

# *TO STUDY THE EXTERNAL CHALLENGES FACED BY MSME'S IN CONSUMER FOOD SEGMENT*

*With reference to Jalgaon District of Maharashtra State ,India*

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**Abstract :** This study has been undertaken to investigate the external factors which affects the performance of MSME's in consumer food Industry. The study is exploratory in nature where it digs the ground realities and challenges faced by Food entrepreneurs. Through SWOT analysis challenges faced by Small food Businesses have been identified Through survey of 53 successful consumer Food MSME's in Jalgaon District, belonging to Maharashtra State, in India researcher has contributed to existing SWOT analysis model of Porter's five forces by customizing a model fit for MSME's in consumer food Industry.

The model can be used as a checklist by Food SME's to understand the intensity of external challenges with respect to Government Policies and Regulations, Ease of Entry for New Sellers, Unhealthy competition with unorganized local Players, Competition with Multinationals, and Seasonal factors.

**Key Words:** Consumer Food, MSME's, External Challenges.

## **I. INTRODUCTION:**

Consumer food segment in Food Processing Industry is the fastest growing segment in India. But being most of these units in the form of MSME's, they have many problems at grass root level. On the other hand they have prospective future in light of increasing trend of demand of food products in the Indian and foreign market. The study attempts to identify major eternal factors which can affect the growth of individual firm dealing with consumer food products.

## **2.RESEARCH METHODOLOGY**

The study was conducted in two phases. The first phase included a review of literature to understand packaged food industry and factors which have an impact on the growth of this industry. In The second phase interviews through structured questionnaire was conducted by researcher by selecting sample of 53 Food MSME's .

**2.1. Research Question:** To identify the frequency of external challenge faced by MSME's with respect to variables such as "Government Policies and Regulations", Ease of Entry of New sellers, Unhealthy competition with unorganized local players, competition with Multinationals and Another seasonal Factor.

## **2.2 Hypothesis :**

Ease of entry of New sellers and Unhealthy competition are the major challenges faced by MSME's of Food industry in Jalgaon District.

## **2.3 Population and Sample**

The universe of the present study covers the MSME units engage in consumer food industry in Jalgaon District of Maharashtra India. Consumer Food consists of Packaged food, Aerated Soft drinks and Packaged drinking water and alcoholic beverages. As Alcoholic beverage is negligible segment in Jalgaon district it has been excluded. The total population of active MSME's was estimated to be around 70. Active in the sense their products are available in packaged form, having brand identification and found in majority of retail stores in and around Jalgaon District. Sample size of 53 units were freezed as as the study is more of qualitative type, this much proportion of sample size was found appropriate using proportion method.

## 2.4 Data and Sources of Data

For this study secondary data has been collected. From the website of MSME's and respective food MSME's. The data collection period is ranging from January 2016 to Dec 2016. The data is been collected through the help of structured Questionnaire. The instrument was tested for reliability using test-retest method. The test-retest method is a straightforward method to assess reliability. In this method the reliability is confirmed by administering the same instrument to same set of respondents on two different occasions. The two sets of responses are then co-related to confirm reliability.

## 3. Theoretical framework

A SWOT analysis is a strategic planning tool, used to identify an organisation's strengths, weaknesses, opportunities and Threats, in view of set objectives.

A SWOT analysis is also used to seek the best way to build up a distinct competitive advantage which is sustainable in the long term. Proactively identifying the organization weakness and threats, prepares management for potential challenges, who then try to turn the threats into opportunities and the weakness into strengths. In this regard understanding and implementing SWOT analysis tool by the researcher became necessity for the present research study, as the study deals with "To study Challenges faced by MSME's in Consumer Food Industry."

