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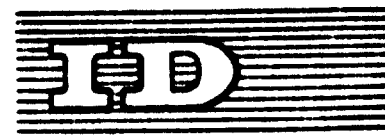
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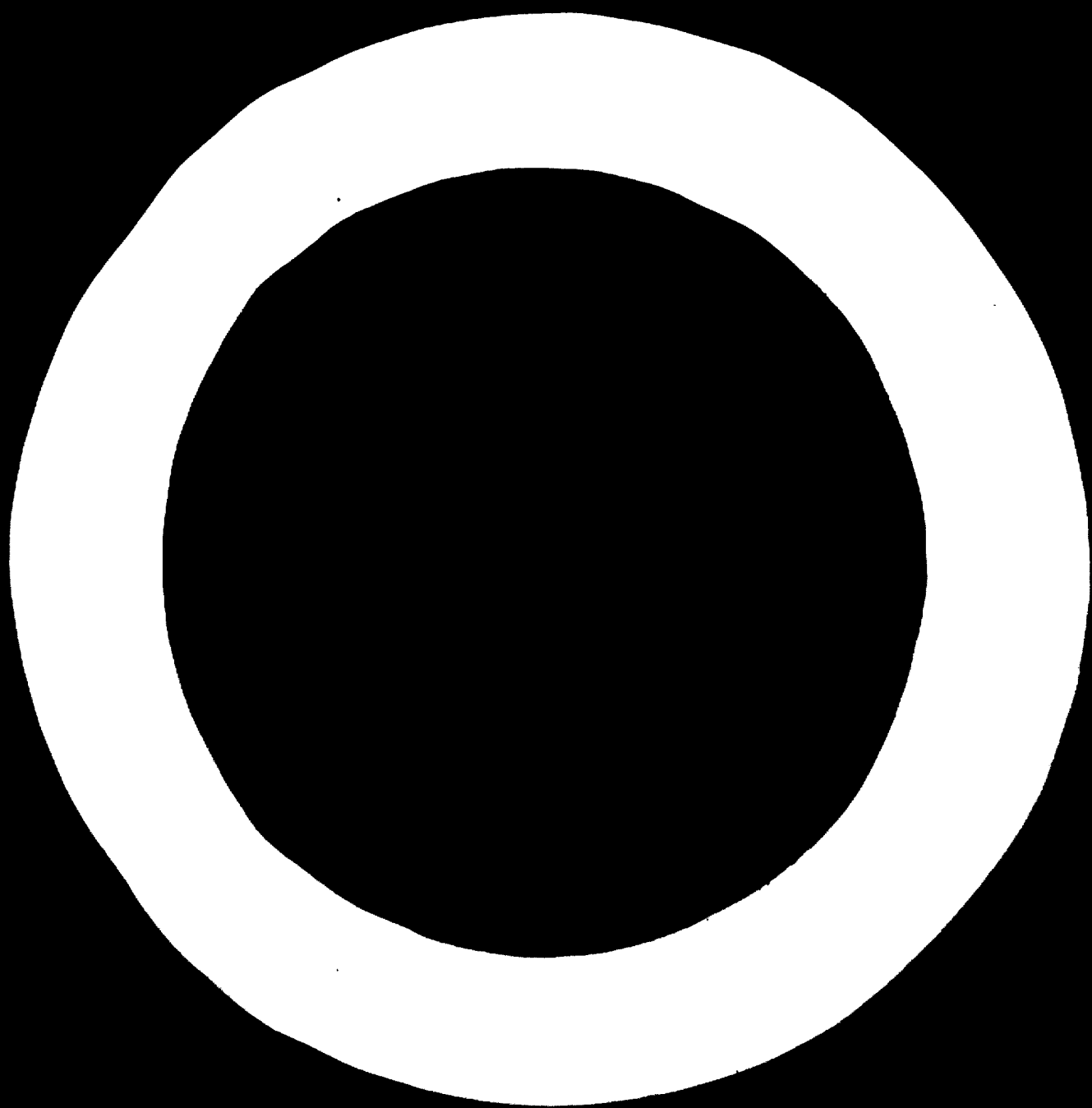
A STUDY OF DOMESTIC MARKETING OF
SMALL INDUSTRY PRODUCTS IN INDIA ^{1/}

by

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INTRODUCTION

The internal marketing of small industries in developing economies is an unexplored area, the available field data is not sufficient to indicate what is happening and there is no academic scrutiny of the results of the little that has been done. Hence there is no authentic knowledge to draw upon and to find even broad indications of success or failure of the few measures taken to improve it.

In some of the Asian countries, the Governments have been providing institutional assistance in the marketing of handicrafts, there are a few marketing development corporations enjoined to undertake any activity that would assist the sale of small industries. The efforts of trade associations and co-operative societies to enlarge their markets are everywhere encouraged and often subsidised. However, these activities cover only a negligibly small part of the field of marketing. Even in Japan where the co-operative movement is particularly strong, only about 1 per cent of the marketing of small industry is covered by it. Apparently, marketing of small industries is not an area in which impressive development has taken place. We may mention, therefore, some of the inherent factors which circumscribe efforts in this direction.

Industrial development is always production-oriented in the initial stages and marketing problems arise only after the output of goods reaches a certain point of saturation and competition sets in, a situation that takes considerable time to come about.

Most developing economies tend to raise high tariffs and to simultaneously inject considerable money into the market through developmental expenditure thereby creating a sellers market. In India, such conditions prevailed for a decade and a half after independence. In such a context, marketing poses few problems and these come to be relegated to a low bracket in developmental priorities.

The distribution of goods is historically much older than the industrial revolution which is still in the process of being extended to the developing countries. Even in regions with comparatively low industrialisation, distribution networks exist for the sale of the most sophisticated goods e.g. Cadillacs in the Middle East, television sets in Nepal and air conditioners and

refrigerators wherever electric lines have extended. In other words, distribution channels for products come to be established in a country long before the products themselves are manufactured there. Since these channels are organized by experienced foreign exporters of goods they do not need modification for a long time.

It is comparatively simpler to bring about improvements in production by the supply of standard equipment and adequate training of the worker than in the modes of marketing, because in this case a much wider socio-economic transformation of the community is involved.

I. THE RATIONALE OF INTERMEDIATE TECHNIQUES OF MARKETING

The mechanism of marketing has to conform to the patterns of living and the shopping habits acquired over the years. An instance is the practice of selling provisions loose. An illiterate and poor clientele finds certain distinct advantages in it. The product can be usually inspected, the weighing directly watched. The difference between the price of the packaged and loose provision, however small, is not to be ignored. The advantages of properly packed provisions do not impress these buyers living in an unsanitary and slovenly environment. Sale of loose provisions in such circumstances would appear to be both reasonable and economical.

It would be interesting to mention in this connexion the first reaction of the customers of the state-owned supermarket in Delhi, although they are neither the poorest nor the most illiterate. Cereals packed in sealed polythene bags, carrying a standard weight were placed on self-service shelves for the customers to pick up. It was observed that the number of bags found torn on the shelves was almost equal to the number of bags sold. The customers could not forgo the temptation to indulge in the age-old habit of sampling the contents, thus one bag was sampled and another taken home. The supermarket clientele will soon learn to trust the store, but it will be a long time before it becomes a general practice in the retail market.

