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A Case Study on Small Scale Soft Drinks Manufacturing Entrepreneurs in Belthangady Taluk

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Abstract

There are many small soft drinks manufacturing units operating in the Dakshina Kannada district, one of the coastal regions of Karnataka state. It is a region having a long summer periods with radiant heat. These small local soft drinks makers try very hard to conquer the market. Many units started running the soft drinks manufacturing business after the survey of market potentials in this region and tried to cater to the needs of the local consumers. These local players have a strong network with retailers to reach consumers in this region against multi-national companies (MNCs) like PepsiCo and Coca Cola. In this background, the current study is taken up to highlight the problems and challenges which are faced by the local soft drinks makers in Belthangady taluk of Dakshina Kannada district.

Keywords: Carbonated Soft Drinks (CSDs), Coca Cola, Entrepreneurs, Pepsi, Multi-National Companies (MNC), Local Players

Introduction

India is a fast-growing and large emerging market for packaged food products. Although consumption patterns are changing, food and beverages still account for a substantial part of Indian consumption (over 30%) compared to other emerging markets (Brazil at 17% and China at 25%). Within the food and beverage category, in recent years, there has been a shift towards packaged food and beverages and branded products. India is also a large producer of fruits, vegetables, and milk. The government is trying to develop the country as a food processing hub, which is likely to boost the Indian food processing sector in particular and the manufacturing sector in general.

Non-alcoholic beverages comprise all beverages that are alcohol-free and include a wide range of sub-sectors, such as carbonated soft drinks (CSDs), fruits and vegetable juices, tea/ coffee/ milk-based beverages, sports drinks, energy drinks and bottled water. The sector has witnessed continuous double-digit growth in the post-liberalisation period with the entry of a number of foreign and domestic corporates in manufacturing, and the proliferation of products and brands.

The non-alcoholic beverage sector is undergoing changes in terms of product variety, business models, and markets. Companies are customising their products to meet customer and market requirements. While developed countries are the large markets for non-alcoholic beverages, both production bases and consumption are shifting to developing countries such as China and India. Unlike China, India is a much smaller player in the global non-alcoholic beverage sector not only in terms of manufacturing, foreign investment inflows, research & development (R&D) base and export, but also in terms of per capita consumption of non-alcoholic beverages. India, with its large consumer base and availability of raw material and cheap labour, thus has huge untapped potential to develop the non-alcoholic beverages sector.

When one examines the global regulations pertaining to this sector, there is a significant difference between developed and emerging markets. While all countries seem to follow some common global standards such as the Codex standards, they customise it to their own

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requirements. In developed countries, regulations related to food safety standards, consumer and environment protection are more rigid, but they are also more transparent and better implemented, which has enabled the non-alcoholic beverage sector to grow and reach its potential. In developing countries, the regulations are evolving and their implementation is an issue. Since India is in the process of implementing the Food Safety and Standards Act, 2006, and other regulations that are likely to impact the non-alcoholic beverage sector, the report recommends that the country can learn from global best practices.

The Indian non-alcoholic beverage sector highlights that non-corporate manufacturers dominate (75%) in terms of numbers, but corporate manufacturers dominate in terms of value, volume of sales, investment, employment generation and percolation and use of technology. The non-alcoholic beverage sector accounts for over one percent of India's GDP and its share in the GDP is rising. The performance of this sector is better than in other manufacturing sectors and it is projected to have high double-digit growth for the next 10 years. It has the potential to create four indirect employments for each direct employment. The study found that the corporate sector works closely with contract manufacturers and has enabled a number of small manufacturers to gain scale economies. Company level information shows that companies are investing substantially in technology and skills upgrading, and in R&D in product development, customisation of products to local tastes and process upgrading. The non-alcoholic beverage sector has strong forward linkages- both corporate and non-corporate manufacturers work closely with non-corporate retailers, providing them with the necessary technology, such as storage facilities and freezers.

Overview of the Food Processing Sector in India

The food processing sector in India is the fifth-largest sector in terms of size. It contributes to 6 percent of the total industrial investment and to 12-15 percent of the total manufacturing GDP (FICCI & KPMG, 2007). Between 2004-05 and 2009-10, that food processing sector grew from $9.8 billion to $13.8 billion at a compound annual growth rate (CAGR) of 9.3 percent.

The food processing sector in India has been a major beneficiary of the economic reforms of 1991. The reforms encouraged privatisation, removed restrictions on FDI, reduced tariffs, ended the strict licensing and quota regime and streamlined the approval procedures. Today, 100 percent FDI is allowed in this sector, and the government has extended various fiscal and other incentives to encourage investments in this sector.

