, from it and its branches;

(b) After verifying the technical competence of the small units, the corporation issues certificates of competency. The units, subsequently do not have to pay any security deposits to Government Purchasing Agencies;

(c) Provided that the specifications and quality are acceptable, the small units get a price preference up to 15% over the quotations of large-scale units, depending on the merits of each case;

(d) Whenever the small units feel that injustice has been done to them, the NSIC takes up their cases with the DGS & D in order to find out the reason for the non-placement of contracts with these units and tries to redress their grievances wherever feasible or possible;

(e) As a result of the efforts of the NSIC, another big purchase department, the Ministry of Defence, has come in line with the DGS & D, and has now started exempting small units from the payment of security deposits.

In addition, the following facilities are available to the small scale units registered with NSIC under the Single Point Registration Scheme under the Government Store Purchase Programme.

1. Issue of tender sets free of cost;
2. Exemption from payment of Earnest money;
3. Waiver of Security Deposit into the monetary limit for which the unit is registered;
4. Price preference upto 15% over the large scale unit.

Internal Marketing

In this field, the NSIC had undertaken the marketing of some products — tapioca starch, hand-made paper and hosiery items. By organising and co-ordinating the productive efforts of a consortium of hoisery manufacturers, the sale of ISI-marked hoisery products has been encouraged. Under its future programme, the NSIC intends:

(a) To cover domestic appliances, hand tools, malleable castings, light engineering products, soap;

(b) To provide marketing intelligence within the country and abroad for the benefit of the small-scale sector;

(c) To assist small-scale units in their survey of the markets and marketing research;

(d) To provide the necessary technological inputs in developing and standardising products in the small-scale sector;

(e) To establish raw material banks to meet the requirements of the small-scale sector in ferrous and non-ferrous raw materials.

Trade Centres

The Government of India has established trade centres to cater to the marketing needs of units in the small-scale sector.

These trade centres provide an integrated marketing system for small industries; they collect and disseminate information relating to all types of small-scale industries in the region, giving full details of products, capacities and prices. They provide a focal point for buyers and sellers who have the required supplementary service for trade centres and transactions, between small-scale industries and the buyers of their products, including large-scale manufacturers, importers and merchant exporters, export houses, purchasing organisations and consumers in general. A library function as an agency for contracts between small-scale units and prospective buyers in the country and abroad. Moreover, they assist the small units in the maintenance of quality control and the introduction of standardisation. About 50% of the total recurring and non-recurring expenditure on equipment, stores, library and documentation, etc., on these centres was met by the Central Government (excluding the cost of land and buildings), subject to a maximum limit of Rs. 200,000 per year for a period of five years.

The need for setting up trade centers for small-scale industries was keenly felt of their phenomenal growth and because of the fact that they manufactured a wide range of products — from simple consumer goods to capital goods and other sophisticated items, such as machine tools, television sets, scientific equipment, automobile ancillaries, drugs and pharmaceuticals, etc. But if the small-scale sector is very important, it is also very vulnerable, so far as its marketing capacity is concerned. It is essential, therefore, that the products of small units should become competitive and should be able to contribute in a large measure to the national industrial output.

Small-scale industrialists cannot organise sales and market promotion activities on their own; they cannot display their products; they cannot spend much on advertising and publicity market research etc. because their resources are limited and they are handicapped in their exports know-how and trade contacts. Buyers in India and abroad, on the other hand, are not aware of the quality, specifications and range of the products manufactured by the small-scale industry. The setting-up of trade centres in different parts of the country has therefore considerably filled up the information and communication gap between small manufacturers, consumers and buyers.

Exports

Responding to the widespread belief that the small industrial sector has not been marking a proportional contribution to the overall export earning of the country, the

NSIC has set up an Export Department to encourage the export of small industry products. Because of their small size and lack of resources and effort the small industrialists do not have an easy access to world markets. Very often, they are unable to infuse confidence in foreign buyers. The NSIC aims at filling this need by functioning as an export house. Following the latest in marketing concepts, the corporation identifies the demand abroad for labour intensive products. It collects intelligence about specifications, prices etc. It locates small industries in the countries with the required production facilities and helps such units to make dyes and tools, counter samples, small-units, and takes the entire responsibility for the execution of the contract. It helps small industry products such as hand tools, fasteners, casting etc., from some of the most sophisticated markets in the world — from the US, West Germany and Canada.

Export Incentives

The Government has offered special incentives to encourage export of the products of the small-scale sector. The minimum export performance limits for the grant of export house certificates have been lowered for small-scale manufacturers and their consortiums. The Government has also made arrangements to educate the small-scale units in the export prospects of different products abroad, by collecting information from various sources and disseminating it among them. Some of the important sources of information are the reports prepared by the Trade Development Authority, the Indian Institute of Foreign Trade, the Export Promotion Councils and the Directorate General of Commercial Intelligence Statistics. Periodical reports from Indian missions abroad are consulted for the purpose of identifying export opportunities for small-scale industries or taking note of the developments affecting such opportunities in foreign countries.

Export Promotion Councils (EPCs)

There are at present eleven Export Promotion Councils in India. The EPCs perform both advisory and executive functions.

Indian Institute of Foreign Trade (IIFT)

The IIFT is engaged in the following activities:

(i) Training of personnel in modern techniques of international trade;

(ii) Organisation of research, area surveys, commodity surveys, market surveys; and

(iii) Dissemination of information arising from its activities relating to research and market studies.

Commodity Boards

The five statutory Commodity Boards for Rubber, Coffee, Tea, Tobacco and Spices are responsible for production, development and export.

Export Inspection Council (EIC)

The EIC, a statutory body, is responsible for the enforcement of quality control and Pre-shipment inspection of various exportable commodities.

Indian Institute of Packaging (IIP)

The main aims of the Institute (IIP) are to undertake research into raw materials for the packaging industry, to develop new types of packaging for export products, to organise programmes on packaging technology and to stimulate consciousness of the need for good packaging.

India Trade Promotion Organisation (ITPO). The ITPO has come into effect from January 1, 1992 with the main objective of promoting exports and imports and upgradation of technology, through the medium of fairs to be held in India and abroad, to undertake publicity through the print and electronic media, to assist Indian companies in product development, to organise export development programmes, buyer-seller meets, contact promotion programmes and integrated marketing programmes.

Export Credit Guarantee Corporation of India Ltd.

The Prime objective of ECGC is to support the country's export by providing a range of insurance covers to the Indian exporters against the risk of non-realisation of export proceeds due to political or commercial reasons and guarantees to financial institutions to facilitate grant of credit facilities to exporters on a liberal basis.

Export Processing Zones

The Export Processing Zones set up as enclaves, separated from the Domestic Tariff area by fiscal barriers, are intended to provide an internationally competitive duty free environment for export production, at low cost. This enables the products of EPZs to be competitive, both quality-wise and price-wise, in the international market. India has seven Export Processing Zones at Kandla (Gujarat), Santacruz (Mumbai), Falta (West Bengal), Noida (UP), Cochin (Kerala), Madras (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). The one at Visakhapatnam (Andhra Pradesh) has become operational only recently.

The Santacruz Electronics Export Processing Zone (SEEPZ) is meant exclusively for export of electronics and gem and jewellery items whereas the other zones are multiproduct Zones.

Export Oriented Units

The EOU Scheme introduced in early 1981, is complementary to the EPZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31.3.95, there were 2,944 valid approved units out of which 710 were in operation under the EOU Scheme.

At present 502 units are in operation in the Export Processing Zones.

Export Promotion Industrial Park Scheme (EPIP)

A centrally sponsored "Export Promotion Industrial Park" (EPIP) Scheme has been introduced in August 1994 with a view to involving the State Governments in the creation of infrastructural facilities for export-oriented production. The scheme provides that 75% of the capital expenditure incurred towards creation of such facilities, ordinarily limited to Rs. 10 crores in each case, will be met from a central grant to the State Governments. In addition a maintenance grant equivalent to 2% of export turnover of each unit established therein will also be made available to State Governments for a period of 5 years from the date of commercial production of that unit.

The Central Govt. have so far approved 18 proposals for establishments of EPIPs in the states of Punjab, Haryana, Himachal Pradesh, Rajasthan, Karnataka, Kerala, Maharashtra, Tamil Nadu, Andhra Pradesh, Uttar Pradesh, Gujarat, Bihar, Jammu & Kashmir, Assam, Madhya Pradesh, West Bengal, Orissa and Meghalaya.

Export Houses, Trading Houses and Star Trading Houses

The objective of the Scheme of Export Houses, Trading Houses and Star Trading Houses is to give recognition to the established exporters and large Export Houses to build up the marketing infrastructure and expertise required for export promotion. The registered exporters having a record of export performance over a number of years are granted the status of Export/Trading Houses/Star Trading Houses/Super star Trading Houses subject to the fulfilment of minimum annual average export performance in terms of FOB value or net foreign exchange earnings on physical exports prescribed in the EXIM Policy.

The Export Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses Scheme allows the Registered Exporters certain additional benefits available to them under the policy.

As on 21st November, 1995, there are 6 Super Star Trading Houses, 22 Star Trading Houses, 258 Trading Houses and 1578 Export Houses. The total estimated exports by these Houses during 1994-95 were Rs. 59,596 crores.

Jute Corporation of India

The Jute Corporation was established on 2nd April, 1971 as a wholly owned limited company of the Government of India. The main functions of the corporation are:

(i) Export and import of raw jute;

(ii) Internal marketing of jute; and

(iii) Undertaking measures for the export promotion of jute goods.

