

The financing problems for manufacturing industry economics essay

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Abstract

Finance is a crucial ingredient for economic growth. There are various financing options that are present but in order to cater the industrial growth there should be the provision of industrial finance. Well functioning banks, financial institutions and other financial intermediaries such as venture capital funds promote technological innovation and industrial growth by providing risk capital and funds to those entrepreneurs who have the highest probability of developing new products, production processes and competitive production facilities. The manufacturing sector faces several significant challenges: a shortage of lending, currency volatility, and fears over the sustainability of supply chains and downward pressure on prices. It is also increasingly being realized that there is no alternative to investment in manufacturing if a significant proportion of our massive, partly employed rural workforce has to be transitioned into higher income, higher skilled economic activity. The manufacturing sector in many countries is in a state of transition. Growing in emerging economies; shrinking but becoming more productive in advanced economies. The new manufacturing giants with low wage economies tend to compete on cost, the established players prefer to move up the manufacturing value chain to compete on technology and innovation. Lean manufacturing techniques which control costs and improve quality are pervasive. The present paper will try to identify the various latest financing options that are available. Also the present will identify the challenges which the manufacturers felt and how to tackle with those

challenges. Introduction Manufacturing is defined as the process including product development, innovation and commercialization, design, production, manufacturing services and support. This is succinctly defined by the University of Cambridge's Institute for Manufacturing in its 2006 paper *Defining High Value Manufacturing*¹:...the full cycle of activities from research and development, through design, production, logistics and services, to end of life management...(Future Manufacturing Industry Innovation Council).

Manufacturing industry refers to those industries which involve in the manufacturing and processing of items and indulge in either creation of new commodities or in value addition. The manufacturing industry accounts for a significant share of the industrial sector in developed countries. The final products can either serve as a finished good for sale to customers or as intermediate goods used in the production process.

Manufacturing industry trends suggest that a tendency for self employment is gradually catching up in the manufacturing industry scenario. There is a wide disparity between the ownership rates in the rural areas and the other parts of the country. However, due to insufficient funds, not many entrepreneurial schemes are being implemented. Manufacturing industry trends also indicate that there has been a growth in employment opportunities in the manufacturing industries in different sectors. Automobile manufacturing industry shielded the US economy in the event when the country encountered recession. The economy of United States Of America, was subjected to several transformations in the last decade. Changes in

forestry, mining as well as technological modifications pertaining to agriculture industry were witnessed. Large scale production also led to the switching over of workers to the industries manufacturing goods. This gave rise to increase in the number of industrial belts across USA.

Evolution of manufacturing

Manufacturing industries came into being with the occurrence of technological and socio-economic transformations in the Western countries in the 18th-19th century. This was widely known as industrial revolution. It began in Britain and replaced the labor intensive textile production with mechanization and use of fuels. The Industrial Revolution spawned small companies, a feature of which was good face-to face communication and collaboration — a situation ideal for excellence in manufacturing. But as companies grew, departmentalization occurred. Departments gradually became isolated from each other and this led to a "bits and pieces" approach to manufacturing. In the 1950's, the advent of the digital computer and associated technology and its initial application to manufacturing was seen as a watershed event. With this technology, the possibility of realizing automated and programmable control over manufacturing operations and processes was introduced. Following that, in the 1960's, the computer was recognized as extremely powerful systems tool and spawned a new understanding of the nature of manufacturing --manufacturing is a system. But it was the computer that allowed the automation of such management. Skilled craftspeople and experienced manufacturing engineers alike recognize the importance of process "intelligence" (originally in the mind of the craftsperson) and databases of information on process, tooling, materials

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and work piece requirements (often in handbooks or personal notebooks reflecting accumulated experience) (Merchant, 2005).

Working of manufacturing industry

Manufacturing industries are the chief wealth producing sectors of an economy. These industries use various technologies and methods widely known as manufacturing process management. Manufacturing industries are broadly categorized into engineering industries, construction industries, electronics industries, chemical industries, energy industries, textile industries, food and beverage industries, metalworking industries, plastic industries, transport and telecommunication industries. Manufacturing industries are important for an economy as they employ a huge share of the labor force and produce materials required by sectors of strategic importance such as national infrastructure and defense. However, not all manufacturing industries are beneficial to the nation as some of them generate negative externalities with huge social costs. The cost of letting such industries flourish may even exceed the benefits generated by them. Owing to the emerging technologies worldwide, the world manufacturing industry has geared up and has incorporated several new technologies within its purview. Economists consider the World manufacturing industry as a sector which generates a lot of wealth. Generating employment, introducing latest techniques, real earnings from shipments etc., have put the world manufacturing industry in a favorable position. With the implementation of the concept of eco friendly environment, world manufacturing industry has taken several measures to ensure that the manufacturing industries worldwide abide by the eco friendly norms. World

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manufacturing industry also plays an important role in the defense of a country. By manufacturing aircrafts which play a vital role in the country's defense, the aerospace manufacturing industry acts as a shield. Other industries in the manufacturing sector manufacture products which are indispensable in our daily lives. With regard to the GDP or gross domestic product, world manufacturing industry contributes to the global economy as well as the global GDP (Economy Watch, 2010).

