Business Studies

Part II

Business Finance and Marketing

Textbook for Class XII

12114

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एन सी ई आर टी
NCERT

राष्ट्रीय शैक्षिक अनुसंधान और प्रशिक्षण परिषद्
NATIONAL COUNCIL OF EDUCATIONAL RESEARCH AND TRAINING

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First Edition
May 2007 Jyaistha 1929

Reprinted
February 2008 Magha 1929
March 2009 Chaitra 1929
January 2010 Magha 1931
January 2011 Magha 1932
January 2012 Magha 1933
January 2013 Pausha 1934
November 2013 Kartika 1935
January 2015 Magha 1936
May 2016 Vaishakha 1938
January 2018 Magha 1939
February 2019 Phalguna 1940
November 2019 Agrahayana 1941

PD 300T BS

₹ 80.00

Printed on 80 GSM paper with NCERT watermark

Published at the Publication Division by the Secretary, National Council of Educational Research and Training, Sri Aurobindo Marg, New Delhi 110 016 and printed at Aadarsh Private Limited, Plot No. 106, 107 & 108, Sector-1, Govindpura Industrial Area, Bhopal 462 023 (M.P.)

ISBN 81-7450-697-7 (Part I)
81-7450-756-6 (Part II)

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FOREWORD

The National Curriculum Framework (NCF), 2005, recommends that children's life at school must be linked to their life outside the school. This principle marks a departure from the legacy of bookish learning which continues to shape our system and causes a gap between the school, home and community. The syllabi and textbooks developed on the basis of NCF signify an attempt to implement this basic idea. They also attempt to discourage rote learning and the maintenance of sharp boundaries between different subject areas. We hope these measures will take us significantly further in the direction of a child-centred system of education outlined in the National Policy on Education (1986).

The success of this effort depends on the steps that school principals and teachers will take to encourage children to reflect on their own learning and to pursue imaginative activities and questions. We must recognise that, given space, time and freedom, children generate new knowledge by engaging with the information passed on to them by adults. Treating the prescribed textbook as the sole basis of examination is one of the key reasons why other resources and sites of learning are ignored. Inculcating creativity and initiative is possible if we perceive and treat children as participants in learning, not as receivers of a fixed body of knowledge.

These aims imply considerable change in school routines and mode of functioning. Flexibility in the daily time-table is as necessary as rigour in implementing the annual calendar so that the required number of teaching days are actually devoted to teaching. The methods used for teaching and evaluation will also determine how effective this textbook proves for making children's life at school a happy experience, rather than a source of stress or boredom. Syllabus designers have tried to address the problem of curricular burden by restructuring and reorienting knowledge at different stages with greater consideration for child psychology and the time available for teaching. The textbook attempts to enhance this endeavour by giving higher priority and space to opportunities for contemplation and wondering, discussion in small groups, and activities requiring hands-on experience.

The National Council of Educational Research and Training (NCERT) appreciates the hardwork done by the textbook development committee responsible for this book. We wish to thank the Chairperson of the advisory group in Social Sciences Professor Hari Vasudevan and the Chief Advisor for this book, D.P.S. Verma, *Professor* (Retd.), Delhi School of Economics, University of Delhi, and Dr. G.L. Tayal, *Reader*, Ramjas College, University of Delhi, for guiding the work of this committee. Several teachers contributed to the development of this textbook; we are grateful to their principals for making this possible. We are indebted to the institutions and organisations which have generously permitted us to draw upon their resources, material and personnel. We are especially grateful to the members of the National Monitoring Committee, appointed by the Department of Secondary and Higher Education, Ministry of Human Resource Development, under the chairpersonship of Professor Mrinal Miri and Professor. G.P. Deshpande, for their valuable time and contribution. As an organisation committed to systemic reform and continuous improvement in the quality of its products, NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement.

Director
National Council of Educational
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New Delhi
20 November 2006

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Acknowledgements

The National Council of Educational Research and Training acknowledges the valuable contributions of the *Textbook Development Commiteee*, which took considerable pain in the development and review of manuscript as well.

Thanks are due to Savita Sinha *Professor* and *Head*, Department of Education in Social Science for her guidance and constant support at every stage of the textbook development process. The textbook has been reworked and updated at appropriate point of time in the context of recent development in business scenario and the Compaines Act 2013. The contribution of practcing teacher of Business Studies is also duly acknowledged for develping e-resourses for QR Codes.

The contribution of APC Office, Administration, Publication Division, and Secretariat of NCERT are also duly acknowledged for bringing out the updated textbook of Business Studies.

Note to the Teacher

This textbook is expected to provide a good understanding of the environment in which a business operates. A manager has to analyse the complex, dynamic situations in which a business is placed. Therefore, content enrichment in the form of business news and abstracts of articles from business journals and magazines has been given as inset material (boxes). This will encourage students to be observant about all business activity and discover what is happening in business organisations with the expectation that they will update their knowledge through the use of libraries, newspapers, business oriented TV programmes and the Internet. Various types of questions are given and case problems have been introduced to test the application of subject knowledge to realistic business situations.

