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Financial & marketing problems of small scale industries in Punjab

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ABSTRACT

Finance is the life blood of the business. It is required to increase the productivity and the market size of the business. One can only plan for the industrial growth of the unit if there is proper availability of finance and credit. When entrepreneurs are running an industrial unit the financial and the marketing problems are the biggest challenge which is faced by them. Moreover dealing with these problems more ethically is the biggest challenge. In this research paper focus will be on the financial problems faced by small scale Industry, what are the challenges in raising credit, the institutional support for the promotion of small scale industrial sector and the financial infrastructure for SSI. The study of Marketing Problems faced by them will also be a part of it.

KEY WORDS

Market research, entrepreneurship, raising credit, cost of financing.

INTRODUCTION

In any productive sphere, finance is the lifeblood of business and its vital need is more realized w here it is lacking, as in the small-scale industrial sector of Punjab, Haryana and All India.
The role of finance in this area is as fundamental as elsewhere and any smallscale industrial secto r issue relating to development, inventory, quality or marketing is essentially a financial one.
Adequate funding is a prerequirement for proper production organization and raw material purch ase.Consequently, credit is the prime input for the continued growth of the smallscale industrial s ector, and its mobilization to meet the needs of fixed and working capital presents the main probl

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ems.Credit given to construct fixed assets such as land, building, plant and machinery is called long-term credit and credit provided to operate the industry for its day-to-day purchasing need for raw materials and other inputs such as electricity and water etc.
And it is called shortterm loans or working capital for payment of wages and salaries. Working capital shortages have been found to be one of the primary reasons for the widespread illness in the small-scale industrial sector.

LITERATURE REVIEW

Punjab occupies a very important place in India's industrial map, owing to its small-scale industrial sector (Lal, 1966).

More recently, it was through a time of terrorism and social unrest that not only adversely affected industrial production, but also seemed to cause some industrial migration.With the restoration of peace the government of the state tried to activate the industrial development process with the hope of entering a new era of progress (Bhatia, 1999).

Veena Bhatnagar (1995) "The Strongest argument that could be raised in developing countries in the favour of small scale enterprises is their employment generation potential.

Chandra BL (1994) "Banks with low-cost financing would be ideal for lending small and self-employed enterprises to the agricultural sector.This would help the rural poor relive from the clutches of the informal and unorganized credit agencies."

M A Hasnat (1991) "The small scale industries sector occupy a place of importance in economy of all labour surplus as they provide employment for a substantial work force , small industries derive part of their potential value from the employment of trained and educational person"

OBJECTIVE OF THE STUDY

- The study of Financial Problems faced by small scale Industry
- Challenges in raising credit and the institutional support for the promotion of small scale industrial sector
- Financial infrastructure for SSI
- The study of Marketing Problems faced by the small scale Industry.

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METHODS OF DATA COLLECTION

The data which is collected for the very first time is known as primary data. It may be collected with the help of questionnaire or by direct interview from the concerned group of people. On the other hand the data which is collected from the internet, books, journals or any other published source is known as secondary data.

TYPE OF RESEARCH USED

The data is collected with the help of secondary research. It is collected from the internet and journals. All the published sources are used to collect and analyze the data.

Financial Problems faced by small scale Industry.

Small units generally depend upon friends and relatives for borrowing money. They also take credit from money lenders and pay a huge amount of interest penalty. The small industrial development bank of India has been set up by Government of India but still its timely financing is not ensured at all the levels. The small scale units are facing shortage of funds all across India. Modernization and competencies can be brought in the business only if there is availability of finance.

Challenges in raising credit

Small scale industrial sector is a very important sector of the Indian economy as it has helped in the development of the backward areas and has provided employment to a large number of people. The people of Punjab have very good entrepreneurial skills. They are focusing on the production of both consumer goods as well as producer goods. They are producing goods like electronics, textiles, machine tools, Engineering goods, pharmaceuticals, food and agro products, leather goods etc.. But, there are certain challenges which the industry is facing in raising credit which as discussed as follows:

Technical loan procedure

The banks adopt a very technical and lengthy procedure to sanction loans to the small scale industries. It has a very strict assessment procedure. The return on investment is also calculated

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after the assessment is done. The business has to disclose all the important documents like the type of business carried on, registration number, balance sheet, and various other future projections in order to get the loan sanctioned. All these formalities take a lot of time to be completed in public sector banks as the procedure is a bit slow. The time lag between the application, loan approval, its sanction and disbursement is very huge.

The performance of the firm and its past records

The industry suffers if the past performance records are not properly maintained. The total capital requirement needs to be known properly so that the industry can find out that how much debt is actually required. The capital structure should be properly defined so as to know the exact debt equity mix. We should have the proper record of the assets which can be given as security as the defaults made by us in the previous loans will create a difficulty in the attainment of the future loans.

Unwelcoming behavior of the bank officials

The entrepreneurs are unaware of the various schemes which are available for them and from which they can get a lot of benefit. There are various schemes introduced by National small industrial corporation but the banks fail to disclose the details of such schemes to their clients. The bankers often think that these small scale units are not financially strong and will not be able to return their money back on time so they choose not to give credit to these units although they have a welcoming nature towards the large scale units. But this mindset needs to be changed. The small scale units have now been included in the list of priority sector lending so the banks are setting up branches in various areas to deal with these units.

Cost of financing

Finance is available to the small scale units at a very high rate of interest which is a biggest problem. The overall cost of financing is also high and the repayment period is very small which acts as a hindrance. Due to this reason industrialists prefer to borrow money from other sources like friends, relatives and other money lenders. They find it easy to borrow money from them as it neither requires much of paper work nor any kind of security.

