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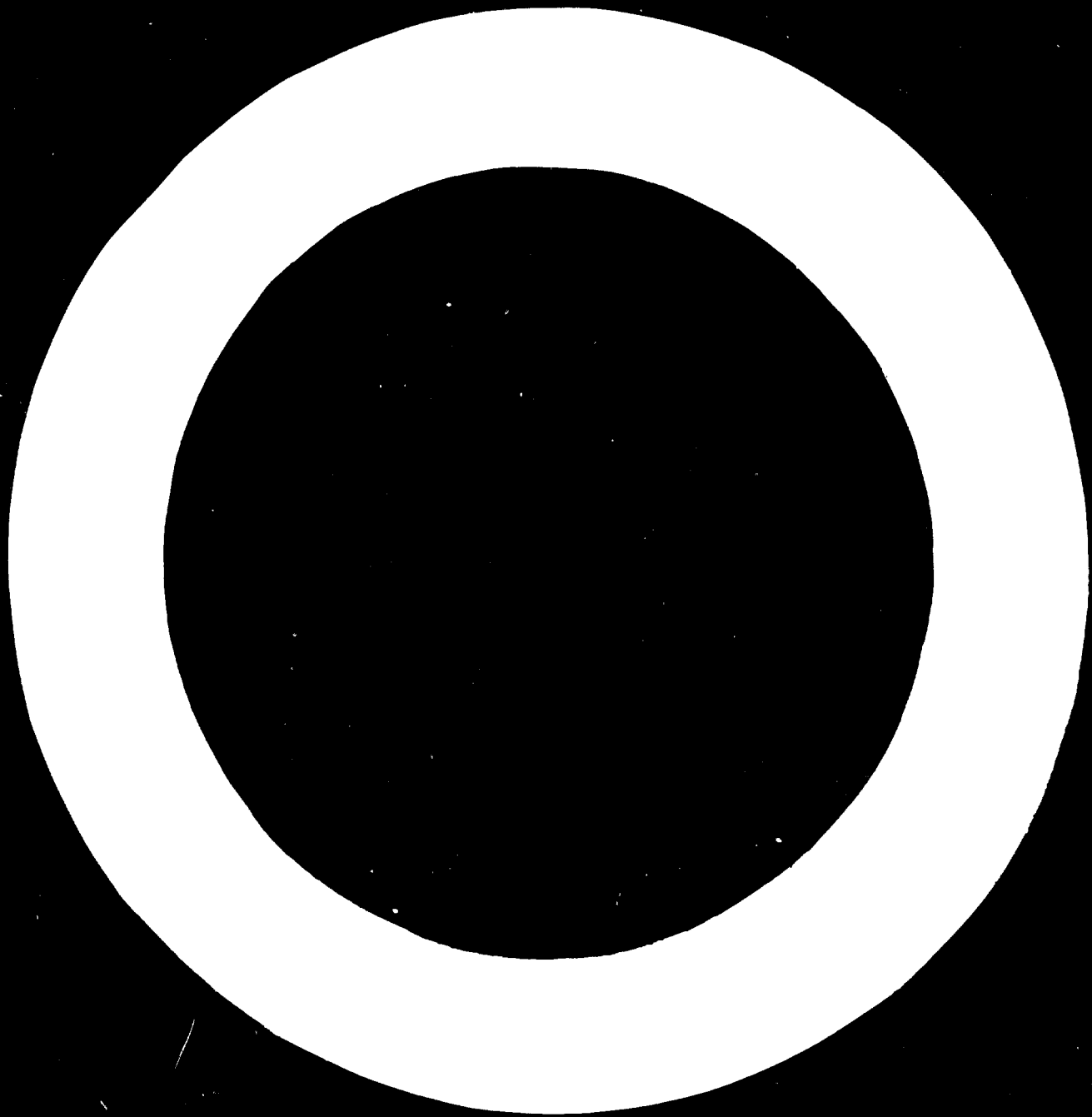
DOMESTIC MARKETING OF SMALL INDUSTRY PRODUCTS

ROLE OF THE GOVERNMENT

by

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DOMESTIC MARKETING OF SMALL INDUSTRY PRODUCTS
ROLE OF THE GOVERNMENT

INTRODUCTION

Small Scale Industries in Nigeria as in other developing countries often find themselves at a disadvantage in the marketing of their products. Small firms are in relatively weak bargaining position vis-a-vis the dealers and are sometimes almost entirely dependent on few middle men for the sale of their products. They have difficulty in advertising or in providing samples or arranging displays. In respect of products which are sold on the strength of brand preferences the small industries are at a particular disadvantage because of their inability to spend sufficient money on publicity and propaganda to establish their brands. They have difficulty in establishing contact with potential markets at a distance or in building up regional or national markets. Where small enterprises do attempt to penetrate distant markets by maintaining sales staff, they are unlikely to be able to fully utilise their services and the overhead costs of selling are likely to be heavy for that reason.