The objectives of the JCI are to ensure the minimum prices of raw jute; to conduct commercial operations in a judicious manner; to import and export jute fibre as authorised by the Government; to process raw jute and export jute goods; and to undertake export promotion measures for jute goods. It also aims at maintaining stability of jute production and prices.

State Trading Corporation of India (STC)

The State Trading Corporation of India was set up in May 1956 as an autonomous corporation to implement the Government's policies in regard to the promotion and diversification of foreign trade. The principle objectives of the STC are:

(i) To explore new markets for existing as well as new products;

(ii) To diversify and consequently increase India's export trade; and

(iii) To promote long-term export operations and the sale of "difficult-to-sell items."

The Corporation's major export items are semi-processed leather, castor oil, art silk fabrics, rice, jute goods, etc. With the pace of canalisation of India's foreign trade gathering momentum, the share of the STC in India's trade has increased substantially in recent years.

The STC provides a package of services to this sector with a view to encouraging it to produce more and market its products in foreign countries. These services include the supply of raw materials service, and warehousing, exporting, marketing and shipping facilities.

The Corporation deals in agricultural products, chemicals and fats, leather goods, textiles, imported cars and marketing. It has setup an Industrial Raw Materials Assistance Division to make off-the-shelf deliveries of imported raw materials to manufacturers against import licences.

In addition, the STC has set up four subsidiaries, namely: *(a)* The Projects and Equipment Corporation; *(b)* Handicrafts and Handlooms Exports Corporation of India; *(c)* The Cashew Corporations of India Ltd.; and *(d)* The State Chemicals and Pharmaceuticals Corporation Ltd. The subsidiaries assist the parent Corporation in furthering the main objectives of export promotion.

(a) The Projects and Equipment Corporations of India (PEC): The PEC was formed on 21st April, 1971, and has taken over the Railway Equipment and Engineering Divisions from the STC.

This corporation was formed to promote more intensively the export of non-traditional sophisticated engineering and railway equipment. In addition to this, it specialises in large-scale joint ventures and turn-key projects in the railways, public utilities and in complete industrial plants and projects. In view of the promising turnkey project opportunities in most developing countries, the corporation is expected to play a very important role in developing the exports of Indian engineering goods and technical now-how on a continuing basis.

The PEC plans to concentrate on undertaking turn-key projects and large-scale ventures. These vary from the construction of new railway lines of the putting up of complete industrial plants on an integrated basis, from the initial project report stage to that of final commissioning.

(b) Handicrafts and Handloom Exports Corporation of India: The HHEC came into existence in October 1962 as a subsidiary of the State Trading Corporation, with the merger of the Indian Handicrafts Development Corporation (set up in 1958) and the Handloom Export Organisation, a department of the STC. The main objective of the corporation is to develop new markets and expand traditional ones, thus supplementing and aiding the existing private sector trade in handicrafts and handlooms.

With a view to projecting the image of Indian handicrafts and handlooms in international markets, the corporation has opened showrooms known as "Sona of India" in New York, Tokyo, Paris and Nairobi, and also at the Akbar Hotel in New Delhi. A carpet warehousing depot was set up in Hamburg in July 1965.

The HHEC undertakes the export of handicrafts, handlooms, ready-to-wear garments and canalised export of woolen knit-wear. Product development is one of the main activities of the HHEC. In its attempts to increase overseas sales of its products, it has secured the help of many popular designers in different countries — France, japan, Italy and the U.K.

The HHEC also conducts consumer preference surveys abroad and introduces new products which project the excellent craftsmanship of India, helps the trade by means of advice and market exposure: participates in trade fairs and exhibitions abroad; and encourages delegates from abroad to visit India, study the products and offer valuable suggestions for improvement.

(c) Cashew Corporation of India: The Government of India set up the Cashew Corporation of India (CCI) on 19th August 1970 as a wholly-owned subsidiary of the STC to stabilise he import trade in raw cashew. The import of raw cashew, handled under the Open General Licence (OGL), was canalised through the Cashew Corporation with effect from 1st September 1970. The CCI has floated a joint stock company to raise cashew plantations.

The Minerals and Metals Trading Corporations of India (MMTC)

The Minerals and Metals Trading Corporation of India was established by the Government of India on 1st October, 1963. The central aim of the corporation is to broaden and enlarge the scope of exports of Indian minerals and ores and to arrange for the import of essential raw materials for distribution to industrial units in the country. Iron ore, fifth largest foreign exchange earner of the country, is the principal item of the export handled by the MTC. The other items of export handled by it are manganese ore, ferro-manganese, coal, silimanite, ferro-silicon and ferro-chrome.

Besides Japan, which still accounts for more than 65 per cent of MMTC's exports, several other markets have been cultivated. Notable among these are South Korea, Taiwan, Romania, Czechoslovakia, Poland, Hungary, Yugoslavia, West Germany and the Netherlands. It has sought to secure continuous export outlets by entering into long-term contracts with importing countries.

The Tea Trading Corporation of India Ltd. (TTCI)

Tea Trading Corporation of India was established in 1971 to create a stable export market for Indian tea particularly in the value added forms, which include packet tea, tea bag, instant tea, etc. Other activities of this Corporation include marketing of tea for domestic consumption, management of tea establishment of other facilities beneficial to the tea industry. TTCI has been a subsidiary company of the State Trading Corporation of India since January, 1986, TTCC owns five gardens, namely, Pathini Tea Estate in Assam and Pashok, Looksan, Vah-Tukvar and Potong in West Bengal.

The Spices Trading Corporation Limited (STCL)

Spices Trading Corporation Limited (formerly known as Cardamom Trading Corporation Limited) was established in October 1982 and commenced its trading activities in September, 1983. The Corporation was set up to carry on domestic and international trade in spices and their products. The Memorandum of Association permits the Corporation to also carry on business as a dealer/exporter of other agricultural commodities and related products. The Corporation diversified its trading to include agricultural inputs such as fertilizers, pesticides and sprayers.

The authorised Share Capital of the Corporation is Rs. 5 crores while the paid up Share Capital is Rs. 1.50 crores. For its commercial activities, the Corporation mainly depends on borrowings from Banks.

Small-scale industries have made a significant contribution not only by increasing industrial production but also to non-traditional exports from the country. Programmes for promoting the export capabilities of small-scale units have been further intensified. Export market training courses and seminars have been held in different parts of the country to create the necessary awareness and motivation among the small-scale units engaged in export business.

Promotional Activities

The Small Industries Development Organisation (SIDO), through its network of Small Industries Service Institutes and Extension Centres, provides techno-managerial assistance and extension services for promotion of the exports of the products of these industries. The SIDO intensified its activities relating to the dissemination of information on foreign markets to export-worthy small-scale units; provided on consultancy services in all matters of export procedure to facilitate the disposal of replenishment, claims, drawbacks and other incentives; on export prices; on the identification of small-scale units already possessing the necessary equipment and skills to undertake the production of items having an export potential; on the organisation of training programmes on export marketing; and on the maintenance of liaison with the concerned agencies. A large number of meetings, seminars and open-house discussions on export promotion were organised in collaboration with the concerned promotional agencies and associations of industries. Training programmes on export packaging, too, were organised by some of the Small Industries Service Institutes in collaboration with the Indian Institute of Packaging.

A quarterly 'Small Industry Export Bulletin', which covers the important areas of interest to exporters, continued to be brought out by the SIDO. It contains useful information on export marketing, Government policy announcements and the procedures relevant to small industry exports, abstracts of market/commodity reports prepared by such professional agencies as the Indian Institute of Foreign Trade and Trade Development Authority, special features on export-oriented industries, markets and facilities, etc. The Export Promotion Division has started another feature in the form of Trade Enquiry Service Bulletin, in which the names and addresses of overseas buyers, importers and importing organisations are provided. As a result of these efforts, the communications are provided. As a result of these efforts, the communication and information gap between the small-scale manufacturers/exporters and overseas markets will be partially bridged.

SIDO also dealt with the special problems of small-scale exporting units, especially in regard to import entitlement, cash assistance, duty drawback, etc., and took them up with the authorities concerned.

In order to encourage the formation of export consortia of small-scale units, a scheme for financial assistance to them in the initial years of their formation was formulated and submitted to the Ministry of Industry. Under the scheme, the export consortia of small-scale units would be provided financial assistance during 3 or 4 years till they are able to develop themselves into full-fledged export houses.

Co-operation with Other Organisations

The SIDO actively collaborated with other Central and State institutions in their export promotion efforts, especially for small-scale industries. The SISIs prepared techno-managerial reports on export-worthy small-scale units, and collaborated with State Small Industries Corporations, Export Promotion Councils, the National Productivity Council and associations of small industries in organising seminars, training programmes, exhibitions, etc.

Under the scheme of Export Awards of the Ministry of Commerce, the Development Commissioner (Small-Scale Industries) has been designated as a sponsoring authority for small-scale units. The Small Industries Development Organisation, through its network of SISIs, therefore, invited applications from various small-scale units and recommended suitable exporting units for the Award.

One classic instance was when SIDO encouraged small units to participate in buyseller meets and exhibitions organised by the Trade Development Authority at Rotterdam and Birmingham. Interested units were given detailed information and advice in this regard.

State Small Industries Corporations

Some of the State Small Industries Corporations have, in recent years, shown interest in export promotion activities. These corporations were actively associated with the various programme of export promotion organised by the SISIs.

