



Micro Food Processing Enterprises of Andhra Pradesh: Growth Opportunities Using the PEST Analysis

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

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ABSTRACT

Aims: This study aims to use PEST analysis to comprehend the strategies implemented by micro food processing enterprises in Andhra Pradesh, India, with regard to political, economic, social, and technological factors to provide an overview of their growth potential.

Study Design: This study is designed as an observational study, utilizing both secondary and primary data.

Methodology: The study uses PEST analysis, which is a framework used to analyze and understand the external macro-environmental factors that affect an organization. Secondary data was obtained from the Andhra Pradesh Food Processing Society (APFPS), while primary data was collected from micro food processing enterprises in Andhra Pradesh.

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Results: Based on the study's observations, it was found that the state government of Andhra Pradesh provides a favorable and friendly environment for initiating an enterprise by providing subsidies and incentives. Additionally, micro food processing enterprises adopt specific strategies to sustain competition. Andhra Pradesh was found to be the top South Indian state in net value-added products.

Keywords: PEST analysis; micro food processing enterprises; growth opportunities.

1. INTRODUCTION

Every human needs three basic essentials (food, clothing, and shelter), of which food is the utmost essential need of a human being. But in a highly populated nation like India, it is essential to devise strategies to cater the increasing demand for food for the growing population. It is possible only by employing food processing techniques [1,2]. Over the past few decades, there has been good growth in the food processing industry, and the annual growth rate of agro-industries seems to be increased [3]. Of the total production of fruits and vegetables, only 2 per cent of them were processed, while comparing Malaysia (80%), Philippines (78%), Brazil (70%), and Thailand (30%) (Patnaik, 1997). While Padmanabhan [4] highlighted that Indian Government targeted to bring 10 per cent of processing by 2010 and 25 per cent by 2025, which will provide direct and indirect employment to lakhs of people.

Kondepudi and Saxena [5] revealed that the social, physical, and industrial infrastructure and virtual connectivity of Andhra Pradesh are well-developed and act as important growth drivers in the food processing sector. Based on the ASI (Annual Survey of Industries) report (2018-19) [6], it could be seen that, in India's food processing industry, Andhra Pradesh possesses the most factories (14.41%), which employ 11.47 per cent of the workforce. In addition, it was observed that Andhra Pradesh holds the second national position in the food and beverage industry and is tops among the South Indian States (ASI, 20218–19).

PEST analysis helps to redesign the firm strategy according the changes in the external environment (Political, Economic, Social and Technological aspects). Further, the possible impact of the changes was learnt, and the factors involved were identified. Those factors were categorized according to the opportunities and threats. Based on the scope of the opportunities, the strategies were prioritized and implemented accordingly.

1.1 Political Factors

Political factors of a firm provide an in-depth understanding of the extent of intervention of the policymakers in the commercial environment. The various factors considered for the political aspects were trade, taxation, labour, commercial restriction, government policies, National incentives for enterprises, and environmental legislation.

1.2 Economic Factors

Economic factors of an enterprise provide an overview of the profitability of the enterprise based on its economic performance. The factors like Gross Domestic Product (GDP) per capita, inflation, seasonality of economic cycles, channels of distribution, access to markets, consumer purchasing power were considered as the important external economic factors that affects the enterprise [7].

1.3 Social Factors

Social factors of a firm depict the work pattern of the firm, the attitude of the employees and firm, consumer preference and taste, demand for products, and type of service required by the consumers. It helps the firm to reorient its strategy toward society (the operating place of the firm) and attracts customers to the enterprise [8,9]. Factors like demographics, consumer preference, and taste, societal and cultural preferences, the effect of advertisement influence the major decisions of the firm.

1.4 Technological Factors

In this technologically advanced world, firms should be able to adapt to the changing environment; in order to sustain the competitive market and to satisfy the customer's needs and preferences. The entrepreneurs were forced to innovate new technologies, which attracted consumers towards their enterprise [10,11]. Though adopting new technology has fewer

benefits, the technological gap has severe disadvantages. Employing technological innovations such as new machinery in the market, new distribution channels, new models of packaging, and attracting consumers through innovative advertisement and pricing determines the firm's position in the market.