Impact of Global Recession on Manufacturing

Global economic meltdown has affected almost all the countries of the world. Strongest of American, European and Japanese companies are facing severe crisis of liquidity and credit. This global financial and economic crisis keeps on getting worse. Recession in the United States is a very bad news for our country. Today, India is much more integrated with the world economy through both the current and capital accounts. The down turn that appears to have begun in the USA in September, 2008 have some negative impact on Indian economy. The most immediate effect of this global financial crisis on India is an out flow of foreign institutional investment (FII) from the equity market. This withdrawal by the FIIs led to a steep depreciation of the rupee. The banking and non-banking financial institutions have been suffering losses. The recession generated the financial crisis in USA and other developed economies have adversely affected India's exports of software and IT services. For fighting this crisis, government of India responded through its monetary policy by pumping the liquidity into the system rather than using effective fiscal policy i. e. public expenditure and investment to face the recession. No doubt, government has introduced three fiscal

stimulus packages for stimulating demand in the economy but it was not sufficient, the larger government expenditure should be oriented towards agriculture and infrastructure. Although India has revived to high growth, this new growth should have to come not from some new speculative bubble but from enlarged government expenditure that directly improves the livelihood of the people. Our companies in India have most outsourcing deals from the US. Even our exports to US have increased over the years. Exports for January, 2009 have declined by 22 per cent. There is a decline in the employment market due to the recession in the West. There has been a significant drop in the new hiring which is a cause of great concern for us. Some companies have laid off their employees and there have been cut in promotions, compensation and perks of the employees. Companies in the private sector and government sector are hesitant to take up new projects. And they are working on existing projects only. The textile, garment and handicraft industry are badly affected. According to the Federation of Indian Export Organizations (FIEO) survey they are going to lose four million jobs by April 2009. There has also been a decline in the tourist inflow lately. The real estate has also a problem of tight liquidity situations, where the developers are finding it hard to raise finances. Further, the manufacturing sector has equally been hit hard by the economic slowdown. According to CII, one third of the manufacturing sub sectors out of the 96 monitored by it have reported a negative growth in production during April to December 2008 as compared to the same period last year. A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down. An

economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment. The economy and the stock market are closely related. The stock markets reflect the buoyancy of the economy. The Indian stock markets crashed due to a slowdown in the US . The Sensex crashed by nearly 13 per cent in just two trading sessions in January, 2008. In November 2008, the giant Citibank and The Bank of America had to be bailed out with several hundred billion dollars by the American authorities. It also reported job losses of more than 530, 000. The biggest single month figure since 1974, taking the US unemployment rate to 6. 7 percent, the highest in last 15 years. The developed economies of the world like Europe, UK, Japan and US are today officially in recession i. e. they have experienced two successive quarters of negative growth. This is not just bad news for India, but also for the rest of the world. There is much more uncertainty about the depth and duration of the current global recession (Deepika Upadhyay, 2010).

Towards a Competitive Manufacturing Sector

Competitiveness

The competitiveness of a firm is a complex array of interdependent factors relating to its quality, innovation, efficiency, effectiveness of internal

processes, customer satisfaction, employee satisfaction and empowerment

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and how these functions find their way into the products being made. (Rybakovas, 2009) It translates into the way a firm combines its resources and capabilities to be able to create and deliver value to its customers (Holban et al., 2011). Firms should work upon identifying their core competencies and developing them in order to achieve sustainable competitive advantage. Core competencies are critical capabilities, usually unique in their characteristics if competitiveness is to be sustainable. They are much more critical in low technology, more traditional manufacturing firms than they are in high technology firms. (Agha et al., 2012) To be more competitive, manufacturing managers must be driven to develop strategies that will increase their knowledge and understanding of core competencies. (Gilgeous & Parveen, 2001). Some of the major competency gaps identified in SMEs are related to quality, just-in-time manufacturing, problem solving, teamwork, and lean manufacturing (Stier 2006); all key skills required to increase competitiveness in SME manufacturing firms. Manufacturing is still to be considered as a very important factor for national competitiveness (Pitelis & Antonakis, 2003). Thus sends a clear signal to (developed economies) policy makers that deindustrialization will lead to competitive problems and therefore it is in the national interest to create conditions, institutions and mechanisms in support of manufacturing competitiveness. One of the least understood benefits of manufacturing is its close relation to R& D, innovation in design, product development, quality control and process improvements so reducing manufacturing output in an economy will have ripple effects in these areas. The US has recognized this and is taking great strides to attract manufacturing back to US shores. President Obama