Even the most modern marketing organisation has to respect the consumer's tastes in such matters. Lever Brothers, who are among the largest detergent sellers in India, if not the world, have introduced recently a detergent cake, in deference to the Indian housewives' addiction to the bar of washing soap. Although it is a retrogressive step in packaging, it is a forward step in marketing.

Local Conditions Determine Distribution Channels

It applies equally to more fundamental aspects of selling. Even distribution systems perfected through a world-wide experience of merchandising and retailing are known to have been modified to suit local conditions. Bata, the classical example of vertical industrial organization under which almost all activities

of production and selling are internally handled, sells a very large output in India through private retail outlets, under the modified trade name of B.S.C. - Bata Shoe Company.

Many modern distribution operations would not work without socio-economic pre-requisites. Mail order business would not flourish in communities that lack literacy and ready mailing lists. Home delivery service does not grow in Delhi because homes that have telephones also have servants and housewives whose main diversion is a visit to the shopping centre.

Mass Distribution Depends on Cost Reduction

Mass distribution in India does not have much cost advantage because mark ups of both wholesaling and retailing are inordinately low, being 5 to 10 per cent for wholesaling and 15 to 25 per cent for retailing.

It would be difficult to retail at a cost lower than that of the Indian stall-keeper, whose shop consists of a few planks and boards and who is content with earnings at par with a white collar worker. This partly explains why in place of departmental stores, we find the New Market in Calcutta, and Janpath stalls and the Shankar Market in Delhi. These are centres of the most brisk retailing because they offer all the variety and the cheapness of departmental store, even though each shop is run by an individual. It would be worth studying whether the most efficiently run departmental store could offer the prices which these markets do.

This is not to deny that in some cases marketing operations transplanted from the United States to India and the Middle East without much modification could prove equally successful here. The sale of Coca Cola is a notable example, but one distinction has to be noted - the entire process of manufacture and distribution is integrated, something unattainable in small industry.

An Obvious Conclusion

All these instances point to the moral that many forms of marketing that have proved successful in fully industrialized societies would need basic modifications before they could be introduced in developing countries. In other

words a new technology for introducing modern marketing would need to be evolved in these contexts. The guiding principle would be that there is no marketing practice that has merit per se; markets for small industry products would be enlarged only if larger turnovers are achieved at comparable costs and they mobilize the existing sources of manpower and organization.

Can Government Agencies Fill Trading Gaps?

It is easy to underline aspects in which the marketing of small industries falls short of that of larger industry, with which it has to compete or where it does not measure up to the best marketing elsewhere. Theoretically, developmental agencies have merely to make up their minds to provide the missing service.

The major problem, however, is neither the determination to serve, nor even the resources, though these always matter, but the creation by artificial bureaucratic means of services that are the outcome of a natural process in a highly motivated and sophisticated commercial activity, such as market research, product development, innovation in merchandising and distribution.

Even granting that it is possible, it is no less problematic to persuade the small entrepreneur who operates at a different level of managerial skill, to utilise them.

The tailoring of such services to the requirements of the small industrialist and then establishing a communication to which he will respond are matters on which tried know-how is not available but a good deal of hit-or-miss experience exists in countries like India. Here almost the entire gamut of marketing assistance has been tried because the ideology of mixed economy allows the freedom to experiment in all directions.

Different Aids to Marketing Tried in India

There is a market analysis unit in the office of the Development Commissioner (Small Scale Industries) which has issued 135 brief studies. Many product designing centres are run by both the Handicraft and Handloom Boards. Almost each state operates a number of retailing emporia for regional handicrafts and handlooms and

there is a chain of stores for hand-spun cloth all over the country. There is a large number of co-operative societies engaged in wholesaling and retailing handloom. For many years NSIC maintained wholesaling depots for selected small industries and ran mobile shops to retail their products. In Delhi some of the largest stores are publicly-owned e.g. the Handicrafts and Cottage Emporium, the Khadi and Grahmudyog Store, the Super Bazar.

The last word may not have been said about the results of these experiments and if a programme made poor showing, it may remain undecided whether it failed in conception or in implementation. The factors that contribute to success may remain insufficiently analysed. Nevertheless they broadly indicate the directions in which development can take place and offer some guidance regarding the suitability of different organisations for a particular programme.

II. THE SITUATION IN INDIA

Definition of Small Industries

The current definition of small industry in India covers far more ground than the one proposed by ECAFE; it reads "all industrial units with a capital investment of not more than Rs. 7.5 lakhs ^{1/} irrespective of the number of persons employed. Capital investment for this purpose will mean investment in plant and machinery only". It has also to be qualified that handicrafts and village industries are bracketed with small industries in plan allocations but the programmes of development are independently drawn and administered by completely separate authorities for each of the sub-sectors.

Their Role in the Economy and Industrialisation Policy

There is nothing exceptional about the share of small industry in industrial production and employment in India, which is a little above one-third and one-half respectively; these proportions which are similar to those of many other countries, both industrialized and developing.

The small industry sector receives much emphasis in the development policy of the Government. Its growth is actively encouraged with the help of protection, preferences and incentives in certain fields, in the anticipation that this will lead to an even dispersal of industry and consequent prosperity; and to higher employment in labour-intensive production; and that it will supply consumer goods to absorb the money injected into the economy by expenditure on development. This thinking reaches a high point in the recent proposal that production of all consumer goods should be reserved for this sector.

^{1/} One lakh = 100,000. One crore = 10 million. One US \$ = 7.5 rupees

The federal allocations for programmes to aid the sector have been constantly rising as indicated below:

	<u>Provision</u>
1. First Five-Year Plan	50 crores
2. Second Five-Year Plan	200 crores
3. Third Five-Year Plan	264 crores
4. Fourth Five-Year Plan	370 crores

Evidently the Government is committed to the support of this sector. Whenever it fails to provide the required aids, it is more due to the problems faced in institutionalising them than to lack of intention or even resources. These problems become more formidable when assistance has to be devised for commercial activities such as marketing.

According to the best estimates, the census of the Federation of Associations of Small Industries, the registrations in the Directorate of Industries and the assessment of the Development Commissioner (Small Scale Industries), the number of small units in the country is about three hundred thousand. These range in organization from cottage units run by semi-literate entrepreneurs to modern factories managed by university graduates.

The Rural Market of India

Over a quarter million small units dispersed amidst a market of 550 million would seemingly offer a rich field for experiment and exploitation of all means of selling, but the image changes when attention is focused either on the pattern of consumption or of production. It would be useful to recount briefly here the frugality of the vast rural market. The Indian village has been notorious for its economic self-sufficiency, which often bordered on self-deprivation. The entire needs of the village were produced almost entirely within it. The spinning was done in the homes and there was a weaving unit in the village, the local cobbler provided the leather goods, the carpenter and the blacksmith the agricultural implements, the food came from the local soil. The villager's furniture consisted of a few string cots or mats and there was very little kitchen equipment. Only the brass utensils were bought on a few occasions in a lifetime. Even these

came more often as part of a dowry. Consequently the rich alone purchased a few things from outside on festive occasions or pilgrimages and these were mainly high-quality handicrafts.

