

The Impact of Global Economic Crisis on SME's of Rajkot

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Abstract

In the last one century, one of the most destructive and devastating economic and financial crisis that world has witnessed is perhaps the current international economic turbulences. These turbulences are likely to produce more devastating effects than ever before. The overall international economic system, almost all individual nations and especially the vulnerable transition economies of the Asia have been affected. This global economic crisis has not only been severe for large enterprises, but also for small and Medium sized enterprises (SME's) which are the most important components of economic development for countries like India. The aim of this research paper is to examine the impact of global economic crisis on SME's of Rajkot District. In order to analyze the impact, a random sample of 100 small and medium sized enterprises was taken. The paper is structured into Five sections. The first section describes how the current international economic turbulences had emerged. The second section discusses the aspects like importance of SME across the world, classical definition of SME from European and Indian perspective and contribution of SME in Indian Economy. The third section of the paper highlights the foreign trade performance of India from 2007 to 2012. Besides this, it also reveals the objectives of the current study as well as the previous studies undertaken which were parallel to the current study. The fourth section discusses how the research has been undertaken. Finally the last and fifth section narrates the findings of the paper, limitations of the study, Policy recommendations and concluding remarks.

Keywords:

Rajkot SME's, Economic Crisis Rajkot SME's

Section I

Emergence of Current Economic Turbulences

The global economic meltdown of 2008 had thrown the world in economic depression, which was mainly due to the subprime mortgage crisis that affected the US economy. However, the 2011 crisis in the US was mainly because of possible US default as the country's legal debt limit or ceiling of \$14 trillion had reached 97% of its GDP (\$14.5 trillion) in May 2011. Though US Congress initially disapproved to extend the ceiling, it agreed on the extension. However, the major economic shock came when Standard & Poors (S&P), global credit rating agency downgrade US ratings from AAA to AA+ which meant that US treasury bonds which were considered to be safest security in the world were rated lower than bonds issued by Britain, Germany, France and Canada. The rating downgrade also raised the cost of borrowing

for American Government, companies and consumers which had direct implication on the world economy as the world largest consumer was thrown in the economic crisis. On the other hand, Euro crisis was mainly due to ever increasing public debt; however the roots of the crisis go much deeper – primarily, giving up their sovereign ability to manage their own fiscal and monetary policy and leaving it to the whim of the Union; and secondly loss of competitiveness that has been associated with Euro adoption in countries like Greece, Ireland, Italy, Portugal and Spain (GIIPS).

The starting point for the Euro Crisis were the Greek politicians and borrowers who played a significant role in both increasing the debt of the nation as well as concealing the actual debt numbers. Also the loss of competitiveness amongst the GIIPS countries is attributed to sequence of events:

- The adoption of Euro by GIIPS countries which led to large fall in interest rates and a surge in investors' confidence as inflation and interest rates converged to those of Europe's northern core countries.
- Increase in domestic demand, thereby raising the prices of non-tradable activities relative to tradable goods and services; and wages relative to productivity.
- A rapid acceleration in growth in GIIPS was primarily driven by domestic services, construction and an expanding government spending. However the exports stagnated
- as a share of GDP; and imports and current account deficit soared due to economic growth in GIIPS
- All these factors contributed to very high debt – both public and private.

The Euro crisis threatened the economic stability of not only Euro area alone but of the entire world. A weakened Europe implies slower export growth in emerging economies as well as the financial volatility. Emerging economies like India have been impacted by the Euro crisis through three key channels: First is the impact on the cost of sovereign debt financing for these emerging economies; Second is the trade channel which is driven by the effect of reduced growth in some European countries on import demand for goods and services from India and other emerging economies; and Third is the impact of debt crisis on the global financial sector and the consequent effect on the provision of credit to regional banking and financial sectors.¹

Section II

Importance of SME's across the World

SMEs and entrepreneurs play a significant role in all economies and are the key generators of employment and income, and drivers of innovation and growth. In the OECD area, SMEs employ more than half of the labour force in the private sector. In the European Union, they account for over 99 % of all enterprises. Given their importance in all economies, SME's are the pillars of development and are essential for the economic recovery. Even in 'normal' economic conditions governments have recognized that, to survive and grow, SMEs need specific policies and programmes – hence the comprehensive range of SME measures currently in place across all the countries of the world. SME's are generally more vulnerable in times of crisis for various reasons which are as follows:-

- They have a lower or no credit rating.
- They are heavily dependent on credit.
- They have fewer financing options.
- It is more difficult for them to downsize as they are already small.
- They are individually less diversified in their economic activities.
- They have a weaker financial structure (i.e. lower capitalization).