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Contents (Part I)

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CHAPTER

9

FINANCIAL MANAGEMENT

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the meaning of business finance;
- describe financial management;
- explain the role of financial management in our enterprise;
- discuss objectives of financial management and how they could be achieved;
- explain the meaning and importance of financial planning;
- state the meaning of capital structure;
- analyse the factors affecting the choice of an appropriate capital structure;
- state meaning of fixed capital and working capital; and
- analyse the factors affecting the requirement of fixed and working capital.

WHEN TATA STEEL ACQUIRED CORUS

Tata Steel, the biggest steel producer in the Indian private sector has acquired Corus, (formerly known as British Steel) in a deal worth $8.6 billion in 2007. This makes Tata Steel the fifth largest steel producer in the world. A financial decision of this magnitude has significant implicitness for both Tata Steel and Corus as well as their employees and shareholders. To mention some of them:

- Tata Steel raised a debt of over $8 billion to finance the transaction. The deal will be paid for by Tata Steel UK, a special purpose vehicle (SPV) set up for the purpose. This SPV received funds from Tata Steel routed through a Singapore subsidiary. Another company of the Tata group, Tata Sons Ltd., invested $ 1 billion dollars for preference shares along with Tata Steel which will invest an equal amount.
- Tata Steel, the acquirer company, arranged about 36,500 crores of rupees to finance the take-over.
- Tata Steel raised this amount through debt or equity or a combination of both. Some amount came from internal accruals also. This financing decision affected the capital structure of Tata Steel.
- Needless to emphasise, decisions like this affect the future of the organisation. These decisions are almost irrevocable after they have been formalised.

Source: The Economic Times

Introduction

In the above case, these decisions require careful financial planning, an understanding of the resultant capital structure and the riskiness and profitability of the enterprise. All these have a bearing on shareholders as well as employees. They require an understanding of business finance, major financial decision areas, financial risk, and working capital requirements of the business. Finance, as we all know, is essential for running a business. Success of business depends on how well finance is invested in assets and operations and how timely and cheaply the finances are arranged, from outside or from within the business.

Meaning of Business Finance

Money required for carrying out business activities is called business finance. Almost all business activities require some finance. Finance is needed to establish a business, to run it, to modernise it, to expand, or diversify it. It is required for buying a variety of assets, which may be tangible like machinery, factories, buildings, offices; or intangible such as trademarks, patents, technical expertise, etc. Also, finance is central to running the day-to-day operations of business, like buying material, paying bills, salaries, collecting cash from customers, etc. needed at every stage in the life of a business entity. Availability of adequate finance is, thus, very crucial for the survival and growth of a business.

Financial Management

All finance comes at some cost. It is quite imperative that it needs to be carefully managed. Financial Management is concerned with optimal procurement as well as the usage of finance. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks. Similarly, the finance so procured needs to be invested in a manner that the returns from the investment exceed the cost at which procurement has taken place. Financial Management aims at reducing the cost of funds procured, keeping the risk under control and achieving effective deployment of such funds. It also aims at ensuring availability of enough funds whenever required as well as avoiding idle finance. Needless to emphasise, the future of a business depends a great deal on the quality of its financial management.

Importance: The role of financial management cannot be over-emphasised, since it has a direct bearing on the financial health of a business. The financial statements, such as Balance Sheet and Profit and Loss Account, reflect a firm's financial position and its financial health. Almost all items in the financial statements of a business are affected directly or indirectly through some financial management decisions. Some prominent examples of the aspects being affected could be as under:

(i) *The size* and *the composition of fixed assets of the business:* For example, a capital budgeting decision to invest a sum of Rs. 100 crores in fixed assets would raise the size of fixed assets block by this amount.

(ii) *The quantum of current assets and its break-up into cash, inventory and receivables:* With an increase in the investment in fixed assets, there is a commensurate increase in the working capital requirement. The quantum of current assets is also influenced by financial management decisions. In addition, decisions about credit and inventory management affect the amount of debtors and inventory which in turn affect the total current assets as well as their composition.

(iii) *The amount of long-term and short- term funds to be used:* Financial management, among others, involves decision about the proportion of long-term and short-term funds. An organisation wanting to have more liquid assets would raise relatively more amount on a long-term basis. There is a choice between liquidity and profitability. The underlying assumption here is that current liabilities cost less than long term liabilities.

(iv) *Break-up of long-term financing into debt, equity etc:* Of the total long-term finance, the proportions to be raised by way of debt and/or equity is also a financial management decision. The amounts of debt, equity share capital, preference share capital are affected by the financing decision, which is a part of financing management.

(v) *All items in the Profit and Loss Account, e.g., Interest, Expense, Depreciation, etc. :* Higher amount of debt means higher interest expense in future. Similarly, use of higher equity may entail higher payment of dividends. Similarly, an expansion of business which is a result of capital budgeting decision is likely to affect virtually all items in the profit and loss account of the business.