Despite the economic change in the country the rural market still remains close to this pattern of consumption, industrialisation has simply replaced the hand-made items like clothing, cooking oils, and footwear, with machine-made goods. The horse has been replaced by a cycle, the earthen lamp by a lantern and maybe now with electric light, but it essentially remains the same low consumption market, extremely restricted in its intake. This is not surprising considering that the per capita expenditure on consumer goods of non-food categories even in the upper income groups of rural India was about Rs. 86/- per annum in 1962. This market has now a potential for growth because of the prosperity engendered by the green revolution. How long it would sustain and what kind of consumption it will foster still remains to be seen.

The Two Organisational Patterns of Consumer Industries

The traditional industries naturally conformed to the configuration of rural consumption. These industries consisted largely of cottage units, which used little or no machinery, e.g. metal utensils, glass bangles, cutlery and locks, leather footwear, and knitwear. They were generally located near some source of raw material or trained craftsmanship. The traditional form of organisation still persists in these industries. The workers are paid piece wages even when they work on the entrepreneur's premises, the manufacturer keeps his team together by advance payments and by providing regular work to them, but they never become his employees.

A second group covers industries that grew around the manufacture of products which earlier were being imported.

They involve mechanised production and the setting up of regular factories. In this category fall all industries of the light engineering, electrical, and chemical groups. In their case the channels of distribution had been established by importers and the same arrangements continue. The selling is through agents and dealers who work on the terms of commission and credit, current all over the world.

An Illustration of Traditional Marketing at its Weakest

Before analysing the marketing situation in the first group of small industries, e.g. the traditional ones, it would be instructive to take an actual case. The conditions are most graphically brought out in the sale of western style men's shoes in Agra which supplies about 80 per cent of the entire demand of the subcontinent. The industry suffers from most of the ills of a decadent marketing. In this industry the maximum production is undertaken by the independent families of cottage workers who can afford to buy raw materials for the manufacture of only about a dozen of pairs. When this is completed, the wares are carried in a basket to the wholesale market where selling starts after dusk because polished leather shows better under artificial light and many blemishes of the product are thereby covered up. The vendor parades his basket before the shops of the "factors" commission agents who buy merchandise for the retailer, charging a standard commission - till he is stopped by one of them. The shoe-maker gets the lowest possible price because he must unload his stock before the day ends, and the distributor buys something completely uncertified for quality because usually he has had no previous dealing with this particular man and he can assess the quality only by inspection of the finished exterior of the product. The factor in his turn is also under no obligation regarding the quality because the order on him most frequently stipulates only the pattern of shoe and its price, nothing about quality. The service of the factor consists in making prompt supplies which are too small to be economical for the buyer to come and select and in the provision of credit for the consignments.

The better class retailer of leather shoes does demand goods made to a quality standard and in such a case the factor does take responsibility for quality and he may prefer such business because no credit is demanded of him on such orders; these, however, are limited.

It can be seen that there are many things wrong with selling in this industry and some of its ills are patent. The workers are ill-paid, the production is utterly unstandardized, the factor, who plays the key role, bears no responsibility towards the consumer or the workers who produce the goods.

III. DEMAND ASSESSMENT AND PRODUCT DEVELOPMENT

The Genesis of the Protected Market

The maximum mobilisation during the Second World War period of whatever industrial resources existed coupled with an almost complete cessation of imports of consumer goods, served as a preamble to the new policy of imports. After Independence, in principle, nothing was allowed to be imported, if there were any prospects of producing the articles in the country. The demand for foreign exchange resources increased with the growth of industry and restrictions on imports became very stringent. This resulted in developing a highly sheltered market for the products of Indian industry. Although the quality of the products of small industry left much to be desired, they were accepted with understandable fortitude by a people which had raised the use of "Swadeshi" - indigenous - products to the level of a political movement.

Lack of Strong Competition with Large Industry

Even in industries where the large and the small shared a market, the competition was not very keen. The general shortage of essentials such as raw materials and power often applied to both sectors and in many cases, the small industry sold complementary products in the market it shared with large industry. For example, large industry sold toilet soap, small industry mainly washing soap, the large-scale industry produced the heavy automobile chassis, the small industry put the body on it, the large one manufactured bulbs and fluorescent tubes, the small one most of the fittings for their use; the large industry concentrated on canvas shoes; the small industry on leather footwear.

In these conditions of shortages and timid competition, small industries had to produce goods somewhat lackadaisically, from sub-standard raw materials with low-productivity general-purpose or outdated machines. The goods were of old design, but still they were sold without problem and the sellers market continued right up to the early sixties.

Product Design and Development

It is understandable that there would be little interest in assessing future demand and developing new products in such a state of vacuum crying to be filled with any kind of goods. The poor design of products of small industry struck the first Ford Foundation Team which was invited by the Indian Government to advise on the development of small industries and the Team made a definite recommendation that a designing service should be provided by the Government to small industries. Obviously it was one of those reactions which are inevitable in anyone coming from a highly competitive market viewing the products of an un-demanding protected one. The lack of good design of Indian automobiles, one of which still reproduced a 1961 model, has not affected its market, it is still in short supply. This may partially explain why it was the only recommendation of the Team that never got off the ground.

It is significant that in another subsector of small industry, namely the handloom, designing played an important role in developing the market. The patronage of the most modern and sophisticated clientele has been secured for handlooms through designing them to give an exclusive class look and selling them through prestigious stores. Of course, exterior design plays a much more decisive role in dress-making material than it would in, say, engineering goods. Similarly the design centres of handicrafts constantly tried to adopt traditional forms to modern requirements such as the use of lacquering, carving and inlay work in modern furniture, "batik", and embossing on leather goods; designing of tableware in various media has imparted to the Indian handicrafts a quality of sophisticated appeal, which has enlarged its market. In this case, designing organised under the patronage of development agencies has been useful.

There is an example of another craft industry which has grown equally fast without any organised assistance, although it is no less design-oriented. Lamp shades had to be specially designed by interior decorators for a housing exhibition organised in Delhi in the late fifties because nothing suitable was readily available in the market. This created a local demand for reproduction of the displayed prototypes. Today it is a brisk small industry fed by a growing decor-conscious township. This is true of the entire complex of the furnishing and interior decoration industries. The same situation is repeated in the garment industry which has not received any outside assistance in designing.

These examples show that whenever designing is a decisive factor, the small industries throw up the required inventiveness - in fact small industries have always displayed more eye-catching leather sandals for ladies than their large-scale competitors and have almost a monopoly in this line.

The organisation of a designing service through development agencies that are not engaged in actual selling proves unworkable because it is as important to design a product as to merchandise it. The work of two Scandinavian furniture designers attached to the Development Commissioner for a year through the courtesy of the Ford Foundation, proved more or less abortive for this reason. Only one chair designed by them came to be duplicated and may have sold a few dozens. Small industries would seldom commission a new design because they are not in a position to do more than a limited merchandising, but once the demand for anything new shows up, they are unusually resilient in meeting it. Designing under the Handloom and Handicrafts Boards was more effective because they had their own distribution outlets to popularise them.