Definition of SME's

- According to European Union, Small and Medium sized enterprises are defined on the basis of the staff headcount and turnover or annual balance sheet.
- Medium-sized enterprises are defined as enterprises which employ fewer than 250 persons, and whose annual turnover does not exceed 50 million euro or whose annual balance-sheet total does not exceed 43 million euro. Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed 10 million euro.
- Micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed 2 million euro.

According to MSME development act, 2006, the Micro, Small and Medium Enterprises are classified as under:

Table -1 :- Classification of Enterprises on the basis on Investment.

Enterprises	Investment in Plant and Machinery (Manufacturing)	Investment in Equipment (Service)
Micro	Up to Rs. 25 lakh	Up to Rs.10 lakh
Small	Above Rs. 25 lakh and up to Rs.5 Crore	Above Rs. 10 lakh and up to Rs.2 Crore
Medium	Above Rs. 5 Crore and up to Rs. 10 Crore	Above Rs. 2 Crore and up to Rs. 5 Crore

Contribution of SME in the Indian Economy

The impressive growth story of India during the past two decades is well known. While the Indian economy is robust enough to sustain the growth momentum of nine percent or higher over the next decade, it needs to be fortified with measures for diversification, accelerated employment creation and poverty reduction. The mantra of “inclusive growth” should entail expansion of growth and employment opportunities across the geographical, social and sectoral canvas. This could be realized through sharper focus on and attention to the growth and revitalization of the micro, small and medium enterprise (MSME) sector. The MSME could be the steroid the Indian economy needs at this juncture. The SME provides not only the much needed boost for growth, employment and exports but more significantly, contributes to geographical and social equity.

SME sector of India is considered as the backbone of economy. There are about 30 million SMEs in India contributing to 45% of

the industrial output, 40% of India's exports, employing 60 million people, creating 1.3 million jobs every year and producing more than 8000 quality products for the Indian and international markets. With approximately 30

million SMEs in India, 12 million people expected to join the workforce in next 3 years and the sector growing at a rapid rate of 8% per year.

Section III

Foreign Trade Performance of India

The foreign trade performance of India is shown below in the following figures. The Fig 1 reveals the India's Export and Fig 2. Reveals India's Import. It is quite clear from the fig 1 that from mid 2008 to mid 2009 and again from mid 2011 to till Oct 2012 there has been drastic reduction in exports. This reduction in exports is the result of the two major economic turbulences that moved the economies of the world first in 2008 and then again in 2011.

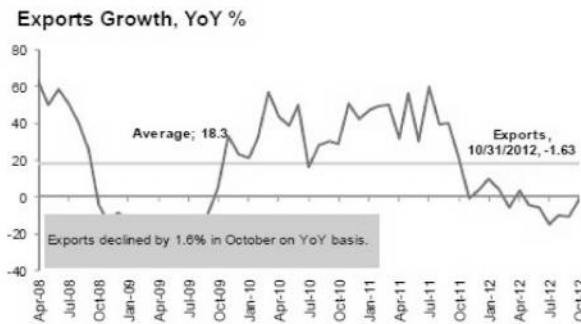


Fig 1. Exports of India

(Source:- India Economic Digest, Nov 2012)

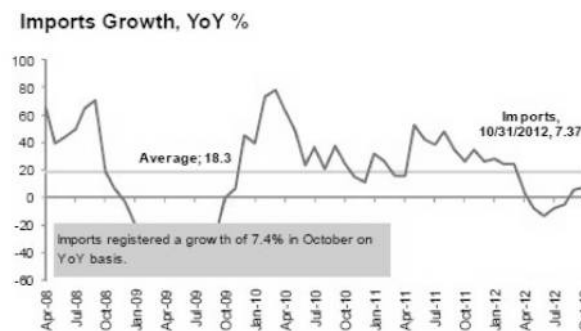


Fig 2. Imports of India

(Source:- India Economic Digest, Nov 2012)

Objectives of the Study

The main objectives of this research paper are as follows:-

- To study the impact of global economic and financial crisis on SME's of Rajkot.