The sector attracted a total of $2.6 billion as FDI between 2000 and 2011, which is 1.8 percent of the total FDI received by India during this period. The sector is highly labour-intensive; in 2009, the sector employed almost 8.5 million people and is estimated to employ 17.8 million people in 2022 (National Skill Development Corporation, 2009). In addition, India has abundant natural resources; it is the second largest producer of fruits and vegetables in the world, producing 74.9 million tonnes (mt) of fruits and 146.5 mt of vegetables in 2012.

Despite these advantages, the food processing sector faces several supply-side constraints and regulatory barriers. Only 7 percent of the total Indian perishable produce is processed, which is extremely low compared to countries such as the USA (65%), Philippines (78%), and China (23%). In fact, India is a net importer of processed food (Joshi, 2009). The Ministry of Food Processing Industries (MoFPI) in its 'Vision 2015' plan identified some of these constraints. One constraint is the lack of quality raw material. The second is wastage, which is caused by improper handling and lack of cold storage facilities, which are available for only 10 percent of the produce; as a result, almost 30 percent of farm produce after harvest is wasted. Other problems include the high cost of production due to lack of adequate working capital, lack of technology for processing and packaging, low economies of scale among marginal and small manufacturers, numerous taxes, regulations and restrictions, and a fragmented supply chain.

Review of Literature

Biswas and Sen (1999) have pointed how global players like Coca Cola and PepsiCo have beaten all strategies of local players in order to grab large percentage of market shares in India. Karuppasamy and Varthani (2013) highlight the factors where retailers are not much satisfied with offers/ schemes and rewards offered by PepsiCo and also suggested that PepsiCo should come up with the more promotional schemes which attract the retailers to push their products in the market. Mack (2012) opines that retailers need to stock up for sweating customers longing to rehydrate themselves and get refreshed, and also need to follow the new consumers to get a chance to actually cool him down with cold beverage. Johnson and Peppas (2003) try to highlight the facts and strategies which were used by the Coca Cola company to overcome from the crisis faced them in the year 1999 at Belgium and how this crisis management became a lesson for the company to develop appropriate organisational strategies which would help them to overcome from similar situations in future as they operate their business globally. Wulf, OdekerkenSchooder, Goedertier, and Ossel (2005) through their study confirm the common belief that private label products can offer the same or even better quality than national brands but at a lower price. Chaklader and Gautam (2013) say there were right remarks and co-operation from the people of Kaladera with respect to Coca Cola company's plant. The company's CSR activities were effective in influencing minds of the people, thus creating a positive edge and growth of the company in strong sound and ethical background. Gupta (2003) tries to illustrate how Coke was banned in Europe, particularly in Belgium in the mid-1999 by claiming that harmful product was promoting sales to school children through exclusive contracts with schools and how that affected the image of coke at the global level. Chakraborty (2011) tries to explore the general perceptions and subsequently the buyer behaviour about private-label colas in the UK retail market. Alpert and Kamins (1995) tries to explain the consumer behaviour towards pioneering brands and also highlights the positive attitude of consumers' towards pioneer brands in general. Jha (2013) conducted a study to highlight the awareness level of the consumers towards packaged food products and to analyse the rural consumers buying behaviour of Bihar towards packaged food products.

Objectives of the Study

To understand the status of the small scale soft drinks manufacturers in Belthangady taluk of Dakshina Kannada (D).

To study the opportunities and challenges faced by the soft drinks manufacturing entrepreneurs in Belthangady taluk of Dakshina Kannada (D).

Limitations of the Study

The study is based on samples of 10 soft drinks manufacturing entrepreneurs' respondents of Belthangady taluk of Dakshina Kannada district, Karnataka.

The generalisations made in the study are applicable only for the Beltangady taluk.

Methodology

The study is based on both primary and secondary sources of data. The primary data is collected through the structured questionnaire by using convincing sampling method. The collected data was analysed and interpreted with the tablets, figures and charts. "Content score techniques" has been used for analysing the problems faced by the soft drinks manufacturers. The secondary data is collected from the various articles and reports.

Data Analysis and Interpretation

Table 1: Cross-tabulation of Entrepreneurs' Age, Years of Experience & Motivation to Start the Business

Owner's Age	*Number of years in Business*	Motivation to start the business				Total	%
		Family	*Friends*	*experience*	*education*		
21-30	1 to 5 years		1	0	0	1	10
	more than 10 years		0	1	1	2	20
31-41	more than 10 years	1	1			2	20
41-50	1 to 5 years	0		1	0	1	10
	6 to 10 years	1		1	0	2	20
	more than 10 years	0		0	1	1	10
51-60	more than 10 years		1			1	10
Total						10	100

Source: Primary data

Table 1 reveals that most of the units surveyed are in the soft drink manufacturing business more than 10 years (60%). Only 20 percent of the units started between 6-10 years back. The table also reveals those important sources of motivation and degree of its influence to start the business.

