STRATEGIC ALTERNATIVES FOR INDIGENOUS INDUSTRIES

(A MICRO STUDY OF FOOD PROCESSING INDUSTRIES IN KERALA)

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Introduction

India is the world's second largest producer of food items next only to China. Food Processing industry has great significance for India's development since it acts as a vital linkage between the two prominent sectors of the Indian economy i.e. industry and agriculture. The Food Processing Industry in India is on an assured track of growth and profitability in the coming decades. It is estimated that food processing industry in India will attract an investment of over Rs 1, 40,000 crores in the next decade with infusion of large manpower and latest technology.

Kerala is blessed with abundant natural resources that provide many useful raw materials required for several industries. Food processing is a sector which can contribute high growth potential towards the rapid economic development of the State. It comes next to Information Technology industry and provides employment for women, especially rural women in Kerala. Food processing though found in all sectors, the produce of large scale sector is mainly meant for exports. Consequently the small scale and tiny sector have great scope for capturing the local market.

Scope and Significance of the Study

The indigenous food processing industries cannot withstand competition from outside in the same coin i.e. with respect to money power. So they have to tap the present market by devising a unique marketing strategy. The strategy should be capable of succeeding over the competition with regard to existing products as well as new products. The present study is hitherto an unexplored topic. So the researcher finds that there is an imminent need for conducting an exhaustive study to judge the present level of operation of existing food processing units and to device a unique strategy capable of over ruling the competitors. The study is proposed to benefit the entrepreneurs, consumers, policy makers, and the people of the State in general.

Objectives of the Study

This study is designed with the following objectives in mind

1. To enquire into and bring out the present status of operation of indigenous food processing industries in Kerala.
2. To observe and highlight the marketing strategy followed by food processing industries in Kerala and
3. To frame and suggest the most ideal strategy to the indigenous food processing industries in Kerala.

Hypothesis

For conducting this study, the researcher has put forward five hypotheses. All hypotheses were duly tested and validated.

1. There exists significant difference between the small, medium and large scale food processing units with regard to the reason for choice of business location.
2. The medium and large scale food processing units are more mechanised than the small scale food processing units.
3. The target market of manufacturers for all the products is independent of the income level of consumers.
4. There is no established strategy for marketing indigenous foods produced in Kerala.
5. No significant relationship exists between the marketing strategy implemented by the manufacturer and preferred by the consumer.

Data source and Methodology

The population for the study is the food processing industrial units in Kerala stretching from Thiruvananthapuram to Kasargod revenue districts. For the purpose of the study, the State is divided into three regions, Northern, Central and Southern. Two districts each are selected from each region based on the degree of concentration in terms of the number of units. Thus the study is based on the units in Kannur and Kozhikode districts representing northern region, Thrissur and Eranakulam representing Central region Kottayam and Thiruvananthapuram representing southern region. Large scale, medium scale, small scale as well as tiny units which are selling their products under any brand constitute the population. Only those units manufacturing selected items of food products, namely, Curry Powder, Pickle, Jam, Squash, Chips, Avil, and Pappadam come under the purview of the food processing sector for the present study. The sampling procedure adopted for the study is multistage stratified random sampling. Census (18 units) method is applied in case of medium and large scale units. There are 9 working units in the medium and large scale sector which offer 18 products in such a way that except 4 units, the remaining are offering multiple products. 300 customers selected randomly representing 100 each from each region out of the list provided by retail outlets forms the addressee for mailing the questionnaire. Stratified random sampling method is used for the collection of data from the region and purposive random sampling method is used for selecting the sample from each region. All of them were working women within the age group of 18 to 65 years. Secondary data was collected from various governmental and non-governmental agencies and relevant Publications related to the study.

Tools used for the study

Percentage analysis, Compound Growth Rate, ANOVA, Chi Square, Weighted Average Score, and software package Statistica and Micro Soft Excel are used for analysing the data.

Period of the study

The study covers a period of 12 years from 1995 to 2006.