Machine Designing Projects

Let us analyse another specific case in the same sphere of product development. A Ford Foundation Team recommended that the Government should organise the designing of prototypes of machines that would be later reproduced by small manufacturers. Three prototyping organisations were set up in collaboration with three foreign Governments, the United States, the Federal Republic of Germany and Japan at a total cost of nearly 30 million rupees. The product line of one of these prototyping centres was drawn up by a Committee of Experts chaired by the Chief of the Machine Tool Section in the Development Wing of the Ministry of Industry. The prototypes were produced under the supervision of American experts on the payroll of the Ford Foundation. When these were produced, there were no takers for them in the market. Before this situation could be remedied, the grants of these organisations came to be squeezed because of general stringency of funds with the Government, thereby diverting the efforts of these organisations to produce as many saleable goods as possible to meet their costs. The engineering industry was also happy with whatever general-purpose machines they were producing and the demand for new prototypes was negligible. Only after the recession in the mid-sixties, which hit the

engineering industry the most, the need for producing special-purpose machinery was felt. In other words, for almost a decade these organisations had only a partial utility.

The Problem Faced in Selecting Machines for Prototyping

Another aspect of the problem is no less disconcerting. There is no simple way of locating the items that need to be designed. If the choice is left to the engineers of the organisation, they indulge in their own specialisations; if the associations of the industries are consulted the influential individuals tend to get their own lines redesigned. The development agencies of the Government are of no help because they have only a general idea of the prospects of growth of an industry and are in no position to spell out the specific mechanical equipment which will be in demand. Repeatedly small industries have used crude improvisations which serve their purpose, just as well, at a much lower cost than the standard equipment.

The answer would seem to lie in developing also a corresponding marketing organization which could forecast demand trends for machines. Without this service, prototyping may be very difficult.

Demand Assessment

Planning of industrialization involves a minimum study of the operational economics of various industries, their supply and demand position and future prospects. The Indian Ministry of Industry has a "Development Wing" staffed with industrial experts who are conversant with these essential facts. Correspondingly the Development Commissioner (Small-scale Industries) has experts and an economic survey unit to cover the small-scale sector. These agencies project the growth of each industry in terms of the over-all target of the plans e.g. the demand for low tension insulators would be deduced from the targets of electrification. When achievement falls short of anticipation in one section, all the figures in the related sections also stand revised. Obviously these studies do not provide a very reliable indication of market trends. There is no analysis of the shifts of purchasing power, the modifications in demand, such as the change-over from coal ovens to kerosene stoves, from galvanised buckets to plastic ones, in the urban areas. Above all, no indication is offered regarding the potential for creating new demands, the most notable feature of modern marketing.

The Creation of New Demands

In contrast let us take as an illustration the marketing of tea and hydrogenated oil for cooking by large-scale companies in India. The use of both of these products was uncommon before the First World War and there was considerable prejudice against their use, so much so that a bill was sought to be introduced in the late forties in the Indian Parliament to ban the production of hydrogenated oil. Despite these impediments, the sale of the product has been continuously growing, and some of the pioneer companies are unable to meet the demand for their brands. The creation of the market for tea took a few decades of intensive advertising and aggressive selling, mainly by two foreign companies. The products of one of them are known to be the most widely distributed consumer item with a brand, in India.

It is understood that the laboratories of Lever Bros. are currently busy in developing a line of packaged food suitable to the Indian cuisine. Their ready mixes for the South Indian breakfast and some North Indian sweets are already in the market. It is a product development programme well tuned to meet the new requirements of the urban home.

Prospecting and product development by the small units at this scale may be out of the question. The monitoring of demand to popularise such new products calls for large outlays on merchandising, which would be beyond the resources of small units on their own.

That something similar is workable in the small sector is shown by the success of the product development sponsored by the Handloom Board and the tremendous boost in the sale of hand-spun woollens and cottons through the Khadi and Graham Udyog Stores which started selling them as ready-made garments is another instance. It should be noted that in each of these cases the facilities for merchandising and retailing the products were available.

The consideration of such programmes of product development for the small industries will depend on the availability of special retailing and merchandising organisations for them. The subject of the advisability of sponsoring such sales outlets will be discussed in a separate section on "distribution".

Concluding Comments

By and large the small industries can look after the designing of their products although they always will be copying designs rather than creating them. A library of design books and a showroom of models would be cheaper and more suitable than a service providing original designs.

Product development would be feasible only if done by organisations having arrangements to merchandise the products. It is difficult to organise a designing service on the expectation of commissions from small units. Prototyping has twofold problems - those of selection of items which the market wants and developing commercially viable designs under government organisations.

No development agency can direct future expansion of a small industry on the prospects of working up a latent demand as was done by the tea companies. Such agencies cannot stake private and public funds on a business judgement of this nature.

Whereas demand assessment may not be as useful for small industries as it is for large industries, it is important that development agencies should carry it out. In directing the expansion of any industry they must be aware of the trends of demand and the future of different products. Planners of chemical industries for instance should know that washing soap will be gradually replaced by detergents and that timely steps should be taken to work out an alternate production programme for this industry.

IV. QUALITY AND STANDARDIZATION

The lack of a standardized quality impairs most of all the image of the small industry sector. It affects the competitive position of small industries and thereby their margin of profit, which ultimately determines the capital formation in the sector. It engenders certain practices that have the appearance of a mass cheating of the consumer, vitiating the atmosphere of daily commerce of the community. The causes of the malady, therefore, need to be analysed in some detail.

The "Price Market"

The Indian market is proverbially a "price market". The cheapest product sells the most. The main reason is of course the buyers' poverty. Another is that the consumer starts with a psychological assumption that he cannot be sure of quality in any case, so when he buys the cheapest he ensures that he has not been duped on price at least. This approach is encouraged by another significant factor. There is a vast market for goods which are in daily use in urban societies but are still prestigious possessions in the rural areas in the lower income groups. These goods are bought more as symbols of prosperity or sophistication than for their utility. Many examples could be cited: the purchase of stoneware tea cups by the workers; cheap fountain pens as symbol of literacy by the almost unlettered; the western style shoes by the villager for wear on festive occasions only; the plastic shade by the rural householder newly blessed with electricity; the cheapest lipstick for the poor women's rare make-up day; the ubiquitous transistor radio appreciated more for its loudness than the tonal quality of its sound. Thus there exists a large market for low price merchandise in which the functional quality is not a major consideration. It is not generally appreciated how large this market is in a country with a substantial population living below the subsistence level. This situation is partly responsible for the currency of practices of undersising, misdeclaration of specifications and infringement of trade marks.

Undersizing and Infringement of Trade Marks

Tin buckets and boxes and knitwear are usually marked a few sizes higher than the actual, padlocks carry legends declaring a larger number of levers than they have. The wholesaler and retailer accept them knowingly and the consumer being no discriminate user of the product does not quarrel over it. It does not bring any ultimate benefit to the manufacturer or the distributor except the marketing advantage of an ostensibly lower price. The consumer is so used to it that he does not question it. There was a time of shortage just after the war when retailers openly offered "real" and "imitation" products even of established brands such as Lux soap, Pond's cream and 7 o'clock blades, at considerably different prices and the consumer was free to choose between the two. Such infringement of trade marks was so well established that there came into existence an organized trade in empty containers of well-known cosmetics. The containers of some items such as Pond's cream could be bought in bulk from the dealers, and the larger the bulk a trader supplied, the lower was the price of the imitation product.

