

IMPORTANCE OF MARKETING

A large-scale business can have its own formal marketing network, media campaigns, and sales force, but a small unit may have to depend totally on personal efforts and resources, making it informal and flexible. Marketing makes or breaks a small enterprise. An enterprise grows, stagnates, or perishes with the success or failure, as the case may be, of marketing. "Nirma" is a marketing success story. Even a highly efficient production unit may be rendered useless if the product cannot find a market. Though financial and technical assistance are available from the government and through other agencies, a faulty marketing strategy may generate problems of repayment of loans.

Definition

Marketing can be defined as a process which identifies, anticipates, and satisfies customer needs efficiently and profitably in keeping with the objectives of the enterprise. Marketing is a specialised and dynamic area. It requires appropriate actions in response to market demands by developing suitable products and effective strategies.

Common Marketing Problems Faced by Small-scale Industries

- 1. Lack of brand image:** Consumers may be guided by brand image. Large-scale units formulate their strategy and create and monitor the market with the help of media. In such an environment, small-scale units with limited propaganda and advertising will find it difficult to penetrate the market.
- 2. Lack of sales force:** Small units cannot afford to maintain a well-oiled sales force manned by efficient personnel.
- 3. Product quality:** Small-scale units in the initial stages have a serious limitation of product quality. It is costly and difficult for a small unit to have quality testing and evaluating equipment. With the result that, competition will have to be in terms of product prices rather than quality. The stipulation of minimum wages on the one hand and low labour productivity on the other makes it difficult for small units to compete in terms of prices. They may, therefore, be compelled to reduce the profit margin or use low-priced inputs or zero wage family labour.

4. **Credit sales:** The small-scale sector is invariably called upon to sell on credit. However, when it comes to purchasing inputs, they are denied liberal credit facilities. With the result that small units often have to borrow excessive working capital than what is legitimately needed. The effective interest cost increases the general cost of production and prices, making it noncompetitive. The small enterprise in a way faces a buyer's market while marketing its products and a seller's market while buying raw materials.
5. **Low prices:** Price determination in the small business is generally non-institutional. The prices quoted by large enterprise are accepted together with pre-determined terms of sale. In case of small enterprises, the prices are "bargained" on a one-to-one basis and brought down to the lowest level possible.
6. **Local and limited market:** Small enterprises generally cater to the needs of the local and limited market due to prohibitive cost of creating a wider distribution network. This is a blessing as well as a curse for the enterprise. The addition of transport cost will make the product noncompetitive in upcountry markets.

SNAPSHOT

- ◆ Marketing makes or breaks a small enterprise.
- ◆ Marketing can be defined as a process which identifies, anticipates, and satisfies customer needs efficiently and profitably in keeping with the objectives of the enterprise.
- ◆ **Common marketing problems faced by small-scale industries are:** lack of brand image, lack of sales force, product quality, credit sales, low prices, and local and limited market.

Marketing Process

The enterprise exists for marketing its products. As such, marketing is interrelated with all other stages in their respective sequences. A simple marketing system is shown in Figure 10.1. The process comprise the following stages.

1. **Identification of opportunity:** Identification of a product or service which holds ample potential for commercial exploitation.
2. **Market survey:** The purpose of a survey is to verify whether the entre-preneur's perception of the product or service corresponds with that of the customer's. It leads to the identification of prospective customers, their extent, and dispersion in the area. It will further indicate whether any modification of the idea is called for.



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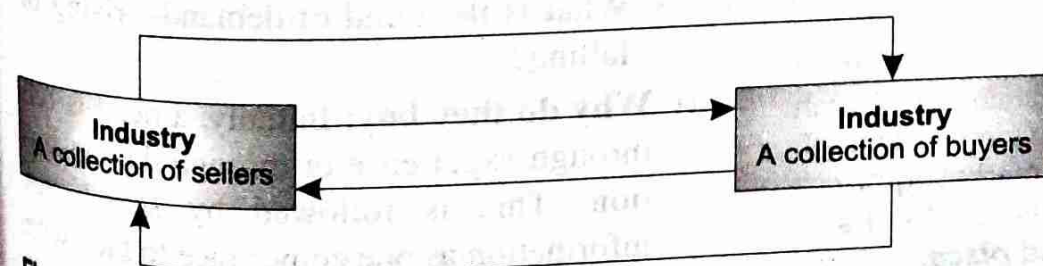


Figure 10.1 ■ A Simple Marketing System

Entrepreneurship Development and Small Business Enterprises

- 3. Choosing the target market:** Choose the market with full awareness of its strong and weak points.
- 4. Designing marketing strategies:** Suitable strategy has to be devised to enter the market and to gradually build up and sustain the product.
- 5. Implementation of marketing programmes:** Proper planning is required for effective implementation of marketing programmes. A time frame has to be chalked out for specific activities in their order of sequence and put into practice with concerted effort.