2. In many cases, small industries are not fully geared to the requirements of an expanding market economy with changing consumer tastes and preferences. To expand their market and even in some cases to maintain their existing markets, small

firms are required to give greater attention to the quality, finishing and designing of their products. Lack of standardisation and quality control is frequently a great obstacle to the expansion of their market.

3. It is also important to mention that there is a tendency among Nigerians to look with disfavour upon goods made in Nigeria. Unfortunately, the domestic industrial products offered for sale have often been of a quality not to give confidence to the buyer. Such products are likely to meet with sales resistance from Nigerian consumers who are generally discriminatory buyers and are willing to pay a higher price for imported goods of higher quality. This particular tendency, however, acts as a draw-back to Nigerian industries and more particularly on the small scale enterprises as efficient marketing and distribution of the finished products is an essential step towards self-sustaining growth of industries.

Import Substitution and Import Restriction Policy:

4. A liberal imports policy which allows almost unrestricted imports of various types of consumer goods is likely to be detrimental to the growth of domestic industries, particularly of the small scale industries. There is need for adopting a controlled importation policy which will give a fillip to the growth of domestic industries while safeguarding the interests

of the consumers to an appreciable extent. In Nigeria, therefore, the import policy has been based on a happy blend of these two aspects. Encouragement is given to import substitution of manufactured goods by raising the level of import duties on such commodities, so as to make it feasible for domestic industries to take up the manufacture of the items internally. However, the level of import duty is not raised to such an extent that it becomes entirely prohibitive, and there is always scope for the importation of manufactured goods if the internal production does not come up to expectations in terms of quality and price. Nevertheless, when it is found that the indigenous capacity to manufacture certain goods has proved its competence as regards quality and prices and can also take care of the growing demand for the items in the country, the Government may give further encouragement to the process of import substitution by putting such manufactured items on the restricted list of imports. The restricted list has been considerably reduced to combat the inflationary trend which developed during the war.

5. It may be mentioned that the policy of import substitution and the restrictions on imports contribute more to the growth of large scale than small scale industries, but in respect of many items of consumer goods, small scale industries can and do profit by the restrictive imports policy. A corollary of this policy is the grant of import duty concession

on machinery and equipment, parts and components and also some basic industrial raw materials to enable the concerned manufacturers within the country to undertake production of the goods in question on a competitive basis. This is necessary and particularly helpful to small scale industries in the initial years when they have difficulties in reaching the break-even point of their production.

Reservation of Sectors of Production for Small Scale Industries

6. In a few countries the small industries sector has been assured of a sheltered market by reserving certain areas of production for large and small scale industries. Doubts have been expressed in many quarters regarding the wisdom of measures restricting production between large and small scale industries. It has been stated that this type of negative or restrictive measure can lead to inefficient production and make the consumers pay high prices for products of inferior quality. It is also stated that such policies will tend to hold up economic growth by putting a brake on the most productive units. However, the experience of some of the countries adopting the regulatory policy has shown that the small industries sector is in need of a degree of assurance of market through such a policy of reservation or demarcation of sectors of production, to become viable within a reasonable period of time. Since small scale industries tend to employ relatively more labour and relatively less

capital than large scale industries, measures designed to enlarge the share of the small scale industries in the national markets also constitute an important means of creating substantial employment opportunities for the people. It is, however, true that this policy has to be used with a measure of caution and sectors and lines of production for partial or complete reservation for small scale industries have to be selected with due regard to the technical competence achieved by the small industries sector in manufacturing the goods; otherwise there may be a danger of shortage in supply leading to abnormal increases in prices at the expense of the consumers. It is also necessary to be highly selective in the choice of the products for such partial or complete reservation and to consider only those items which are technically and economically feasible for efficient production in the small scale sector.

