Exporting SSIs In Haryana: Opportunities And Threats

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INTRODUCTION

The State of Haryana, a federal unit of India, has made a significant contribution towards India's socio - economic resurgence over the last 45 years. Though small in size, covering only 1.37 percent of the total area of the country and home to less than 2 percent of the country's population, Haryana is one of the most progressive States of the country. Haryana has one of the highest per capita income in the country and has impressive infrastructural facilities in relation to road and railway network, availability of water and electricity, well developed industrial estates, good banking facilities, reliable communication network, modern technical institutes and developed commercial markets. The Government of Haryana recognizes the need for rapid industrial growth on a sustainable basis to achieve the twin objectives of economic development and generation of adequate employment. The Government of India is actively promoting economic liberalization and reforms to make the country's industries internationally competitive and to encourage foreign investment and technology for modernization of the Indian economy. The Government of Haryana is committed to supplement the nation's effort through its own policies, which facilitate the process of industrial growth.

Haryana's exports have been rising steadily from ₹ 45 million in 1967-68 to more than ₹ 80,000 million in 1998-99. Amongst the major products of exports items are motor cars, two wheelers, bicycles, auto parts, chemical and allied products, electrical and electronic goods, handlooms, leather goods, rice, pickles and other agricultural products, scientific instruments including laboratory equipment and readymade garments. These products are exported to more than 70 countries in the world including advanced countries like the USA, Canada, UK, Sweden, Germany, Italy, France, Holland, Japan and Australia. The over widening range of export products bears testimony to Haryana's expanding role in trade and business. The export performance of the State is monitored by the Export Promotion Board. Further, there is an Export Promotion Cell in the Directorate of Industries, Haryana which provides basis information on export procedures and formalities. The Haryana State Small Industries and Export Corporation is the nodal Commercial Agency for Development of Exports from the State. With the objective of promoting exports, the Haryana State Industrial Development Corporation has set up an Export Promotion Industrial Park (EPIP) at Kundli near Sonipat. This park has been established over more than 100 acres. The Haryana Urban Development Authority has developed a Hardware Technology Park at Gurgaon, and a Hi-Tech Technology Park with Singapore Collaboration is on the anvil. An Industrial Model Township is being developed for promoting the export of handloom products has been set up at Babbarpur in Panipat District by the Government of India. Warehousing Corporation is setting up another Inland Container Station at Rewari. The State Government, through Warehousing Corporation, is creating berth facility at Kandla Port. A Satellite Freight City has also been planned near the Indira Gandhi International Airport in Gurgaon.

Haryana has made impressive strides in all spheres of development. It enjoys the unique distinction of having provided electricity, metalled roads and potable drinking water to all its villages in a record time. Today, Haryana has an ideal industrial environment, responsive administration and effective institutional set up. A lilliput in size, but giant in attainment with just 1.37 percent of the country's geographical area and 1.97 percent of the country's population, the State is proud of being one of the first few States with the highest per capita income in the country. The State Government adopted a farsighted Industrial Policy in 1997 to ensure fast and balanced regional industrial growth. Haryana is known for its strong Small Scale Industries movement. Their number has increased from 1500 in 1966 to 72385 as on 2003-04, generating employment for 399108 persons. Twenty percent of the country's total export of scientific instruments, sixty percent of the demand for ammunition boxes for the country's defence forces and sixty

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percent of the total needs of woolen blankets of the Indian Army are met by Small Units of Haryana. Haryana's Small Scale Sector also enjoys the reputation of manufacturing the largest number of electrical mixies and gas stoves in the country. Department of Industries, Haryana is having an Export Promotion Cell, which provides basic information on export procedures and formalities as well as trade enquiries.

The development of the small scale sector has emerged as a powerful movement in Haryana within a short span of 45 years. From 4519 in 1966 (when Haryana was born), the number of small scale units has increased to 75000. Many of these units are equipped with modern machines and they are engaged in manufacturing a wide range of products including light and engineering items, scientific instruments, Auto parts, agricultural implements, Handloom, linen, ammunition boxes, gas stove, electronic components, hand tools, electric mixies, rubber and plastic products etc.

It is to add that 20 percent of total export of Scientific Instrument is done by small scale units of Ambala. Small scale units of Yamuna Nagar meet 60 percent of the requirement for ammunition boxes for the country's defence force and blankets for the Indian Army. Haryana's small scale sector also enjoys the reputation of manufacturing the largest number of gas stoves and mixies.