Export House & Turn-key Projects: The NSIC, a recognised export house, has been pushing up the export of such small industry products as hardwares, industrial fasteners, sanitary fittings, locks and machine tools, etc. Goods worth more than Rs. 2 crore have been exported to such countries as the UK, the USA and countries in the Middle East. The NSIC has supplied complete plant and machinery for 32 turn-key projects for 62 small-scale units in Tanzania against the IDBI credit line of Rs. 20 million. This has evoked interest for similar projects from other countries, *viz.,* Nigeria, Mauritius, Uganda and Yemen. The corporation also considered proposals to assist Tanzania and Indonesia in setting up industrial estates for small-scale units.

Some small industries have good prospects of selling their products in international markets. If they cannot develop a consortium for the export of their products, they should at least associate with and support an export house. If marketing is a war, it is the most fierce in the international field. Well-equipped and highly professionalised export houses are indeed necessary, if the products of small industries are to be established in overseas markets. India has not made any serious inroads in these markets, not because the products do not conform to specification or are not competitively priced, but because exportability — the organised power to export — is somewhat low. There is a distinct need of large, strong, high-voltage and high resources export houses, which have specialised in the promotion of the export of the products of small industries. Individual small units may succeed when entrepreneurs have a high degree of marketing competence. But this is not true of most small units. They should not, therefore, enter the foreign markets on their own.

Exports have their own attractions; but unfortunately, very few entrepreneurs care to equip themselves adequately to export successfully and satisfactorily. The complaints one hears from foreign buyers of Indian goods, particularly, against manufacturers in the small-scale sector, bear testimony to this fact, though it may be conceded that some Indian small entrepreneurs do enjoy a high reputation abroad; but their number is woefully small. In these circumstances, the small entrepreneur should, as far as possible, utilise the services of an export house. In fact he should help build up the right type of export houses which have specialised in the promotion of the production of small industries in foreign markets. All export houses can neither do justice to the products of the smal sector, nor all their operations likely to be of real benefit to small exporting units. Hence the need for specialised export houses capable of producing and pushing the products of small industries in overseas markets.

Responsibilities of Management

The major responsibilities of the general management are to establish marketing objectives, to make policy decisions and communicate these decisions to the managers of the operating (or implementing) divisions of the company; to establish standards for measuring and guiding the overall performance of the company. The responsibilities of operational or line management are to plan programmes, methods and procedures and implement the decision necessary to achieve the stated objective; to organise and co-ordinate the activities and resources necessary to carry out the programmes and to see that operating results conform as nearly as possible to agreed plans and standards of performance.

The Basic Differences Between Production-Oriented and Marketing-Oriented Organisation

Business function or Activity	*Company Perspective*	
	Production	*Marketing*
Top Management	Technological considerations predominate. Production and engineering personnel in highest level executive positions.	Customer considerations paramount. Marketing personnel in highest level executive positions.

Objectives	Internal influences predominate. Business objective is to match total company resources against production on technical efficiency and method. Want to be known for technical or production know-how.	External market influences predominate. Business objective is to match total company resources against market requirements and opportunities. More emphasis on market strategy and planning. Want to be regarded as style and market leader.
Manufacturing	Production less flexible. The company sells what can be made.	Flexibility in production so as to match product to sales opportunities. The company manufactures what can be profitably sold.
Marketing	Aims to fulfil existing needs and develop workable products to meet these needs. Company's future bound up with markets already supplied, and products already in existence. Marketing function not considered to be as valuable as manufacturing engineering as finance.	Seeks to create markets and develop saleable products. Company's future bound up with markets yet to be identified and developed, and with products not yet in existence. Marketing considered to be co-ordinate with manufacturing, finance and other major business functions.
Research	Leads in technical and scientific research. Marketing intelligence system relatively undeveloped.	Leads in analytical and marketing research. Market intelligence system well developed.
Product Planning	Based on technical research, suggestions for new or improved products stem from functional performance and applications are prime considerations. Engineering consideration tends to predominate. Laboratory testing more prominent than sales or market. Packaging viewed as a shipping and protective device. Chief concern is engineering, materials handling and packaging machinery.	Based on market research. Suggestions for new or improved products stem from research into customer needs. Performance and applications are prime considerations regarded to be almost as important. Sales and market testing an integral part of planning. Packaging viewed as a sales tool in terms of its user convenience and advertising and promotional effectiveness.
Sale Organisation	Salesman regarded as an order-getting for the factory.	Salesman regarded as an order-maker who keeps the factory running & provides employment to production workers. Salesman accorded high status in the company and more likely to

		be promoted to top management position.
	Salesman lacks the professional status of the engineer, chemist, lawyer or accountant. Less likely to be promoted to top management. Salesman lacks formal training. Tends to get left to his own devices as the man 'out there.' Motivation of the salesman minimal.	Salesman given formal and continuous internal and on-the-job training. Motivation of sales organisation given high priority. Chief sales executive regarded as part of the management team.
Advertising and Promotion	Emphasis on cost rather than on the value of its contribution to the total selling effort. Advertising & promotion regarded as an extra cost, not a basic cost like machines, raw materials, research laboratories, etc. Not regarded as one of the skills required to run a modern business successfully.	Advertising & promotion is an integral part of the Company's marketing effort and a basic cost. Outstanding advertising and promotion considered to be as equally important to the successful running of a business as outstanding manufacturing technique, technical research ability or financial and legal skills.
	Advertising & promotion not looked upon as an important source of competitive differential advantage.	Advertising and promotion regarded as a potential source of competitive differential advantage, particularly when the differences in own and competitive products become less and less distinguishable.

GLOBAL AND REGIONAL TRADE ARRANGEMENTS

World Trade Organization (WTO)

The WTO, established in January 1, 1995, as the successor to the Geneal Agreement on Tariffs and Trade (GATT), serves as the legal and institutional foundation of the multilateral trading system.

The Uruguay Round Trade Agreement that created the WTO also eliminated tariffs for some manufactured goods and reduced other tariffs; reduced barriers to trade in agriculture; expanded protection for copyrights, patents, and other intellectual property; and provided some reduction in barriers to services and foreign investment. It also reformed the multilateral trade process itself, including the introduction of a stronger dispute-settlement mechanism.

The WTO has 123 members, and the following 31 governments have applied to join: Albania, Algeria, Armenia, Belarus, Bulgaria, Cambodia, China, Croatia, Estonia, Georgia, Jordan, Kazakhstan, Kirgyz Republic, Latvia, Lithuania, former Yugoslav Republic of Macedonia, Moldova, Mongolia, Nepal, Oman, Panama, Russia, Saudia Arabia, Seychelles, Sudan, Taiwan, Tonga, Ukraine, Uzbekistan, Vanuatu, and Vietnam.

Extended beyond their original deadlines, WTO negotiations continue now on reducing barriers to trade in basic telecommunications and financial services; a decision on whether to resume failed negotiations on maritime services has been deferred until 2000.

North American Free Trade Agreement (NAFTA)

NAFTA, which built on he 1989 U.S. - Canada Free Trade Agreement, went into force January 1, 1994, phasing out tariffs on trade between the United States, Canada, and Mexico over 15 years. Side agreements require each country to enforce its own labour andenvironmental laws.

U.S. trade with Canada and Mexico increased 29 percent in the first two years of NAFTA. Nevertheless, trade disputes between the partners persist, mitigated somewhat by dispute-settlement mechanisms.

Failing for three years to get abroad fast-track authority from Congress to negotiate any trade agreements, the Clinton Administration is grappling with a strategic decision: whether to request fast-track authority solely for negotiating accession to NAFTA by Chile.

Free Trade Area of the Americas (FTAA)

At the December 1994 Summit of the Americas in Miami, Forida, 34 political leaders of the Western Hemisphere adopted a U.S. proposal to construct an FTAA by 2005, with substantial progress expected before 2000. Trade ministers held subsequent meetings in September 1995 in Denver, Colorada, and in March 1996 in Cartagena, Colombia, where they set up working groups; other meetings are planned for Belo Horizonte, Brazil, in 1997 and for Costa Rica in 1998. Cuba alone among hemisphere countries does not participate in the FTAA.

The working groups have begun moving toward the first concrete actions for an FTAA, which are likely to involve procedures deaing with mutual acceptance of product standards and electronic customs filing.

Lack of fast-track negotiating authority has hurt U.S. credibility with other FTAA participants. For the Clinton administration, the strategic issue has become how to rebuild U.S. political consensus for FTAA negotiations while other Western Hemisphere countries continue to make trade agreements with each other — usually accepting lower standards on services, investment and intellectual property protection than the United States is seeking in an FTAA.

Asia-Pacific economic Cooperation (APEC)

Formed in 1989 as an informal dialogue group with limited participation, APEC has become a forum for negotiations to achieve the goal of freer trade and investment in the Asia-Pacific region — by 2010 for industrialised economies and by 2020 for developing economies.

Beginning in 1993, the annual APEC trade ministers meetings have been followed by meetings of the heads of state or government of member countries (Hong Kong and Taiwan send economic ministers). The next APEC ministers and leaders meetings are scheduled for November 2 to 25 in the Philippines.

APEC has 18 members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand and the United States.

New Transatlantic Agenda

Part of the New Transatlantic Agenda agreed to at the U.S. European Union (EU) summit in December 1995 in Madrid was an initiative to expand trade between the two sides called the New Transatlantic Market place, assisted by meetings of businessmen called colectively the Transatlantic Business Dialogue.

Among a number of agreed goals were tariff cuts, including elimination of tariffs on information technology products (an information technology agreement), and negotiation of mutual recognition agreements to harmonize product standards and testing. Progress has been slow.

Meanwhile, U.S.-EU relations have been disturbed in 1996 by a number of irritants, especially U.S. imposition of sanctions against third-country investments in Cuba, Iran, and Libya.

