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Pricing, marketing and infrastructure of ancillary industries: An analysis

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Abstract
The main thrust of the discussion in this core chapter is devoted for an in-depth analysis of the issues of pricing, marketing and infrastructure of the ancillary study units. Discussion on pricing related to the methods and basis of pricing of products of the ancillary study units, costs and pricing of the products is analyzed with necessary theoretical discussions related to the pricing of the products.
Issues relating to infrastructure needs of the ancillary units like transport power, storage, etc. have been analyzed based on the views and responses of the ancillary units. Each aspect of the discussion is backed up with relevant theoretical exposure. The analysis in this second core chapter has led to some useful findings of good research value which have led to some useful suggestions.

Keywords: ancillary pricing buyers credit sales competition transport power bandwidth policies infrastructural economic

Introduction
Prices play a pivotal role in the regulation of the entire spectrum of economic activities prices serve as guide posts in (i) organizing production, (ii) fixing standards (quality), (iii) distribution of the product, (iv) adjusting consumption over short period and (v) providing for economic maintenance and progress. Pricing policy must act as a motivating force for the accelerated growth of industries – for production, distribution and consumption under competitive conditions price is determined by the interaction of supply and demand. Demand is determined by the consumer's desire and purchasing power while the supply is based on the supplier's capacity his costs and holding power. These four factors play a crucial role in price fixation.
In ancillary industry there are certain costs which are relevant only to ancillary operations. Hence an ancillary entrepreneur should he thoroughly familiar with the total composition of the various costs that make up the price of an ancillary product.
Price is an important determining factor in stimulating the sales production and turnover of a product. A proper and careful pricing policy is the most important step towards the success of ancillary industries. However for a large number of ancillary entrepreneurs, the pricing of a product on a scientific basis may pose a problem and a challenge. But a scientific price policy acts as a catalyst to the development of ancillary industries. It helps to regulate production and maintain quality. It also helps to set up sales and keep the consumer fully satisfied. The price of a product of an ancillary industry projects a bold image of the industry and reflects its quality.

Pricing the Products of ANCILLARYs
Small scale industrial units covered by the study have been pricing their products on the basis of the following alternate methods.
i) Based on costs plus profit
ii) Based on competitors prices
iii) Based on agreement with buyers and
iv) Based on demand and supply factors.

The responses of the majority of 94 ANCILLARY units constituting 78.3 percent indicated that the prices of their products were based on costs plus profit. Cost plus or full-cost pricing is a very common method of determining the selling prices of products. It is also known as margin pricing and mark up pricing. A firm, under this method computes the selling price of its products by adding certain percentage to the average costs and derive a predetermined percentage of profit. The percentage added differs widely from firm to firm, industry to industry and even from product to product in same industry. Firms using this method should take the following costs into consideration.
i) Variable and Fixed Production Costs and
ii) Variable and Fixed Selling and Administration Costs
This method of pricing envisages to cover the total costs incurred in producing and selling a commodity.
A very small number of 2 ANCILLARY units (1.7%) sold their product as per the market determined prices where the forces of supply and demand determine the prices.
Product wise all the units (100%) belonging to following groups of products have followed the method of "cost plus profits" pricing.
- Units manufacturing food products
- Units manufacturing non-metallic mineral products
- Units manufacturing chemical products
- Units involved in transport services
- Units manufacturing wearing apparel and
- Units manufacturing plastic products

Further 80% of units manufacturing wood products, cork, straw and plaiting 73.3% of units manufacturing basic iron and steel, 72% of units manufacturing fabricated metal products, metal working services, 40% of service units and 30% of units manufacturing metal products followed the 'cost plus profit' pricing policy.
The pricing policy based on competitors pricing was followed by majority of units manufacturing structural metal etc. and a few units manufacturing basic iron and steel, a few service units, etc.

A few service units (4) and 2 units manufacturing fabricated metal products followed pricing method based on agreement with buyers.

Prices based on supply and demand was followed by 2 units manufacturing fabricated products. The following table and graph provides the details.