Haryana has emerged as an investment destination because of rapid growth ushered in by our forward looking policy framework, supportive infrastructure and conductive industrial environment. The state Government has developed a holistic strategy for industrial development. The new industrial policy of our Government has given a boost to industrial growth. Since the present Government took over, 140 large and medium and about 4000 small scale units had been set up till Dec. 2002. Capital investment of ₹ 8000 Crore in new as well as expanding industrial units has generated employment for 1.54 Lacs persons.

INDUSTRIAL PROMOTION IN HARYANA

Haryana is one of the most progressive States of the country. The State has one of the highest per capita incomes in the country and has impressive infrastructure facilities in relation to road, rail network, availability of water and electricity, well developed industrial estates, good banking facilities, reliable communication network, modern technical institutes and development of commercial markets. Haryana today produces two third of passenger cars, 60 percent of motorcycles and 50 percent of tractors manufactured in the country. About 25 percent of India's total production of sanitary ware is from Haryana. One out of every four bicycles in the country is manufactured here. Industry and the service sector occupies an important place in Haryana State gross domestic product, while the contribution of the manufacturing sector is 29.6 percent, the service sector's share is 40.3percent. Favourable policy framework and supportive infrastructure and enabling human resource are the basic ingredients for industrial development. The State government is providing a customized package of incentives and concessions to the prestigious projects having an investment of ₹ 30 crores and above. Rebate equivalent to 20 percent of the land cost is given to the industrial units starting commercial production within three years of possession on an industrial plot. 10 percent for export oriented units having 33 export orders and unit having a minimum foreign equity of 33percent, electricity duty exemption is given to the new industry except for the industry in the negative list for a period of five years simplification of land allotment and transfer procedure, simplification of rules and regulations, creation of quality infrastructure are the silent features of this policy. The result of simplified policy is visible in a span of three and a half years. The HSIDC and HUDA have allotted more than 5700 industrial plots to the entrepreneurs' projects. On implementation, these plots will catalyze in an investment of about ₹ 8500 crores and generate employment for more than 2 lacs persons. At present, there are 104 industrial estates in the State.

We are in the twenty first century and major changes are taking place now and will intensify in the coming years. The change that is being talked about is in the world of business, be it at the domestic level or at the international level. Today's global market is not what it was a decade ago. In fact, the prevailing varied environment and consumer behaviour are turning over to be challenging to the business community and particularly to the entrepreneurs.

REVIEW OF LITERATURE

The small enterprises sector faces several problems, which hamper it in achieving its full growth potential. Some of the major problems faced by the sector are access to timely and adequate credit, technological obsolescence, infrastructural bottle necks, marketing constraints and a plethora of rules and regulations. So, now, we discuss about some studies, which are helpful to understand the problems of exporting units.

Sahoo (1991), while analyzing the emerging trends in India's export markets impressed that only marketing orientation can help in boosting Indian exports. According to him, *"Exporter must bear in mind that quality, cost, competitiveness and above all, marketing techniques are the basic principle for competing in the world market."*

Sriyani Dias (1991) in his paper, *"Sub-contracting in small-scale industries"* the case of Sri-Lanka examined the scale, nature and effects of current sub-contracting linkages between small and large industries in Sri-Lanka. In general, weaker relationships exist between large and small industries. The major reason for this low level relationship is the immaturity of small industries in meeting the requirements of large industries in terms of technology, production, cost, quality and delivery service. In order to develop an effective sub-contracting system, effective government policies and support programmes for promoting and developing SSIs, inter industry linkage are required. Entrepreneurship development should also be at the priority of the government agenda.

Goyal (1992) reported that export product concentration index and export market concentration index has increased during the period 1986-87 to 1990-91. This high concentration is unfavourable for the export industry and the same needs to be checked. He further observed that quality of Indian products (sports) on an average is inferior to that of foreign competitors. Hence, low quality product segment of the world market is being served by Indian exporters. Regarding product modification, he comments that product and adaptation activity is undertaken by the exporters. With respect to brand policy, his observation is that the most of the products are exported under the importer's brand names.