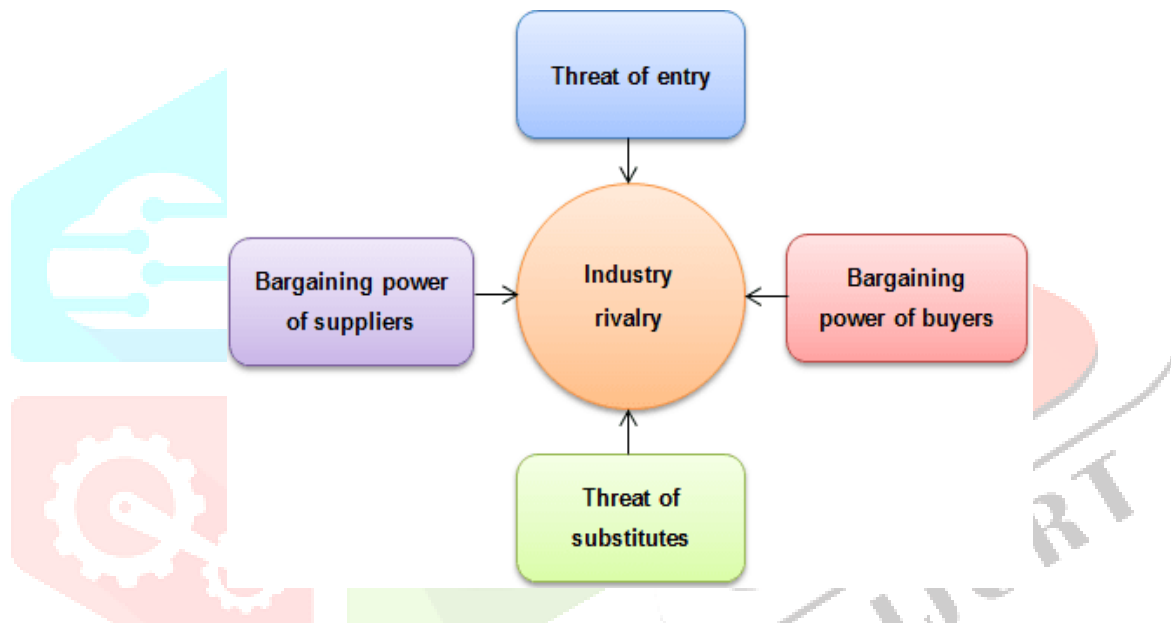


Figure 3: Michael Porter's Five Forces model

Evaluation of external factors by the firm helps in forming suitable competitive strategies. As per Michael Porter's 5 forces model, the tool created by M. Porter in 1979 to understand how five key competitive forces are affecting an industry. (Figure 4.3 showing Factors given by Michael Porter)

**3.1 The Threat of New Entrants:** This force determines how easy (or not) it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to entry to stop new entrants. As entry and exit barriers are low in consumer food industry, MSME's face this challenge on a continuous basis.

**3.2 The Threat of substitute:** The **Threat of Substitute Products** in the case of MSME can be Multinational large enterprises, as large companies like Haldiram's, Balaji, Bisleri, Pepsico provides same products as those manufactured by MSME's. These large companies have built brand loyalty and therefore customers opting for products, offered by MSME's can easily switch to MNC's. However, this depends on the customer's willingness to opt for substitute products or services with respect to quality and the costs incurred to switching to the substitutes. Building brand loyalty lessens the threat of customers opting for others' products.

**3.3: Bargaining power of suppliers:** Strong bargaining power allows suppliers to sell higher priced or low-quality raw materials to their buyers. This directly affects the buying firm's profits because it has to pay more for materials.

**3.4: Bargaining power of Customers:** Customers are becoming very knowledgeable about products and they are increasingly demanding high levels of quality and pricing. Unless managers are prepared for sudden changes in the business environment including potential threats or opportunities which require immediate action, they will struggle to cope with the new realities of the volatile business environment. Organizations must seek to be proactive, particularly since reactive strategies which may have worked in the past, will be challenged by numerous competitors who are seeking not only to retain their customer base but to engage in aggressive measures to target their competitor's customers

**3.5: Industry Rivalry: Intensity of Rivalry** in an industry depends on a number of criteria including the structure of competition, the structure of industry costs, the degree of differentiation and strategic objectives, among other factors. McDonalds and Wendy's who are the first and third market leaders respectively, within the fast food industry, give stiff competition to Burger King.