said " When new technologies are developed and new industries are formed, I want them made right here in America. That's what we're fighting for." – President Obama, August 16, 2010(Kota S, 2011). Every country must realize that if it wants to achieve the aspirations of its citizens, and enjoy a healthy economy, then manufacturing must be developed to reach a competitive edge. (Kaushal A. et al., 2011)The economic transformations that have taken place over the past decade in Asia, specifically in China and India, have changed the nature of competition in international markets of manufactured products. These countries can offer a nearly unlimited supply of low-cost labor for the global market and an ever increasing growing number of highly skilled scientists and engineers. They have other competitive advantages such as location and investment incentives for manufacturing companies. As a result, the rest of the world is challenged especially in sectors that are labour intensive and therefore profit margins have been hit hard. This is not only a concern for industrialised countries but also for other developing economies. The competitiveness of the export manufacturing industry (EMI) in Central America, Mexico, and the Dominican Republic has been significantly eroded by increasing competition from Asian countries in the past decade (Perez & Hernandez, 2010). To remain competitive the apparel EMI has shifted toward niches that require rapid responses to changes in fashion or season, making geographical proximity to the U. S. work to their advantage, and toward full-package production, thereby vertically integrating more links of the value chain. In sectors where labour costs remain a predominant competitive factor, firms must find new ways of competing. One of the industries under most competitive pressure in the

European Union (EU) would be the textile-clothing sector. It faces intense international competitive pressure from exports of newly industrialized countries with China dominating in this respect. EU textile factories in Spain, Greece and Italy are placing new emphasis on quality, customer service, supply chain, efficient management systems, knowledge management and production cost efficiencies (Bilatis et al., 2006). Other key elements to success will be the introduction of advanced technology, adaptability and differentiation. In Lithuania the share of the wearing apparel industry has rapidly decreased from 9.1 to 2.8 percent of total manufacturing output, with manufacture of textiles reduced almost thrice, hence confirming the intense competitive challenge that this industry faces (Sabonien, 2011). The productivity performance of this industry varies drastically in various countries. Despite the low cost advantage of newly developing economies like India, productivity improvement of the Indian textile industry has not improved and could nullify its labour cost advantage (Bheda et al., 2006). This highlights the all too critical prerogative for manufacturing companies to always seek ways to improve productivity as advantages gained through these measures could easily compensate for other structural disadvantages. In order for firms to engage in productivity improvements three critical success factors are necessary; the investment and deployment of technology, quality systems and the technical capability of the workforce; areas still highly lacking in the Indian scenario. Even in Iran, despite having access to raw material, and high demand for synthetic fiber, competitiveness is low due to lack of training, poor development of expertise, long leadtime on spare parts, and a general lack of strategic direction within the industry

(Shafaei2009). Competitiveness of Canadian and Australian manufacturing plant is being accounted for by the following emerging patterns of operation (Gordon et al., 2001):

- The restructuring of operations;
- The application of innovation within the infrastructure;
- The switch and upgrade towards advanced technologies;
- The forging of vertical integration-partnerships;
- The due attention given to time and flexibility;
- Ensuring that labor-management cooperation is present; and
- The development of a high performance culture.

Many of the above factors are in line with the key challenges identified in the previous section, thus illustrating that many manufacturers have realised their importance and are doing something about them. Even FDI's in China report that they are enhancing internal cost control systems, improving productivity, implementing lean manufacturing, applying energy saving measures and switching to alternative, low-cost raw materials as measures for enhanced competitiveness. (Booz & Co. 2010). Manufacturers must also be technology leaders. This leads to improved and new product and process development and maintains the sectors competitiveness. The industries where there will be investments in advanced technologies will play an important part in the functioning and development of a nation's economy. In order to upgrade technologically, firms must display more-advanced technological capabilities which will be manifested in the way they develop new products or processes and the way they engage in knowledge intensive activities (Perez & Hernandez, 2010). When investments are not made, high tech manufacturing will not develop and competitiveness will diminish. This in the case of Lithuania, where the manufacturing industry is mainly composed of low-technology and medium-

low-technology industries. Medium to high technology industries have been noted to be in decline due to lack of investment (Sabonien, 2011). Therefore it is clear that in order to maintain competitiveness in advanced manufacturing technologies, companies must invest heavily. Investment decisions made in UK manufacturing firms have primarily been made to improve competitive advantage and secondly to reduce costs (Burcher & Lee, 2000) so strategically these kinds of investments will also result in improved competitiveness as they have been formulated by the broader business strategy but affected through a manufacturing strategy. In other words, they have been market-driven in their investments, rather than technology-driven. Post investment appraisals showed that some of the most observed benefits were rather intangible such as; enhanced image and improved attitudes, apart from observing improvements in areas such as quality, cost, delivery lead time, delivery reliability, product features, flexibility, volume variability, innovativeness and service to customers. The importance of quality in relation to manufacturing competitiveness cannot be more emphasized. Quality, from among criteria such as; know-how, flexibility, delivery, quality, customer focus and costs, which are all part of the hierarchy model of competitiveness priorities of manufacturing strategy emerges is the most important strategy to maintain a leading position (Si et al., 2009) (Takala et al., 2007). Know-how and customer focus also rank high in this hierarchy. This is in concordance with the fact that high tech companies use skilled technicians, who can improve the creative ability and manufacturing quality of the company. The costs, delivery and flexibility could be considered as secondary factors in the operational strategy. These