Table 2: Qualification of Entrepreneurs

Particulars	No formal education	School	Graduation	Post-graduation	Technical	Total
No of Respondents	Nil	5	3	Nil	2	10
Percentage	0	50	30	0	20	100

Source: Primary data

Table 2 indicates that education plays an important role in encouraging entrepreneurship. Majority of entrepreneurs are educated and well qualified to measure and understand the risk involved in the soft drink manufacturing business and take proper decision to overcome from such risk.

Table 3: Mode of Decision Making in the Business

Particulars	Consulting family members	Employees	Independent decision	Professional help	Total
No of Respondents	4	Nil	6	Nil	10
Percentage	40	0	60	0	100

Source: Primary data

Table 3 indicates that 60 percent of the entrepreneurs take their own decisions in the soft drink business. Only 40 percent of entrepreneurs are depending on the family members to take decisions in the business.

Table 4: Mode of Starting the Business

Particulars	Newly started by you	Inherited	Taken on lease	Sick units purchased	Acquired from partner	Total
No of Respondents	7	Nil	Nil	1	2	10
Percentage	80	0	0	10	20	100

Source: Primary data

Table 4 indicates interesting information that 80 percent of the soft drinks manufacturing units came into existence as a results of the self-initiative of the entrepreneurs. This was due to the various incentives (received by the entrepreneurs) and the encouragement received by them at the time of inception of their business as revealed by the entrepreneurs. In 20 percent of cases they acquired the business from their partners.

Table 5: Various problems Facing by the soft drinks manufacturers at present

Problems/ Difficulties faced	Content Score	Percentage	Rank
Finance	33	18	III
Labour	43	23	I
Electricity	30	16	IV
Marketing	28	15	V
Competition from local unorganised players	36	19	II
Competition from MNC players	15	8	VI
	185	100	

Source: Primary data

Table 6 reveals the types of problems faced by soft drinks manufacturers in Belthangady taluk. Problems like labour problem and competition from local players have scored 43 and 36 respectively in the weighted (scale 5 to 1) summation of the content score and secured I rank and II rank respectively.

Table 6: Entrepreneurs' Way of Handing their Problems

Dealing with Problems	*Respondents*	*Percentage*
Give high importance to problem solving	2	20
Try to solve the problems as soon as possible	4	40
Be strong and feel that you can overcome anything	2	20
Go on working without paying attention to the problem	2	20
Total	10	100

Source: Primary data

Table 6 reveals that 40 percent of the manufacturers try to be strong and feel that they can overcome anything faced by them and 20 percent of entrepreneurs' go on working without paying attention to the problem faced by them.

Findings of Study

80 percent of the units surveyed are sole proprietorship concern and 20 percent are partnership firm.

Micro and small business owners face load shedding of electricity problem during the summer season and cannot have their own alternative arrangements for electricity, due to financial constraint.

Unfair trade practices from local unorganised or unregistered companies in Dakshina Kannada (D) prevail.

Recovery of soft drink bottles from the retailers is one of the problems faced by the local soft drinks makers in this region.

Suggestions

In order to overcome from load shedding and the shortage of electricity entrepreneurs should have alternative source energy at a concessional rate.

There should be a well-organised soft drinks manufacturers association at taluk level so that unhealthy price practices followed by the unregistered domestic soft drinks manufacturers in the market can be avoid and also to have price uniformity.

Government should take necessary steps against unorganised or unregistered soft drinks companies.

Conclusion

In the soft drinks industry, local players are generally small businesses owned by a single owner or a family located in a particular region. They may not have an organised management with standardised accounting systems. The sourcing and distribution are also usually done locally. The various parameters used by global industries with respect to price, promotion, advertisements, packaging of products etc., are of high level compared to small and medium scale soft drink industries in India. But still in this region local soft drinks makers are strong enough to tap the tremendous opportunity available in the soft drinks market by understanding the need of the local consumers and also reaching them (both semi-rural and rural consumers) with their own marketing strategies which is making them to stand in the market for a long period. Some companies have even tried to expand their businesses by reaching the consumers not only within state but also in other states (Andhra Pradesh, Telangana, Tamil Nadu, Goa, Maharashtra etc.).

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