Challenges of micro and small scale food industries – a study of Amednagar district, Maharashtra

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Abstract

India with a land area of 2.97 million sq.km., 180 million hectares of arable land, 56 million hectares irrigated land, a coastline of over 8000 km and diverse agro-climatic condition, all these favor India to become the global food factory of the world. In spite these facts development of food processed industries in India compared to developed countries is very low. This study aims to find out the problems faced by rural entrepreneurs to run micro and small scale foodd industries. The study was conducted in the Ahmednagar district of Maharashtra, India and primary data collected from the 35 food processing industries. The study critically measures various problems related to Marketing, Finance, HR, Production, Technology, Infrastructure, government rules, and regulations, etc.

Key Words: food industries, Finance, HR marketing, challenges, Rural Entrepreneurship.

Introduction

With a population of just over 1.2 billion, India is the world's largest democracy. In the past decade, the country has witnessed accelerated economic growth, emerged as a global player with the world's fourth largest economy in purchasing power parity terms, and made progress towards achieving most of the Millennium Development Goals. India's integration into the global economy has been accompanied by impressive economic growth that has brought significant economic and social benefits to the country. Nevertheless, disparities in income and human development are on the rise. Preliminary estimates suggest that in 2009-10 the combined all India poverty rate was 32% compared to 37% in 2004-05. Going forward, it will be essential for India to build a productive, competitive, and diversified agricultural sector and facilitate rural, entrepreneurship and employment. Encouraging policies that promote competition in agricultural marketing will ensure that farmers receive better prices.

India's agriculture sector has an impressive long-term record of taking the country out of serious food shortages despite a rapid population increase. The main source of long-run growth was the technological augmentation of yields per unit of the cropped area. This resulted in a tripling of food grain yields, and food grain production increased from 51 million tonnes in 1950–51 to 281.37 million tonnes in 2018–19. In nearly three decades, the structure of rural employment has not changed much. Properly developed food industries in rural areas of India create more employment opportunities in rural areas as well as it helps to get good prices to farmers for their agriculture produce, which reduces the farmer's suicides and improves agriculture GDP. To establish and run economically viable small scale foodd industries and to utilize available agriculture resources there was a need to

do research in this area. This research on "Food industries – problems faced by rural entrepreneurs" helps to fill the gap.

Review of literature

Keynes (1936), in his General Theory of Employment, Interest, and Money gave attention to the forces that determine employment policy followed in industrialization. He propounded the theory that entrepreneurs will offer the amount of employment which maximizes their output and profit. Here he stressed the productivity of labor as the determining factor of the level of employment. There is a positive relationship between the productivity of labor, output, and employment.

Lewis (1954), has strongly advocated the application of labor-intensive techniques of production to have a steady and smooth economic growth. He opined that many important works can be done by human labor with very little capital. Efficient labor could be used to make even capital goods without using any scarce factors. In this sense, small scale industry should be developed and promoted especially in an economy where capital is scarce. He recommends the use of capital intensive techniques only when they are necessary.

Levenstein (2003), in the press release of the University of California in the article "Paradox of Plenty" says that food processing companies marketed their products, especially towards middle-class working wives and mothers. Processed foods are usually less susceptible to early spoilage than fresh foods and are better suited for long-distance transportation from the source to the consumer. When they were first introduced, some processed foods helped to alleviate food shortages and improved the overall nutrition of populations as it made many new foods available to the masses.

Shehrawat (2006), in his study of "Agro- Processing Industries---A Challenging Entrepreneurship For Rural Development" found important areas of training preferred by entrepreneurs were quality management, marketing management, packaging techniques, marketing techniques, technology up gradation, financial management, brand promotion, export promotion technique, advertising the products and personnel management. The study further revealed that 'lack of physical facilities', 'lack of sufficient stock of raw material', 'lack of managerial competence', 'poor attention on advertisement and publicity of the products', 'poor working of various industrial agencies,' 'lack of cooperation and coordination among different developmental agencies,' 'technological gap', 'lack of sufficient working capital', 'problems in procuring finance from different financial institutions,' 'cheaper/ superior competitive substitute,' 'inadequate supply of export information', 'power supply inadequate, uncertain and costly', 'preparation, identification and implementation of the project', 'licensing and registration', 'poor linkage with marketing structure', and 'lack of govt. support and incentives' constituted very serious problems encountered by entrepreneurs for a sustainable unit.

Baharul(2009), in his doctoral research on "Small scale and cottage industries in Mizoram - problems and employment prospects" argues that Small scale industrial sector faces a number of difficulties in marketing their products due to growing competition among themselves and in recent years due to the emergence of stiff competition from foreign goods in the era of liberalization. It is due to the weak financial base of the small scale units they cannot afford to spend as heavily as the large units do on marketing their product. Owing to the limited resources and lack of experience small scale units cannot incur heavy selling cost on publicity, advertisement, and other sales promotion measures. Moreover, market analysis is almost absent in the sector which leads to failure in marketing the products.