It should be understood here that asking a respondent about such external factors as suggested by Michael Porter are rather time-consuming, if carried out in detail, also such type of analysis is not done on a one off basis, as volatility or business market requires that micro and macro environments are analyzed on a regular basis to identify any changes within the industry. .

#### 4: Customized Model fit for Consumer Food Industry:

It must be recognized that what worked in the past and present is not necessarily a successful tool, therefore researcher has created customized set of external factors which are responsible for firm performance most commonly in consumer food industry. These factors are identified through analysis of key words from the excerpts of Interviews of major players through secondary data and also through personal settings during pilot study.

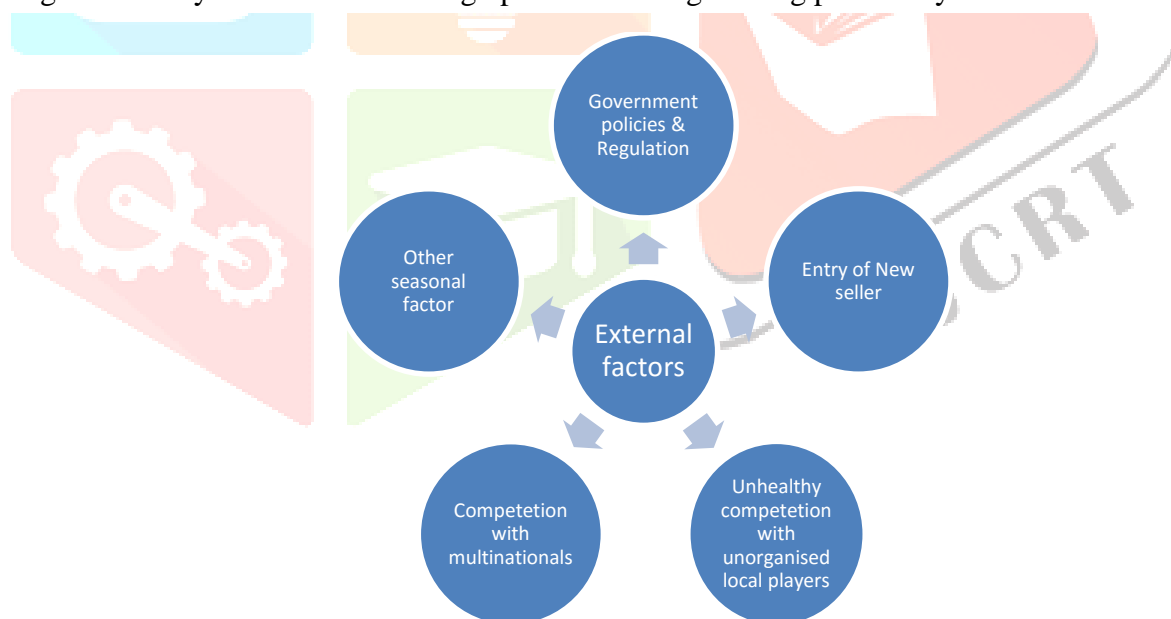


Figure 4: Customised model created by Researcher: To understand External Challenges affecting the performance of the firm in consumer Food Industry.

#### 5. Analysis and Interpretation of Data:

The SWOT analysis based on above model is carried out first to assess the external challenges by asking the following question. The following question was asked to analyse the impact of external factors on the performance of consumer food MSME's respondent.

##### 5.1: Mention the Factors that affect the performance of your firm i.e are responsible for the decrease in sales of your product?

The respondents were asked to tick all the factors which they feel act as a challenge for them. They were asked to choose all the factors as applicable to their firm, hence the question was Multiple choice questions. The data were analysed

using multiple response analysis in IBM SPSS 21. This question was asked to understand the major external challenges faced commonly by MSME's of the food industry.