It can, thus, be stated that the financial statements of a business are largely determined by financial management decisions taken earlier. Similarly, the future financial statements would depend upon past as well as current financial decisions. Thus, the overall financial health of a business is determined by the quality of its financial management. Good financial management aims at mobilisation of financial resources at a lower cost and deployment of these in most lucrative activities.

OBJECTIVES

The primary aim of financial management is to maximise shareholders' wealth, which is referred to as the wealth-maximisation concept. The market price of a company's shares is linked to the three basic financial decisions which you will study a little later. This is because a company funds belong to the shareholders and the manner in which they are invested and the return earned by them determines their market value and price. It means maximisation of the market value of equity shares. The market price of equity share increases, if the benefit from a decision exceeds the cost involved. All financial decisions aim at ensuring that each decision is efficient and adds some value. Such value additions tend to increase the market price of shares. Therefore, those financial decisions are taken which will ultimately prove gainful from the point of view of the shareholders. The shareholders gain if the value of shares in the market increases. Those decisions which result in decline in the share price are poor financial decisions. Thus, we can say, the objective of financial management is to maximise the current price of equity shares of the company or to maximise the wealth of owners of the company, that is, the shareholders.

Therefore, when a decision is taken about investment in a new machine, the aim of financial management is to ensure that benefits from the investment exceed the cost so that some value addition takes place. Similarly, when finance is procured, the aim is to reduce the cost so that the value addition is even higher.

In fact, in all financial decisions, major or minor, the ultimate objective that guides the decision-maker is that some value addition should take place. All those avenues of investment, modes of financing, ways of handling various components of working capital must be identified which will ultimately lead to an increase in the price of equity share. It can happen through efficient decision-making. Decision-making is efficient if, out of the various available alternatives, the best is selected.

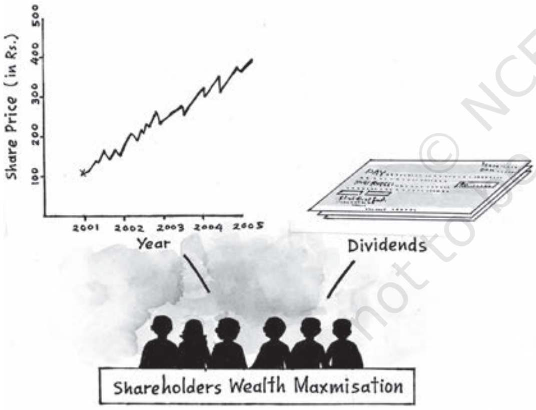
Financial Decisions

Financial management is concerned with the solution of three major issues relating to the financial operations of a firm corresponding to the three questions of investment, financing and divident decision. In a financial context, it means the selection of best financing alternative or best investment alternative. The finance function, therefore, is concerned with three broad decisions which are explained below:

Investment Decision

A firm's resources are scarce in comparison to the uses to which they can be put. A firm, therefore, has to choose where to invest these resources, so that they are able to earn the highest possible return for their investors. The investment decision, therefore, relates to how the firm's funds are invested in different assets.

Investment decision can be long-term or short-term. A long-term investment decision is also called a Capital Budgeting decision. It involves committing the finance on a long-term basis. For example, making investment in a new machine to replace an existing one or acquiring a new fixed asset or opening a new branch, etc. These decisions are very crucial for any business since they affect its earning capacity in the long run. The size of assets, profitability and competitiveness are all affected by capital budgeting decisions. Moreover, these decisions normally involve huge amounts of investment and are irreversible except at a huge cost. Therefore, once made, it is often almost impossible for a business to wriggle out of such decisions. Therefore, they need to be taken with utmost care. These



Wealth Maximisation Concept

decisions must be taken by those who understand them comprehensively. A bad capital budgeting decision normally has the capacity to severely damage the financial fortune of a business. *Short-term* investment decisions (also called working capital decisions) are concerned with the decisions about the levels of cash, inventory and receivables. These decisions affect the day-to-day working of a business. These affect the liquidity as well as profitability of a business. Efficient cash management, inventory management and receivables management are essential ingredients of sound working capital management.

Factors affecting Capital Budgeting Decision

A number of projects are often available to a business to invest in. But each project has to be evaluated carefully and, depending upon the returns, a particular project is either selected or rejected. If there is only one project, its viability in terms of the rate of return, viz., investment and its comparability with the industry's average is seen. There are certain factors which affect capital budgeting decisions.

(a) *Cash flows of the project:* When a company takes an investment decision involving huge amount it expects to generate some cash flows over a period. These cash flows are in the form of a series of cash receipts and payments over the life of an investment. The amount of these cash flows should be carefully analysed before considering a capital budgeting decision.

(b) *The rate of return:* The most important criterion is the rate of return of the project. These calculations are based on the expected returns from each proposal and the assessment of the risk involved. Suppose, there are two projects, A and B (with the same risk involved), with a rate of return of 10 per cent and 12 per cent, respectively, then under normal circumstance, project B should be selected.