Specialized Spares Came Out the Worst

The infringement of trade names was worst in specialized items such as spares of automobile, cycles, sewing machines etc. The price difference between the genuine and the imitation spares being very high and the consumer's capacity to discriminate between the two being low, many small industries established themselves during the war by blatantly marketing their products with foreign trade marks. Some would replace words such as "made in Germany" with "made as Germany". The compulsion under which these practices developed may be illustrated by the following instance: The writer and an American marketing expert asked a small manufacturer of cycle locks, why he made the logotype of the name of his product which was "Lily" look so much like the logotype of a well-known imported brand named "City". He replied, "Sir, I have to compete with my neighbour who is putting the imported trade mark straight and selling his product as an original, at least I would not be cheating anyone who would take the trouble of reading the word carefully".

Initially shortages help the growth of such practices. Even the best informed group of consumers, namely, the automobile users, continue to accept a brand called "Lous", which is an obvious infringement of the trade mark "Locus", because the repair shop always comes with the plea that the "Locus" part is in short supply.

Lack of Standard Raw Materials Forces Substandard Production

There is the other side of the medal: the small-scale manufacturer can produce no better quality with the limitations and uncertainties of raw materials he suffers from. When the supply of essential raw materials and components is irregular and often below standard, the manufacturer is forced to improvise. In India the problem has been particularly acute. The output of small industries is reckoned to be about 1/3 of the industrial output of the nation, but the allocation of exchange for imported raw materials is less than 15 per cent. For years the major burden of small industries was the short supply of essential items like steel. Despite the rapid growth of small industries, the arrangements for regular supply of raw materials and components have always lagged behind. In this case the small units are indirectly forced to produce goods of varying qualities.

Government Sponsored Quality Marking Schemes

In India some states have tried to remedy this situation by providing a free service for drawing up standard specifications and quality testing. One state has been operating a quality marking organisation for the last two decades for leather footwear, padlocks, carpets etc. Small industries are persuaded to form an association of units who agree to standardize part of their production, which then carries a seal of quality certified by the government. To secure adequate credibility and consumer acceptance, public men are closely associated with these organisations. The footwear quality marking scheme was presided over by a respected independent member of the Parliament. Despite considerable financial outlays and persistent efforts over the years the over-all problem of quality remained unaffected. There were few retail shops that displayed these goods and hardly any consumers asked for them. During the first five years, the value of quality-marked footwear sold was about equal to the expenditure on maintaining the

quality marking organization, i.e. a 100 per cent cost on sale value just for quality control.

In contrast to this, the manufacturers of "nanda", felt flooring, which is an important industry of Kashmir, themselves requested the state government to do something to stop the adulteration of wool which unscrupulous manufacturers were using in their nandas because their sales to other states were going down. The state government introduced compulsory quality checking for all nandas exported out of the state, the sales went up significantly, about 200,000 nandas were inspected during 1969 against about 26,000 in 1965. Here quality maintenance was a marketing compulsion and the manufacturer in his own interest supported its introduction.

Another state follows a slightly different policy in its quality marking programme. It formulates quality standards for items which the small units cannot produce to I.S.I. specifications, offers testing facilities in adequately equipped laboratories and issues a card bearing a test chart for each product sold by a small unit registered with it.

There is more emphasis here on quality education and formulating standards that a small unit could easily maintain with the existing level of equipment and available raw materials. The registered units are permitted to use the quality mark for a period of one year, after which it needs to be renewed.

Even more significant is the fact that some of these services are paid for by the industry, which is an indication of its utility to it. The department dealing with the quality marking of light engineering products earns Rs 50,000 as revenue against its recurring annual expenditure of Rs. 65,000. This interest in quality marking is partly due to the growing competition in the industry. This might be the right time to enlarge and intensify the service.

Even a small industry with a chronic indifference to quality, not only can, but does produce quality goods if it is paid the right price for it. The case of footwear is illustrative. The best retail shops of India get their footwear made in Agra including Bata and Flex, the two major manufacturers of leather shoes in the large sector and the quality of supply has been maintained over the years.

In the late fifties, the National Small Industries Corporation accepted an order for 250,000 pairs for export to the USSR and farmed it out to about 100 small units all over the country. For the first time standardized production of this size had been demanded from the industry. Even lasts on which shoes are made were produced by the eye and not by a graded machine as they should be. NSIC arranged to provide 5,000 pairs of graded lasts, appointed some 30 footwear inspectors to advise and check the quality at all stages of production and undertook to pay a somewhat higher price than that of the domestic market for this supply.

The industry faced this challenge with remarkable success and within six months mobilized an extra production of 100,000 pairs of uniform quality. Whereas NSIC had retained 5 per cent from the suppliers' bill to cover quality rejection at the importers' end, the actual rejections turned out to be less than 0.7 per cent. The footwear industry in the small sector has been maintaining its export market ever since and averages now an annual export of over half a million pairs.

Concluding Comments

Quality is a product feature which is maintained by the seller to meet a specific market demand. If it is not a selling point, even the most enlightened manufacturers neglect it. The lack of safety features in the American automobile, the most important product of American industry, as highlighted by Mr. Nader, is an illustration.

Usually a product provides a variety of satisfactions, in addition to the purely functional service it gives - a garment is much more than a protection against weather. Before considering improvement of the functional aspects of a product, its significance in the total customer satisfaction also needs to be ascertained. Generally the play of supply and demand ensures the best combination of the required product features that are feasible at a given price.

There are many reasons for the failure of quality control imposed from outside. Firstly, the buyer's preferences are not considered while formulating the quality standardization and hence the market remains unresponsive to what is offered.

Secondly the inspection mark carries no conviction with the customer unless he is confident that the inspecting organization is uncorruptible, an impression rather difficult to create. Thirdly the features standardized are insufficiently publicized and therefore there is no mobilization of demand from the market for such products and the retailer is not interested in indenting them.

Quality marking programmes which stress more the education of the manufacturer by securing his agreement to comply to some standards, and of the buyer by supplying him the specifications of the products sold are more to the point.

As illustrated in the case of the export of standardized footwear in Agra, the most effective way of improving quality is to assist large sales of standardized products from small industries to large industry, export houses, supermarkets or Government purchases.

V. RATIONALISATION OF DISTRIBUTION CHANNELS

Main Features of Modern Distribution

The classic distribution chain is manufacturer - wholesaler - retailer - consumer and even in industrialized countries this is the basic pattern in the distribution of the products of small industry. Modern variations consist principally in telescoping the retailing and wholesaling functions either by manufacturer - dealer arrangements or bulk purchases by retailers like chain stores directly from the manufacturer. Other variations concern only the inter-relation between manufacturer and dealer, involving credit (goods on consignment or outright purchase) and margins (commissions on mark-ups).