Findings

Status of operation of indigenous food processing industries in Kerala

- Around 75 per cent of the units concentrate on single products. Remaining 25 per cent produce multiple products
- Out of the total sample of 295 units 277 units (93.90 per cent) belong to the small scale sector and only 18 units (6.10 per cent) are in the medium and large scale sector.
- The product wise analysis shows that pickle manufacturing units are more and avil manufacturing units are less in number. The units producing chips and pappad are functioning only in the small scale sector.
- More than 75 per cent of the units under Group B (Chips-84.62 per cent, Avil-75.76 per cent and Pappad- 78.95 per cent) are proprietary concerns. This is due to the fact that such units can be started easily with minimum capital investment and comparatively a few numbers of workers.

- Most of the raw materials used in food processing industries are seasonal nature and will be available at cheaper rates. Usually the small units do not have sufficient finance and facilities for storing and preserving raw materials and hence they are not in a position to enjoy the price advantage. The position of the medium and large scale units in this regard is better than the small units.
- Some of the food processing units engage manpower only (38.64 per cent), while some use both manpower and machines (56.27 per cent). There are only few units which are fully mechanised (5.09 per cent) and in the case of chips and avil there are no mechanised units.
- Less than one-third of the units alone are making use of trained managers. The category wise analysis further disclosed that in the case of chips, avil and pappad units the management is more of a family type.
- Out of 277 units in the small scale sector only 149 units have certified their products. However, all the 18 units in the medium and large scale sector are certified.
- It is evident from the study that the highest employment in case of all products is in production department followed by packing department. The product wise analysis further reveals that in packing section female workers are more and in marketing and administration male workers are more irrespective of the products. In production, more than sixty per cent of the workers and in packing more than eighty per cent of the workers constitute females. In marketing more than eighty per cent and in administration more than sixty per cent are male workers. All the units, except pickle units, employ more casual workers than the permanent and family workers. The employment of family workers is the maximum in pappad units (20.06 per cent) whose main production problem is scarcity of labour.
- In case of all the products, majority of the consumers are individuals/households. Sales to institutions stands in the second position and sales to others including government departments is only nominal.
- Packing materials like glass, plastic bottle, jars, cans, cartons etc. are most purchased from outside the state which adds to the cost of packing materials.
- The Compound Annual Growth Rate (CAGR) of avil is the maximum (11.38) during this period followed by pickle (10.47) and curry powder (10.08). The product pappad has the least CAGR (7.19). The Compound Annual Growth Rate (CAGR) of small units during the period was only 7.82, where as it is 12.38 in medium and large units.

- Some manufacturers prefer domestic sale due to the advantage of immediate sale, less procedures, relatively larger market size etc. The manufacturers who prefer export argue that the domestic market is overruled by retailers and it demand heavy investment in sales promotion. The exporters also enjoy tax benefit and there is no fear of return due to the expiry of shelf life.
- The study indicated that curry powder faces more competition from small units (16.33 per cent) than the large units (14.29 per cent). In contrast to this jam and squash face competition mainly from large units. However products like chips, avil and pappad have a comparatively insignificant threat from large units.
- Almost all producers, except chips and avil, accept the strategy of allowing more discounts to retailers in order to face competition and improve their market. Improving packing and quality possess the second and third position respectively for the first four products, curry powder, pickle, jam and squash. The next is advertisement and last is price reduction.
- The major marketing problem faced by Curry powder is the uneconomic price, whereas it is the existence of unbranded products in the market in case of Pickle, chips, Avil and pappad. Food standards constitute the most vital problem for Jam and Squash.

Strategy followed by food processing units

- The study revealed that 60 per cent of the units adopt single strategy for the entire organization while the remaining 40 per cent develop separate strategy for each product. However it can be observed that 56 per cent of the curry powder units have a separate strategy for the product. For all other products the entire organization strategy is preferred by most of the units.
- Only 63 units (21.36 per cent) follow new strategies on experimental basis. This is highest in case of curry powder (34.00 per cent) and the lowest in case of avil (9.09 per cent). The sector wise analysis shows that 52 units (18.77 per cent) in the small scale sector and 11 units in the medium and large scale sector pursue innovative marketing strategy.
- Majority of respondents in the small units complained that the large units exploit them by using their membership to win the top positions in the associations. Once they achieve, they use the position only for their own benefit and wellbeing. They neither attend to nor

represent the problems of other units. So most of the small units either don't take membership or even if they take they remain inactive.