1.5 Statement of the Problem

Usually, firms, especially micro food processing enterprises, are influenced by exogenous factors to a greater extent. To sustain the competitive market, cater to emerging needs, and satisfy the customer, enterprises should adapt to their external environment. In an external environment, there were innumerable factors that were beyond the control of the enterprises that influences them. Hence, PEST analysis helps to understand the strategic risk of the enterprise and devise a strategy that makes the enterprise adapt according to the changes in the political, social, economic, and technological aspects of the external environment. With this background context, this study has been formulated for the purpose of PEST analysis of micro-food processing enterprises of Andhra Pradesh.

2. METHODOLOGY

PEST (Political, Economic, Social, and Technological) analysis of a firm indicates the changes and effects of the external environment (factors that are beyond the control of the firm) on the firm's competitive position. It helps to understand the strategic risk involved and realigns the strategy of the firm, which evaluates the strategy and leads to the development of a business model. In this study, PEST analysis has been employed to understand the strategic positions of micro-food processing industries of Andhra Pradesh and their adaptability towards the changing environment in terms of political, economic, social, and technological aspects. For this study, the secondary data obtained from the Andhra Pradesh Food Processing Society (APFPS) and the primary data obtained from the food processing enterprises were interpreted, and the observed findings are presented.

3. RESULTS AND DISCUSSION

Based on the findings of the study, it could be understood that, out of 4122 food processing enterprises of Andhra Pradesh, there were 2132 micro food processing enterprises. Among the various micro-food processing enterprises of Andhra Pradesh, the majority of them belong to

agro-based food processing industries, followed by livestock, aquaculture, and horticulture or plantation-based food processing industries. PEST analysis is employed to understand the strategies adopted by these industries and how they were adaptable to their changing environment in political, economic, social, and technological aspects. The observations of the study are listed below and illustrated in Fig. 1.

3.1 Political Factors

National Incentives for enterprises: From the observation, it was revealed that PMFME (Prime Minister Formalization for Micro Food Processing Enterprises) in Andhra Pradesh supports individual micro food processing enterprises by providing a credit-linked capital subsidy @ 35 per cent for the eligible products. It is a centrally sponsored scheme, which was implemented in 2020 for a period of 5 years (2024-25) [12].

Government policies: AP state government has implemented an Industrial Investment Promotion Policy (2010-15), in which they provide several incentives and subsidies for new enterprises that are going to be set up in the state. Further, it was the first state to launch "A.P Single Window Clearances System" (E-Government plan). This e-government plan helps investors and industries to get easy and quick clearances that are transparent [5].

3.2 Economic Factors

Seasonality of economic cycles: Since most of the raw materials for food processing industries were agricultural products, seasonality affects the availability of the raw materials. An increase in the demand for raw materials, increases the raw material costs, which increases the price of the processed foods or secondary produce.

Channels of distribution and access to markets: Each marketing or distribution channel of a product has certain advantages and disadvantages. Based on the marketing costs and marketing margins involved in a marketing channel, its marketing efficiency differs. Hence, the various types of marketing or distribution channels provide market access to consumers by improving their marketing efficiency.

Consumer purchasing power: During the pandemic, most of the people were unemployed, which ultimately affected their income. Meanwhile, their savings were also used to overcome the situation. Similarly, several other

factors, like demonetization and increased cost of living, invariably affect the purchasing power of consumers.

3.3 Social Factors

Demographics and societal-cultural preferences: Based on the demographics of the state and the location of the industry, societal and cultural preference differs. Societal and cultural practices in a location play a crucial role in determining the location and effective functioning of the enterprise.

Consumer preference and taste: Nowadays, increased income and a luxurious lifestyle influence consumer preference and their taste towards a diverse range of products. People with higher levels of income tend to use higher levels of processed foods because of their luxurious lifestyle. In certain cases, the taste and quality of the product also influence the consumer's preference.

Effects of advertisement: In this technologically advanced world, everyone possesses mobile phone with internet applications. In such a case, the advertisements through social media and media platforms influence and attract the consumers towards the products.