- To identify the actions or steps taken by SME's of Rajkot to sustain in the times of global economic and financial crisis.

Rajkot SME Sector

Gujarat has a large and vibrant engineering industry and accounts

for nearly 9% of the total production from engineering sector in the country. Good Location for large industrial projects, good infrastructure, and availability of natural resources, proactive government policies and besides all above the entrepreneurship excellence of people of Gujarat has contributed to development of the engineering sector in the state. The engineering sector, popularly known as the mother of all industries, is an important industrial segment for economic growth. The sector contributes to nearly 38% of the total industrial production, 30% of the total employment in the country.

Rajkot, located in the state of Gujarat, is an important engineering cluster in the country. Rajkot evolved as a centre of trade and commerce in Saurashtra because of its strategic location in the region. It evolved as a major engineering hub primarily after independence because of the growth of agricultural and industrial activity in Saurashtra. Presently, there are more than 2,200 engineering units in the cluster, majority (about 95%) of which are small-scale units. Rajkot engineering industry has a turnover of around Rs 800 Crore per year. The industry employs about 25,000 people.

Traditionally, Rajkot was famous for the manufacture of diesel engines all over the world. It was exporting diesel engines to far off places such as Africa and Gulf countries. Diesel engine manufacturing was at its peak during the 1980s and early 1990s. However, the industry, which was primarily catering to the agricultural sector, was severely hit after the farmers were forced to switch to alternatives such as the submersible pumps due to falling water quantity in the region. Therefore, all the foundries that were earlier manufacturing diesel engine castings were forced to diversify to producing pump castings, automobile castings, electric motor bodies and gear box body castings. The bearing industry has developed locally due to the large demand for bearings in the diesel engine and pump set industry. The Rajkot engineering cluster is known for its innovation, entrepreneurship and product specialization across the country.

The main product segments in the Rajkot Engineering Cluster are as follows:-

Table -2 :- Main products produced in the Rajkot Engineering Cluster

<u>Name of the Segment</u>	<u>Products produced in the segment</u>
❖ Foundry :-	Pumps and Motor bodies, Diesel Engine components, Automobile components, Cylinder lines, other casting products.
❖ Diesel Engine:-	Lister Engine, Peter Engine, Comet Engine, Diesel Engine Spares.
❖ Machine Tools :-	Conventional Machine, Metal cutting e.g. Lathe, Metal Forming e.g. power press, CNC Machines, Machine tool spares
❖ Automobile:-	Connecting Rods, Pistons, Crankshafts, Liners, Sleeves, Air Cooled
Parts:-	Block , Spares.
❖ Pump Sets :-	Submersible pump sets, Centrifugal pump sets, Mud pumps.
❖ Bearings :-	Ball bearing, Taper roller bearing, Cylindrical roller bearing, Needle roller bearing, Spherical roller bearing.
❖ Others:-	Forgings, Agricultural implements, Hydraulic Jacks, Air compressors, Fans, Dust Collectors, Packaging and Plastic items

Literature Review

In any economy across the world, SME's have played vital role in the economic development and always served as generators of employment and income and thus acted as pillars of development. Because of such huge importance of SME's across the world various studies in relation to SME had been undertaken from time to time .Some of them are as follows:-

(Elin and Lean, 2000). in their study identified the factors that can hamper the growth of SME and thus the economy. The study divided the factors as internal and external factors. The internal factors that hampered the growth of SME were lack of skilled manpower, lack of management competence, poor R & D, technology while the external factors included the government policies, access of finance and macro economic instability. Out of

the various factors, the macro economic instability was the major factor hampering the growth of SME's especially which were export oriented. The study was mainly relevant to the SME sector of Thailand.

(OECD, 2009). The centre for entrepreneurship, SME and development of OECD (organization for economic co- operation and development) undertook the study to evaluate the impact of global crisis on the SME and Entrepreneurship financing. The study was undertaken in 31 OECD member countries simultaneously. The study identified the SME's in almost all economies had been worse affected due to the global crisis. Their sales and profit had dropped drastically and many were even forced to close the operations. The SME's of developed countries were less affected as compared to the SME's of emerging economies. The SME's had also suffered a lot in gaining access to

finance and in obtaining the working capital. The problems were worse for SME's belonging to countries with low credit rating.