The institutional support for the promotion of small scale industrial sector:

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Many institutions at the central and the state level have been set up by the government to look after the different development programs. The main objective of these institutions is to see that adequate credit can be made available from the banks and financial institutions, there are funds for both modernization and up gradation, there are infrastructural facilities, there are quality certification laboratories, there are entrepreneurial skill and training programs and there is assistance for marketing programs. The institutional support for the promotion of small scale industrial sector is as follows:

Institutional support for promotion of small scale industrial sector

Central Level	State Level	District level
Small Industries Development Organization (SIDO)	Directorate of Industries	District Industries Centres
Small Industries Service Institutes (SISIs)	Small Industries Development Corporation (SIDC)	
National Small Industries Corporation (NSIC)	Small Industries Marketing Corporation (SIMC)	
National Institute of small Industries Extension Training (NISIET)		
National Institute for Entrepreneurship and Small Business Development (NIESBUD)		
Small Industries Development Bank of India (SIDBI)		

Source: Reserve Bank of India report

Financial Institutions provide credit in the form of investment, working capital, export etc to small scale industrial sector at regional level as well as national level. Regional Rural Banks (RRBs) provide credit to micro/tiny, artisan-based units and village industries. They are actively involved in implementing most of the credit-based development schemes of NABARD for non-

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farm unorganized enterprises. Cooperative banks finance those undertakings which are formed for production or marketing on a cooperative basis.

India's Small Industries Development Bank (SIDBI) is the apex bank and the principal financial development agency dedicated to funding, supporting and expanding the small industries sector a nd coordinating the functions of other institutions engaged in similar activities.
SIDBI provides both refinancing and direct credit, but does not have a full complement of servic es such as flexibility to give its customers working capital, fund-based and non-funded incentives, valueadded services, etc. due to which it can not capitalize on its competitive market advantages. National Bank for Agriculture and Rural Development (NABARD) is specifically established to promote agriculture and agriculture-related activities and rural development through Rural Entrepreneurship Development Program, Training-cum-Production Program and action plan for Rural Industrialization.

Financial infrastructure for SSI

Availability of Financial Infrastructure for small scale industrial sector

Bank/ Institution	**Area of Assistance**
Commercial Banks- exclusive small industry branches	Finance- working capital + term loans
State financial corporation's (SFCs)	Finance- Term loans, Soft loans for technology up gradation.
National Bank for Agriculture and Rural Development (NABARD)	Refinance facilities for rural artisans, village and cottage industries
Regional Rural Banks and Cooperative Banks	Credit support to small industry, particularly village industries and tiny units.
National Small Industries Corporations (NSIC) and state small Industries Development corporations (SSIDCs)	Supply of machinery on hire purchase basis and provision of technical and consultancy services among others.
Venture Capital Funds Companies	Risk capital to small industries

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Source: RBI report of the committee to examine the adequacy of institutional credit to the SSI sector and institutional aspects.

In spite of making so many commitments by the government, there is inadequacy of credit. The small scale enterprises are unable to get the support from Government agencies because they lack technical competence.

Marketing Problems faced by the small scale Industry.

Market planning is gaining in importance now days. The challenges of increasing competition, ri sing material costs, declining profit margins and limited cash reserves are important to address. Analysis of market opportunities and evaluation of the company's ability to leverage opportunitie s need to be performed. An industrial unit's success depends on the commercialisation of its finis hed products. Units growing stronger with strong marketing set.The marketing team would need to be creative. Smallscale industrialists might sometimes need to change their marketing techniq ues. Small-scale industrial units ' marketing challenges are defined as competition from large-scale industries, demand slackness, price competition, and established brand competition.The big ger problem was the competition from largescale systems. These could have economies of scale, being structured and large in size, and thus could sell at lower rates than the small units.
In price competition, competition with largescale units is also similar, and demand slackness ma y be caused indirectly by market sharing with largescale units, which could provide products at l ower prices.The problem of marketing the smallscale industrial unit items emerged mainly becau se of the reasons given below.

i)An unprecedented rise in production costs over the past few years, and an increase in the sellin g price.
ii) Competition between largescale businesses making similar products at a lower rate and selling at lower prices.
iii) Lack of national and international advertising.
iv) Lack of market research either by private manufacturers or by the government.
The smallscale industrial workers are not in a position to absorb the market research costs involv ed.

FINDINGS

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- Small units generally depend upon friends and relatives for borrowing money.
- The small industrial development bank of India has been set up by Government of India but still its timely financing is not ensured at all the levels.
- The banks adopt a very technical and lengthy procedure to sanction loans to the small scale industries.
- The capital structure should be properly defined so as to know the exact debt equity mix.
- The entrepreneurs are unaware of the various schemes which are available for them and from which they can get a lot of benefit.
- The overall cost of financing is also high and the repayment period is very small which acts as a hindrance.
- Many institutions at the central and the state level have been set up by the government to look after the different development programs. The main objective of these institutions is to see that adequate credit can be made available from the banks and financial institutions.
- An unprecedented rise in production costs over the past few years, and an increase in the selling price.
- ThereisCompetition between largescale businesses making similar products at a lower rat e and selling atlower prices.
- ThereisLack of national and international advertisingandLack of market research either b y private manufacturers or by the government.
- The smallscale industrial workers are not in a position to absorb the market research costs involved.

CONCLUSION

A small scale unit should be financed by the various authorities being set up by the government. The banks should also make the loan procedure simpler so that industries can take its benefit. Entrepreneurs should also be made aware about the various schemes which are available for them and the overall cost of financing should be reduced. New methods for market research should be adopted so as to bring effectiveness in marketing process.

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