The covenanted dealer agrees to sell exclusively the product of the manufacturer who extends merchandising aids to the dealer and often provides him credit by keeping goods on consignment. The manufacturer has thereby a direct check on sales and replenishment of stocks. In other words, he is closer to the consumer and has a direct feed-back of the causes of the rise and fall of his sales. The dealer benefits by manufacturer's merchandising and the goodwill he secures for his product saves corresponding efforts on his part.

Other features of modern marketing concern the investigation of the nature of demand, the preferences of the consumer regarding product features and the time and place at which he would wish it to be delivered. The manufacturer is thereby able to develop products with the right combination of features in demand and his market is comparatively assured if he is able to publicise adequately his product and its availability.

Before considering the introduction of any of these modern variations, the field should be explored more carefully. As already indicated, there are two distinct patterns in the marketing of small industries - one where the middleman is the key figure and the second is where industries have taken up production of what was once imported. Here distribution is generally organised through agencies and dealerships and therefore is on the right lines.

The Central Role of the Middleman

In the case of the traditional industries, it is necessary to locate the aspects that need to be improved. The cost of the marketing provided by the middleman also has to be analysed to establish whether his margins are inordinately high. The general prejudice against the middleman is more a matter of ignorance and parochial prejudice than of fact. The practices of the middleman come to be viewed far too critically because the social failures of this community are transposed to its commercial function. In India, distribution has been the exclusive charge of some trading castes which very often operate in regions away from their place of origin. The middleman is somewhat like the Chinese trader in South-East Asia. He is a clever alien who makes good in a poor community and is disliked for it. Distribution through middlemen may be efficient and economical but since he comes to be looked up as an exploiter, his elimination is considered necessary to improve the marketing of the goods which he handles. This is not to condone all the malpractices of the Indian shopkeeper but to explain that despite these shortcomings he is often the cheapest distributor.

Even in the marketing of the most backward traditional industries such as glass beads or hand-made matches, the middleman plays a central role, almost that of an entrepreneur. He finances cottage workers for the procurement of raw materials, buys their entire output and takes the responsibility of marketing it. If he is charging a reasonable rate of interest on his loan and a normal margin for wholesaling, he is not so much of an exploiter as an informal entrepreneur who is probably not paying the worker enough. He should be equated at the most to an entrepreneur who pays merely subsistence wages to his workers and keeps the profits of the business to himself, which is not very different from the general definition of a capitalist, in the language of leftism. It is often more important to provide better financing to the cottage units than to improve the marketing of their products.

NSIC's Project to Improve Distribution

The NSIC worked out a project to ameliorate such conditions by proposing a chain of wholesaling depots. These depots were expected to assist the small units in producing goods to standard specifications, with the help of qualified inspectors maintained on the staff. These products were to be sold under a registered trade mark "Jansevak" covering all the products under this project. Special arrangements were made to ensure prompt payment against supplies. The government was agreeable to setting up such depots to cover about 30 industries. A pilot project was undertaken in four different regions of India. Five such depots were organized in the first instance, in Agra for leather footwear, in Khurja for potteries, Bombay for paints, Benigunta for beads and Calcutta for hosiery.

The conditions in the bead and leather footwear industries have been already described. The knitwear industry of Calcutta had been over-installed and at that time its capacity was being utilized only to the extent of about 45 per cent. The paints industry was unable to get the prices which its large-scale competitors were able to secure through uniformity of quality and extensive publicity.

It was found that the wholesaling depots did not offer a workable alternative to the distribution that already existed because it did not prove possible to operate them on commercial lines. Despite every effort, the agreement of the top management could not be secured for giving adequate incentives to the salesmen - government auditing stood in the way - and the managers could not be vested with the authority to write off any losses on account of defective supplies. The retailer took advantage of such limitations and hedged payments on technical grounds and the managers were unable to settle disputes without referring to the highest authority in the Corporation, the Board of Directors. The personnel of the depots gradually developed the sense of security of government employees, and lost their initiative. The operation of the depots could not be made more businesslike despite the advice of an expert from Stanford who sat in the Marketing Division of the NSIC for a year and a half.

Since these depots were run as commercial undertakings despite their developmental objective, they were required to meet their costs, which they found difficult to recover within the competitive margins of the domestic market. They were

ultimately closed down. Still the need for some such project is being voiced even today. At a recent meeting of the Small Scale Industries Board there was a proposal for setting up a Marketing Corporation equipped with services such as "sales promotion and publicity", "product development" and a trade mark which should become a "specific symbol" through the "creation of its image in the market".

Some Experiments in Retailing

The NSIC initiated its marketing activities with a retailing operation with the help of mobile shops. A project was prepared by an American expert loaned by the Ford Foundation and one of the first foreign experts to advise on the small industry programme. He proposed that the NSIC should run mobile shops from four different regions carrying the products of small industries for off-the-counter sales and replenishment of the stocks of retailers. Twelve large vehicles were purchased and fitted as modern shops. They operated from Delhi, Bombay, Calcutta and Madras, covering areas up to a radius of some 200 miles from these towns. The two objectives of this operation were to popularize the products of small industries and to quicken the pace of their distribution.

These operations were not expanded because it was found that the goods that were being carried in mobile shops were already being distributed in the small towns. The additional markets that mobile shops could exploit were a few wayside villages on the main roads, whose purchasing power proved to be negligible. Even in large villages there was little impulse for buying because most households did not keep cash for daily purchases - they made these on account at the local shop. The cost of the mobile shops was found to be incompettitive for them to serve as a replacement of the existing carrier services.

The NSIC found out that, for urgently needed small replenishments of stock, there already existed the cheapest possible service. Each town had a buyer who daily commuted to the Delhi wholesale market with a large box in which he carried back every evening small supplies of whatever he was commissioned to buy by the retailers of the town, all at a cost of about 1.5 per cent. Obviously the turnover of these retailing centres called for only a boxful. The prospects would have been different if a car load had been needed but even in that case the same commuter would have performed the service, if financed for a motor vehicle.

The NSIC also tried to set up a footwear retail shop in Delhi and one of its

subsidiary corporations experimented with a few retail outlets for the general products of small industries. None of these were able to operate on the margin current in the market.

Can Government-controlled Organizations Compete in Trading?

This brings us to a crucial issue - can government-controlled organizations trade successfully in competition with private operators? India has quite a few organizations sponsored by the government that engage in selling. The oldest are the handicraft emporia of which each state capital has usually one and some states have them in as many as six cities. There are about 10 such emporia in Delhi each selling the distinctive goods of a separate state. These were started to preserve indigenous handicrafts and to provide the craftsmen with work and maintain them in their traditional occupation. The emporia are more of display windows for regional culture than trading set-ups and by and large, they run at a loss, except those of Kashmir, which break even. Of course Delhi has what may be called an apex handicrafts emporium managed for long by a union of co-operative societies, which does make a profit because it offers the Indian handicrafts in a modern department store for the tourist. It is run on commercial lines and has an adequate turnover to meet its costs. There are similar retail stores for homespun and cottage industry products which are self-supporting.

A Supermarket

There is now also in Delhi a large supermarket financed by Co-operative Banks with a turnover of Rs. 30 to 50 million a year. It has been launched mainly to hold the price line because every time there was a new wage award adding a little to the income of the salaried man, the traders tended to raise the prices of essential provisions to mop it up. It was intended that by arranging a sufficiently large distribution of essential requirements at stable prices, it would be possible to keep the prices in check.