Conclusion

Marketing is a system of integraded business activities designed to develop strategies and plans including marketing mixes to the satisfaction of customer wants of selected market segments or targets. It is on process involving a set of multi-directional as well as multidimensional activities. Marketing is a matching process by which a producer provides a marketing mix *(product, price, promotion and physical distribution)* that meets consumer demand of a target market within the limits of society.

Of late, marketing management has been given much importance, especially by the SSI sector and will continue to get this importance with different market situations existing now.

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CHAPTER 40

SETTING QUALITY STANDARDS

Introduction

As a result of liberalisation of the industrial policy, the Indian industry has moved into market driven/oriented economy. Quality Performance is a competitive weapon just as important as price. Indian industry is now becoming well aware of the need to ensure qulity not only in the wake of growing competition in the domestic and global markets but also an important tool for efficient cost effective production, setting quality standards, therefore, equip small-scale enterprises and entrepreneurs to be competitive and to enhance their market share and profits.

Quality is a multifaceted and an all encompassing word and needs to be perceived in totality to avoid misinterpretations. There are a number of definitions evolved by quality gurus from Dr. Juran to Tom Peters. But ISO has caught the essence of all these thoughts in its definition of quality.

Quality as ISO-9000 defines, *is totality of characteristics and features of a product, service, system or part that bears upon its ability to satisfy stated or implied needs of a customer.* Every word of this definition is significant. It covers ability of product, process, plant, people and overall integration and management of all these to commensurate to customer's needs. In short, we can say that quality lies in the eyes and views of customers. As a customer, we are accustomed to feel the impact of the lack of quality in our daily life.

The Concept of Quality

In order to achieve consistent quality, an industry cannot continue with the existing practice of concentrating all its efforts on inspection-related activities and failures during manufacture resulting in segregating the defectives and rework. It is now an established fact that quality cannot be achieved through inspection alone; it has to be built into the product at every stage of design and manufacture and also by using it. This quality building effort, starting from identification of customer needs should then continue through various stages of design development, procurement, production, inspection, etc. upto the delivery of the products to the customer and even further. This can only be achieved by adhering to sound procedures, methods and controls which constitute the elements of various quality-related activities in manufacturing or service set up.

Joseph M. Juran expanded Deming's theories even further, taking quality out of the manufacturing processes and across the organisation: from leadership style to choosing suppliers. It was he who broke down. Total Quality Control (TQC) into quality planning, quality control and quality improvement. Juran emphasises that,

- Quality control must be an integral part of management
- Quality is no accident
- Quality must be planned
- There are no shortcuts to quality
- Use problems as sources of improvement

Quality is free, declares Philip Crosby. He continues to believe that quality means setting it right the first time rather merely laying down acceptable levels of quality. Crosby firmly believes that;

- Quality is conformance to requirements
- Quality is achieved through prevention, not appraisal
- Quality standard is zero defects, not acceptable levels
- Quality is measured by the price of non-conformance

SHADES OF SUCCESS: QUALITY

A measure of Ray Ban's success in India lies in the fact that within a span of three years, they have reached the world's top ten Ray Ban markets in unit terms. In value terms, they contribute more than 0.5 per cent of the world's Ray Bans. Ray Ban attributes its success to the production of a world class classic, with no compromise in quality, which has been its hallmark for the past 65 years. Ray Ban occupies a 43 per cent share of the market, which is several times the size of the market for its competing brand.

Ray Ban has set the highest quality standard in the premium sunglasses market. Brand awareness may have existed in the pre-launch stage, but this was a different kind of Ray Ban, which had little resemblance to the 'real thing.' According to a survey conducted by Ray Ban, 81 per cent of the people interviewed considered premium sunglasses a necessity, and around 57 per cent saw them as a status symbol. Around 56 per cent felt sunglasses were essential to look well-dressed and that bad sunglasses could harm the eyes.

The astounding success of Ray Ban is partly due to sustained marketing strategy. The 'Lift thru Ray Ban' campaign captured the larger-than-life aspect of the brand and ensured a high visibility launch.

Crosby stresses that quality is the result of comprehension and action; not of some mystic system of procedures.

Quality will become integral to strategic business plans. Quality goals and objectives will be set at the corporate enterprise level and deployed through the organisation.

Standardisation

In this scientific and technological age, standardisation and quality control in industry are vital factors in the industrial development of a country. Standards are to industry and trade what culture is to society. As culture and civilisation are essential pre-requisites for the proper behaviour and conduct of a person in society so standards are indispensable for industrial development and efficiency. Standardisation bestows advantages of far reaching importance not only on consumers but also on producers, traders and technologists, and provides a scientific means of achieving quality control.

Advantages of Standardisation

Standardisation helps in the development of industrial economy of a country by—

(i) Providing economically and technologically sound solutions;

(ii) Cutting down unnecessary varieties of types and sizes;

(iii) Ensuring an optimum utilisation of available raw materials;

(iv) Minimising the use of scarce and imported raw material when standardisation is based on indigenous materials;

(v) Ensuring interchangeability of items;

(vi) Defining the quality levels of products;

(vii) Providing agreed methods of test; and

(viii) Providing basis for quality control.

International Satisfaction

The need for standardisation on a rational basis has been felt throughout the world and, therefore, international standardisation has acquired a great importance in the smooth flow of world trade. It provides for a greater acceptability and interchangeability of commodities in the various countries. To meet this need, the International Electro-Technical Commission (IEC) was established in 1906 to ensure the standardisation of electrical items. Subsequently, in 1946, the International Organisation for Standardisation (IOS) was set up to ensure the standardisation of all non-electrical items. The IEC was affiliated to IOS as its electrical branch. For developing nations, international standardisation has become an important factor in their scientific and technical progress and in the establishment of scientific, technical, industrial and economic liaison among the different countries in the world.

ISO 9000 is the International Standard for quality systems. It is a set of requirements specified by the International Organisation for Standardization. The corresponding standards known in some countries are as under:

— IS 14000 (the Indian Standard)

— EN 29000 (the European Community Standard)

— BS 5750 (the United Kingdom Standard)

ISO consists of representatives from 90 countries. Each country is represented by its one national standards body. Bureau of Indian Standards is the Indian representative to ISO.

Structure of ISO 9000

The ISO 9000 series currently consists of the following published and planned documents:

1. ISO 9001: Quality Systems — Model for quality assurance in design/development, production, installation and servicing.
2. ISO 9002: Quality Systems — Model for quality assurance in production and installation.
3. ISO 9003: Quality Systems — Model for quality assurance in final inspection and test.
4. *(i)* ISO 9004-1: Quality management and quality system elements — Guidelines.
   (ii) ISO 9004-2: Quality management and quality system elements — Guidelines for Services.
   (iii) ISO 9004-3: Guidelines for processed materials.
   (iv) ISO 9004-4: Guidelines for quality improvement.
   (v) ISO 9004-5: Guidelines for quality plans.
   (vi) ISO 9004-6: Guidelines for quality assurance for project management.
   (vii) ISO 9004-7: Guidelines for configuration management.

The Elements of the Quality System

The following are the requirements for demonstration of a supplier's capability to design and deliver a product. These are called as *'elements of the quality system.'*

1. *Management Responsibility* — To have a documented system of quality assurance, i.e., to identify representative for ensuring that the reuirements of ISO are met.
2. *Quality System* — To have a documented quality system.
3. *Contract Review* — To meet customers' stated requirements.
4. *Design Control* — To control and verify that the design of the product meets the specified requirements.
5. *Document Control* — To ensure that the staff doing the work have the right documents available.
6. *Purchasing and Sub-contracting* — To ensure the conformity of quality requirements by all concerned.
7. *Purchasing Supplies Product* — To store the equipments/instruments belonging to customers properly.
8. *Product Identification and Traceability* — To identify and trace the product at all times.
9. *Process Control* — All work must be planned and carried out under controlled conditions.

10. *Inspection and Testing* — No product must be dispatched until final inspection and test according to the quality plan or documented procedures are successfully completed.
11. *Inspection, Measuring and Test Equipment* — To ensure the testing equipment to provide accurate information.
12. *Inspection and Test Status*— To record the date of inspection and particulars of fitness of the testing equipment.
13. *Control of a Non-conforming Product*— Clearly label the non-performing products and segregate them from those products that do meet quality standards.
14. *Corrective Action*— Analyse how, where and why things have gone wrong and take corrective action.
15. *Handling, Storage, Packaging and Delivery* — To demonstrate that you adequately project the quality of equipment.
16. *Quality Records* — To demonstrate that the quality system is operating effectively.
17. *Internal Quality Audits*— Regular checks to ensure that the procedures are being followed and documented as required.
18. *Training*— To ensure that you are competent to carry out your work through qualifications, experience or training. Identifying the training needs as necessary.
19. *Servicing*—To properly design, plan and implement the servicing activities.
20. *Statistical Techniques*— To demonstrate quality performance and identify the statistically based techniques.

WHOM DOES ISO-9000 HELP?

- Companies that market their products in the European Community
- Vendors supplying to companies that demand ISO-9000 certification
- Companies whose competitors are certified or are seeking ISO-9000 certification
- Companies with geographically-scattered facilities and global operations
- Companies whose transactional parents are seeking ISO-9000 certification

WHOM DOESN'T ISO-9000 HELP?