lower important factors indicate that cost is not the key factor of the operational strategy and should therefore not be the central focus for enhanced competitiveness. Manufacturing competitiveness is driven by many factors but as pointed out by (Deloitte & Touche, 2010) one of the major components is having talented people that drive innovation. Therefore having and developing skilled employees specifically; engineers, researchers and scientists will be the top driver towards competitiveness. As always, the external and regulatory environment will play a major part in overall competitiveness. Manufacturers cannot do it all alone. They depend on Governments playing their part by developing national manufacturing policies and strategies that are collaborative, integrated, focused, and effective. The international competitiveness of the French Manufacturing industry has long become less reliant on cost advantages or pricing and changed its emphasis towards areas like; innovation, the capability to absorb and transfer new technologies, quality, on-time delivery, services to support manufacturing, flexibility and adaptability to changing global economic conditions (Age nor P. R. 1997) The Government of Japan has realized its role in improving manufacturing competitiveness and its policy direction is clear and well funded. It has closely linked its science and technology (S&T) strategic direction with its manufacturing competitiveness strategy.. These areas are well coordinated and organized (Corwin J., Puckett R. 2009). In Thailand too, even back in 2000, the government started intervening to enhance manufacturing competitiveness by initiating a number of collaborative programmes with international and bilateral agencies such as

The World Bank, Japan Export & Trade Organisation (JETRO), and The Asian Development Bank. (Dhanani S, & Scholtès P., 2002).

NATURE OF FUTURE MANUFACTURING ENTERPRISES

Where are we today? Manufacturing enterprises are rapidly learning how to achieve good integration of equipment, people, and operations via digital computer technology. They are also beginning to discover how to integrate engineering technology and human resource utilization so that both technology and people perform at full potential. In addition, economics plays an increasingly important role. There should be a strong integration of technologies and management using information technologies (IT), for example, integration of the process planning and production planning, simulation of manufacturing systems, agile manufacturing, fast redesign of new products, modeling of manufacturing equipment performance, including the human operator, functional product analysis, virtual machining and inspection algorithms etc. The key change drivers in most cases of manufacturing technology include: diminishing component size, enhanced surface quality, tighter tolerances and manufacturing accuracies, reduced costs, diminished component weight and reduced batch sizes [4].

Computer technology is now developing in at least three new areas vital to future manufacturing: holonic systems, virtual reality and intelligent systems. What is the likely nature of the future manufacturing system and of these three needed technologies? One likely scenario is a human-centered, virtual enterprise, comprising an integrated holonic system of cooperating but autonomous units globally distributed. An example of this is now referred to as the " digital factory" and a detailed example of this, as applied in a major automotive manufacturer, will be given in the paper.

What is the nature of a holonic manufacturing system? A holonic manufacturing system is one in which every entity in the system (people, machines, software elements, etc.) is enabled and empowered to fully communicate and collaborate with every other entity. Very sophisticated technologies are needed to enable enterprises to be holonic. They must enable the capability for global " same room", " face-to-face" communication and collaboration, the capability to transfer, person-to-person, each person's information, knowledge, understanding, and intent, and the capability to fully virtually replicate locally the environment of distant sites.

To accomplish this, the development of virtual reality technologies is a must. And this is an area well outside of the usual competence of manufacturing researchers. We will need to engage with other expertise, computer scientists and the like, more and more in the future to keep our own progress steady.

Challenges of Manufacturing

The list of obstacles and opportunities facing manufacturers seems endless, including globalization and expansion into new markets; low-cost country sourcing; pursuit of growth through innovation; product proliferation; service competition; going green; the war for talent; mergers, acquisitions, and divestitures; enterprise risk management, and compliance requirements. Addressing each of these areas present an enormous challenge to manufacturers in their own right; taking together, the task is mind-boggling. Beating the competition and driving profit table growth to exceed investor expectations in this context is a daunting task. What has not changed is that the majority of companies around the world are still Small & Medium (SME) sized firms. The need for co-operation and collaboration has never been more needed than it is now as at individual firm level most SMEs do not possess all the resources and capabilities necessary to compete internationally. New challenges have also emerged. Indeed, the newly developing nations such as China, India and Korea have demonstrated a fast catch up capability. Competition is now global, greatly assisted by the revolutions undertaken in the communications and transportation sectors. Companies have also gone global through distributed organizations. (Dingli, 2012)

Obstacles for Manufacturing

1. Alignment: A key barrier is insufficient alignment between strategic and operational decision making and lack of talent to support it. Seventy-two percent of organizations call conflicting objectives across the organization a medium to high barrier; 55 percent report lack of strategic and operational flexibility; and 50 percent face lack of global optimization in operations,