Market Segmentation

Demand for an item, in terms of quality, size, price, performance, and so on may not be uniform throughout the market it may be segmented. For example, some people will opt for a simple agitator type of washing machine, others semi-automatic, still others for a automatic version.

Customer preferences may be due to differences in economic, demographic, and psychological factors. While selecting a target market this point should be kept in mind—whether to cater to a single segment, or all the segments, depending on the capacity of production and managerial ability to control.

The present Indian scenario is so diverse and full of contrasts and contradictions that you can sell almost anything. It is estimated that 30 crore Indians have enough disposable income to buy the ever-multiplying range of consumer goods. And the number is steadily on the rise. It is not that the rest of the population is lagging far behind. Consumerism is infecting them also. The scenario presents a vast spectrum of paradoxes—at one end are the poor and illiterate with limited needs and at the other end are luxury goods in all their variety and abundance.

At one extreme there are highly knowledgeable and discerning customers, and at the other are the ignorant. On the one hand, the most sophisticated baiting techniques are employed to hook customers, while on the other, primitive modes of marketing still persist. Choose judiciously.

Of course, one should take note that due to proliferation of communication this distinction is fast dissolving. Some time back, the price of an LG compressor, a top class brand, was about Rs 5,000 and the second best brand, Khosahla, was Rs 3,000, while an unknown brand of the same capacity was available for only Rs 300.

Similar, take the case of any other item, say cosmetics—powder, nail polish, lotion, and so on—available in posh air-conditioned beauty parlours or classy shopping arcades in big cities as well as in remote village roadside shops filled with dust and fleas. The brands are different. It is also true that better brands are making

inroads in these areas also. The Reynolds refill, costing many times more than its cheaper cousins, is being sold in the same market. There are innumerable such examples.

Such paradoxical coexistence is likely to endure for a long time to come. This kind of situation offers unlimited flexibility in the choice of products. Make it your business to take full advantage of the situation.

Market Research

Market research, which you have earlier carried out while selecting a product and its market, does not end there. It should be a continuous process—always collecting information from all sources—evaluating your position in the market and modifying strategy, if necessary.

It need not be a full-scale research project for smaller firms. Simple observation may be useful to gauge market reaction. The choice between methods and scale of research activity will depend on two factors. First, the depth and accuracy of the information required, and second, the budget available. Both factors may be lacking in smaller firms.

For a majority of smaller firms, keeping their eyes and ears open to what is happening in the market, especially whatever affects their business and readiness to take adaptive course of action, will suffice. However, one can take note of the trend indicated by secondary information. In any case, it is required to remain very alert and alive to the market situation.

Marketing Mix

Business, as a whole, engages in different marketing activities. The combination of all such activities is called a “marketing mix”. Though there are many elements, a popular classification consists of the “4 Ps”—*product, promotion, price, and place*.

Product

This is the core element of the marketing mix. The rest is built around it. It includes everything a customer gets—design, quality, packaging, and guarantee and after-sales service.

There is no ideal or appropriate mix. It all depends on the requirement of the target market. Different market segments require different grades of quality and sophistication. Careful attention should be given to the tangible and intangible elements of the product to create an overall impact in the market.

Promotion

It is a means by which a business creates an awareness for its product among customers. Information on the product is a prerequisite for making a purchase. Success or failure of a venture depends mainly on the effectiveness of promotional efforts made for marketing the product. A cursory glance at the arena—what the big and small players are doing—will be quite enlightening.

- (a) High-tech and high-budget advertisement: Through electronic media (radio and TV) the entire arsenal in the psychological armoury is deployed to outdo the competitors' advantages.

- (b) Advertising through print media: Newspapers, journals, periodicals, and so on. Eye-catching advertisements loaded with carefully chosen words create a longing for the goods.
- (c) Sponsorship of regional, national, and international events provide good scope for advertisements.
- (d) Display of posters, placards, and hoardings during national and international sports and other events.
- (e) Participation in exhibitions and fairs—local, regional, national, and international—whichever is available and affordable.
- (f) Putting up attractive hoardings and billboards at strategic locations on highways and roads.
- (g) Pasting posters and leaflets.
- (h) Distribution of leaflets through newspaper vendors. Distribution at public places, and in trains and buses. Dropping these into personal letterboxes.
- (i) Direct mailing to prospective customers. Addresses of prospective customers should be resourcefully and tactfully collected from various sources.
- (j) Personal contacts through dealers and old customers.
- (k) Door-to-door sales. Earlier, it was almost non-existent. Now it is on the increase.
- (l) By offering small gift packs with the message or a product sample with other fast-selling goods.
- (m) By offering inaugural or fixed-duration discounts.
- (n) Announcing a hire-purchase scheme, and so on.

Modern advertisements aim beyond merely creating awareness. They actively motivate customers to buy. Thirty seconds advertisements during TV serials are presented to leave a lingering impression in the minds of the viewers. Often, visuals are addressed to children, who are easily influenced and who compel their parents to purchase.