The research by (Juha, Kaisu, Helena & Pasi, 2010) examined the role of the entrepreneurial orientation (EO) in global economic crisis and whether it can mitigate the negative effects of economic crisis both on firm's operations and on firm's financial performance. Results based on a sample of almost 200 Finnish small and medium-sized enterprises indicated that the different dimensions of the EO can have diverging effects on how firms are treated by the recession. In general, the more innovative and proactive the firm is the less its operations are affected by the recession and the more risk taking the firm is the more its profitability is affected by the recession.

A study by (Milan & Neboja, 2010). was undertaken to evaluate the effects of the global economic crisis on small and medium sized enterprises of Serbia. The results found that due to global SME production of Serbia reduced by almost 17 %. The single major factor responsible for that was that nearly 90 % of the Serbian exports relied on the European Union and CEFTA markets; which were the most suffered markets of the world. They identified that if the SME of Serbia were directed to the new markets other than EU and CEFTA countries than the impact would have been much less.

(Naidoo, 2010). in his study tried to investigate that whether marketing innovation, defined as improvements in the marketing mix, can assist in withstanding the challenges of operating under the conditions of economic crisis. A conceptual model linking market orientation, marketing innovation, competitive advantage and firm survival was tested using structural equation modeling. The study was mainly undertaken for Chinese Manufacturing Small and Medium sized enterprises. Three key findings derived from the study are, First, the examined Chinese manufacturing SMEs had a greater perceived likelihood of survival had they developed and sustained a competitive advantage. Second, marketing innovation assisted in developing and sustaining competitive advantages based on differentiation and cost leadership strategies. Third, marketing innovation capabilities improved when the examined manufacturing SMEs were competitor oriented and had good inter-functional capabilities.

Section IV

Research Methodology

❖ **Target Population :-** Small and Medium sized enterprises of Rajkot.

❖ **Type of Research :-** Empirical (Exploratory).

❖ **Sampling Plan :-**

i. **Sampling Unit :-** one SME has been considered as one sampling unit for purpose of collecting the primary data.

ii. **Sample Size :-** 100 Small and Medium sized enterprises of Rajkot were considered for study.

iii. **Sampling Method :-** Probability random sampling method was used for study.

❖ **Research Questions:-** The study included both open and close ended questions.

❖ **Main Sources of Data:-** The research study employed both primary and secondary sources of data. The main sources are as under:-

a. **Primary Sources of Data:-** Personal interview, Electronic interview (via Email).

b. **Secondary Sources of data:-** Company Reports, Leading Newspapers, Magazines, Reports of different Management Associations, Reports of various government departments, Rajkot related websites.

Section V

Findings of the Study:-

For carrying out the research study, 100 units were selected. To get the clear picture of the financial and economic crisis on each sector of the industry the surveyed 100 units were divided / classified into the following segments:-

Segment 1:- Casting / Foundry / Die / Mould Segment.

Segment 2:- Cotton Ginning mill segment.

Segment 3:- Diesel Engine and Spares Segment.

Segment 4:- Bearing Segment.

Segment 5:- Agriculture and pump segment.

Segment 6:- Packaging and Related Segment.

From the survey of 100 units the number of units belonging to each of the segment were found as follows:-

Table -3 :- Number of Units belonging to each segment from surveyed 100 units

<i>Segment</i>	<i>Segment 1</i>	<i>Segment 2</i>	<i>Segment 3</i>	<i>Segment 4</i>	<i>Segment 5</i>	<i>Segment 6</i>
<i>No. of units found to be belonging to each segment</i>	35	8	30	9	7	11

their enterprise will improve in the forthcoming times, 56 % believed that the situation in the enterprise will be same even after 6 months or a year. While 20 % revealed that it seems to them that situation in their enterprises may become worse in the next 6 months.

- In case of situation in the country nearly 27 % of the overall respondents predict that there would be improvement in the coming times while 58 % believed that the situation of the country will be same even after 6 months. While 15 % believed that situation of the country would become worse in the next six months.
- In case of the sector of their activity nearly 62 % of the overall respondents believed that situation would be same in their respective sectors even after 6 months. While 16 % of the overall respondents believed that situation may improve while remaining 22 % believed that situation would become even worse in the coming times.
- In case of the situation of the market overseas, nearly 69 % of the overall respondents replied that according to them situation of the overseas market would be same even after 6 months as in the current scenario and there are very low chances of faster

recovery especially in the European markets. While 25 % believed that overseas situation to become even worse than the current situation.