Ahulwalia (2011), in the research article on , " Prospects and policy challenges in the 12 fifth plan" says that the shift of labor out of agriculture follows from the fact that productivity in the agriculture is relatively low and if agriculture is not expected to grow at more than 4% a natural movement to higher paid employment in non-agriculture sector. Agricultural development will itself give rise to new demands for non-agricultural services and generate employment in agriculture-related sectors such as modernized marketing and food processing activities.

Need of the study

The postharvest losses of food -produce are more in India, the farmers are not getting right price to their food -produce which causes the poor economic condition of farmers and sometimes causes suicides of the farmers also. If food industries established in rural areas then at the time of prices fall or excess production processed into packaged food products which helps farmers in getting a good price for their agriculture produce. The study helps the government to formulate the strategies for the development of MSME, Food industries, Food Parks, etc.

Objective

1. To study various problems faced by micro and small scale food industries.
2. To find the relation between problems and profitability of micro and small scale food industries.

Hypotheses

H1: The profitability of small scale food industries and the problems faced by these industries are co-related.

Methodology

The area of the study covers Ahmednagar district of Maharashtra state. Ahmednagar is the biggest district of Maharashtra in terms of area. The total geographical area of the district is 17.41 lakh ha. The net cropped area is 12,56,500 ha, out of which an area of 3,30,000 ha. (26.27 %) is under canal (84,000 ha) and well irrigation. About 9,26,500 ha.(73.73 %) the area is rain-fed. The area under Kharif crops is 4,60,000 ha. (36.6 percent) while 7,58,000 ha (60.32 percent) area is under Rabi crops. A multiple cropping systems is followed on 1,10,500 ha. area.

The study covers micro food industries (Investment in plant and Machinery up to Rs. 25 Lakhs) and Small food processing industries (investment in plant and machinery above Rs. 25 lakhs and up to Rs. 5 crores). The 35 industries chosen for the study with simple random sampling from the list received from DIC Ahmednagar. A structured questionnaire and interview methods data are collected.

Results & discussion

The various problems faced by micro and small scale food industries of Ahmednagar district are studied. In Ahmednagar, district researcher visited various food industries located in villages and in the MIDC of Ahmednagar, Shrirampur and industrial co-operative estate of Shrirampur, Sangamner, Kopargaon, and Ahmednagar in May 2018. In the structured questionnaire, fifty-one problems were discussed and recorded in the format of the closed-ended questionnaire with a response of Very low Problem (1) to the very high problem (5) on the five-point rating scale. Also, the profit for the last three years recorded. After the collection of primary data, it was analyzed with the help of SPSSV-17. The results are shown below

Table No.1 Profits for last three years and problems faced by the industries

I.N	Profit 2010-11	Profit 2011-12	Profit 2012-13	Avg. Profit	Prod. Prob	Fin Prob	HR-Prob	Mark Prob	Other Prob	Overal l Prob
F1	540000	425000	349000	438000	2.69	3.75	2.00	3.79	1.42	2.73
F2	700000	550000	500000	583333	2.54	3.25	2.13	3.57	1.67	2.63
F3	750000	348000	249000	449000	1.92	3.00	2.00	3.71	1.33	2.39
F4	260000	210000	195000	221667	1.62	3.00	2.13	3.71	1.25	2.34
F5	486000	332000	312000	376667	2.15	1.00	1.75	3.64	1.33	1.98
F6	450000	700000	380000	510000	2.23	3.00	2.38	3.93	1.75	2.66
F7	430435	389500	342400	387445	2.31	3.00	2.00	3.43	1.67	2.48
F8	1200000	1000000	700000	966667	2.69	4.00	2.63	3.64	2.33	3.06
F9	320000	250000	240000	270000	1.77	3.00	2.13	3.86	1.50	2.45
F10	310000	340000	240000	296667	2.46	3.25	2.63	4.21	1.08	2.73
F11	335000	258000	240000	277667	2.77	3.00	2.88	4.00	1.08	2.75
F12	285000	260000	210000	251667	1.77	2.75	2.25	4.71	1.50	2.60
F13	325000	250000	240000	271667	2.85	2.00	3.50	4.50	1.92	2.95
F14	650000	545000	440000	545000	2.31	2.50	1.75	2.86	2.17	2.32
F15	600000	450000	400000	483333	1.23	1.00	2.25	4.57	1.17	2.04
F16	800000	700000	600000	700000	1.31	1.00	1.25	3.64	1.92	1.82
F17	540000	470000	380000	463333	2.46	2.25	2.25	3.93	1.67	2.51
F18	700000	650000	500000	616667	3.00	3.75	2.25	3.86	2.00	2.97
F19	540000	348000	325000	404333	2.62	3.25	2.25	4.43	1.92	2.89
F20	450000	410000	350000	403333	2.31	3.00	2.13	3.86	1.42	2.54
F21	388000	350000	360000	366000	1.46	2.00	2.25	4.14	1.58	2.29
F22	199980	484000	848000	510660	2.23	1.50	1.50	2.64	1.50	1.87
F23	740000	560000	348000	549333	1.54	2.25	2.00	3.93	1.67	2.28
F24	340000	300000	240000	293333	3.15	4.00	2.63	4.00	1.33	3.02
F25	453000	358000	296365	369122	2.00	2.00	2.13	3.43	1.75	2.26
F26	1200000	1000000	1100000	1100000	3.38	2.00	2.25	4.29	2.08	2.80
F27	1200000	1000000	1100000	1100000	2.77	3.00	2.50	3.86	1.83	2.79
F28	950000	800000	700000	816667	3.08	3.00	2.50	4.79	2.00	3.07
F29	1400000	1300000	1100000	1266667	2.23	3.00	1.88	4.00	1.75	2.57
F30	700000	600000	550000	616667	2.23	2.00	2.38	4.29	1.75	2.53
F31	540000	510000	475000	508333	2.54	3.00	2.00	3.07	2.00	2.52
F32	360000	335000	310000	335000	2.85	3.00	1.75	3.07	2.33	2.60
F33	310000	240000	230000	260000	2.31	3.00	1.75	3.36	1.92	2.47
F34	525000	435000	380000	446667	1.92	3.00	2.13	2.57	1.42	2.21
F35	460000	415000	324000	399667	2.08	3.00	1.75	2.79	1.83	2.29