It is not yet clear whether the supermarket has been more successful than other distribution schemes sponsored by the Government. It is understood that it has still not been able to break even. It has a capital of Rs. 4,000,000 from the Co-operative Banks and Rs. 300,000 from members who number about 4,000. It retails some 40 different lines of goods ranging from textiles and furniture to fruit and vegetables. In other words, it is the first department store in town. It is significant that most of the durable consumer goods sold by it are the products of small industries. Its annual sales show an initial peak and then a gradual decline:

1966-67	Rs. 473 lakhs
1967-68	Rs. 509 lakhs
1968-69	Rs. 441 lakhs
1969-70	Rs. 392 lakhs.

The Problem of Subsidising a Commercial Project

The commercial results of the operations discussed above indicate that the selling by the government-controlled organizations generally does not break even and most of the projects have to be subsidised. There would be nothing objectionable in principle to subsidising an activity which has a promotional objective, but here an extraneous element distinguishes commercial operations from other promotional activities. Whereas the government finds no difficulty in subsidising a purely promotional activity, it encounters serious criticism when one of its commercial operations runs into the red. A comparison of the financial view taken of two parallel operations would illustrate the point. The mobile workshops organised under the Development Commissioner (SSI) to demonstrate the use of modern machines for shoe-making, blacksmithy, welding etc. were comparable to the mobile shop operation in size and cost. The utility of this operation was marginal because the large vans on which the workshops were mounted could run only on the main roads and would meet maybe a dozen persons who would benefit from the process displayed on a trip of a few hundred miles. No serious financial objections were raised to the workshop van operation, whereas the mobile shop operation, being a commercial activity, was questioned the very first year. To cite another instance, the Handloom Board operated many vans which carried products for publicity and sale. This was treated as an advertising operation and there was no difficulty in accounting for the costs. In other words although some of the commercial programmes are for the development of marketing with a promotional aim they become accountable as a commercial operation.

The Problem of Motivation

A more fundamental problem concerns motivation. The recruitment and service regulations of the commercial organizations controlled by the government tend to follow the pattern of government service. Despite the establishment of a large public sector in India, many of its establishments still follow government rules as a protection against public criticism. These rules do not foster the right motivations for hiring and firing, relating promotion with performance, and personalised management.

Non-commercial Policy Controls

On the policy level the managements of such organizations are controlled by non-commercial boards and even when they do have representatives of industry, they are expected to safeguard the interest of the industries served by the organization and not the profitability of the measures which they recommend. Thus the controlling policies come to develop a strongly non-commercial approach to most operations.

The foregoing illustrations highlight the inadequacies of commercial organizations controlled by the government to handle successfully selling operations. This does not mean, however, that no useful purpose is served by them. If these limitations are clearly understood by the sponsoring authorities and it is openly admitted that a certain loss in these activities is expected then these projects can be utilised to better effect. It is, however, difficult to devise such permissive financial policies.

Limited Fields in which such Agencies have Significant Roles

Despite these limitations, there are fields in which government-owned commercial organizations have not only succeeded commercially, but have made definite contributions to the development of industry. In these cases they fill a gap which private trading is unable to bridge. The most successful marketing operation of the NSIC was the organisation of supply against bulk orders from abroad. In this case the government organisation performed functions which were beyond the competence of ordinary trading organisations and rendered an important service. It would not have been possible to develop such business without the assistance of such an organisation.

Concluding Remarks

It would be reasonable to conclude that trading agencies of the government should be set up only if such a service cannot be organized by the private sector and it should be expected that the costs of operations of such an organization will be somewhat higher than those of an independent trading body. It would be an economic contradiction if a project could perform both a developmental function and earn the same profits as a trading operation. In some cases the trading margins are large enough to accommodate costs and a promotional trading project may break even. In the distribution of the common products of small industry the margins are usually so low that they do not permit incorporation of a developmental service such as quality control in the cost structure. From another angle, if the distribution costs are low, it means that the goods are selling well and that the distribution is satisfactory.

VI. RESEARCH AND TRAINING

Much more needs to be known about the marketing of small industries before really effective measures can be formulated to improve it. There are many misconceptions regarding almost every aspect of it. It is not established that the cost of distribution through the existing channels is higher than the average cost of distribution under more modern arrangements. The reasons for the currency of many malpractices are insufficiently analysed; hence the remedies proposed deal with symptoms instead of causes.

Also it has to be appraised whether the natural growth of healthier marketing which has already set in will take care of most of the problems or whether areas will be left over for specific assistance. These aspects call for investigation by qualified marketing researchers. There is no organisation in India exclusively assigned to such work. The Economic Survey Unit of the Development Commissioner (ESI) is preoccupied by its major assignment, which is to project the growth prospects of small industries in different regions, by itself a large task.

The Scarcity of Suitable Expertise to Study the Problem

There is, however, a problem of scarcity of expertise for such work. Whereas specialists are available for the various fields of marketing such as chain store operations, mail order business or vending machines, there are very few generalists who could devise a methodology for the study of traditional marketing and find ways to improve it. It is altogether a new field of study, work on which must now start. Insufficient understanding of problems leads to the sponsoring of amateurish projects which fail because they are ill-conceived and which, instead of assisting progress impede it.

Service to Feed Back Consumer Response

One of the weak points of the marketing of small industries is that the manufacturer does not have a first-hand knowledge of the market and is not fully aware of the consumer's response to his product. Such a communication is essential for the improvement of the products and their distribution. A low-priced professional service to feed back significant information to the manufacturers could be of considerable help to them. A large outlay is required for organising such a service because the formulation of questionnaires to collect the information, the

selection of modes of sampling and the training of the investigators, all call for high professional skills. If small industries are to be provided this service it has to be large enough to cover a sufficient number of small units, to create an impact. It could be organized only if promoted under a subsidy.

Marketing aid surveys conducted by the Office of the Development Commissioner (SSI) were actually meant to serve this purpose, but the activity has remained extremely limited, the total number of surveys undertaken being about 10 every year. It is assumed that the current demand for such service is low, which is understandable but it is one of those basic requirements the demand for which can be easily raised. The availability of these surveys will have to be more broadly publicized, their usefulness made more widely known and more definitely proved. Today the Indian peasant, who was proverbially averse to any technical innovation, takes all possible pains to secure it because it makes a difference to him in terms of profits. The small industrialist will not hesitate to go in for any service or advice which yields similar practical results.

Training

The growth of small industries in India has now reached a level where it is imperative to inculcate modern methods of management. Marketing is one of the areas in which intensive training is needed, particularly for the managers of small industries in the upper brackets of capital formation. This is the category in which the organization of sale by the unit becomes practicable. This training, however, should be an elementary introduction of the trainees to the initial features of good marketing, such as the control of sales by achievement of planned targets rather than by the control of the activity of salesman. It is now known that there is a large amount of information within the records of a small industry which can be usefully analysed for better marketing. The methods for such analysis are not known to the small entrepreneurs and they seldom think in terms of break even points of product mixes which are common exercises in the large industries. The training would concentrate on similar aspects.^{1/}

This work is already being done through management training organised under the DC (SSI). The range of the courses on marketing could be enlarged and so also

^{1/} See "Selected Marketing Considerations for Small Business Managers in Developing Countries" by Russell Loftus (ID/WOJ24/2)

the participation of the small units in them.