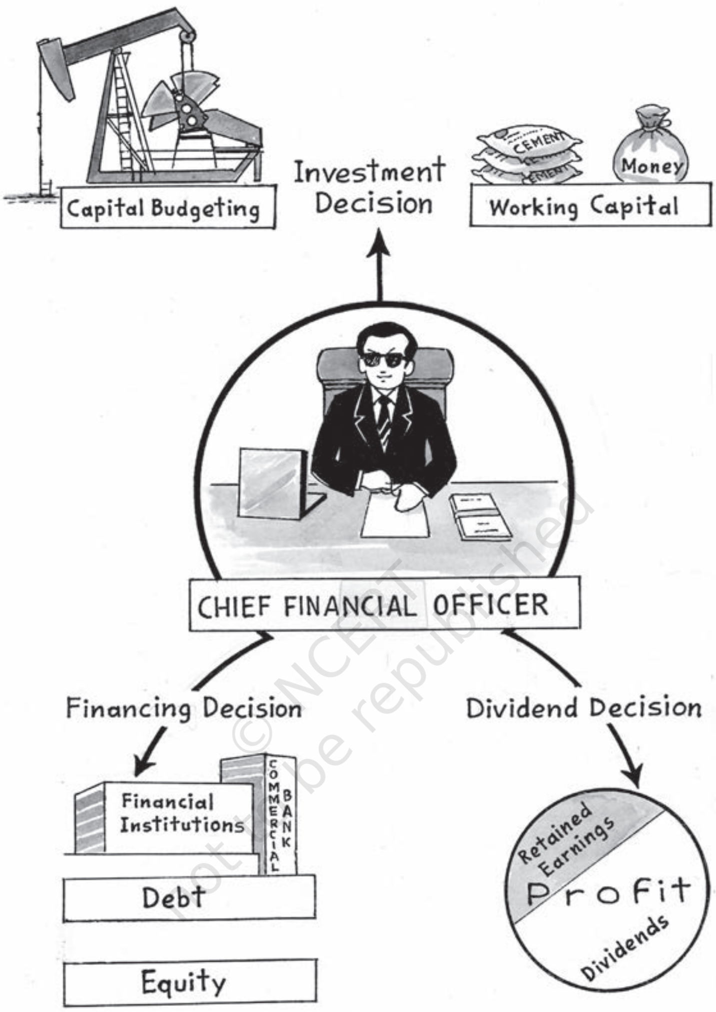
(c) *The investment criteria involved:* The decision to invest in a particular project involves a number of calculations regarding the amount of investment, interest rate, cash flows and rate of return. There are different techniques to evaluate investment proposals which are known as capital budgeting techniques. These techniques are applied to each proposal before selecting a particular project.

Financing Decision

This decision is about the quantum of finance to be raised from various long-term sources. Short-term sources are studied under the 'working capital management'.

It involves identification of various available sources. The main sources of funds for a firm are shareholders' funds and borrowed funds. The shareholders' funds refer to the equity capital and the retained earnings. Borrowed funds refer to the finance raised through debentures or other forms of debt. A firm has to decide the proportion of funds to be raised from either sources, based on their basic characteristics. Interest on borrowed funds have to be paid regardless of whether or not a firm has earned a profit. Likewise, the borrowed funds have to be repaid at a fixed time. The risk of default on payment is known as financial risk which has to be considered by a firm likely to have insufficient shareholders to make these fixed payments. Shareholders' funds, on the other hand, involve no commitment regarding the payment of returns or the repayment of capital. A firm, therefore, needs to have a judicious mix of both debt and equity in making financing decisions, which may be debt, equity, preference share capital, and retained earnings.

The cost of each type of finance has to be estimated. Some sources may be cheaper than others. For example, debt is considered to be the cheapest of all the sources, tax deductibility of interest makes it still cheaper. Associated risk is also different for each source, e.g., it is necessary to pay interest on debt and redeem the principal amount on maturity. There is no such compulsion to pay any dividend on equity shares. Thus, there is some amount of financial risk in debt financing. The overall financial risk depends upon the proportion of debt in the total capital. The fund raising exercise also costs something. This cost is called floatation cost. It also must be considered while evaluating different sources. Financing decision is, thus, concerned with the decisions about how much to be raised from which source. This decision determines the overall cost of capital and the financial risk of the enterprise.



Financial Decisions

Factors Affecting Financing Decisions

The financing decisions are affected by various factors. Important among them are as follows:

(a) *Cost:* The cost of raising funds through different sources are different. A prudent financial manager would normally opt for a source which is the cheapest.

(b) *Risk:* The risk associated with each of the sources is different.

(c) *Floatation Costs:* Higher the floatation cost, less attractive the source.

(d) *Cash Flow Position of the Company:* A stronger cash flow position may make debt financing more viable than funding through equity.

(e) *Fixed Operating Costs:* If a business has high fixed operating costs (e.g., building rent, Insurance premium, Salaries, etc.), It must reduce fixed financing costs. Hence, lower debt financing is better. Similarly, if fixed operating cost is less, more of debt financing may be preferred.