- In the last phase, the study tried to find out that various actions that the firm had already taken or would take if the situation persists for 3 months, 6 months, or for another year. The results are shown below in the table.
- ✓ Column 1 indicates the name of the action.
- ✓ Column 2 indicates the per Percentage of the overall firms which had already taken the corresponding action.
- ✓ Column 3 indicates the percentage of the overall firms which would take the corresponding action if the situation is going to persist for another 3 months.
- ✓ Column 4 indicates the percentage of the overall firms which would take the corresponding action if the situation is going to persist for another 6 months.
- ✓ Column 5 indicates the percentage of the overall firms which would take the corresponding action if the situation is going to persist for another 1 year.

Table :5 :- Various Actions already taken or will be taken by units to overcome crisis.

Name of the Action	Already Taken	If situation persists 3 months	If situation persists 6 months	If situation Persists 1 year
i. Adjusting hours of work (e.g Reducing Overtime and No. of Shifts)	58 %	21 %	11 %	10 %
ii. Reorganizing work systems and functions to improve Efficiency	72 %	26 %	2 %	—
iii. Redundancies / downsizing	47 %	32 %	9 %	12 %
iv. Encouraging early retirement, voluntary departures without pay	9%	23 %	32 %	36 %
v. Postponing Investment Plans	12 %	70 %	8 %	10 %
vi. Sale of assets	29 %	44 %	11 %	16 %
vii. Outsourcing of activities.	20 %	9 %	28 %	43 %
viii. Wage Freeze / Deferring wage increases	69 %	22%	5 %	4 %
ix. Streamlining and better monitoring of expenses to cut costs.	87 %	13 %	—	—
x. Debt restructuring	23 %	28 %	30 %	19 %
xi. Seek Financial Assistance from institutions / companies	31 %	40 %	27 %	2 %
xii. Increased Marketing / Promotional efforts	26 %	31 %	25 %	18 %
xiii. Shut down part of the overall operations	10 %	24 %	9 %	57 %

- Lastly it was asked to the SME's whether they would need any type of assistance from the state or central government. To this nearly 95 % of units expressed their desire for assistance from the government. They suggested that government should provide assistance in one of the following ways- (1) Provide tax holiday for next two to three years. (2) Government should provide special incentives to those units which had been affected severely. (3) Government should provide subsidy in one or the other way. (4) Government should bring in the new schemes for revival of the suffered units. (5) Government should bring changes in the tax structure so that it becomes possible to improve and enhance the functioning of the enterprises. (6) Government should increase the percentage of reimbursements from the prevailing percentages. (7) Government should extend the period of already existing schemes.

Limitations of the study

The present study is confined to the SME's of Rajkot only and hence the findings may not be applicable to other cities or states of the country. Further, the business environment of the economy always tends to be dynamic in nature; hence there is very probability that over the time and space the findings of today may become invalid tomorrow.

Policy Recommendations and Concluding Remarks

- The findings of the study clearly indicate that casting segment, diesel engine and related spares segment, & bearing segment were the most affected segments. One of the main reason for this was that the majority of the units belonging to these sectors nearly 80 %
- were having overseas market as their main markets. Only few were selling their products in the domestic markets. This focused approach of selling the products only in the overseas markets has been one of the main factors responsible for producing such a huge
- impact of economic crisis on the industry. If units had concentrated their selling of products in the domestic market than the impact of the economic crisis on the industry would have comparatively lower. Thus besides selling their products in the overseas markets, the units operating in the above mentioned three sectors should also start selling some proportion of their products in the domestic market so that they might be able to withstand the storm of any type of financial crisis even in the future.
- The results of the study clearly indicate that access to finance from various sources like banks and other financial institutions had become even more difficult in times of financial crisis. One of the reason was high interest rates. Generally SME's have limited need of finance as compared to the large enterprises because SME's tends to operate on small scale basis as compared to large enterprises. But generally in case of financial institutions, the lending rates for SME's and Large enterprises tend to either same or slightly lower for SME's. This should not be the case. The SME's should be provided loans at significantly lower rates because they have limited and small requirements and tend to have very few sources of finance available to them as they are operating on small scale.