J. Stamely and Michael (1998) In *International Marketing* under the chapter "*Exporting Not Just For Small Business"* analyze the problems for small exporters and found that :

1. A relatively large domestic market and lack of exposure to other cultures, makes the selection of markets and identification to customers abroad difficult.

2. The lack of management time and general resources.

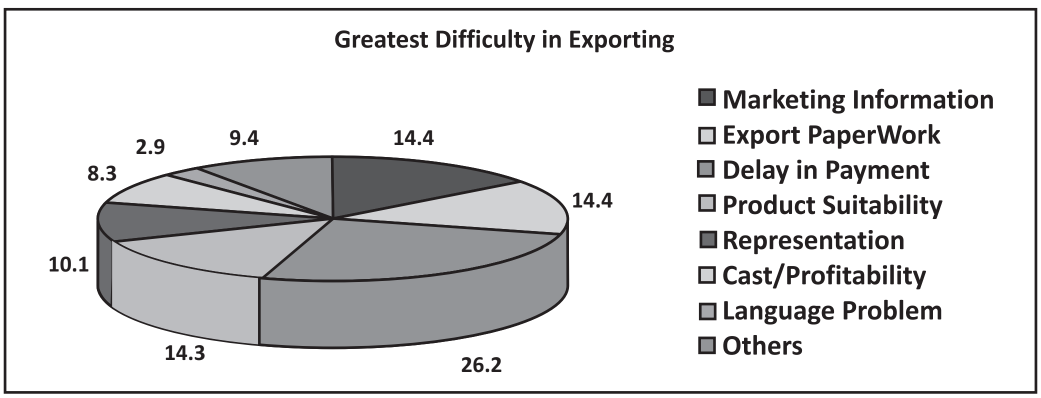
3. Controlling the foreign operation, channel, policy and physical distribution.

4. Reaching the foreign markets.

5. Language problem.

6. Different safety and quality standards. We can show these problems diagrammatically in this way.

Figure 1 : Difficulties Faced While Exporting



KEY INDUSTRIES/SECTORS FOR FUTURE OPPORTUNITIES

☸ **Software Industry :** The only industry free from much control, software industry is Aladdin's lamp for the SMEs e.g. Founder- Chairman of Infosys Technology Ltd. N.R. Narayan Murthy walked of out of his job with six other software professionals determined to carve out a place for themselves in the international software market. With an average growth rate of over 75percent, the company's turnover increased from ₹ 9.46 crores in 1990-92 to ₹ 137 crores with profit of about 30-35 crores in 1997.

☸ **Service Industries :** Economic growth will lead to faster growth of service industries such as wholesale and retail trades, restaurants, hotels, entertainment and amusement places, tourism, transport, storage and warehousing, communication of all kinds-internet, ISDN, e-mail, fax, video, social and personal services, financing, insurance.

Table 1 : Position of SSIs in Haryana

Year	No. of Units Registered during the year	No. of Units deregistered units during	Total No. of Units as the Year on March
1996-97	5,623	130	1,37,111
1997-98	4,901	49511	92,501
1998-99	2,238	22882	71,857
1999-2000	1,602	269	73,190
2000-2001	1,076	138	74,127
2001-2002	689	216	74,601
2002-2003	573	254	74,920
2003-2004	502	3037	72,385

Source: Directorate of Industries, Chandigarh (Haryana).

Note:

1. 100 percent survey of all the registered SSI units was conducted in the state through DIC to know the functional status of the industrial units. The units found closed/non functional were deregistered as per procedure of Government of India during the year 1997-98, 1998-99. So that qualitative data of the SSI units could be maintained. The units, were actually not closed/ non functional during the year 1997-98 only i.e. the year when survey of registered units was conducted. These units were closed/became non functional in the natural course during the period from 1966-1996.

2. A sample survey cum census of all the SSI units was again conducted during the year 2002-03 as per Government of India guidelines/programme and units found closed/non working were deregistered during 2003-04.

3 Prior to 1996-97, the target of registration of SSI units was given to District Industrial Centers . After 1996-97 target has been fixed to DIC for registration of SSI.

This is very potential area for the Indian SMEs.

☸ **Biotechnology :** Like information technology, it will affect every sphere of activity. It has ushered a revolution in agricultural production and processes, health care, pharmaceuticals, animal yields, environment improvement, water conservation etc.