- Companies whose CEOs see ISO-9000 certification as an end in itself
- Companies that have a quality system in place or are implementing TQM
- Companies in industries following other widely-accepted quality systems
- Companies whose quality problems stem primarily from HRD problems
- Companies that are struggling for survival in today's marketplace

THE BASIC INDIAN STANDARDS

IS 13988/ISO 8402	— Quality systems — Vocabulary
IS 14000/ISO 9000	— Quality systems — Guidelines for selection and use of standards on quality systems
IS 14001/ISO 9001 —	Quality systems — Model for quality assurance in design/ development, production, installation servicing
IS 14002/ISO 9002	— Quality systems — Model for quality assurance in production and installation
IS 14003/ISO 9003	— Quality systems — Model for quality assurance in final inspection and test
IS 14004/ISO 9004	— Quality management and quality systems elements — guidelines

Note: These are only the basic standards. Few parts of ISO 9000 and ISO 9004 have since become available covering the quality system for services, software industries, etc.

STRUCTURE OF QUALITY SYSTEM STANDARDS

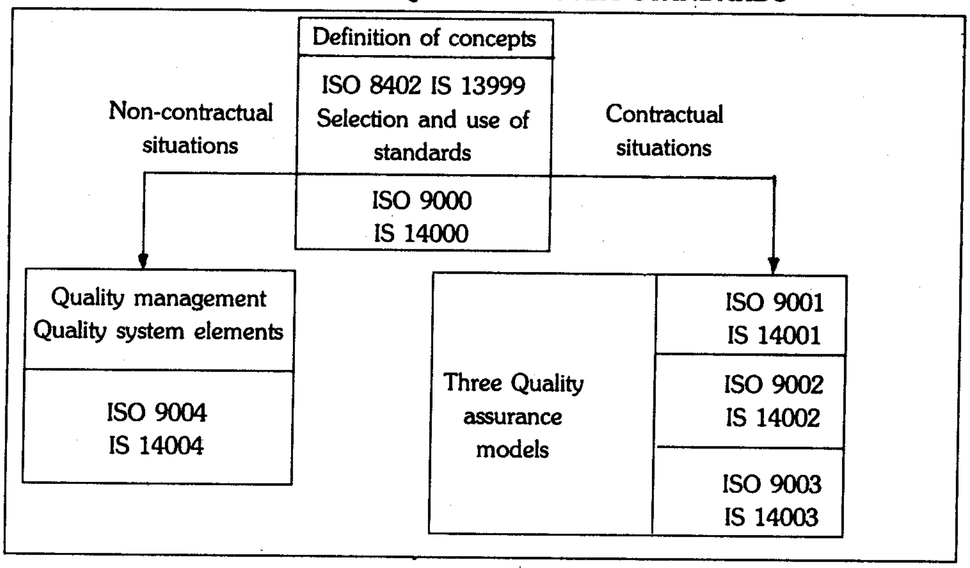


Fig. 40.1

Benefits of Implementing IS 14000 Series

- Provides a competitive edge in domestic as well as global market.
- Saves Money — As quality system ensurers efficient and sound procedures.
- Reduces wastes and time consuming reworks and repairs — increasing profits in return.
- Efficient tool to achieve and ensure consistent quality improvement.
- Brings confidence to the consumer.
- Quality performance is institutionalised.

CHART 40.1

Key Differences between the Baldrige Award and the ISO 9000 Registration

Points	*Baldrige Award Programme*	*ISO 9000 Registration*
Focus	Competitive criteria reflect two key competitiveness: (1) delivery of everimproving value to customers, and (2) improvement of overall company operational performance.	Conformity to practices specified in the registrant's own quality system.
Purpose	Educational — to encourage sharing of competitive learning and to *"drive"* this learning nationally. It fulfils this purpose by: (1) promoting awareness of quality as an important element in competitiveness, (2) recognising companies for successful quality strategies, and (3) forstering information sharing of lessons learned.	To provide a common basis for assuring buyers that specific practices, including documentation, and in conformance with the providers' stated quality systems. Some organisations use the ISO 9000 standards to bring basic process discipline to their operations.
Meaning of "Quality"	Customer-driven quality — addressing total purchase, ownership, relationship experience — concerned with all factors that matter to customers. Conformity issues are included in criteria, under process management, which addresses other key operational requirements.	Conformity of specified operations to documented requirements.
Improvement Results	Depends heavily on results *"Results"* are a composite of competitiveness factors: customer-related, employee-related, product and service quality, and overall productivity, "*Management by fact,*" tied to results, is a core value. Trends (improvement) and levels (comparisons to competitors and best performance) are taken into account. Results play dual role: (1) representing business improvement indicators needed to demonstrate a successful quality strat-	Does not assess outcome oriented results or improvement trends. Does not require demonstration of high quality, improving quality, efficient operations or similar levels of quality among registered companies.

	egy, and (2) representing indicators that drive improvement.	
Role in the Market Place	A form of recognition. Despite its heavy reliance on results, it is not intended to be a product endorsement, registration or certification. Award winners may publicise and advertise their recognition and must share quality strategies with other US organisations. The winners' role is public education and inducement for others to improve. Award winners adhere to a voluntary advertising guideline that prohibits attributing their awards to their products.	Provides customers with assurances that a registered supplier has a documented quality system and follows it. In some cases, registration will reduce the number of independent audits otherwise conducted by customers. While some registrars encourage advertising registration as a market advantage, some also prohibit advertising that registration signifies a product evaluation or high quality. ISO 9000 registration does not translate meaningfully into a Baldrige Award assessment score.
Service Quality	A principal concern in guiding criteria evolution has been compatibility with service excellence. Criteria and supporting information are evaluated to improve compatibility with requirements for service excellence. Criteria are relevant to service organisations, the most important *"process"* item (Customer Relationship Management) is a principal concern of service organisations, but also a major concern for manufacturers which seek competitive advantage via service.	ISO 9000 standards are directed towards the demonstration of supplier's capability to control the processes that determine the acceptability of product or service, including design processes in ISO 9001. ISO 9000 standards are more oriented towards repetitive processes, without an equivalent focus on critical service quality issues such as relationship management and human resource development.
Scope of coverages	Criteria address all operations and processes of all work units to improve overall company productivity, responsiveness, effectiveness and quality. Approach offers wide attitude in developing customer-focused cost reduction strategies, such as re-engineering of business processes. Due to broader nature of the Baldrige criteria and assessment, a rigorous audit of a printed quality manual and compliance with its procedures do not occur during an assessment.	ISO 9001 registration covers only design/development, production, installation and servicing. Registration covers parts of several items in the Baldrige Award criteria (primarily, parts of Management of Process Quality). ISO 9001 requirements address less than 10% of the scope of the Baldrige criteria, and do not fully address any of the 28 criteria items. All ISO 9001 requirements are within the scope of the Baldrge Award.

Documentation Requirement	Criteria do not sell out ongoing documentation requirement. They imply that documentation should be tailored to fit requirements and circumstances, including internal, contractual or regulatory requirements. Some analysis confuse application report with on ongoing documentation requirement. Assessment relies on evidence and data, but this does not define or prescribe a documentation system.	Documentation is a central audit requirement. Documentation requirements are ongoing, meaning that documents are a permanent part of the quality system needed to maintain registration.

Need for Developing Countries

The need for standardisation today is a necessity for both developed and developing countries. To catch up with the industrially advanced countries in as short a period as possible, developing countries must learn from the experience of the advanced countries. They can bypass the problems faced by the developed countries and make a judicious application of standardisation from the very beginning. Organised standardisation will be an instrument by which they can achieve direction and coordination in their industrial activity.

Standardisation in India

During the last decade, several basic industries and large, medium and small-scale industries, have been set up. Industrial standardisation has played a very significant role in the industrial growth through the formulation of specification to establish uniform perspective requirements relating to the characteristics and quantities of constituents and elements which enter into the production of commodities. It has also provided the basis for determining the efficiency, quality, utility and performance of a commodity and made possible the advantage of interchangeability.

Bureau of Indian Standards

The Government of India recognised the importance of standardisation in the rapid industrial development before launching big, industrial development plans, the Indian Standards Institution (ISI), now known as Bureau of Indian Standards (BIS) was therefore established in 1947 to ensure the preparation, promotion and general adoption, at national and international levels, of standards relating to materials, commodities, structures, practices and operations. The institution aims at assisting in the rationalisation the efforts of producers and consumers to improve coordinates processes and products. It promotes quality control methods.

The BIS has over the years taken up programme for the formulation of standards in a big way handled by several technical committees, sectional committees, subcommittees and panels. The various subjects for the formulation of standards are covered under the Divisional Council of Agricultural and Food Products, the Chemical, Civil Engineering, Consumer Products, the Electro-Technical, Mechanical Engineering, Structurals, Metal and Textiles. The various committees and councils comprised of representatives of manufacturers, consumers, trade, technical bodies, Government Departments and other interested concerns. The BIS has published over 8000 standards on various industrial materials, semi-finished goods, codes of practice, methods of test, methods of quality control and glossaries of terms.

Besides formulating and publishing standards, the BIS initiated a big programme to help industries in the production of goods to the prescribed quality. For this purpose, it operated a *"Certification Mark Scheme,"* which brought manifold advantages to the industry. Any commodity for which an Indian standard has been published is eligible to get the *"BIS"* mark if the industry has got the necessary facilities for manufacturing quality goods. The BIS charges a nominal fee for the certification mark, which is stamped on the product by the manufacturer, the ISI mark is an assurance on the part of an independent party of the quality of the goods. The BIS has given over 1,000 licences for certification marks under this scheme. The sample inspection of the product is done by it, and if any product is found not to be in accordance with the specifications, the manufacturer is liable to be penalised.