Moreover, the transaction and other processing fees should be completely eliminated for the SME's. Besides this the process of providing loans to the SME's should also need to be

- streamlined and complex formalities should be avoided. So that SME's could feel comfortable in approaching the financial institution for the purpose of securing finance and confidence could be developed in them. Moreover, the loans should be provided at much faster pace to the SME's as compared to the others.
- The study found that financial and economic crisis had significant impact on the terms of payment of SME's. They had been forced to increase their average collection period significantly. This had a significant impact on the working capital cycle of SME's. To solve this problem the SME's should adopt the approach of Factoring. The factor institution or company would take the responsibility of the payments of the entire portfolio of debtors / clients at very low margin rates. This would enable the SME's to solve their problem of working capital and concentrate their attention on the other areas of business. But however still many SME's were unaware about this effective alternative of factoring so appropriate steps should be taken by association and respective bodies of the industry to make SME's aware about this approach. The steps could be like organizing the seminars and lectures on the subject of Factoring.
- The financial crisis had a significant impact on SME's. Many SME's were even forced to shut down their entire operations or some part of their operations. To enable the SME's to come out from the setback of financial crisis various steps should be taken by the state and central governments and such responsible authorities. Few possible measures that could be taken by respective authorities could be:-
 - ✓ Change the tax structure completely. Decrease the number of taxes for SME's. SME's today have same number of taxes as large corporate which include sales tax, VAT, MAT, Excise and income tax.
 - ✓ If possible, provide the tax holiday to those sectors which had been significantly affected by the global financial crisis.
 - ✓ Develop the revival or capital infusion plan for those SME's which operating in high profitability and turnover conditions before financial crisis but were forced to shut down the operations due to the economic crisis.
 - ✓ Extend the period of various already existing schemes which are beneficial to the SME's.
 - ✓ Bring in the new schemes specifically focused on the SME's as well as with specific focus on those sectors which had been affected most.
 - ✓ Establish the Committees specifically for revival of SME's and for determining the possibility for providing the financial or rehabilitation package to the SME's.

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Consumer Preference Towards Soft Drinks: A Perceptual Study

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Abstract

The beverages sector in India has undergone significant transformation in the past 10 years. The carbonated and non carbonated drinks industry in India is to grow near about 45 per cent annually and would triple or four times in size by 2014. Customer preferences are more complex and even more important for retailers today than in past. The objectives of this study to identify the factors affect on consumer preference towards carbonated and non carbonated drinks with respect to gender wise. This intercept survey was conducted to study of consumer preferences towards soft drinks in Indore cite. The sample included 150 active mall shoppers. The consumer preferences were identified by a structure questionnaire and captured in 6 factors of preferences. These sales promotion mix factors Satisfaction of mental thirst, Price and availability through ambassador promotion, Relaxation and refreshment on celebration, Brand Positioning, Reliability and cleanness and Taste .The study will help the retailers and manufacturers of soft drinks to understand the underlying consumer preferences factors and which factor mostly like by the customers of Indore city and help them to craft their marketing strategies. Profiling customers by their choice of preferences provide more meaningful ways to identify and understand various customer segments and marketing strategies.

Keywords:

Consumer Preference, Soft Drink, Carbonated Drink, Non Carbonated Drinks

Introduction

The soft-drink industry comprises companies that manufacture nonalcoholic beverages and carbonated mineral waters or concentrates and syrups for the manufacture of carbonated beverages. Soft drink products have been well accepted by consumers and gradually overtaking hot drinks as the biggest beverage sector in the world. In the midst of the rapidly growing soft drink demand, the industry on the whole is encountering new opportunities and challenges. Changing consumer demands and preferences require new ways of maintaining current customers and attracting new ones. Amid ever increasing competition, beverage companies must intensely court customers, offer high quality products, efficiently distribute them, ensure safety and keep prices low all while staying nimble enough to exploit new markets by launching new products. Recent developments in soft drink consumption and challenges in marketing have heightened the need for searching the consumers' needs and preferences.

It is becoming increasingly difficult to ignore the existence of soft drink in today's markets. Since the inception of soft drink in the 1830's, its