☸ **Food Processing :** Food processing industry's turnover has more than doubled from ₹14723 crores in 1992 to ₹ 32649 crores in 1995. Exports jumped from ₹ 441 crores in 1992-93 to ₹1525 crores in 1995-96. With just 1percent of the country's food production processed in the country as compared to 70percent in the US, Brazil and Philippines, vast opportunities open up in this sector as it is ideally receptive to Biotechnology. India ranks second after Brazil in the case of fruits and follows China in the case of vegetables. Though its share in the world production is around 8 percent in fruits and 12 percent in vegetables, its share in the world exports does not amount to 1percent. Hence, there is a tremendous growth potential in this area. SMEs can take advantage of this by going in for processing, packaging and exporting fruits, fish, meat, vegetables and flowers.

☸ **Auxiliaries :** The globalization process has forced large industries to improve quality and productivity and reduce costs. They find that it is advantageous to frame out component manufacture to competent SMEs and to build close relations with them. Maruti Udyog started this process in earnest in harnessing some 150 engineering industries to specialize, if necessary, with foreign collaboration in specific components for their requirements. Now, even General Motors of USA is getting all its radiator caps from Sundaram Fasteners. In the US, Technology Research is full of Indian and Chinese technologies.

☸ **Leather Products :** India has the highest number of cattle and buffalo hides. Initially, the export was only of cured hides, whilst value on the leather was added by the importing countries. But enlightened entrepreneurs changed their production processes to overcome the objections and exports were continuously increasing for shoe uppers, leather garments etc. Still, the industry is vastly uncovered and offers great potential.

To export successfully in a globalized economy is to get integrated into it. Countries are incorporated into the global economy through a network of international production, trade and finance. The channels provided by the networks are especially important for India, which is trying to make forays into the world market for manufactured goods. An important element of the globalization process is the growth of intra-firm trade, which created barriers to entry for developing countries. This increases the value of links with MNCs for obtaining access to world markets. The design of reform policies, which facilitate India's participation in the network of production needs greater attention. The key to success in the international market place seems be the attitude *"I will make what you need and not' I will sell what I make."*

WHY EXPORT-IMPORT BUSINESSES FAIL

There may be innumerable excuses and vain pleas, one may plead on failure of an export-import endeavour, but the following twelve ways have been established as possibilities which may cause an export import business to fail.

1. Individuals do not have basic business knowledge or expertise to make a success of what is, first and foremost, a business.

2. The Individual or the company refuses to take the process of exporting/importing seriously. The entity thinks that exporting goods to overseas buyer is as easy as selling goods to an established local client in the country of the origin and never commits to acquiring knowledge and expertise required to succeed in the new, specialized venture.

3. The Exporter is not familiar enough with the product to be able to discern differences in quality specifications or price that are meaningful to the intended market.

4. Failure to consider all the costs of bringing the product to the target market.

5. Inability to guard against foreign exchange fluctuations, which wipe out potential profit.

6. Inability to maintain a good working relationship with clients in overseas markets.

7. Lack of understanding of the overseas domestic market and inability to provide goods that will be cost effective in the overseas market.

8. Inadequate working capital for the size and scope of the operation.

9. Inability to establish and maintain good working relationships with one's *"professional partners"* such as Freight Forwarder, Custom Broker, Banker, Attorney, Custom Lawyer and Accountant.

10. Failure to meet strict overseas countries customs regulations for making and labeling, quotas and other requirements.

11. Failure of goods to meet other overseas countries' Governmental Regulatory Agency's requirements for the product safety quality standard and other standards.

12. Goods arrive too late for seasonal sale.

13. Poor customer service.

14. Inadequate understanding of documentation involved in various steps.

GOLDEN RULES FOR SUCCESSFUL EXPORTING

In order to be successful in exporting, one must fully research its markets. No company should ever try to tackle every market at once. Many enthusiastic companies bitten by the export bug fail because they bite off more than they can chew. Overseas design and product requirements must be carefully considered. All goods for export must be efficiently produced. They must be produced with due regard to the needs of export markets. They must be produced with due regards to the needs of the export markets. All costs including the cost of financing must be taken into account when fixing the price of the product being exported. There are different ways for successful exporting:

1. Sell The Know-How/Products : If a company cannot easily export its goods, maybe, it can sell the know\ how. For too many companies have neglected this obvious way into export. Alternatively, a company can concentrate on supplying goods and materials to other companies who already have an export trade or it can concentrate on making what are termed *'branded'* products much demanded by companies in overseas markets which have the manufacturing know how or facilities.