The BIS keeps a continuous watch on industrial commercial concerns to ensure that specification standards are strictly adhered to. Various Central and State Government purchase organisations have been increasingly adopting the BIS for the purpose of purchases on behalf of their various departments, including Defence.

The BIS also plays an important role in the international standardisation field. It co-ordinates its activities with those of the International Body and takes a leading part in its technical and other work. Its work has been well reorganised in the international field. As a matter of fact, its Vice-President was President of the International Body, *i.e.,* the ISI, for three years.

In the first phase BIS has selected the engineering industries for intensifying quality upgradation work and is working very closely with the Confederation of Engineering Industries (CEI).

Most of these standards are voluntary in India. Indian standards promotion, therefore, has assumed a great significance in our country. Its efforts have, therefore, been directed towards persuading manufacturers, Government departments, statutory authorities and the consumers to apply/adopt Indian standards in their own fields of activity.

As a result of this 88% of Indian standards specification have been adopted as the basis for purchase and other activities by government agencies. Recently, the Government of India had decided that contracts for purchase of its stores will be entered into only for items bearing BIS standard mark and in case BIS marked products are not available, items strictly conforming to Indian standards will be purchased.

So far products, such as food additives, steel products, cement, vanaspati and miner's equipment have been brought under mandatory certification. This list may have to be progressively enlarged to meet the growing demand for compulsory marking where sub-standard quality had generated considerable public displeasure. There are socio-economic problems in case of items reserved for or predominantly manufactured in the small-scale sector. Bringing a product under compulsory certification would not by itself ensure desired quality levels. A number of steps such as survey of production technology in the units, consultancy for designs, availability of quality raw materials and components, adequacy of testing facilities and a viable plan for quality upgradation are necessary. This calls for concerted action by several agencies as these are not issues that could be tackled by BIS alone.

A number of advantages accrue from the implementation of Standards, such as assuring quality, ensuring safety, minimizing wastage, reducing costs, cutting down unnecessary varieties, ensuring interchangeability and increasing productivity. Standards serve as a guide for production of goods and services; provide basis for trade transactions; help technologists judge quality and performance; and provide solutions to recurring problems of the designer and the builder.

ISI Certification Marks Scheme

To bring the advantages of standardization within the reach of the common consumer, the Institution is operating a Certification Marks Scheme under the Indian Standards Institution (Certification Marks) Act, 1952. This enables ISI to grant licences to manufacturers producing goods in conformity with Indian Standards to apply ISI Mark on their products.

Every licence includes a scheme of testing and inspection which the licensee is required to follow strictly. During the operation of the licence, ISI inspectors carry out regular and surprise inspection of the manufacturer's works to make sure that the scheme is being properly adhered to. Samples of certified products are drawn from the production line as well as from the open market and tested in independent laboratories. As a further safeguard for the consumer the scheme provides for free replacement of ISI marked goods found to be of substandard quality. Besides providing third-party assurance of quality to the consumers, quality control operation helps the manufacturer in producing goods of quality, increasing productivity and achieving production economies in diverse ways.

Standardisation in Small-Scale Industries

The adoption of standardisation for large and basic industries though comparatively easy is not so for small-scale industries because the problems of standardisation in small-scale industries are somewhat different from those of large-scale industries; and therefore the introduction of standardisation has to be such that it may not prove uneconomical or unproductive for this sector. The experience of India in the field of standardisation for the small-scale sector should be of great use to other developing countries. While formulating the standards for such commodities, as are manufactured in the small-scale sector; it is necessary that its representatives consulted and their guidance sought by the relevant committees of the BIS. A large number of standards have been formulated for the items manufactured by small-scale units. These include items like bicycle components, farm implements, food products, builder's hardware hospital equipment, sports goods, surgical and medical instruments etc. Small-scale units have been widely using the BIS certification mark in the past few years. Small-scale ancillary industries also make use of this certification marks. Several industries — machine tools, bicycles, electrical machinery and equipment, automobiles and supply parts and components to the large units. Some other small units follow company standards. For items manufactured by the units the specifications are laid down by large-scale units are for the ancillary units supply parts and components in accordance with these standards.

Several items manufactured by small-scale units have contributed to foreign exchange earnings; and these units have to undergo inspection prior to the export of their products in accordance with the standards prescribed for this purpose, which are generally the Indian Standard Specifications. The BIS certification mark has also been recognised by the Government of India under the Export (Quality Control Inspection) Act, 1965, in the case of several light engineering products as utensils, knives, buckets, tower bolts, wire nails, umbrellas, scissors, electrical cables and conductors, etc., manufactured by these units.

Quality Control

The introduction of quality control techniques in the manufacturing industries is one of the most significant factors in the rapid development of the industrial economy of the country, for it has brought about improvement in the quality of products without any additional capital investment. Several countries in the world, particularly those which suffered a setback to their economy after the Second World War, have recovered their economy and established firm foreign market by improving products. The application of quality control techniques also brings considerable savings at various stages of production. For this purpose, standardisation plays a fundamental role in the assessment, specification and measurement of the quality of a product. With the help of standardisation, it is possible to lay down basic procedures for ensuring this activity/ quality.

It is obvious that for a proper quality control in industry, it is essential to have suitable raw materials of specified quality to produce quality products. It is also necessary to enforce quality control in the industry at all stages of manufacture because with the complex integrated industrial system in the modern world unless control is effected at all levels, it may be difficult to ensure the quality of the end product. At the same time, the cost factor should be considered to be of equal importance, for it is the cost of a product which determines its saleability. In a sheltered or *seller's market,* the cost factor and even the quality aspect are often neglected; but when industrial recession sets in and competition in the export market becomes keen, adequate attention to quality and cost becomes essential. India has of late been facing both these problems; and need for improving quality and reducing cost production.

Quality control is one of the important responsibilities of the production department. It minimises wastage, reduces cost, builds up goodwill for product in the market, facilitates advertising sales, and brings increasing satisfaction to its users.

Meaning

Quality is a related concept, related to certain pre-determined characteristics such as shape, dimensions, composition, strength, workmanship, finish, colour, time, weight, etc. According to Alfort and Beaty, quality control is the mechanism by which products are made to measure up to the specifications determined from the customer's demands and transformed into sales, engineering and manufacturing requirements. It is concerned with making things right rather than discovering and rejecting those made wrong. Quality control is a technique by means of which products of uniform acceptable quality are manufactured. In other words, it is the systematic Control of those variables encountered in the manufacturing process and which subsequently affect the excellence of the finished product.

Importance

Quality control has distinct advantages. Firstly, it facilitates distribution, increases the sales and builds up goodwill and the brand in the market. Secondly, it leads to all-round efficiency in the organisation. Thirdly, it helps the entrepreneur (manufacturer) in determining the responsibility of individual workers and of the production units. Fourthly, it minimises the cost by reducing wastages, increasing efficiency, standardising procedures, machines, tools, materials and working conditions. Fifthly, it enables the entrepreneur to know the cost of a product in advance so that he may determine competitive price. Finally, the entrepreneur can conform to the standards set by the Government (if any).

Quality standards are set only after carefully analysing the consumer's requirements and the product cost. If the quality standards are set very high and maintained effectively, they may involve a higher cost which may be beyond the expected range of the consumers.

Control over Production

The variations in quality are caused by variations in the materials used, in men, machines, tools, and equipment and in methods and procedures of production and inspection. These variables need to be controlled if quality products are to be manufactured.

Inspection

Inspection is one of the very important steps in quality control. There are three important aspects of inspection:

(i) Product Inspection: It is to ensure that the goods sent into the market for sale are free of defects and conform to the set standards of quality.

(ii) Process Inspection: It is designed to check raw materials machines, etc. It saves times and wastage of material, and prevents process bottlenecks.

(iii) Inspection Analysis: A careful analysis of inspection results enables an entrepreneurs to locate these points in the manufacturing process at which control is breaking down.

Statistical Quality Control

Statistical Quality Control (SQC) controls the quality of a product. In this method, statistical techniques are used to gather and analyse data to determine and control quality. It is based on sampling, probability and statistical inference, *i.e.*, it judges an entire lot by the characteristics of sample. It is divided into three parts: ***the analysis of samples, the use of control charts and the taking corrective action.***

SQC is a diagnostic and preventive device of quality control, used in the process control in continuous process industries and in industries producing goods on a mass scale.

Quality control in the small-scale sector is as necessary, or even more necessary than, in the large-scale sector because of the greater use of manpower in the former during the manufacturing processes. But its application raises certain problems because of several limitations, including financial, technical and managerial. For a successful application of quality control, small-scale units must take care of quality right from the choice of raw materials, selection of machinery and equipment, tooling, designing, manufacturing processes, testing, marketing and after-sales service. To ensure its success, the small units have to be suitably assisted by Government organisations, associations and institutions, which will have to provide technical, financial, management assistance and training to the small industrialist and create quality consciousness in him.

With the combined efforts of the Development Commissioners, Small-Scale Industries Organisation, Indian Standards Institution and State Government agencies, the small units have successfully adopted quality control measures in various fields. Amongst the other measures, their quality control is based on —

(i) Indian Standards specifications;

(ii) Quality marketing schemes;

(iii) Company standards (in case of ancillary units);

(iv) Any other standard specifications prescribed by the Government or other purchasing agencies.