Table 1: Pricing Methods Followed by ANCILLARY Units

Category	a	%	b	%	c	%	d	%	e	%	Total
Unit 1	18	72.0	3	12.0	2	8.0	0	0.0	2	8.0	25
Unit 2	15	100.0	0	0.0	0	0.0	0	0.0	0	0.0	15
Unit 3	3	30.0	7	70.0	0	0.0	0	0.0	0	0.0	10
Unit 4	8	100.0	0	0.0	0	0.0	0	0.0	0	0.0	8
Unit 5	4	40.0	2	20.0	4	40.0	0	0.0	0	0.0	10
Unit 6	8	80.0	2	20.0	0	0.0	0	0.0	0	0.0	10
Unit 7	6	100.0	0	0.0	0	0.0	0	0.0	0	0.0	6
Unit 8	6	100.0	0	0.0	0	0.0	0	0.0	0	0.0	6
Unit 9	11	73.3	4	26.7	0	0.0	0	0.0	0	0.0	15
Unit 10	10	100.0	0	0.0	0	0.0	0	0.0	0	0.0	10
Unit 11	5	100.0	0	0.0	0	0.0	0	0.0	0	0.0	5
Total	94	78.3	18	15.0	6	5.0	0	0.0	2	1.7	120

Source: Field Survey

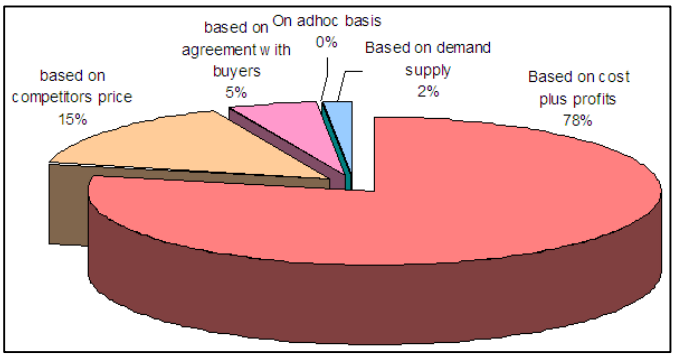

Fig 1: Distribution of Samples according to pricing products

Table 2: Ancillary Units Maintaining Cost Data

Category	Yes	%	No	%	Total
Unit 1	3	12.0	22	88.0	25
Unit 2	0	0.0	15	100.0	15
Unit 3	4	40.0	6	60.0	10
Unit 4	0	0.0	8	100.0	8
Unit 5	2	20.0	8	80.0	10
Unit 6	2	20.0	8	80.0	10
Unit 7	2	33.3	4	66.7	6
Unit 8	0	0.0	6	100.0	6
Unit 9	0	0.0	15	100.0	15
Unit 10	0	0.0	10	100.0	10
Unit 11	0	0.0	5	100.0	5
Total	13	10.8	107	89.2	120

Source: Field Survey

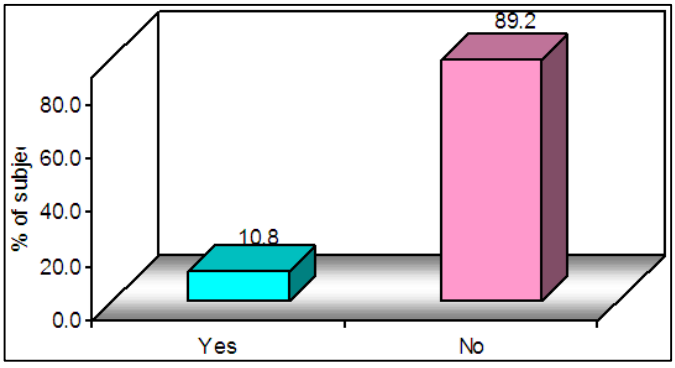

Fig 2: Distribution of samples according to maintain proper cost data

Maintaining of Proper Cost Data

A scientific pricing policy needs maintaining of proper cost data by the manufacturing units. Pricing based on inadequate cost data become ad hoc and arbitrary. Hence responses of the ancillary study units were sought to know about the maintaining of cost data. The study has revealed that majority of 107 respondent Ancillary units constituting 89.2% did not maintain proper cost data.

Product group wise all the units manufacturing the following product did not maintain proper cost data.

- Units manufacturing food products
- Units manufacturing non-metallic mineral products
- Units involved in transport services
- Units manufacturing basic iron and steel
- Units manufacturing plastic products

In addition to the above units 88% of units manufacturing fabricated metal products, 80% of units manufacturing wood product, cork, straw and painting, 66.7% of units manufacturing chemical products and 60% of units manufacturing structural metal products did not maintain proper cost data.

Units which maintained proper cost data included those manufacturing of structural metal products (40%) 3 units manufacturing fabricated metal products and 2 units each involved in manufacturing of wood products cork, straw and plaiting materials and service units. The following table and graph provides the details.