3.4 Technological Factors

New marketing channels: Though the location of the enterprise plays a significant role in purchasing a product, ordering from home through e-shopping and mobile shopping using various digital platforms provide more opportunities for these enterprises. This paves the way for new marketing channels and helps to sell their products to a wide range of consumers in different locations.

Adapting new machinery & new methods of packaging: Adapting new machinery, like dosa machines, chapathi makers, etc. attracts consumers and makes them prefer these enterprises. Meanwhile, it is a fact that enterprises which are not adaptable to the changing environment will fade away. Hence, it becomes important for an enterprise to be innovative in launching new designs, new models of packaging, and innovative advertisements to sustain in the market competition.

Innovative advertisement: In earlier days, discounts and offers were the only advertisements, that attracted consumers to purchase a product. But, nowadays, through innovative advertisements, screenplay and

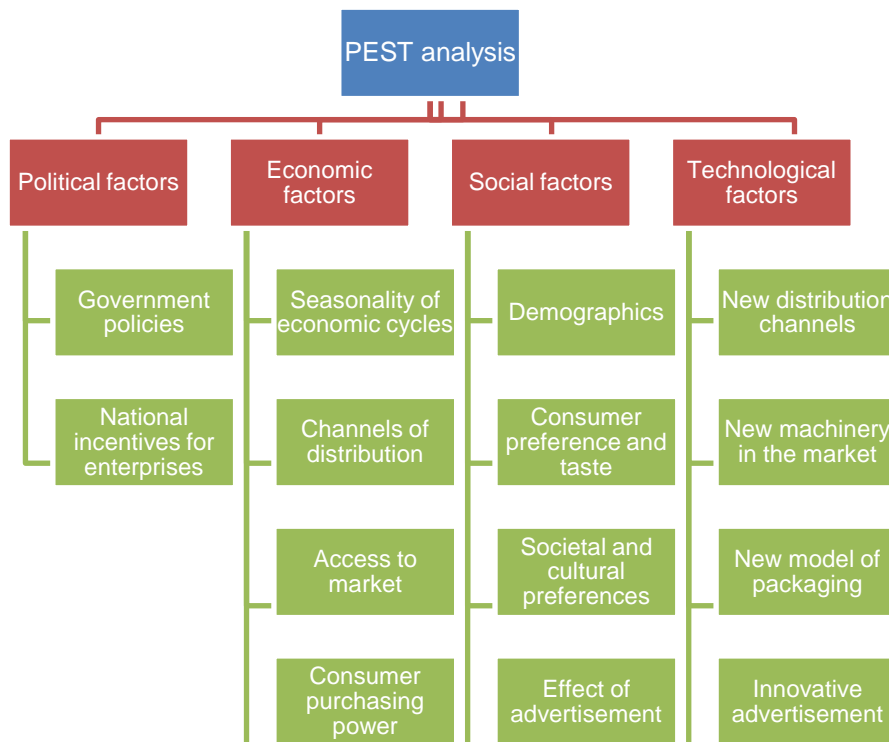


Fig. 1. PEST analysis of micro-food processing enterprises

dialogues; the products are introduced to consumers. In this technologically advanced world, firms should be able to adapt to the changing environment; in order to sustain the competitive market and to satisfy the customer's needs and preferences. The entrepreneurs were forced to innovate new technologies, which attracted consumers to their enterprise. Though adopting new technology has fewer benefits, the technological gap has severe disadvantages. Employing technological innovations such as new machinery in the market, new distribution channels, new models of packaging, and attracting consumers through innovative advertisement and pricing determines the firm's position in the market.

4. CONCLUSION

PEST analysis of a firm adds greater value to a firm. From the study, it was observed that the AP state government is striving hard to provide high-quality infrastructure and a friendly environment for the industries. After demonetization and the pandemic, most of the people were unemployed, and their reduced income and the increased cost of living were the major factors that affected the position of an enterprise to a greater extent. Eventually, to sustain itself in this technologically advanced competitive world, an enterprise must adopt innovative techniques. Thus, it can be concluded that all the political, economic, social, and technological factors in the micro-food processing sector of Andhra Pradesh encourage the emergence of business startups, by which the state government provides direct and indirect employment to the people of the state.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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