The Indian Standards Specifications have been of valuable guidance to small-scale units and have persuaded them to adhere to the product quality. Several units have obtained the BIS mark to establish the quality of their product. The quality of the small-scale industries products, however, depends upon many other factors, one of the biggest factors being the availability of suitable factors, one of the biggest factors being the availability of suitable standard raw materials. In this connection, several standard specifications for raw materials have been laid down which have greatly helped the producers in the manufacture of suitable raw materials. On quality control itself, the following Indian Standards have been published:

(i) Methods of statistical quality control during production by the use of a control chart;

(ii) Manual on basic principles of lot sampling; and

(iii) Sampling inspection tables.

Several State Governments have been initiating quality marketing schemes and standards for various products. Small-scale units manufacture the items in accordance with these standards; and the Quality Marketing Centres (QMCs) of the Government stamp the "Q" mark on their products which assures customers that the items have been made to certain quality standards. Several light engineering items, sports goods, textiles are covered under this scheme. The specification laid down under this scheme may or may not conform to Indian Standards, but they are acceptable to State Governments, probably because they have been found to be suitable for one purpose or the other. The QMCs sometimes inspect the goods on behalf of the BIS Export Inspection Councils and the Defence Department. State Governments have set up a number of common facility centres and testing laboratories to assist the units to manufacture goods on prescribed standards.

The quality of the products manufactured by ancillary units is prescribed by the large units either as per the national standards or company standards; sometimes the large units provide detailed specifications, drawings, samples, analysis of materials to be used, inspection procedures, and for storage of materials to small ancillary units. They also help them to manufacture items of specified quality by giving technical guidance, wherever possible. The items are inspected by these large units even during the course of manufacture to ensure that they are fabricated in accordance with the standards laid down by them. This helps the ancillary units to adhere to the required quality, which may otherwise adversely affect the sale of their end product.

For the purchases the Central Government through the Director General of Supplies and Disposals, the standards for the quality of the products are laid down by the department itself. These standards may also be national standards. Inspection is carried out by the department before purchases are made from small-scale and other units. Similarly, standards are laid down for purchases by the Defence Department for its requirements. For consumer use some standards are prescribed by the Civil Supplies and Weights and Measures Departments or by similar agencies.

Testing Facilities for Small-Scale Industries

Small-scale units cannot afford to have all the testing facilities in their own premises. However, such testing facilities not within their means have to be obtained by them either from established testing houses, laboratories set up in various regions, including engineering colleges. The Government Test House at Alipore in Calcutta, the Indian Standards Institutions Laboratory at New Delhi and the national laboratories under Central Scientific and Delhi and the national laboratories under Central Scientific and Industrial Research Organisations have played a significant role in offering testing facilities to small-scale units. The DCSSIO has also paid special attention to this aspect of the needs of small units; and through the Industries in every State, common facility services and testing facilities are provided to small units for the following:

(i) Hardness testing and heat treatment;

(ii) Stand testing, carbon silver determinator and other testing equipment for metallurgical goods;

(iii) Tensile testing and other testing for metals,

(iv) Chemical laboratories for testing vegetable and essential oils fats, and soaps;

(v) Electrical testing laboratories.

Even though small-scale units have been getting substantial assistance for quality control a great deal more needs to be done in terms of a proper inventory of training, testing and other facilities available in the country and making these facilities known and available to small units. A *"source-book"* of this type would go a long way in making several facilities available to small units and help them to ensure quality control.

Quality Control for Export Promotion

Developing countries have to import plan, equipment, and raw materials for rapid industrialisation; and in order to earn adequate foreign exchange for this purpose, they have to develop and diversify their exports. Quality control techniques can be an effective instrument in raising the export earnings of a developing country. A product can be sold abroad only if it is cheaper and up to a certain quality or if there is no competition. It is therefore essential for developing countries to lay great emphasis on quality, in the goodwill and confidence of foreign buyers. The use of international standards would be more convincing than any sales campaign. The Government of India has made the inspection of several items compulsory before they are exported. This has been very beneficial for the Indian exporters and made it possible for Indian goods to find export markets in competition with the products of other countries.

Agenda for Success

Successful organisations place more emphasis on setting out clearly their broad route and then focussing much more on getting things done to create motivation, commitment and common expectation. And it is primarily this that successful managers are good at. This theory, has, no doubt, strong overtones of consensus creation about organisational success and achievement.

In almost every situation, changes — often uncomfortable changes, involving people doing things differently — are involved. Those organisations in the public and private sectors which have been most successful in securing beneficial change have created an environment that thrives on challenge and change, by managing the following elements in such a way as to reinforce each other:

Vision: What the authority is seeking to be or to achieve.

Strategy: How this vision is to be translated into reality.

Structure: The way the authority is organised to implement the strategy.

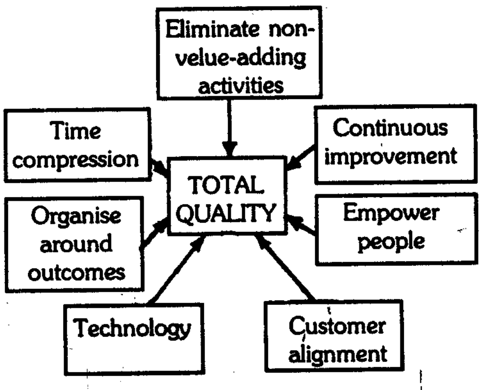
Systems: The way in which people in the organisation plan, decide, control and monitor day-to-day actions.

Staffing and skills: The way in which the critical resource in every authority — people — is acquired, trained, deployed, motivated and rewarded.

Style: The way we do things and the members relate to each other and others.

Thus it becomes imperative for the business enterprises to muster their resources to master changes. Organisations to be successful, must define their change agenda as part of getting started, under-

THE ANDERSEN CONSULTING MODEL



THE JURAN MODEL

Fig. 40.2

THE McKINSEY TQM MODEL

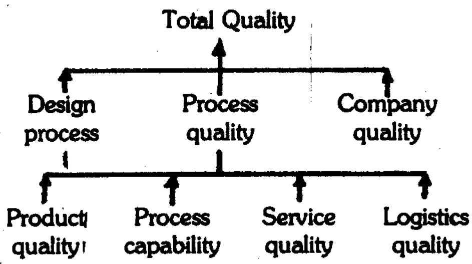


Fig. 40.3

standing the magnitude of change to achieve the desired result.

Total Quality Management

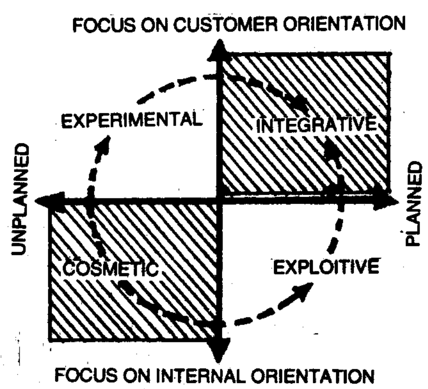
Quality in business is accomplished by adopting TQM, company-wide. TQM's four principles are customer focus, strategic quality planning, executive leadership and quality planning, quality control and quality improvement of all key business processes.

What is TQM?

The TQM approach at managing corporations calls for embracing quality in the entire company, cutting across all functions and levels. TQM covers business plans and strategies, manufacturing, production technology, marketing and sales, after-sales services, customer satisfaction, personnel and administration and finance. It is an *organisational concern* with leadership as the most important ingredient. In other words, the management of the organisation is *quality-driven* in its totality. According to Philip Crosby, quality management, essentially, is a thought process and not a tool. If a company gets its thoughts right on the subject, working on the systems is not difficult. The degree of sophistication may vary from company to company depending upon the characteristics of the economy and the size and complexity of each organisation.

TQM operates at three levels. At level one, it deals with the organisation's purpose, vision and mission, quality planning and leadership. At level two, it concerns the costs of quality, design for quality, systems for

TRACKING QUALITY MOVMENT



Source: AIMA

Fig. 40.4

quality, capability for quality like statistical process control, process variability, control of quality, team-work for quality, and related areas. At level three, it deals with continuous improvement, training for Human Resources (HR) and Daily Process Management including TQM audits and reviews. In the process, TQM cuts across all functions and levels in an organisation.

While TQM is an overall approach to management, it needs systems tools and techniques that can convert this approach into realities.

Tools and Techniques for TQM

- Creating customer focus
- Long range plan
- Continuous improvement
- Daily process management
- Employee involvement

QUALITY BENCHMARKS

The term *benchmark* is used to designate the best practices in quality management. They provide the insight to leaders of quality movements. The quality benchmarks are:

1. Quality Vision

A quality vision is a general statement of what an organisation would become and how good organisation intends to be at that activity. For example: *"We aim to be the best managed electric utility in India."* Quality vision creates a common focus for the organisation and a basis for strategy.

2. Strategy with Customer Focus

A quality strategy is based on the vision, information on what is important to customers, and how customers view quality. A quality strategy is usually expressed as part of the strategic plan for the overall business.

3. Quality Goals

Quality goals are specific, measurable, and related to the quality of the goods and services provided by the organisation. Some people prefer the term objectives for this concept. Quality goals may be set on a number of different bases: the needs and satisfaction of your customers; your performance compared to your competition; specific performance defects; or costs of poor quality.

4. Deployed Goals

Goals must be divided into smaller objectives, and specific individuals be assigned the responsibility and the resources arranged to meet every objective. These assignments may be made to organisational units or cross-functional quality teams. Only people (either collectively or individually) can complete the activities needed to achieve a specific goal. Explicit planing as to who will do the work and what resources they will have is important.

5. Monitoring Progress Toward Goals

The results with respect to each goal must be measured for the organisation and each relevant component. Upper management must assign clear responsibility for action when actual performance is not meeting the goals.