Marketing Dimensions of ancillary Units

Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer of user. Marketing is a creative function. It promotes trade and employment. Marketing coordinates finance production and distribution and determines and directs the scale and value of the total efforts. Marketing is a matching process by which a producer provides a marketing mix (product, price, promotion and physical distribution) that meets consumer demand of a target market within the limits of society.

Marketing and Small Scale Industries

Certain problems are encountered by the ancillary industries in their marketing process. They relate to,

1. Increasing competition from within the ancillary sector as well as from large industries with established brand names and marketing setup.
2. Consumer awareness even in rural and semi urban areas for quality goods.
3. The need to setup distribution networks for reaching out widely dispersed markets and
4. Inability of the Ancillary units to exploit the export markets.

Ancillaries are faced with considerable difficulties in marketing their products. Marketing difficulties mainly from

- Small size of the ancillaries
- Limited scale of the operations and
- Inability to setup an adequate network of retail outlets

"With a view to facilitating the marketing efforts of ancillary units it is considered desirable to encourage the operations of marketing organizations specially engaged in promotion of sales of products of cottage, tiny and ancillary industrial units. Any requests from such marketing organizations for financial assistance to meet their working capital needs should, therefore, be favorably considered by banks with due regard to the performance of such organizations in respect of recycling of credit" (Vasant Desai, 1989).

Marketing of the products by the ancillary study units has been provided here. The data is collected from the respondent ancillary units on different aspects like the buyers of the products, credit sales, competitors in different markets, market survey, market size for the ancillary products, areas of competition, marketing problems faced by the ancillary study units, etc.

Buyers of the ancillary Products

The study has revealed that the ancillary study units sell their products to different buyer's viz., government, private industries, wholesalers, retailers, exporters, local buyers, outside buyers and outside the city buyers, etc.

The survey has revealed that the ancillary products have been sold outside the city according to maximum number of 26 respondent units (21.67%) followed by sales locally as indicated by 24 respondent ancillary units (20%).

Private industries have been the major buyers according to 23 ancillary units (19.17%). Wholesalers have been another major buyers of the products of ancillary units according to 14 respondents (11.67%) government agencies have also been a major buyers of the products of the ancillary units according to 13 respondents (10.83%). Retailers have been buying the products of ancillary units according to a smaller number of 11 ancillary units (9.17%) while exporters have been another source of buying the products according to 8 ancillary respondent units (6.67%). Buyers from outside the state have been referred to by 6 respondent ancillary units (5%). The respondent ancillary units have mentioned more than one type of buyers of their products. Hence the multiple responses have been provided by the ancillary units covered by the study. The following table and graph provides the details.

Table 3: Buyers of ancillary Products

Buyers	No of sample	% of samples
Government	13	10.83
Private industries	23	19.17
Wholesalers	14	11.67
Retailers	11	9.17
Exporters	8	6.67
Locally	24	20.00
Outside city	26	21.67
Outside state	6	5.00

Source: Field Survey

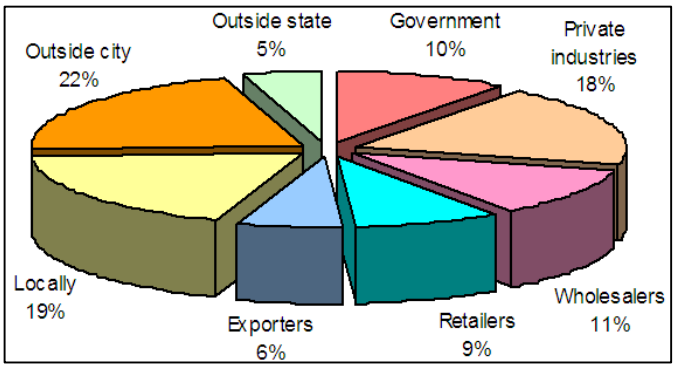

Fig 3: Distribution of samples according to name of buyers product

Credit Sales of ancillary Products

Intense competition among the ancillary units and also from large industrial units a good number of ancillary industrial units resort to selling their products on credit. In the absence of credit sales the ancillary units may have to face accumulation of unsold stock resulting in the lockup of working capital. Hence the practice of credit sales has become inevitable in case of many ancillary units.

The survey has revealed that majority of 66 respondent units (55%) have resorted to credit sales. However the remaining 54 respondent ancillary units (45%) have not resorted to credit sales.

The product group wise all the following respond product groups of ancillary study units have resorted to credit sales.