(f) *Control Considerations:* Issues of more equity may lead to dilution of management's control over the business. Debt financing has no such implication. Companies afraid of a takeover bid would prefer debt to equity.

(g) *State of Capital Market:* Health of the capital market may also affect the choice of source of fund. During the period when stock market is rising, more people invest in equity. However, depressed capital market may make issue of equity shares difficult for any company.

Dividend Decision

The third important decision that every financial manager has to take relates to the distribution of dividend. Dividend is that portion of profit which is distributed to shareholders. The decision involved here is how much of the profit earned by company (after paying tax) is to be distributed to the shareholders and how much of it should be retained in the business. While the dividend constitutes the current income re-investment as retained earning

India Inc. Issues Bonus Shares and Dividends

Corporate India has opened its purse strings to shareholders with interim dividends and bonus shares. At least 60 companies have declared interim dividend or announced plans to do so in the first three weeks of January. In addition, around 12 companies have announced bonus share issues this month, about three times more than January 2006.

There are range of things that a company can do for maximising shareholder value and dividend is the most direct and simple form of it. Ideally companies need to balance it up between paying cash and building value of the stock for total shareholder returns.

This trend of dividends and bonuses is in synchronisation with the good profits being posted by companies. It's a way of rewarding shareholders.

A number of companies have also announced plans of bonus shares for their shareholders. Most of the companies who have already declared bonus issues or announced that they would be taking it up in their next board meeting are small or mid-sized companies.

Source: The Economic Times

increases the firm's future earning capacity. The extent of retained earnings also influences the financing decision of the firm. Since the firm does not require funds to the extent of re-invested retained earnings, the decision regarding dividend should be taken keeping in view the overall objective of maximising shareholder's wealth.

Factors Affecting Dividend Decision

How much of the profits earned by a company will be distributed as profit and how much will be retained in the business is affected by many factors. Some of the important factors are discussed as follows:

(a) *Amount of Earnings:* Dividends are paid out of current and past earning. Therefore, earnings is a major determinant of the decision about dividend.

(b) *Stability Earnings:* Other things remaining the same, a company having stable earning is in a better position to declare higher dividends. As against this, a company having unstable earnings is likely to pay smaller dividend.

(c) *Stability of Dividends:* Companies generally follow a policy of stabilising dividend per share. The increase in dividends is generally made when there is confidence that their earning potential has gone up and not just the earnings of the current year. In other words, dividend per share is not altered if the change in earnings is small or seen to be temporary in nature.

(d) *Growth Opportunities:* Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment. The dividend in growth companies is, therefore, smaller, than that in the non–growth companies.

(e) *Cash Flow Position:* The payment of dividend involves an outflow of cash. A company may be earning profit but may be short on cash. Availability of enough cash in the company is necessary for declaration of dividend.

(f) *Shareholders' Preference:* While declaring dividends, managements must keep in mind the preferences of the shareholders in this regard. If the shareholders in general desire that at least a certain amount is paid as dividend, the companies are likely to declare the same. There are always some shareholders who depend upon a regular income from their investments.

(g) *Taxation Policy:* The choice between the payment of dividend and retaining the earnings is, to some extent, affected by the difference in the tax treatment of dividends and capital gains. If tax on dividend is higher, it is better to pay less by way of dividends. As compared to this, higher dividends may be declared if tax rates are relatively lower. Though the dividends are free of tax in the hands of shareholders, a dividend distribution tax is levied on companies. Thus, under the present tax policy, shareholders are likely to prefer higher dividends.

(h) *Stock Market Reaction:* Investors, in general, view an increase in dividend as a good news and stock prices react positively to it. Similarly, a decrease in dividend may have a negative impact on the share prices in the stock market. Thus, the possible impact of dividend policy on the equity share price is one of the important factors considered by the management while taking a decision about it.

(i) *Access to Capital Market:* Large and reputed companies generally have easy access to the capital market and, therefore, may depend less on retained earning to finance their growth. These companies tend to pay higher dividends than the smaller companies which have relatively low access to the market.

(j) *Legal Constraints:* Certain provisions of the Companies Act place restrictions on payouts as dividend. Such provisions must be adhered to while declaring the dividend.

(k) *Contractual Constraints:* While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future. The companies are required to ensure that the dividend does not violate the terms of the loan agreement in this regard.

Financial Planning

Financial planning is essentially the preparation of a financial blueprint of an organisation's future operations. The objective of financial planning is to ensure that enough funds are available at right time. If adequate funds are not available the firm will not be able to honour its commitments and carry out its plans. On the other hand, if excess funds are available, it will unnecessarily add to the cost and may encourage wasteful expenditure. It must be kept in mind that financial planning is not equivalent to, or a substitute for, financial management. Financial management aims at choosing the best investment and financing alternatives by focusing on their costs and benefits. Its objective is to increase the shareholders' wealth. Financial planning on the other hand aims at smooth operations by focusing on fund requirements and their availability in the light of financial decisions. For example, if a capital budgeting decisions is taken, the operations are likely to be at a higher scale. The amount of expenses and revenues are likely to increase. Financial planning process tries to forecast all the items which are likely to undergo changes. It enables the management to foresee the fund requirements both the quantum as well as the timing. Likely shortage and surpluses are forecast so that necessary activities are taken in advance to meet those situations.