Database marketing is also making inroads into the country. All information—likes, dislikes and other predictions—about prospective customers are collected and processed in a computer. Based on this information, a prediction is made about when the customer is likely to feel the need for a particular product.

Advertising is a highly specialised area and highly creative people run the business. To requisition their services will make you substantially poorer. Depending on your capacity and necessity, select the medium you can afford and use it with profit. In any case, advertise you must, otherwise nobody will come to know about your product.

Pricing comprises basic price, discount, and credit policy. What should be the price on cash and on credit? Prices should be decided in the light of production costs, demand, and competition. Pricing policy is related to different

qualities, and again, to different market segments. One manufacturer may be able to supply a high-quality product at a certain price while another in the same industry offers a cheaper product at a lower price to another market segment.

A good example of this policy would be Nirma. When it was being launched, Surf was the dominant brand in the market targeting the high price segment. Nirma targeted its detergent at a section of people that was hesitant to use any brand of washing powder because of its prohibitive price. Most people in this segment used cakes of washing soap. To them, washing powder was used only by the affluent. But when Nirma offered them a quality detergent at an affordable price, many of them made the switch. Not only that, some consumers of Surf switched over to Nirma as well.

Costing and Pricing in SSI Units

The cost of a product has two components. One is the fixed cost which does not vary with the change in production level. The other is the variable cost which varies according to variation in the level of production. Details of these two costs are given below.

Fixed cost

1. Factory rent
2. Salary of staff
3. Interest on loan
4. Depreciation charge on machinery
5. Taxes and interest rates
6. Water and power charges
7. Miscellaneous fixed expenses

The difference between the selling price of a product and its variable cost is known as contribution. Any SSI unit should have total contribution from operations, equal to the fixed cost incurred by it to enable it to reach the break-even point—the point of no loss or profits. Any sales below the break-even point will result in a loss for the unit while production/sales above the break-even point will mean profits.

A rudimentary idea of costing can be had by referring to what is known as the cost ladder.

Cost Ladder

Direct material cost + direct labour cost	= Principal cost
Principal cost + overheads	= Factory cost
Factory cost + selling expenses	= Ex-factory cost
Ex-factory cost + profit	= Selling price
Selling price + discount	= Market price

The major variables are material and labour costs and overheads. Direct material cost will vary according to the prevailing market condition. Direct labour cost will vary according to the skill, efficiency, or productivity of labour. It can be controlled

Place

This is to make the product available to the target market. It includes physical movement of the product and the type of distribution channels or dealership to be employed.

Big firms have their zonal or regional authorised agents or dealers spread over the entire country. The dealers, in turn, work with sub-agents or distributors and retailers, or directly with the customers, depending on the type of the goods—consumer, industrial, or pharmaceutical. Travelling salesmen book orders from retailers and the consignment follows from the dealers or directly from the manufacturers.

Though they cannot afford to have zonal offices, small firms too are devising their own ways of doing business. They also receive regular orders for goods. Entry may seem to be difficult. Employ ingenuity.

Interestingly, it has been observed that many authorised dealers of known brands also stock other unknown or new brands of goods. They also insist on the customer buying the lesser-known brand. The secret is a higher margin of profit. The small entrepreneur must be ready to sacrifice a portion of his/her profit in a bid to enter the market. It need not necessarily be a great sacrifice. With fewer overheads and low labour costs coupled with better planning and management, a small unit may be able to reap good profits.

This does not mean that small-scale industries are better managed. That is generally not the case. There is scope for economising at various stages and optimising the use of man and machine without sacrificing quality and productivity. Adequate attention needs to be paid to this aspect, which has been neglected by small-scale entrepreneurs due to ignorance. This drawback can be remedied by equipping small-scale entrepreneurs with the necessary information through short-term courses in the required area under EDPs organised by various institutions and agencies.

Offer better incentives than others' agents. Tackle the local retailers exactly in the same way—gradually expanding the radius of operation. At present, due to stiff competition, retailers, in most cases, get everything at the point of sale. Small-scale mints must adopt the same practice.

Employ salespersons on terms and conditions suitable to the unit. It can be on a fixed monthly salary. The person must report daily progress and discuss the strategy for the next day. The salesperson may be given extra commission in addition to the



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monthly salary if he or she exceeds a certain quota. Nowadays, there is no dearth of young persons looking for such an opportunity.

The Canteen Stores Department (CSD) of the defence services is a big customer of consumer durables and non-durables. It has many branches all over the country and many more are being opened in places where this facility was not available earlier.

Shopping by television is also set for expansion in this country.

Quality, packaging, and price will be the deciding factors in case of consumer goods. Add performance, durability, and versatility for consumer durables. The entrepreneur's own promotional skill is never to be ruled out. The entrepreneur can evolve a personal strategy for marketing. It is very important for the survival of a small-scale unit. You may seek help from NSIC or any other government agency.