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investments, tax regulation, risk, and so on. While improving asset efficiency is a priority for more than 60 percent of companies studied, 41 percent consider their inability to control structural costs a barrier. Innovation in new products and services is at the top of the revenue-growth agenda for many companies, but 50 percent report that the complexity of their product portfolio prevents them from improving business performance. Thus, the very same areas in which companies see the greatest opportunities to boost performance also contain the biggest barriers blocking their growth. Adding to their woes, 64 percent of respondents do not believe they have adequate capabilities for talent management and leadership development. 2)

Information: Lack of up-to-date information for strategic and operational purposes is hampering the pursuit of business improvements. Insufficient visibility into key areas of business strategy and operations is a fundamental problem for most companies. Even worse, many companies are also not satisfied with the quality of information on the very metrics they want to improve. For example, companies want to improve revenue growth, but 25 percent of them are either dissatisfied or very dissatisfied with the quality of information available around revenue growth by product, customer, geography, and channel, among others. Forty percent of the respondents are not satisfied with the profitability information available for those categories. Thus, companies have a limited understanding of where to focus investments to achieve revenue growth and profitability targets. 3.

Standardization: Inadequate process and data standards are an underlying problem for a majority of the companies studied. Nearly seven out of ten companies rate the lack of process standards, clarity, or discipline as a high

to very high barrier to improving business performance. Shortage of uniform data standards (for example, on products and customer relationships) is a high or very high barrier to improving business performance, according to about three out of five companies.

Financing Problems for Manufacturing Industry

External financing: The money which is arranged from outside the firm's own resources and used for day-to-day working capital.

Sources of external financing:

Overdraft: Overdrafts tend to be more flexible and do not carry the same onerous requirements of security of a loan. Overdrafts are more suited for day to day expenses incurred through running the business. It is not suitable for capital expenditure or to cover startup costs for any length of time. When a business has problems with cash flow an overdraft would help to keep the cash flowing.

Bank loan: The bank cannot ask for full payment unless the loan conditions are breached and you are guaranteed that money for a certain period. Banks believe that this will make them more consistent lenders, when a business needs a sudden injection of cash a loan would be give them that. A loan could cost the business some money due to the interest paid to the bank.

Leasing: A lease is an agreement between the business and the "lessee". The business will pay a periodic fee, usually monthly, for the use and possibly ownership of equipment. This will help the business as they don't need to find a big sum of money to buy equipment such as a computer, they can pay for it over a period of time.

Share Capital : Share Capital is raised through the sale of shares to individuals or institutions, who in return for

their investment receive interest in the form of a dividend, which constitutes a share of the profits made by the business. Venture Capital: A company is suitable for venture capital investment if it exhibits high growth prospects, has a product or service with a competitive edge or unique selling point and has a strong management team. To this the person will have to value the business, and will then have to look for investors. Grants : All publicly funded schemes are designed to encourage new and growing businesses to bring wealth and ultimately create jobs. To help achieve this government make available a portion of the taxpayer's money to help and encourage enterprise. This cash gets distributed through a variety of ministries, departments and agencies on a national and local, most businesses are eligible at any one time to apply for a number of different grants and support which in are distributed in a wide variety of forms. Factoring: Factoring is a flexible form of loan, which advances money to a company as it issues new invoices. This is different to overdrafts or more formal loans, which are usually for a fixed amount. Inability to obtain external financing: The ability to access finance is important for funding business investment, ensuring businesses reach their growth potential, and for facilitating new business start-ups; a lack of finance can constrain cash flow and hamper businesses' survival prospects (BIS, 2012). Typically, SMEs are not able to raise money directly in the capital markets and are therefore - with regard to external sources - mainly dependent on traditional bank financing, which is itself limited by constraints due to banks' refinancing capacity, their risk appetite and capital adequacy. Inability to obtain internal financing: Internal Finance can be profit that has been retained, squeezed out of working capital, or can

be cash from sale of assets. This is money that was already within the business. Many companies still underestimate the importance of working capital management as a lever for freeing up cash from inventory, accounts receivable, and accounts payable. By effectively managing these components, companies can sharply reduce their dependence on outside funding and can use the released cash for further investments or acquisitions. This will not only lead to more financial flexibility, but also create value and have a strong impact on a company's enterprise value by reducing capital employed and thus increasing asset productivity.

Insufficient working capital: Working capital is defined as current assets minus current liabilities. A positive position means that a company is able to support its day-to-day operations—i. e., to serve both maturing short-term debt and upcoming operational expenses. One of the metric's shortcomings, however, is that current assets often cannot be liquidated in the short term.

High working capital positions often indicate that there is too much money tied up in accounts receivable and inventory, rather than short-term liquidity.