Thus, financial planning strives to achieve the following twin objectives.

(a) *To ensure availability of funds whenever required:* This include a proper estimation of the funds required for different purposes such as for the purchase of long-term assets or to meet day-to-day expenses of business etc. Apart from this, there is a need to estimate the time at which these funds are to be made available. Financial planning also tries to specify possible sources of these funds.

(b) *To see that the firm does not raise resources unnecessarily:* Excess funding is almost as bad as inadequate funding. Even if there is some surplus money, good financial planning would put it to the best possible use so that the financial resources are not left idle and don't unnecessarily add to the cost.

Thus, a proper matching of funds requirements and their availability is sought to be achieved by financial planning. This process of estimating the fund requirement of a business and specifying the sources of funds is called financial planning. Financial planning takes into consideration the growth, performance, investments and requirement of funds for a given period. Financial planning includes both short-term as well as long-term planning. Long-term planning relates to long term growth and investment. It focuses on capital expenditure programmes. Short-term planning covers short-term financial plan called budget.

Typically, financial planning is done for three to five years. For longer periods it becomes more difficult and less useful. Plans made for periods of one year or less are termed as budgets. Budgets are example of financial planning exercise in greater details. They include detailed plan of action for a period of one year or less.

Financial planning usually begins with the preparation of a sales forecast. Let us suppose a company is making a financial plan for the next five years. It will start with an estimate of the sales which are likely to happen in the next five years. Based on these, the financial statements are prepared keeping in mind the requirement of funds for investment in the fixed capital and working capital. Then the expected profits during the period are estimated so that an idea can be made of how much of the fund requirements can be met internally i.e., through retained earnings (after dividend payouts). This results in an estimation of the requirement for external funds. Further, the sources from which the external funds requirement can be met are identified and cash budgets are made, incorporating these factors.

Importance

Financial planning is an important part of overall planning of any business enterprise. It aims at enabling the company to tackle the uncertainty in respect of the availability and timing of the funds and helps in smooth functioning of an organisation. The importance of financial planning can be explained as follows:

(i) It helps in forecasting what may happen in future under different business situations. By doing so, it helps the firms to face the eventual situation in a better way. In other words, it makes the firm better prepared to face the future. For example, a growth of 20% in sales is predicted. However, it may happen that the growth rate eventually turns out to be 10% or 30%. Many items of expenses shall be different in these three situations. By preparing a blueprint of these three situations the management may decide what must be done in each of these situations. This preparation of alternative financial plans to meet different situations is clearly of

Cutting Back on Debt

Even successful businesses have debt, but how much is too much? Learning how to manage debt is what can put you ahead.

Taking on the right amount of debt can mean the difference between a business struggling to survive and one that can respond nimbly to changing economic or market conditions. A number of circumstances may justify acquiring debt. As a general rule, borrowing makes the most sense when you need to bolster cash flow or finance growth or expansion. But while debt can provide the leverage you need to grow, too much debt can strangle your business. So the question is: How much debt is too much?

The answer, experts say, lies in a careful analysis of your cash flow as well as your industry. A business that doesn't grow dies. You've got to grow, but you've got to grow within the financial constraints of your business. What is the ideal capital structure a business needs in its industry to remain viable? The higher the volatility (in your industry), the less debt you should have. The smaller the volatility, the more debt you can afford.

Although banks and other financial institutions look for a satisfactory debt-to-equity ratio before agreeing to make a loan, don't assume a creditor's willingness to extend funds is evidence that your business is in a strong debt position. Some financial institutions are overzealous lenders, particularly when trying to lure or hold on to promising business customers. "The bank may be looking more at collateral than whether the (business's) earnings are going to come in to justify the debt service.

To avoid these and other credit pitfalls, it's up to you to get the financial facts on your business and make sound borrowing decisions. Unfortunately, many entrepreneurs fail to recognise how important financial analysis is to running a successful business. Even business owners who receive detailed financial statements from their accountants often do not take advantage of the valuable information contained in the documents.

immense help in running the business smoothly.

(ii) It helps in avoiding business shocks and surprises and helps the company in preparing for the future.

(iii) If helps in co-ordinating various business functions, e.g., sales and production functions, by providing clear policies and procedures.

(iv) Detailed plans of action prepared under financial planning reduce waste, duplication of efforts, and gaps in planning.

(v) It tries to link the present with the future.

(vi) It provides a link between investment and financing decisions on a continuous basis.

(vii) By spelling out detailed objectives for various business segments, it makes the evaluation of actual performance easier.