2. Deliveries Must Be On Time : Late deliveries are not always the exporter's fault, for dock strikes, go slow, and so on occur almost everywhere in the world. But such difficulties can be invariably overcome and anyone contemplating entering export for the first time must be determined to let nothing stand in the way of fast and efficient delivery.

3. Goods Must Be Properly Serviced : Customers do not buy only on price. They buy not only because the product is right, but also because they know that it will, if necessary, be properly serviced, both when it arrives at its destination and during its whole working life. Service is the oil of exporting and if a company gives good service, it can survive all kinds of other disasters. Of all single elements that can mar a good export programme, bad service is the most deadly. Service must be ranked high by international standards and must stand up to service provided by any competitors in the world.

4. Test Marketing Of The Products : While the risk of failure in export markets can be minimized by the intelligent use of research, one can never really be sure whether a given operation will succeed until it has been tried. Before committing the company to a large scale operation in an overseas market, it is sensible to try things out on a small scale, with the intension of selling on a National Scale, if the test is successful. Many overseas markets are so huge that to sell everywhere would be asking a great deal at the outset.

5. Initial Attack : Use the initial attack on a market as a test and any mistake can then be corrected without much harm having been done while the test campaign may appear to cost more initially than research. Remember, that come of the cost will be repaid by sales, so that test marketing often turns out to be a cheaper than too intensive a research programmes.

When test campaign is put into operation, there are certain criteria to be considered, particularly as regards assessing the results. **First,** the promotion budget should be spent in one area of the market, proportioned to the whole market. If one is tackling 10% of the certain market, then one should not spend more than 10% of what one should nationally. **Second,** sales target must be carefully set, so that one knows in advance what will be considered as a success or failure. And it is important to remember that repeat purchases are the surest indication that the project is acceptable, so see that some indication is forthcoming as to whether it has been purchased more than once.

6. Attitudes : If possible, some indication of the attitudes towards the product should be established, both negative and positive. This is required of any sales operation. Even if a product is successful, always try to obtain reactions from the customers, because it might be that with certain minor modifications, one would have in fact sold a great deal more. Finally, keep an eye on what the competitor does when the test is running, because one must expect them to react if one is taking business away from them.

7. Research : Probably the best way to look at the relationship between research and test-marketing is to aim at carrying out what seems like a minimum research in an export market before taking any positive sales action. Having the basic facts, it is often a good policy to test market to see if the research was adequate. If the test is successful, a full scale stock can be mounted with every confidence.

8. Communication : Communication- Internal and External must be for reaching and speedy. How many accounts people ever meet on overseas customer? How often the export manager talks to the ward house people about his last trip? How many of the people in the company really feel that they involved export or they realize how much their own contribution can make to the company's performance? Good communication is vital in export. Failure to reply promptly to letters, using sea mail to air mail letters are everyday errors and speed is the essence of communication. When in doubt, pick up a phone or hop on a plane to go and see the man.

To be profitable, a company must know in considerable detail how it cost its product and what charges to apply at all stages. It must be aware of fluctuation in exchange and interest charges, allow for Higher Quality Management (HQM) in its costing. It must know in advance to what extent price can be lowered or credit extended without trading at a loss. Where export is an additional business for a company, it must know that exactly, what its worth is in terms of total profit and how far it can go to get it.

Remember, if a product requires promoting domestically, it will also require promoting overseas. A company cannot afford to be shy about its achievements. It must show loudly about its product and their merits. The world today frequently fudges companies and products on what is said about them. Finally, export staff must be carefully selected and adequately paid. They must be allowed and encouraged to travel. They must be given equivalent rank, and status similar to executives in the company. They must be consulted on company policy and made to constitute towards it. Besides organizing industrial exhibitions and trade fairs, the State Industrial Department should set up permanent exhibitions or display centres at the district headquarters. Similarly, the industrial state should also have permanent showrooms to display the products of SSI units functioning with a particular stag .Availability of imported goods of relatively cheap quality without Maximum Retail Price and ISI labels posses a serious threat to domestic industries, particularly to the small sector. The Government should look into the matter and take all appropriate measures to protect the interest of the SSI sector. Only then we can be capable to boost our exports and will move towards the stage of being a developed country.

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