All companies should therefore focus on the tight management of working capital. Inventory, accounts receivable, and accounts payable are of specific importance since they can be influenced most directly by operational management. Companies that improve their working capital management are able to free up cash and thus can, for example, reduce their dependence on outside funding, or finance additional growth projects.

Start-up cost: To gather the large amount of funds to start a industry is the toughest task

Expensive raw materials: There are some companies in the manufacturing industry where the cost of the raw material is very high, so

for most of the players it is not the easy task to gather so much capital and then invest in the business. This problem is again linking with the large amount of money which is required to set up the business. High wholesale price
Large losses due to scrap rate, sabotage, Breakage and crime
Decline in sales volume
Bad debts and write offs
Heavy equipment maintenance costs
Government tax, VAT and customs Duty
Heavy advertising and promotional costs
Payroll, rent and utilities
Transportation and petrol costs
High interest rates on loans
Ability to meet financial obligation
Training and development costs
Insurance costs
Delays in account receivables payment
Alternative sources of Financing
The government to India has taken much initiative to deal with the financing problems faced by the manufacturing sector especially the SME's and the new entrants. Following are the some of the latest financing options which are available

Factoring

While speaking about alternative modes of finance, we will touch upon " Factoring Services," which are within the framework of the banking system that should be slightly re-oriented since the risk perception and/or the risk involvement of banks and financial institutions is minimal. When we talk of " Factoring Services", it is not an innovative concept although it may sound so. In the year 1988, a Study Group was appointed under Mr. P. S. Kalyansundaram, Former Managing Director of State Bank of India along with Senior Officers of Commercial Banks, Financial Institutions, Government of India and RBI, and academics with expertise in the area to examine " the feasibility and mechanics" of starting factoring organisations. Primarily speaking, factoring as a concept, is to meet the need for hassle-free post-sale finance to industries, particularly under the SSI sector that pass off as SMEs. Factoring, as a concept, has gained ground in the Indian system in the early 90s and under the recommendation of the Study Group. The Centre initiated a Venture Capital Fund for Software/IT Industries but the same is not strictly in consonance with the terms of recommendations of the Study Group. In whatever form it may be, the very nature of the " Factoring Services" business does not pose any threat to the functioning of commercial banks. For, they only complement banks in post-sale dispensations. Under the fold of " Factoring Services," Factoring organizations not only provide SMEs with fi nance, but also offer other services such as:

1. Sales Ledger Administration

2. Debt collection

3. Credit insurance.

Such services could be rendered either by the commercial banks or non-banking financial institutions. But unfortunately, non-banking financial institutions are indulging more in Car Finance and Housing Finance instead of doing their professed functions, including that of " Factoring Services". This is also not an exception in the case of both public and private sector financial institutions. Flushed funds are thus siphoned off to finance consumer durables and housing but not to the SME sector. Thus, there needs to be an attitudinal change or rather a change of mindset among bankers. In this article, we are not treating all the Public Sector Banks at par. A case in exception is Canara Bank, which has successfully floated a subsidiary entitled CANBANK Factors Ltd.. In fact, Canara Bank has also set up another subsidiary for exporting of readymade garments. Its establishment at Bangalore is a laminating point. It is now imperative to popularise the scheme as it is useful and beneficial—both to its clients as well as Financial Institutions.

Since " Factoring Services" are not limited to financial institutions (either public or private) and/or non-banking finance companies, exclusive Factoring organisations, therefore, may be organized by the patrons of the SME sector. The Government should, in fact, encourage the system to grow. The benefits that could be extended by Factoring organizations could be as under:

(i) Helping SMEs in saving time and cost through quicker and improved cash flow

(ii) Treating Factored Debt as an off-balance sheet item

(iii) Flexible terms and quicker sanctions

(iv) Improved and easy returns on funds deployed

(v) Matching the seasonal need of finance to the needs of SMEs

(vi) Developing a network of better quality customers and ready availability of information.

Debt Financing

The vast majority of new small businesses are funded with debt financing via financial institutions. If you pass muster, banks can provide you with a loan or line of credit that comes with a repayment schedule and an interest rate. They will look carefully at your company's cash flow, collateral and the liquidity of your assets. You've got to have a sensible, written business plan, and you must know your financial situation inside and out. Note that one way to increase your odds of success is to establish a relationship with your banker prior to your loan request.

Other Articles of Interest

Business Financing Articles
Finding Funding: Goldilocks Approach
Find Your Funding, But Be Ready: Step 6 of 8 Steps to Managing your Money
Click here

to find out more! " In addition to showing a successful track record in managing their business, we also consider the customer's existing account relationship with the bank as one of many factors in making lending

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decisions - and this can also include their personal banking experience with us," said Brad Baumann, assistant vice president, regional business banking representative at Washington Mutual. " Of course, we are always interested in attracting new customers as well and would consider their previous history with another financial institution."