Capital Structure

One of the important decisions under financial management relates to the financing pattern or the proportion of the use of different sources in raising funds. On the basis of ownership, the sources of business finance can be broadly classified into two categories viz., 'owners' funds' and 'borrowed funds'. Owners' funds consist of equity share capital, preference share capital and reserves and surpluses or retained earnings. Borrowed funds can be in the form of loans, debentures, public deposits etc. These may be borrowed from banks, other financial institutions, debentureholders and public.

Capital structure refers to the mix between owners and borrowed funds. These shall be referred as equity and debt in the subsequent text. It can be calculated as debt-equity ratio i.e., $\left(\frac{\text{Debt}}{\text{Equity}}\right)$ or as the proportion of debt out of the total capital i.e., $\left(\frac{\text{Debt}}{\text{Debt} + \text{Equity}}\right)$.

Debt and equity differ significantly in their cost and riskiness for the firm. The cost of debt is lower than the cost of equity for a firm because the lender's risk is lower than the equity shareholder's risk, since the lender earns an assured return and repayment of capital and, therefore, they should require a lower rate of return. Additionally, interest paid on debt is a deductible expense for computation of tax liability whereas dividends are paid out of after-tax profit. Increased use of debt, therefore, is likely to lower the over-all cost of capital of the firm provided that the cost of equity remains unaffected. Impact of a change in the debt-equity ratio upon the earning per share is dealt with in detail later in this chapter.

Debt is cheaper but is more risky for a business because the payment of interest and the return of principal is obligatory for the business. Any default in meeting these commitments may force the business to go into liquidation. There is no such compulsion in case of equity, which is therefore, considered riskless for the business. Higher use of debt increases the fixed financial charges of a business. As a result, increased use of debt increases the financial risk of a company.

Financial risk is the chance that a firm would fail to meet its payment obligations.

Capital structure of a company, thus, affects both the profitability and the financial risk. A capital structure will be said to be optimal when the proportion of debt and equity is such that it results in an increase in the value of the equity share. In other words, all decisions relating to capital structure should emphasise on increasing the shareholders' wealth.

The proportion of debt in the overall capital is also called financial leverage.

Example I

Company X Ltd.

Total Funds used	Rs. 30 Lakh
Interest rate	10% p.a.
Tax rate	30%
EBIT	Rs. 4 Lakh
Debt	
Situation I	Nil
Situation II	Rs. 10 Lakh
Situation III	Rs. 20 Lakh

EBIT-EPS Analysis

	Situation I	**Situation II**	**Situation III**
EBIT	4,00,000	4,00,000	4,00,000
Interest	NIL	1,00,000	2,00,000
EBT	4,00,000	3,00,000	2,00,000
(Earnings before taxes)			
Tax	1,20,000	90,000	60,000
EAT	2,80,000	2,10,000	1,40,000
(Earnings after taxes)			
No. of shares of Rs.10	3,00,000	2,00,000	1,00,000
EPS	0.93	1.05	1.40
(Earnings per share)			

Financial leverage is computed as $\frac{D}{E}$ or $\frac{D}{D+E}$ when D is the Debt and E is the Equity. As the financial leverage increases, the cost of funds declines because of increased use of cheaper debt but the financial risk increases. The impact of financial leverage on the profitability of a business can be seen through EBIT-EPS (Earning before Interest and Taxes-Earning per Share) analysis as in the following example.

Three situations are considered. There is no debt in situation-I i.e. (unlevered business). Debt of Rs. 10 lakh and 20 lakh are assumed in situations-II and III, respectively. All debt is at 10% p.a.

The company earns Rs. 0.93 per share if it is unlevered. With debt of Rs. 10 lakh its EPS is Rs. 1.05. With a still higher debt of Rs. 20 lakh, its, EPS rises to Rs. 1.40. Why is the EPS rising with higher debt? It is because the cost of debt is lower than the return that company is earning on funds employed. The company is earning a return on investment (RoI) of 13.33% $\left(\frac{\text{EBIT}}{\text{Total Investment}} \times 100\right)$, $\left(\frac{\text{4Lakh}}{\text{30Lakh}} \times 100\right)$. This is higher than the 10% interest it is paying on debt funds. With higher use of debt, this difference between RoI and cost of debt increases the EPS. This is a situation of favourable financial leverage. In such cases, companies often employ more of cheaper debt to enhance the EPS. Such practice is called Trading on Equity.

Trading on Equity refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest.

Now consider the following case of Company Y. All details are the same except that the company is earning a profit before interest and taxes of Rs. 2 lakh.

Example II

Company Y Ltd.

	Situation I	Situation II	Situation III
EBIT	2,00,000	2,00,000	2,00,000
Interest	NIL	1,00,000	2,00,000
EBT	2,00,000	1,00,000	NIL
Tax	60,000	30,000	NIL
EAT	1,40,000	70,000	NIL
No. of shares of Rs.10	3,00,000	2,00,000	1,00,000
EPS	0.47	0.35	NIL

In this example, the EPS of the company is falling with increased use of debt. It is because the Company's rate of return on investment (RoI) is less than the cost of debt. The RoI for company Y is $\frac{2\text{Lakh}}{30\text{Lakh}} \times 100$, i.e., 6.67%, whereas the interest rate on debt is 10%. In such cases, the use of debt reduces the EPS. This is a situation of unfavourable financial leverage. Trading on Equity is clearly unadvisable in such a situation.