Training of the Salesmen Currently Employed in Selling the Products
of the Small Sector

Although it is common knowledge that the products of small industries are distributed by middlemen, it is surprising that no thought has even been given to providing training to this very large force of salesmen. Since there is no immediate prospect of diverting the marketing from them it should be the concern of development agencies to provide them with training for better marketing. It is one of the areas of development to which serious thought should be given. It would be a worthwhile addition to vocational training also because a much larger number is engaged in the vocation of selling products than in many of the fields in which training is being provided.

EPILOGUE

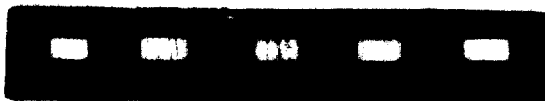
The results of the various measures narrated in the foregoing sections indicate that the developments that result from them are not commensurate with the monetary resources put into them. The main reason for this is mentioned in the preamble to this note, namely the absence of roots of any service artificially introduced into a commercial mechanism which operates according to a logic of its own. Whether it is quality marking, product designing, demand assessment or introduction of new modes of distribution, it is the participation of the manufacturer, distributor and the consumer which is essential to make it a success. Logically the persuasion and conversion of these participants to the practices of modern marketing could result in a more spontaneous growth of better marketing than the grafting of a few modern practices organized by non-commercial organisations into the highly integrated and inter-balanced operations of a market.

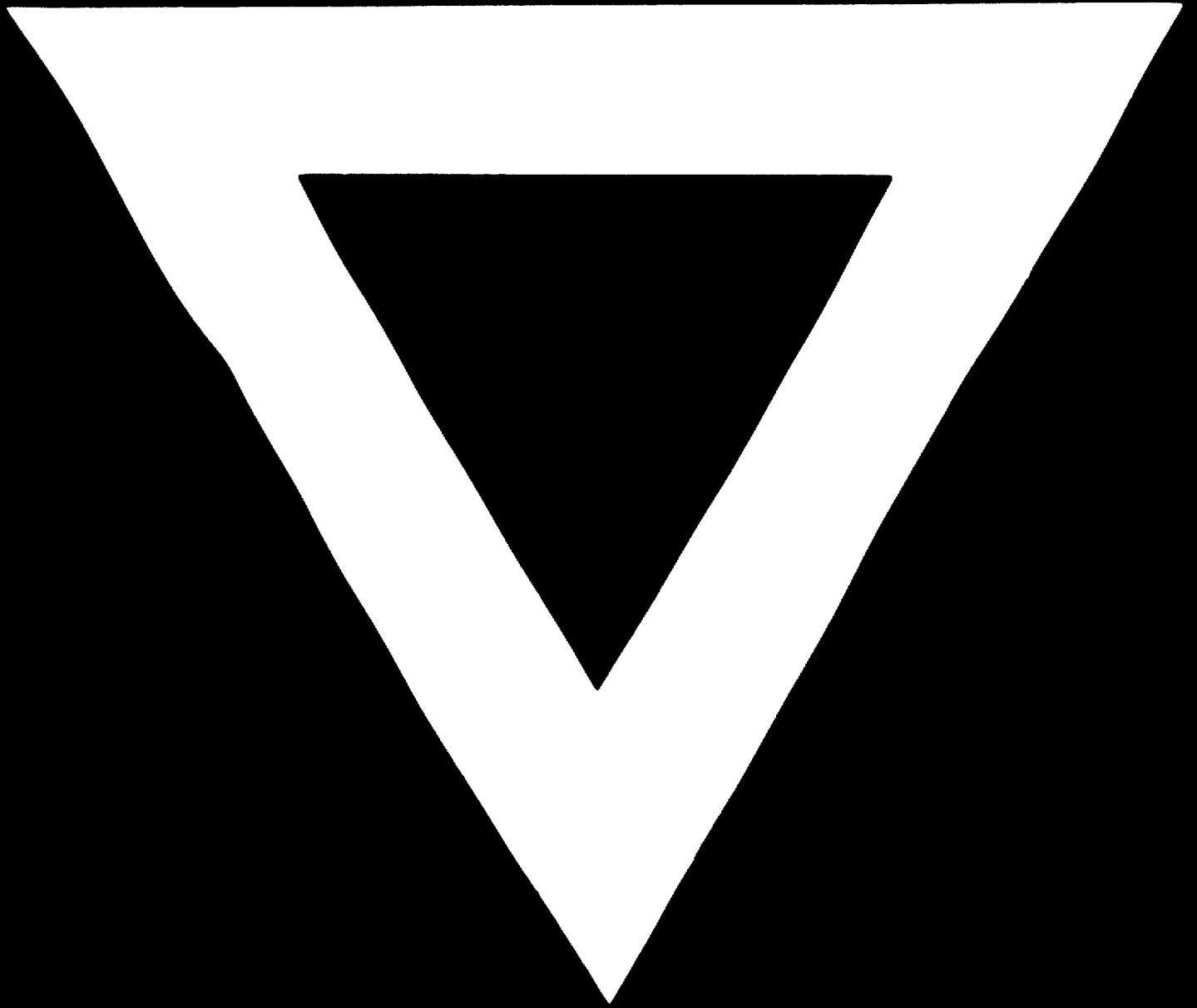
It should be considered, for instance, whether the few million rupees spent on quality marking, which is not a great success, would yield better results if they were spent on persuading the manufacturers and the distributors that there is no special advantage in producing understandardized goods because competition does in any case level down the margins to an average. This, illustrated with actual case analysis, would carry conviction. To quote a live case, coir is adulterated by giving it a higher saline content. On checking the difference in the price of adulterated and unadulterated coir fibre, it was found that there was no advantage in selling the adulterated product, but then, why was the practice rampant? It was found that adulteration being a standard practice, anyone who wished to sell unadulterated fibre had to put in extra canvassing for its sale. If such a canvassing is done by a development agency, perhaps quality of coir would improve without requiring any quality marking assistance.

Turning to another related field, the introduction of a modern distribution system. It would be useful to determine to what extent large-scale mailing of literature to retailers detailing the advantages of using cash registers, self-service and the economies of large-scale purchases, would lead to the organization of new forms of selling. It may cost much less than the outlay now required for organising mammoth marketing operations by the government. Similarly, it would be worthwhile to project the effects of a mailing service to, say, a thousand small knitwear units giving them information about colours, fabrics, sizes and pattern of hosiery popular

in other countries or a similar service to machine tool manufacturers giving details of small machines used abroad for processes still done by hand in India. On the face of it, an expenditure equivalent to the retention of two foreign designers of furniture for a year would be more than the cost of reproducing multi-coloured copies of 200 pieces of good furniture from design books and distributing them free to a few thousand small manufacturers in India. Such a service should normally improve designing much faster than the maintenance of a designing centre.

In a nutshell the formation of the correct methodology of introducing changes is as important as determining the areas that call for development.





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