Upside:

Don't have to give up equity
Available to companies that can't get equity funding

Downside:

Must pay interest
Limited networking or " business savvy" value
May require personal collateral such as home

Grants

Especially if you're in the technology game, consider securing a grant through the Small Business Administrations Small Business Innovation Research (SBIR) Program. There are also numerous state, regional and minority grant opportunities available. By working together with a government agency in a Cooperative Research and Development Agreement (CRADA), you can also optimize resources and cost-effectively perform research (thus requiring less funding). These programs are designed to help fuel the innovative fires at small businesses. Having been on the receiving end of these grants, here's our bottom line: Billions of dollars of " free money" should not be overlooked.

Upside:

Free money Investors love the "leverage" that grants provide

Downside:

Highly competitive How you use the funds is strictly defined

Equity Financing

While debt funding is most common, there are still tens of thousands of companies financed each year by private or "institutional" investors in exchange for an equity ownership stake. They range from the less sophisticated "friends and family" type, to high net-worth private investors known as "angel investors," all the way up to the sophisticated professional investors called venture capitalists.

Friends & Family

When you can't get debt financing, consider asking your rich Aunt Harriet for a little help. As a jolt of startup funding for many a family-run business, small business financing from friends and family typically comes in small amounts without a lot of hassle or legal expense, but be careful. Always stay professional and go heavy on communication. Depending upon your priorities, realize that business has risks, and preserving your relationships with friends and family is at least as important as your business opportunity. Comfort zone: generally less than \$50,000.

Upside:

Convenient, no nonsense Fewest contractual strings attached Available quickly

Downside:

Limited one-time source of funding
Be ready for an ugly Thanksgiving dinner at your in-laws if you lose their money

Angel Investors

Do you believe in angels? We do. With approximately 250, 000 high net-worth private investors in the US who fund over 30, 000 small companies each year, you might be seeing wings yourself. " Angels" have earned their name by typically being friendly and patient about their investments and by providing their business wisdom and valuable relationships along with their money. They often like to invest in groups, each taking a piece of the deal. Comfort zone: \$25, 000 to \$1 million.

Upside:

More than money, they invest business smarts and networking opportunities
Relatively patient about their investments

Downside:

Often difficult to find
Can be hard to manage the divergent interests of a large group of angels

Venture Capitalists

If you are beyond the startup phase, have initial revenues coming in, a quality team in place, and a clear path to eventually sell the business or go public in an IPO, you could be ready to approach the funding pros- venture capitalists (VCs). But because they funded the dot-com and biotech bubbles and were badly burned, VCs now have higher standards than ever. Still, they

remain a serious player in the investing world. Keep in mind that their funding is very time-sensitive. VCs look to get their money and profits out as quickly as possible. They are a great source if you're planning for meteoric growth and will require further business financing in the future to achieve it. Comfort zone: \$250,000 to \$10's of millions. Must be a "fast growth" company

Upside:

Invest smarts and networking in addition to money Typically have more money if you need more to grow

Downside:

Must be a "fast growth" startup business Must be interested in selling the business or going public within three to five years Must be prepared to share control

Strategic Investors

If you need to get to market quickly or perhaps short-circuit the "no name, no credibility" game, strategic investors can help. These equity financiers get their name because they come from within the industry you are targeting and find what you're selling to be "strategic" for their business objectives (such as somehow complementing or enabling the products or services they sell). But beware! They can swamp your business with opportunity, seduce you into reallocating your company's resources in a lopsided way, restrict you from dealing with their competitors as your customers, and even cancel their business relationship with you on a whim! Be sure you know what you're getting yourself into. Did someone say "lawyer"?

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Upside:

Enhances your credibility in the industry
Money can come with access to benefits like manufacturing, distribution, and marketing

Downside:

Can force you to recalibrate your entire business to serve them
Dependency can be risky
Can prohibit you from selling to their competitors

Review Of Literature

The present study is an Exploratory research To understand The problems faced by the Micro, small and medium enterprises In the post globalization period. Apparao (2012) Globally, there is an increased recognition of the important role played by micro, small and medium enterprises (MSMEs) in the economic development of a country. Similarly, in the South Asia region, MSMEs is the main engine behind the economic growth. In particular, MSMEs are the biggest contributors to GDP, employment and plays a core role in the supply chain of large businesses. One of the major problem faced by MSMEs in South Asian countries is lack of finance to advance business growth. MSMEs are short of setup capital, liquid capital, working capital and investment capital to survive and grow in a dynamic and predatory competitive business environment. MSMEs heavily depend on the financial institutions such as banks, credit corporations and development banks for the supply of finance to meet their daily financial needs. Against this backdrop this paper will analyze the performance of MSMEs in recent decade and also examine the financial obstacles faced by MSMEs. In addition with this paper will provide some recommendations for change in government