6. Quality Council

Upper managers must lead the quality effort. The name may differ, but some sort of quality council or steering committee is needed to perform the functions required of upper managers jointly. Quality councils have several responsibilities.

The next four benchmarks highlight the most critical: set priorities, establish cross-functional teams, provide resources like training and time, and review progress.

7. Set Priorities

Quality improvement comes only project by project. So, it is critical that the most important projects receive priority. Upper managers set these priorities in quality, just as they set priorities in other areas. You are expending all this effort on quality because you need to rid the organisation of the losses due to poor quality and because you have adopted a strategy to satisfy your customers. To achieve these ends, you must work on those items that have the greatest cost of poor quality and those that affect customer satisfaction the most. It is absolutely critical to use data for prioritisation so that the right items are addressed. This prioritisation is not, however,strictly mechanical. Choices may be made where data are not comparable.

8. Establish cross-functional teams

The most important quality improvements almost always require cross-functional teams for their success. Planning the quality of new or replacement goods and services also require cross-functional teams which need to follow formal, mandated, structured processes.

9. Provide resources

The success of quality teams depends on the resources used to do the work. The most critical resources include training; time for meetings; data collection and analysis; facilitator support and data analysis support.

10. Review progress

Upper management must provide constructive, effective review for their on-going quality projects. These reviews consider questions such as: *Is the team following the established methodology? Is the team experiencing any difficulty that upper management can alleviate? What limitations do the data have? What does the team plan to do next?* The approach should always be one of support and encouragement.

11. Customer data

Quality leadership requires data on the identification of customers; customer needs expressed in terms of benefits sought; the relative importance of each need; customer evaluation of your quality; customer evaluation of the competitor's quality; measures of the performance of the competitor's goods and services. Data on these items are adequate if they are prepared using appropriate statistical methods and scientific samples that include both current customers and potential customers.

12. Costs of poor quality

Costs of poor quality are all the costs that would disappear if all work were performed perfectly every time. These include: the costs of looking for the deficiencies; the costs of repairing, replacing, or doing work over again; the costs of taking care of the customer who has suffered from the deficiency. Reasonably reliable, systematic estimates are sufficient. The precision needed is only that required for making decisions.

13. Internal culture information

Data on the internal culture of the organisation can help upper managers identify the strengths and weaknesses being faced by them. Such information can also help identify quality improvement opportunities that address employee needs and satisfaciton.

14. Audit of quality systems

This activity by upper managers is an important tool for keeping the organisation on track. Upper managers develop the key questions about the status of quality within the organisation. Subordinates assemble and summarise the information to answer the questions. Upper managers evaluate the results and decide on a course of action for improving a system's performance.

15. Leadership Style

The style with which you and the other members of the upper management team lead your organisation leave an important impact. While there are many variations of leadership style that have been successful in establishing effective quality management, there are some common themes. In this case, we are focusing on the degree to which the senior managers demonstrate faith in their subordinates through their style of delegation.

16. Personal Involvement

The following are some typical examples of personal involvement: change meeting agendas to emphasis quality; meet frequently with people at all levels; serve on some project teams; attend training seminars; deliver training; meet customers; lead community-based quality efforts.

17. Consistency

Consistency in quality means not allowing the ordinary business or even extraordinary events to slow or suspend the process.

18. Elimination of blame

An atmosphere of blame makes it difficult to identify improvement opportunities and remedy them. Blaming individuals does not solve problems; it only creates hostility and discouragement. In fact, if we continue to blame people, we will create a situation in which will be fundamentally unable to get solved because individuals will be fearful of identifying, describing, or working on problems.

19. Data-based decisions

We have already seen that quality depends on good data. It also depends on executive leadership in using that data. Basing decisions on data does not remove the need for judgement. Using data, however, reduces the margin for error in these judgements. It also makes it easier for groups to agree on a common judgement and accept the final solution because the data either determines or sharply limits the range of possibilities.

20. Changing culture through action

Attitudes change as a result of the activities in which individuals participate. Efforts to change attitudes directly are rarely successful. The type of training that you provide is one indicator of the orientation of your efforts to create a quality culture. Training or other activities that focus directly on changing people's attitudes will create, at best, short-term changes. Such attitude-oriented approaches will probably create long-term cynicism and even outright hostility.

21. Changing culture through participation

Providing for ample participation helps reduce resistance to change. If individuals are involved in planning a change that will affect them, they are more likely to accept or even be enthusiastic about the change. On a practical level, such involvement increases the chances that their needs and concerns will be met.

22. Changing culture by providing time

People often require time to adjust constructively to proposed changes. Providing this time should not create paralysis. Beyond the simple organic basis for human change, providing time also gives the opportunity to come to terms on matters that are in dispute. Sometimes, resistance to change actually reflects real problems that should be addressed.

23. Motivation through recognition

Recognition is a strong non-monetary incentive to adopt change. One can almost never provide too much recognition. Recognition must be in a form that is valued by the individual being recognised. One of the most powerful forms of recognition is often the active and personal participation of upper managers in the review, discussion and implementation of the results or projects on which other individuals have worked.

24. Motivation and financial reward

In general, there should not be a separate system of financial rewards for contributions to quality. Quality is part of the job, and quality should be one of the primary determinants in the overall processes of performance evaluation, compensation, and promotion. Appropriate evaluation factors for quality include customer satisfaction, improvement in critical quality indicators, costs of poor quality and effectiveness of quality systems and processes.

The new business management model

The new business management model as built around the Malcolm Baldrige Quality System model presently in practise in USA puts the customer as the driver to steer improvement processes within the company. The figure depicts this model utilising the seven categories of the Baldrige model. Companies hitherto have been running their business units with the sole aim of increasing profit margin and customer satisfaction would accrue as a result.

The message of this model, in short is that companies are required to determine what it is that customers want, then work out strategies, action plans to imprlment them within the company to meet its customer requirements and in addition have some measurements made to keep track of the progress towards meeting these requirements.

Thus, there is a *"shift in thinking"* from a conventional business practices to running a business with customer focus.

BUSINESS MANAGEMENT MODEL

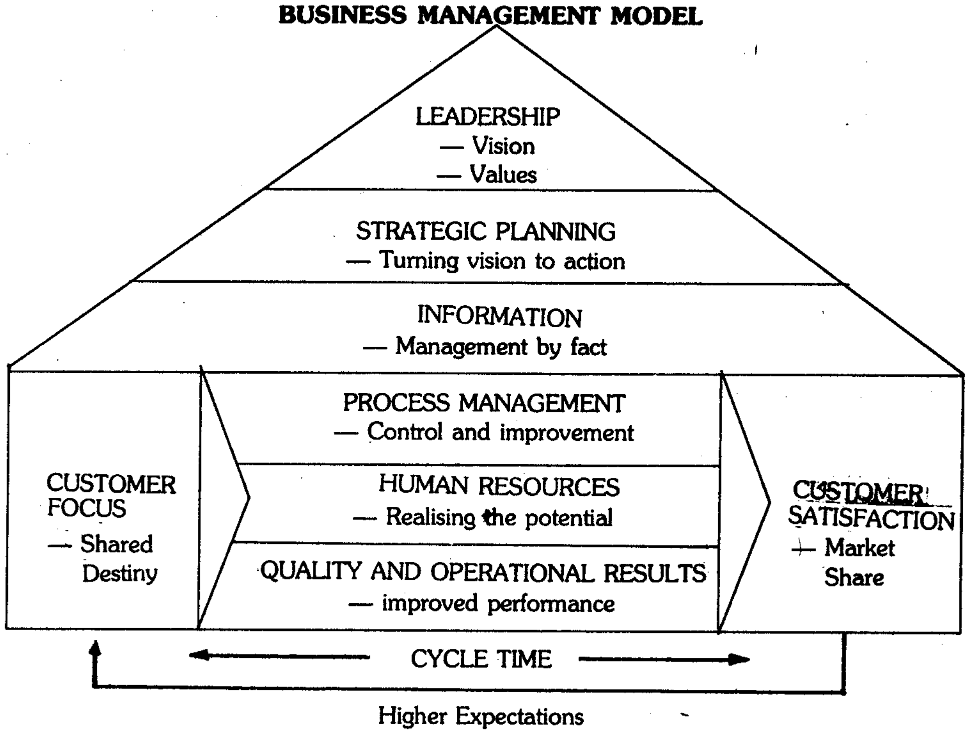


Fig. 40.5

Conclusion

Continuously improving quality, reduction of costs/over heads and improvement of productivity in all areas of working are the order of the day to enable healthy growth of the people, of the industry and of the country. TQM is one very important tool for exploitation. Government, industry, professionals, consultants have all a role to play have to be balanced and complementary.

Total quality is rooted in such timeless principles as poductivity, synergy, and constancy of purpose. Without the roots, we do not get the fruits. Without teh govrning principles of total quality, the methods and techniques alone rarely produce quality products, services, or relationships. Quality will give any individual or organisation a long-term competitive advantage. Quality culture is the basic system of marketing and management philosophy.

First and foremost there should exist the initiative to improve at all levels continuously. It should be supported by Government and professionals in a patriotic manner and not for financial benefits only. There needs to be both cooperation and control to achieve this aim. It is time to have a national body comprising of professionals in quality field, government representation to coordinate activities to get best results as a cooperative effort to monitor, control, educate and counsel.

Indian entrepreneurs have to realise that the culture of the worldwide business is more important than national cultures. They should open up and take advantage of what other countries have to offer them. They need to set individualities aside and work together. They need to go out to sustain growth. To meet the world's standards, Indian businesses leap right into quality. It gives one the power to manage better.

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