- Units providing services
- Units manufacturing chemical products
- Units providing transport services

Further 90% of units manufacturing wood products, corks, straws and plaiting materials 64% of units manufacturing fabricated metal products, 60% of units manufacturing structural metal products, tanks, reservoirs, etc. and manufacturers of plastic products, 40% of units manufacturing food products, 30% of units manufacturing wearing apparel and 6.7% of units manufacturing basic iron and steel. The following table provides the details.

Table 4: Credit Sales of ancillary Products

Category	Yes	%	No	%	Total
Unit 1	16	64.0	9	36.0	25
Unit 2	6	40.0	9	60.0	15
Unit 3	6	60.0	4	40.0	10
Unit 4	0	0.0	8	100.0	8
Unit 5	10	100.0	0	0.0	10
Unit 6	9	90.0	1	10.0	10
Unit 7	6	100.0	0	0.0	6
Unit 8	6	100.0	0	0.0	6
Unit 9	1	6.7	14	93.3	15
Unit 10	3	30.0	7	70.0	10
Unit 11	3	60.0	2	40.0	5
Total	66	55.0	54	45.0	120

Source: Field Survey

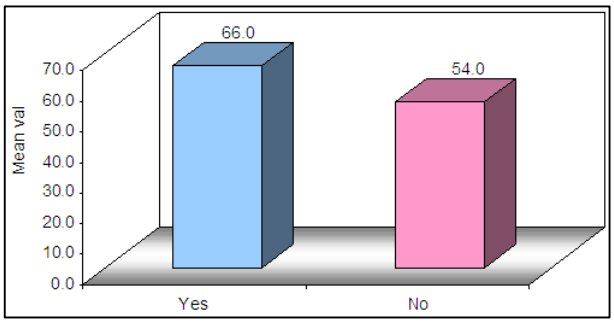

Fig 4: Distribution of samples according to sell on credit basis

Percentage of Credit Sales of Total Sales

Credit sales as percentage of the total sales of ancillary products have ranged between a minimum of 1-4% to a maximum of 15-20%. Majority of 29 respondent ancillary units (43.94%) had 5-9% of their total sales on credit followed by 25 ancillary units (37.88%) with credit sales of 1-4%, 8 ancillary units (12.12%) with credit sales of maximum of 15-19% of total sales and a small number of 4 units (6.06%) with credit sales of 10-14%.

The above figures indicate that the range of credit sales between 1-4% and 15-19% is not high and need not cause substantial amount of working capital locked up in credit sales. The following table provides the details.

Table 5: Percentage of Credit Sales to Total Sales

% of credit basis	No of sample	% of samples
1-4%	25	37.88
5-9%	29	43.94
10-14%	4	6.06
15-19%	8	12.12

Source: Field Survey

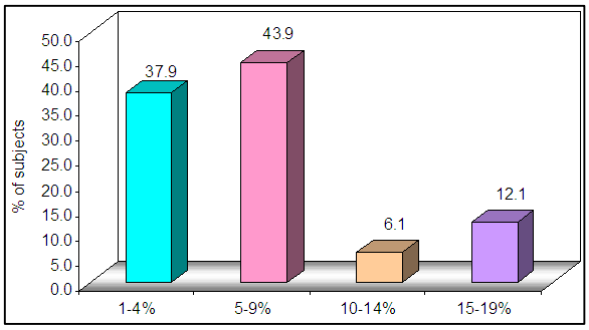

Fig 5: Distribution of samples according to % of sales sell on credit basis

Competition as the Cause for Credit Sales

The responses of all the 120 sample ancillary units were obtained about their perceptions regarding the credit sales due to competition in the ancillary sector. The responses of 49 ancillary units (40.8%) indicated that competition from the rival units did led to credit sales. However a majority of 71 ancillary units (59.2%) denied that competition was the cause for credit sales of ancillary products.

All the ancillary units (100%) providing transport services, 66.7% of ancillary units manufacturing chemical products, 60% of ancillary units providing services and manufacturing plastic products, 56% of units manufacturing fabricated metal products, 50% of units manufacturing wood products, cork, straw and plaiting materials, 40% of units manufacturing wearing apparel 10% of units manufacturing structural metal products and 6.7% of ancillary units manufacturing basic iron and steel affirmed that competition forced them to sell their products on credit. The following table and graph provides the details.