policy and regulation in assisting MSMEs.(Bandgar, 2011) The major MSME exports include readymade garments, Chemicals, pharmaceuticals, engineering goods, Processed foods and marine products. The government has started support programs to MSMEs in the Form of credit guarantee fund, microfinance, credit linked subsidies, quality upgradation, entrepreneurship assistance for women and setting up testing centers. The MSME sector requires financing of about 2 lac crore annually and accounts for 27% of the GDP. The MSME sector has been Facing a severe Shortage of funds to carry out the day to day activities with the banks taking a cautious approach. As on March 2011, only about 8% of sick MSMEs is identified as potentially viable while about 5 percent is placed under nursing. The remaining units are considered unviable sick units. There is a Substantially significant improvement in outlook. The variable " input cost" has a value of BCI below 50 Implying unfavorable impact of rising cost on the performance of the SME's. The SME exchange which represents 8 percent of the economy will have a market Capitalization of \$ 80 billion or Rs. 4 lakh crores.(Dingli, 2012)The perception of many people who live in the developed economies of Europe and America are often heard saying that the days of manufacturing are numbered in these countries and that China is the new " factory of the world". This paper demonstrates how far from reality such a broad sweeping statement is. Manufacturing in developed economies is still flourishing and there is still scope to maintain and sometimes to bring back manufacturing to these parts of the world. Indeed, the landscape has changed; the types of industries, technologies, capabilities and manufacturing methodologies have been totally transformed over the years

and now display high levels of sophistication. What has not changed is that the majority of companies around the world are still Small & Medium (SME) sized firms. The need for co-operation and collaboration has never been more needed than it is now as at individual firm level most SMEs do not possess all the resources and capabilities necessary to compete internationally. New challenges have also emerged. Indeed, the newly developing nations such as China, India and Korea have demonstrated a fast catch up capability. Competition is now global, greatly assisted by the revolutions undertaken in the communications and transportation sectors. Companies have also gone global through distributed organizations. The paper reviews current literature regarding trends and challenges in manufacturing and will illustrate how competition has shifted towards intangible assets, the capability to outsource, to innovate and to invest in advanced technologies not only to bring costs down but to enhance quality, cope with mass customization and develop the capability to produce high value added sophisticated products. Supply chains also form a new frontier to achieve competitive advantage and an area where competencies are being built. Malta is no exception. Being part of the European Union, and facing ever rising costs and global competition, manufacturing has shifted from low level labour intensive industries to more sophisticated, high technology companies within the pharmaceutical, electronics and medical products sectors among others. The total number of people employed in manufacturing has indeed reduced due to increased productivity of the manufacturing processes being deployed. The challenges to develop manufacturing capabilities and competencies remain as they have always

been; central to competitive advantage. The change that has taken place is that many new manufacturing competencies had not traditionally been viewed as part of the manufacturing paradigm. The scope of the competency base has grown. Manufacturing companies have taken advantage of the globalization of industries by sourcing and producing where the highest competitive advantages can be reaped.(Kumar, 2008)The Indian manufacturing sector has grown at an impressive average rate of 9.5 per cent annually since 2003-04. Its sustained growth is crucial for generating employment opportunities needed to absorb the rapidly expanding workforce. In this context, this paper reviews the current state of the sector and focuses on determinants of its competitiveness. The paper finds that Indian manufacturing sector exhibits a great deal of regional variation and a marked dualism between the organized and the unorganized segments in terms of both productivity and wage levels. The level of labour absorption in the organized manufacturing sector has been weak as reflected in the declining labour intensity in this sector. This does not augur well for achieving inclusive growth. We also find that although there have been significant changes in the composition of exports in the last 20 years; India is still a very small player at the global level, especially in knowledge intensive and advanced technology products. Finally, the paper explores India's potential for transforming itself into a hub of mass manufacturing. We find that the main constraints in doing so have been the low level of R&D, relative lack of skilled personnel and relatively low FDI levels.(Bhatt, 2011)Today, India is much more integrated with the world economy through both the current and capital accounts. The down turn that appears to have

begun in the USA in September, 2008 have some negative impact on Indian economy. The most immediate effect of this global financial crisis on India is an out flow of foreign institutional investment (FII) from the equity market. This withdrawal by the FIIs led to a steep depreciation of the rupee. The banking and non-banking financial institutions have been suffering losses. The recession generated the financial crisis in USA and other developed economies have adversely affected India's exports of software and IT services. For fighting this crisis, government of India responded through its monetary policy by pumping the liquidity into the system rather than using effective fiscal policy i. e. public expenditure and investment to face the recession. No doubt, government has introduced three fiscal stimulus packages for stimulating demand in the economy but it was not sufficient, the larger government expenditure should be oriented towards agriculture and infrastructure. Although India has revived to high growth, this new growth should have to come not from some new speculative bubble but from enlarged government expenditure that directly improves the livelihood of the people. The present paper is an attempt to analyze the impact of recent global financial crisis on Indian economy. The paper is divided into three sections. In the first introductory section, we have discussed the features of recent global financial meltdown. The section two deals with the impact of this crisis on Indian economy and discusses how India came back to high growth. Conclusion and suggestions have been given in the third section.