The five different options are given as :

- a) Government Policies and Regulations
- b) Ease of Entry for New sellers
- c) Unhealthy competition with unorganized local players
- d) Competition with Multinationals
- e) Another seasonal factor.: The products which show seasonal fluctuation due to the essence of its use on a particular point of time are known as a seasonal product. Some examples of seasonal food products are; Soft drinks, ice-creams, energy-drinks, coffee etc. As these seasonal factors are responsible for the high demand of the product in the peak period and no demand in the off period.

Table 5.1: Descriptive Statistics

Variable	Frequency	Percentage	Percent of Cases
Government policies and regulations	10	6.5%	18.9%
Ease of Entry for new sellers	39	25.3%	73.6%
Unhealthy competition with unorganized local players	37	24.0%	69.8%
Competition with Multinationals	35	22.7%	66.0%
Another seasonal factor	33	21.4%	62.3%
	154	100.0%	290.6%

**Interpretation:** From Table 5.1, it can be predicted that out of 154 "YES" responses, 6.5% perceives government policies and regulations as responsible external factor. 25.3% have responded for "Ease of Entry for New Sellers" as factor responsible for the performance of firm. 24. % responded for "Unhealthy competition with unorganized local players, 22.7% responded for "Competition with multinationals" and 21.4% responded for "Another Seasonal factor" as a constraint for growth.

Thus it can be concluded that Most of the respondents perceive "Ease of Entry for New Sellers" and "Unhealthy competition with unorganized local players," as major external factors which affect the performance of firm followed by competition with multinationals and another seasonal factor.

It can also be seen that very few respondents i.e. 6.5% have given importance to the role of Government policies and regulations to have a major impact on their firm.

## 6. Testing of Hypotheses:

**Ho: Challenges Faced by MSME's do not differ in Frequency**

**H1: Challenges faced by MSME's significantly differ in frequency**

**6.1: Hypotheses:** Ease of entry for new sellers & unhealthy competition are the major challenges faced by MSME's of food Industry in Jalgaon District.

**Statistical test :** Cochran's Q test

### Variables & measurement:

MSME's belonging to food industry from Jalgaon district were offered the following commonly face challenges and were asked to whether they face this challenges as a marketer of food products in Jalgaon District.

Table 6.1. (a) Cochran's Q Test

Test Statistics	
N	53
Cochran's Q	60.525
df	4
Asymp. Sig.	.000

Table 6.1. (b) Frequency distribution of challenges

	Frequencies	
	Value	
	0	1
Government policies and regulations	43	10
Ease of Entry of new sellers	13	40
Unhealthy competition with unorganised local players	15	38
Competition with Multinationals	17	36
Another seasonal factor	20	33

Using a dichotomous scale ( 1=yes, 0=No)

The null hypothesis and alternate hypothesis are as follows

**H<sub>0</sub>:** Challenges faced by SME's do not differ in frequency

**H<sub>1</sub>:** Challenges faced by SME's significantly differ in frequency

**The level of significance:**  $\alpha = 0.05$

**Observation:** From Test statics table 5.1.2, it can be seen that  $Q(4) = 60.525$ ,  $p = 0.000$

**Conclusion:** Since the p value is less than the level of significance (0.05), the null hypothesis is rejected. Hence it is concluded that challenges faced by MSME's in the food industry of Jalgaon District, significantly differ in frequency. To find out where the difference lies, we refer to the frequencies table.

#### Interpretation Based on Frequency Table:

From the frequency table it can be seen that, Government Policies and regulations have a frequency count of 10, Ease of Entry for new sellers has a count of 40, Unhealthy competition with unorganized local players has a count of 36, competition with multinationals has a count of 36 and another season factor has a count of 33.

Hence, it can be seen that top two challenges encountered by SME's are

- 1) Ease of Entry for New sellers & 2) Unhealthy Competition with unorganized local players

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