7. As far as Nigeria is concerned, the reservation policy has earmarked certain sectors of production for indigenous manufacturers without any restriction, however, on the scale of production. This has been done to give a fillip to the process of indigenisation of industries in the country. However, the question of reserving items or lines of production for small scale industries has not been given any serious attention yet in view of the existing levels of production in small scale units and the limited capacity of the sector to meet the growing demand in the country.

Price Controls

8. The question of price control is important from the point of view of small scale industries in respect of the prices of raw materials, components and the like which are used by them to manufacture their finished products. The small firm can survive fairly easily if markets are well organised so that it can buy at fair prices the raw materials, components and services which it needs and can dispose of its end-products, whether to final or to intermediate buyers at a fair price. One of the basic handicaps of small scale industries is the lack of availability of imported and scarce indigenous raw materials at fair prices. The large industrial undertakings can buy their requirements in bulk and at a price advantage, but the small scale undertakings are at a disadvantage in the matter of procurement of the basic inputs at comparable prices. Too often they have to pay unreasonably high prices for the basic raw materials and components and, even so, they are always not sure of receiving their supplies in time or in adequate quantities. The efficiency of the small scale unit is greatly affected by these draw-backs. In such a situation, it may be justified to introduce a measure of price control over basic industrial raw materials or, in the alternative, to have an institutional arrangement for supplying the small industry sector with their needed raw materials and components at a price which will not put them at a cost-disadvantage in production vis-a-vis

their large-scale counterparts.

9. Another field in which the small scale units are experiencing difficulties is in the manufacture of parts and components for large scale undertakings. Because of the superior bargaining strength of the parent-firms, it is not always possible for small-scale feeder units to get fair prices for the parts, components, accessories etc., sub-contracted to them. However, this is a field in which it is not easy to have any regulatory measure to ensure fair price and fair returns for ancillary units. In some countries, the question has assumed important proportions due to the practice of parent-firms dictating prices which are often uneconomic for the small-scale ancillary units.

10. In Nigeria so far, the question of availability of industrial raw materials, components to small scale units at fair prices is proposed to be tackled by setting up an institutional agency which will act as a raw material bank for the imported and scarce indigenous categories of raw materials needed by small scale units.

Public Institutional Market: Preferential Procedures:

11. Government being a large buyer of many types of manufactured goods, Government purchases have been used in some developing countries to give a fillip to the growth of small scale industries. The Government store purchase policy is designed to assist small scale industries in obtaining a fair

share of the Government contracts and orders. It is necessary in this connection to state that all Government purchases are not relevant to small scale industries. There are purchases which can be of no interest to small scale units as they are not technically feasible to be produced in the small scale sector. Such items can be produced only from the large scale undertakings. There are other items which are in common production by the large scale and small scale units. Some of these items are of simpler types while others are relatively sophisticated. Thirdly, there are items of purchase of both goods and services which by their very nature require large scale firms to be the prime contractors, but which offer substantial scope to the large scale contractors to purchase components and parts from the small scale units. The principal items of interest for small scale units will be those of the simpler types as well as the relatively sophisticated types which are being competently manufactured by them. In order to give a measure of marketing support to the small industry sector through the Government purchase policy, it is desirable to reserve very simple items for the small scale enterprises and also to introduce some preferential procedures for purchases of the relatively sophisticated items from small scale industries, provided they could produce goods of standard quality. The first list may be treated as the reserved list for exclusive purchase from the small industry sector. The second list which is for

relatively sophisticated items can be purchased both from large scale and small scale units; but in order to ensure that the small scale competitors can get a fair-share of Government orders it may be necessary to accord a measure of price preference, say up to a maximum of 15%, to the small scale enterprises. The procedure of open competitive bidding is not proposed to be dropped in favour of small scale industries in respect of these items; what is needed is to allow a price preference up to a maximum agreed percentage to the lowest small scale tenderer. If on the basis of this preference his quotation can become the lowest, the order is to be placed with such a manufacturer for the supply of the goods according to the specifications of Government. It may be mentioned that this policy of canalising a substantial proportion of Government purchases to the small industry sector has been adopted not only in countries like India but also in industrially advanced countries like the U.S.A. etc.