- In case of curry powder, jam, squash and pappad, more than 60 per cent of the people prefer branded products. In case of pickle, the preference of the consumers towards branded and home made products are equal. However in case of avil and chips 52 per cent have taste for non branded products.
- The consumers are very quality conscious in buying curry powder and pickle. Convenience is the prime consideration of the consumers for all the other products, viz, jam, squash, avil, pappad and chips, followed by quality. Offers and credit facilities do not attract them much.
- Most of the consumers prefer margin free markets (50.33 per cent) for buying their daily requirements. 87 consumers (29 per cent) have a liking for nearby shops for their purchase. This is followed by particular shops (13.67 per cent) and co-operative stores (6 per cent). Only one per cent has a preference for other places.
- The study reveals that majority of the people are aware of a few techniques of market promotion. Point of purchase display (78.67 per cent), discount (68.67 per cent), free samples (68.00 per cent), gift and compliments (63.33 per cent) and coupons (51.00 per cent) are the techniques that the consumers are aware of, given in the order of their awareness. Most of the people are unfamiliar with trading stamps (7.67 per cent), rebate (18.67 per cent), bundling (20.00 per cent) and contests (20.00 per cent) as promotion tools.
- In case of jam (58.49 per cent), squash (56.06 per cent) and curry powder (34.35 per cent), advertisement is the leading factor that motivated consumers to purchase the present brand. But it is sudden decision in case of pappad (56.28 per cent) pickle (43.37 per cent) and avil (33.03 per cent) and convention in case of chips (26.56 per cent). The other reasons like sales representatives, fairs etc. are found to be unimpressive.
- Majority of the consumers who had earlier switched to a particular brand have up to 25 per cent chance to switch back to their earlier product on the expiry of the offer. Only less than 22 per cent of the consumers said that they would stick with the brand even after the offer is over. Small number of consumers felt higher level of possibilities.
- Display constitute the most effective promotion tool in motivating consumer product stocking in case of all the products except avil in which case it is price off. As in all the other cases, coupons constitute the least preferred tool.
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Suggestions

- The food processing industry faces competition from domestic and foreign units. To compete with multinational and large units in the domestic and world market, the un-organised small units should modernize their technology.
- A good packaging is needed to increase the shelf life of product. Packaging materials must therefore be strong enough to withstand the heat and cold of processing and the wear and tear of handling and transportation.
- To maintain standards and quality of products in par with the standards, the food processing units have to adopt new technologies.
- Technical know-how should be made available to farmers, state government should take initiative to set up refrigerated cold storage and processing centres to avoid post harvest loss, floor price to raw materials to avoid price fluctuation, central level co-operative organizations to purchase surplus in the market to create balance between demand and supply.
- Economy pack and single use pack can be introduced and advertised among small and medium units.
- Highly educated people should not be employed as salesmen as they always seek other better opportunities.
- Sales promotion schemes and point of purchase display should be followed.
- The State could latch on to its tradition as a food products exporter and emerge as a leading player through recourse to value addition and diversification.
- Value addition, packaging and branding are the three important issues that the industry should be concerned with in the near-term. Popularise value addition in case of products like avil, (e.g.avil shake which is well-liked by the people of Kozhikode district).
- Brands will have a significant role to play in the domestic market, especially given the exposure to a large number of international brands thanks to the presence of a sizable non-resident population.
- Banana chips, a traditional culinary delight from the State, can be developed as a product geographically indicated in origin to Kerala provided appropriate technology is developed to deal with the problem of rancidity and the short shelf-life. Packing should be made attractive for this purpose.

- Trade fair could be a platform for working out partnerships for investment, business and technology sharing in the agro-industry sector.
- Develop a food and wine tourism strategy, using tourism as a means of promoting food and beverage to influential decision leaders visiting the state on holidays. Give sample packs of the products in a kit, free of cost, to the foreigners who visit our place.
- Usually processors do not sell directly to consumers, but rather to food chains and wholesalers. The producers may also advertise brand names or may display on the package.
- Quality raw material has to be produced in sufficient quantity and properly packed to facilitate further processing. This calls for educating the farmers in production and harvesting techniques as also in packing.
- Tap the resources of the wedding market. They can personally meet the main chef of the catering team and entreat them to consider their products favourably.
- Canvas the hotels with attractive perks giving them various offers for a bulk purchase like one fresh packet of product for the return of a fixed number of empty packets.
- Self Help Groups can be formed to bring more women into the web of the industry.