Table 6: Competition as the Cause for Credit Sales

Category	Yes	%	No	%	Total
Unit 1	14	56.0	11	44.0	25
Unit 2	6	40.0	9	60.0	15
Unit 3	1	10.0	9	90.0	10
Unit 4	0	0.0	8	100.0	8
Unit 5	6	60.0	4	40.0	10
Unit 6	5	50.0	5	50.0	10
Unit 7	4	66.7	2	33.3	6
Unit 8	6	100.0	0	0.0	6
Unit 9	1	6.7	14	93.3	15
Unit 10	3	30.0	7	70.0	10
Unit 11	3	60.0	2	40.0	5
Total	49	40.8	71	59.2	120

Source: Field Survey

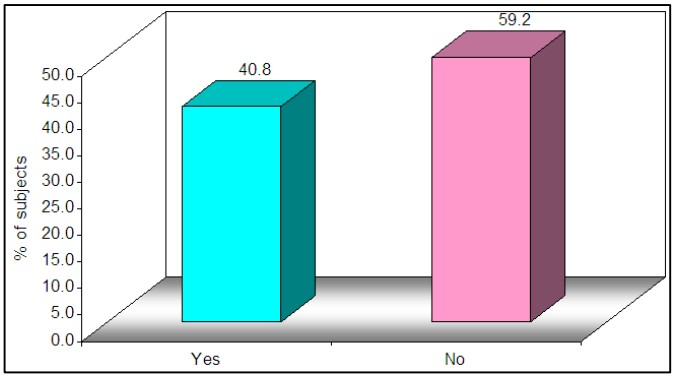

Fig 6: Distribution of samples according to credit sales because of competition

Competitors to ancillary Units

The study has revealed that major competition to ancillary units comes from the units in the ancillary sector as indicated by 64 respondent ancillary units (53.3%). Area wise competition to ancillary units is faced from local ancillary units according to a substantial number of 28 respondent ancillary units (23.3%). A good number of 17 ancillary units (14.17%) mentioned that competition to their units was faced from units outside the state while 5 respondent ancillary units (4.2%) faced competition from units outside the city.

Competition from big units to ancillary units is of real

magnitude as the big industrial units have the advantage of cost economy due to large scale production. Further large units have also the advantage of modern technology in production which makes a lot of difference in cost and quality difference between the products of ancillaries and big units. Competition from large scale or big industrial units has been mentioned by 6 respondent ancillary units (5%).

Ancillary units have to update their production method by incorporation of better technology and by improving quality. It is the cost and quality factors which determine the competitive strength of the ancillary units. The following table provides the details.

Table 7: Competitors to ancillary Units

Category	ancillary units	%	Big units	%	Local units	%	Outside the city	%	Outside the state	%	Total
Unit 1	14	56.0	3	12.0	3	12.0	1	4.0	4	16.00	25
Unit 2	12	80.0	0	0.0	3	20.0	0	0.0	0	0.00	15
Unit 3	3	30.0	3	30.0	4	40.0	0	0.0	0	0.00	10
Unit 4	4	50.0	0	0.0	4	50.0	0	0.0	0	0.00	8
Unit 5	4	40.0	0	0.0	0	0.0	2	20.0	4	40.00	10
Unit 6	4	40.0	0	0.0	0	0.0	0	0.0	6	60.00	10
Unit 7	2	33.3	0	0.0	2	33.3	2	33.3	0	0.00	6
Unit 8	3	50.0	0	0.0	0	0.0	0	0.0	3	50.00	6
Unit 9	9	60.0	0	0.0	6	40.0	0	0.0	0	0.00	15
Unit 10	4	40.0	0	0.0	6	60.0	0	0.0	0	0.00	10
Unit 11	5	100.0	0	0.0	0	0.0	0	0.0	0	0.00	5
Total	64	53.3	6	5.0	28	23.3	5	4.2	17	14.17	120

Source: Field Survey

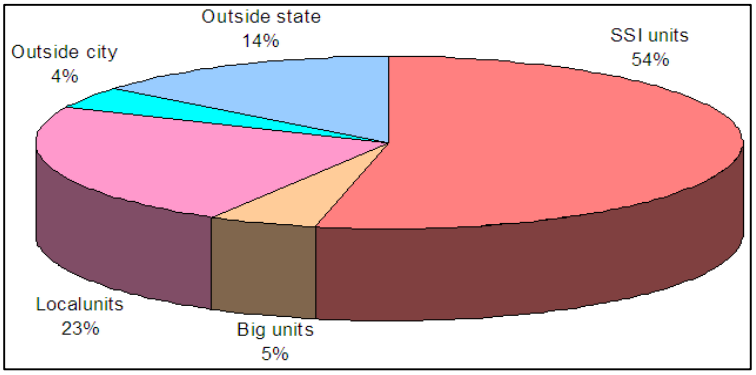

Fig 7: Distribution of samples according to name of competitors

Transport

Transportation is a component of physical distribution system of a company. Successful marketing of goods is related to the distribution of goods at the right place at the right time. The modern industrial system is built upon the fabric of a well developed transport system. Transport helps in the creation of time and place utilities. In the physical distribution of goods transport activity is the key to marketing.