12. In the case of Nigeria, it may be stated that the Government of Nigeria adopted a scheme for local purchase of stores as far back as 1956, to encourage locally manufactured products when they are available at competitive prices. The policy in force is that all the departments of the Federal Government are required to make their purchases of stores from Nigerian industries in preference to foreign suppliers, in cases where Nigerian

made products are comparable in price and quality to imported ones. In implementating of this policy, a list of "approved products" has been drawn up on an examination of the standards of quality reached by the Nigerian products. A list of "approved manufacturers" of these products has also been compiled on the basis of the established competence of the manufacturers to produce goods of reasonable standard and quality. Except for purchases below £500, the orders are decided on the basis of open tenders from all approved manufacturers. It will thus be seen that the Federal Government has oriented their purchase policy in favour of indigenous manufacturers as far as practicable. The States are also operating on this same basis. The policy, however, does not specifically benefit small scale manufacturers except to the extent that they are included in the list of "approved manufacturers". There is no doubt that the support of the Government stores purchase programme will be very valuable in assisting many types of small scale industries in Nigeria to become viable and attain self-sustaining growth. From a purely practical point of view, it will be necessary to analyse the products of the small industries sector, and to draw up a tentative list of items which can go into the reserved and the optional lists of purchases from this sector, based on the competence acquired by the existing manufacturing units to produce goods of acceptable quality. This exercise may have to be undertaken in

the first instance to re-orient the Government Stores Purchase Policy in favour of small scale industries.

State Trading and Market Organisation

13. In some of the developing countries the State Trading and Marketing Corporations have been giving increasing assistance to the small scale industries sector in actual marketing of their products. It is true that the designing of better quality goods and expansion of production of small scale industries will be of little use unless there is a corresponding effort in the field of marketing and distribution. There is also a substantial degree of truth in the saying that "know-how" is largely wasted without "show-how". The small scale units, as already mentioned, are extremely deficient in the matter of proper marketing of their goods. However, the assistance of State-aided agencies can provide marketing facilities for small enterprises, which the retailers and wholesalers do not provide. They can strengthen the bargaining position of individual small producers; they can pool and grade the products of individual producers and encourage standardisation. They can undertake market surveys and market research that will provide valuable information about market trends and development opportunities for expanding into new markets at home and abroad. They can advertise and provide samples, displays and show-rooms and make contacts with existing and potential buyers. There is, however, need for caution in

undertaking direct marketing of small industry products by State-aided agencies unless proper care is taken to select manufacturers and also the products. This is not to say that such marketing activities should not be undertaken by State-aided agencies in respect of small industry products. This is only to emphasise the need for being selective so that the programme is turned into an instrument of support and improvement for the affiliated small scale industries.

14. In India, it is understood that the State Small Industry Corporations are increasingly undertaking actual marketing of small industry products by opening sales emporia. Perhaps the most impressive effort in this direction was put in by the National Small Industries Corporation (NSIC) under their sales promotion scheme. The scheme was initially undertaken by the NSIC in respect of leather foot-wear, cotton hoisery and paints and varnishes. The objective of the scheme was to establish new outlets for small industry products, to expand their sales and to collect market reactions to products sold. The NSIC laid down specifications for the products marketed by it and established inspection arrangements for checking quality of the products. The Corporation also undertook export marketing of small industry products like cotton hoisery, leather shoes, paints and varnishes and machinery parts. Subsequently, the