Table No. 2 Analysis of Problems faced by small scale foodd industries

		Production Problems	Finance Problems	HR Problems	Marketing Problems	Other Problems	Overall Average
	Mean	2.3077	2.7000	2.1679	3.7735	1.6810	**2.5260**
	N	35	35	35	35	35	**35**
	Std. Deviation	.52901	.78309	0.40781	.55962	.32932	**.32390**

It was found that small scale foodd industries facing medium problems of Production (2.3077), Finance (2.7), HRM (2.1679) and high problems of Marketing (3.7735).

Hypothesis Testing

H1: The profitability of small scale food industries and the problems faced by these industries are co-related

Ho= There is no relationship between the profitability of small scale food industries and the problems faced by these industries

HA= There is a significant relationship between the profitability of small scale food industries and the problems faced by these industries

The co-relation between average problems faced by small scale food industries and average profits of the last three years was measured through Spearman's co-relation coefficient method at a 0.01% level of significance and found significant negative relationship. Spearman's correlation coefficient **(-0.541)**

Hence Null hypotheses there is no relationship between the profitability of small scale food industries and the problems faced by these industries is rejected and the alternative hypotheses,

There is a significant relationship between the profitability of small scale food industries and the problems faced by these industries is accepted.

Findings

1. In the surveyed units it was found that small scale food industries face medium problems of electricity, water, availability of raw materials and packaging of the product while low problems of product manufacturing, material management, technology up gradation, inventory management, availability of land and maintaining quality of the product.
2. Micro and small scale food industries face medium problems of availability of finance in time, problems of finance management, problems in getting sufficient finance and problems related to varied interest rates of various financial institutes.
3. Micro and small scale food industries face high problems of availability of unskilled and skilled labor, while medium problems of salary and wages of daily wages work.
4. Micro and small scale food industries face medium problems of Market Potential, Market demand, and Marketing Research. The small scale food industries face high problems of competition, Pricing of Product, Managing a channel of distribution, advertising, Sales promotion, Branding, Marketing Communication, Public relation, and customer relationship management.
5. Majority of micro and small scale food industries does not use any kind of paid advertising. Many of these industries do not think about the branding of their product.
5. Many of the entrepreneurs not aware of simple techniques of branding of creating a slogan, a symbol for brand identity. Many of these industries not making planned communication program to communicate their product to the target customer.

Suggestions

1. The small scale entrepreneur should concentrate on three important tools of marketing of their product to their target customer, that are advertising, branding and public relation.
2. There are some low priced innovative tools of advertising like social networking websites, E-mail advertising, SMS advertising, that should be used according to the target customer.
3. Now the world is moving towards a branded product, so small scale entrepreneur should concentrate to build their brand in the minds of target customers.
4. There is great potential for food processing industries in India. The proper training should be given to the farmers to establish the processing unit in the village and as per the need, the easy process of licensing and finance should be established.
5. The basic facilities like electricity, water, transportation, roads, communication, security, and cold storage facility should be provided.
6. To overcome the long and fragmented supply chain, contract farming can emerge as a significant opportunity for companies whereby they can create direct farm linkages to source appropriate quality, quantity and varieties of inputs. Currently, contract farming is supported by the governments of a few key producing states in India. A few companies have been successful in linking up with farmers, and some models of contract farming based on profit sharing or social investment may emerge in the future.
7. The government should provide Incentives for setting up warehousing/cold storage infrastructure and customized transportation network development.
8. The government should take efforts to enhance private sector investment in infrastructure development, increasing farm productivity and up gradation of technology for small scale food processing units.
9. The small scale entrepreneur should attend various training program which is related to their business to update their skills and knowledge. The entrepreneur should take advantages of various training program organized by MSME, MCED, MITCON, NABARD, ICAR, NIESBUD, EDII, IIM's, etc.

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