Decisions on storage and inventory location are based on total transportation costs, order size decisions, material handling costs and order processing methods are interrelated to transportation activities. Transport performs economic functions such as widening of the market, increase in exchange process of goods and services, mobility of labour and dispersal of capital investment, stabilization of prices through quick movement of goods. The choice of mode of transport depends on factors like cost of transport, risks involves in goods transports, material handling costs, facilities of loading and unloading goods, availability of mode of transport, government controls and regulations, etc.

Power

Electric power is an important input in the production process of manufacturing units. Adequate supply of power is an essential requirement for sustaining the industrial activity and economic growth. There are many instances of industries being closed due to shortage of power supply causing large scale unemployment of labour. Power is generally supplied by the Electricity Boards in each state in India. Alternatively some industrial units have their own captive electricity generating units.

Large majority of 109 ancillary study units constituting 90.8 percent of the total depended on Karnatak Electricity Board. A small number of 11 units had been using their own captive power generators. Karnatak is one of the states with chronic shortage of electricity and has been buying power from other states to tide over the shortage of power for both domestic and industrial purposes.

Product group wise all the 7 group of ancillary industries (100%) covered by the study have been depending on the Karnatak Electricity Board for power supply, while 80% of the other group of industries also depended on the KEB for power supply. The following table and graph provides the details.

Table 8: Sources of Power Supply to ancillary Units

Category	KEB	%	Own diesel	%	Generator	%	Others	%	Total
Unit 1	20	80.0	0	0.0	5	20.0	0	0.0	25
Unit 2	15	100.0	0	0.0	0	0.0	0	0.0	15
Unit 3	8	80.0	0	0.0	2	20.0	0	0.0	10
Unit 4	8	100.0	0	0.0	0	0.0	0	0.0	8
Unit 5	8	80.0	0	0.0	2	20.0	0	0.0	10
Unit 6	8	80.0	0	0.0	2	20.0	0	0.0	10
Unit 7	6	100.0	0	0.0	0	0.0	0	0.0	6
Unit 8	6	100.0	0	0.0	0	0.0	0	0.0	6
Unit 9	15	100.0	0	0.0	0	0.0	0	0.0	15
Unit 10	10	100.0	0	0.0	0	0.0	0	0.0	10
Unit 11	5	100.0	0	0.0	0	0.0	0	0.0	5
Total	109	90.8	0	0.0	11	9.2	0	0.0	120

Source: Field Survey

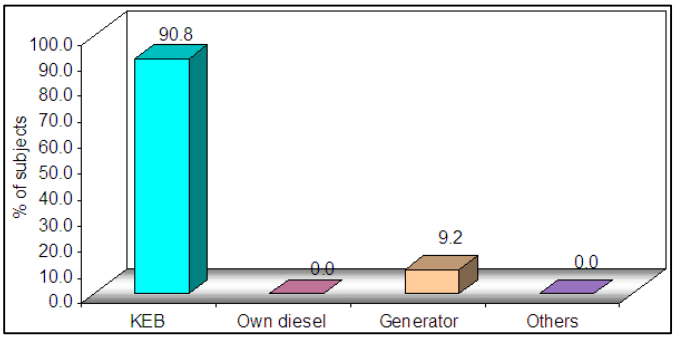

Fig 8: Distribution of samples by sources of power supply to unit

Conclusion

There are some new industry layouts raising-up. Once the new industry layouts get sets then there are high possibilities of new ancillaries to setup in those areas and the contribution to the economic growth will increase immensely. This will help the existing companies also to grow their bandwidth, pricing policies Marketing tactics and economy. The per capita income is still not up to the mark in these industries, this is due to the slow growth and development of the industries. Infrastructural development is lacking in this part of the world which is indirectly affecting all these factors. In the coming period I will be collecting some more details which will help my study and the industry.

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