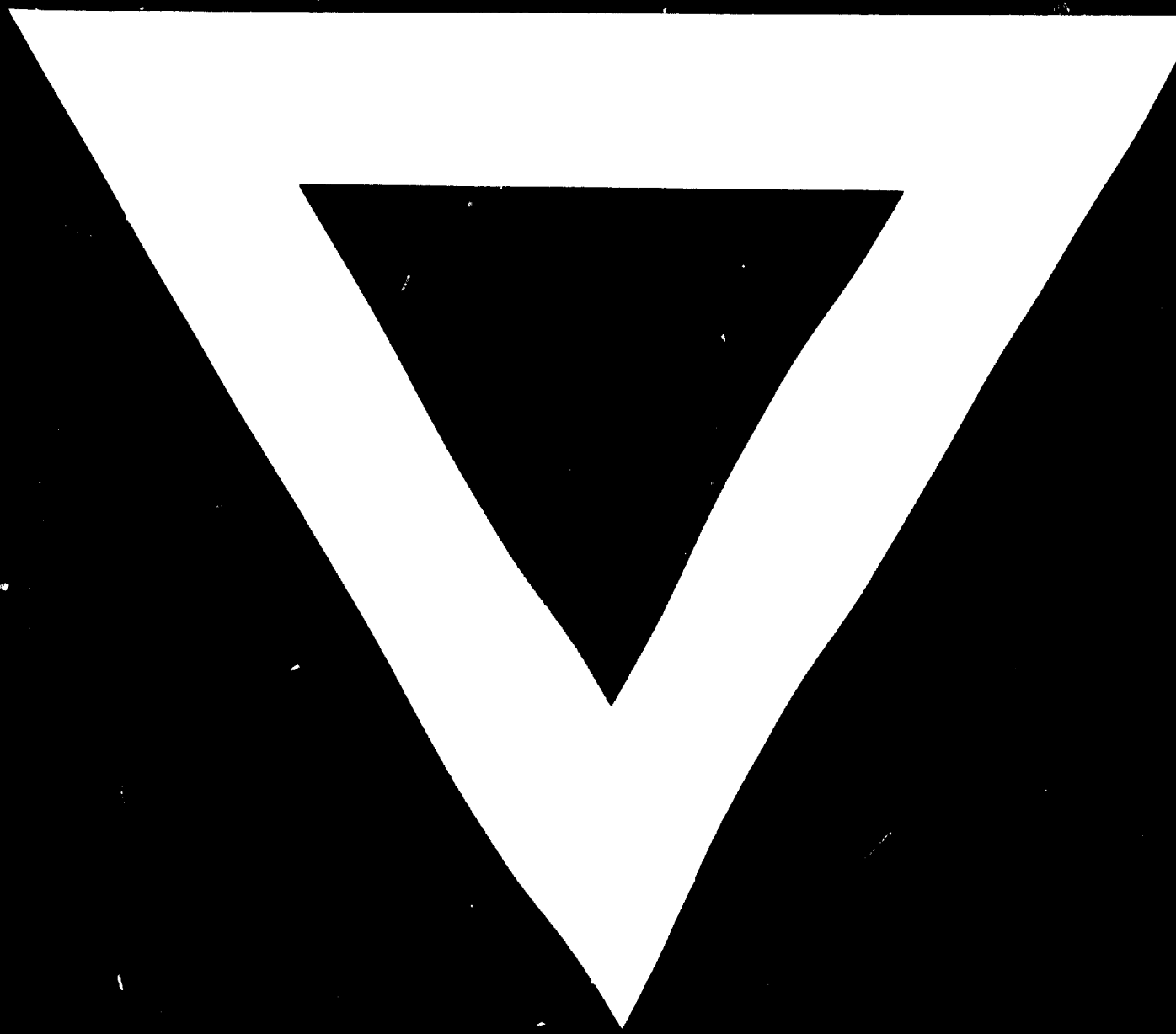
export marketing of small industry products was transferred to the State Trading Corporation. Some of the State Government Small Industries Corporations are also undertaking the export of the products of small scale industries with varying degrees of success. In Nigeria, there is no Government agency as such to give direct marketing assistance to small scale industries. It may, however, be mentioned that in the field of handicrafts, commendable work is being done by the National Council of Women's Societies, which have set up a non-profit organisation called the Craft Society to increase the sales of Nigeria's handicrafts and expand the Overseas market for such products. In the Nigerian context it may be necessary in the foreseeable future to set up a Marketing Service Corporation for small scale industries having the following functions:-

- (a) to select consumer demands through market survey analysis which can be transmitted to small industries for production;
- (b) to secure orders from Government and also from wholesalers and supermarkets and to work with small industries either individually or through the Industrial Development Centres in taking up production of the items which are in demand;
- (c) to aid small scale industries in getting their products into regular market channels, and bring the manufacturers and retailers into direct and closer contacts;

- (d) to provide small industries with necessary help of designs and models and information on consumers, preferences and requirements and such other information on distribution channels, sales strategy, etc., as may be necessary to assist them in marketing their products successfully.

15. The large scale industrial undertakings can conduct research, sell in bulk, raise necessary funds easily, produce standardised articles, advertise and so on. The small organisation can succeed almost as well if the marketing of its products can be reasonably well-organised through Government institutional and policy support.





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