Even in case of Company X, reckless use of Trading on Equity is not recommended. An increase in debt may enhance the EPS but as pointed out earlier, it also raises the financial risk. Ideally, a company must choose that risk-return combination which maximises shareholders' wealth. The debt-equity mix that achieves it, is the optimum capital structure.

Factors affecting the Choice of Capital Structure

Deciding about the capital structure of a firm involves determining the relative proportion of various types of funds. This depends on various factors. For example, debt requires regular servicing. Interest payment and repayment of principal are obligatory on a business. In addition a company planning to raise debt must have sufficient cash to meet the increased outflows because of higher debt. Similarly, important factors which determine the choice of capital structure are as follows:

1. Cash Flow Position: Size of projected cash flows must be considered before borrowing. Cash flows must not only cover fixed cash payment obligations but there must be sufficient buffer also. It must be kept in mind that a company has cash payment obligations for (i) normal business operations; (ii) for investment in fixed assets; and (iii) for meeting the debt service commitments i.e., payment of interest and repayment of principal.

2. Interest Coverage Ratio (ICR): The interest coverage ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation. This may be calculated as follows:

$$\text{ICR} = \frac{\text{EBIT}}{\text{Interest}}$$

The higher the ratio, lower shall be the risk of company failing to meet its interest payment obligations. However, this ratio is not an adequate measure. A firm may have a high EBIT but low cash balance. Apart from interest, repayment obligations are also relevant.

3. Debt Service Coverage Ratio (DSCR): Debt Service Coverage Ratio takes care of the deficiencies referred to in the Interest Coverage Ratio (ICR). The cash profits generated by the operations are compared with the total cash required for the service of the debt and the preference share capital. It is calculated as follows:

$$\frac{\text{Profit after tax + Depreciation + Interest + Non Cash exp.}}{\text{Pref. Div + Interest + Repayment obligation}}$$

A higher DSCR indicates better ability to meet cash commitments and consequently, the company's potential to increase debt component in its capital structure.

4. Return on Investment (RoI): If the RoI of the company is higher, it can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater. We have already observed in Example I that a firm can use more debt to increase its EPS. However, in Example II, use of higher debt is reducing the EPS. It is because the firm is earning an RoI of only 6.67% which lower than its cost of debt. In example I the RoI is 13.33%, and trading on equity is profitable. It shows that, RoI is an important determinant of the company's ability to use Trading on equity and thus the capital structure.

5. Cost of debt: A firm's ability to borrow at a lower rate increases its capacity to employ higher debt. Thus, more debt can be used if debt can be raised at a lower rate.

6. Tax Rate: Since interest is a deductible expense, cost of debt is affected by the tax rate. The firms in our examples are borrowing @ 10%. Since the tax rate is 30%, the after tax cost of debt is only 7%. A higher tax rate, thus, makes debt relatively cheaper and increases its attraction vis-à-vis equity.

7. Cost of Equity: Stock owners expect a rate of return from the equity which is commensurate with the risk they are assuming. When a company increases debt, the financial risk faced by the equity holders, increases. Consequently, their desired rate of return may increase. It is for this reason that a company can not use debt beyond a point. If debt is used beyond that point, cost of equity may go up sharply and share price may decrease inspite of increased EPS. Consequently, for maximisation of shareholders' wealth, debt can be used only upto a level.

8. Floatation Costs: Process of raising resources also involves some cost. Public issue of shares and debentures requires considerable expenditure. Getting a loan from a financial institution may not cost so much. These considerations may also affect the choice between debt and equity and hence the capital structure.

9. Risk Consideration: As discussed earlier, use of debt increases the financial risk of a business. Financial risk refers to a position when a company is unable to meet its fixed financial charges namely interest payment, preference dividend and repayment obligations. Apart from the financial risk, every business has some operating risk (also called business risk). Business risk depends upon fixed operating costs. Higher fixed operating costs result in higher business risk and vice-versa. The total risk depends upon both the business risk and the financial risk. If a firm's business risk is lower, its capacity to use debt is higher and vice-versa.

10. Flexibility: If a firm uses its debt potential to the full, it loses flexibility to issue further debt. To maintain flexibility, it must maintain some borrowing power to take care of unforeseen circumstances.

11. Control: Debt normally does not cause a dilution of control. A public issue of equity may reduce the managements' holding in the company and make it vulnerable to takeover. This factor also influences the choice between debt and equity especially in companies in which the current holding of management is on a lower side.

12. Regulatory Framework: Every company operates within a regulatory framework provided by the law e.g., public issue of shares and debentures have to be made under SEBI guidelines. Raising funds from banks and other financial institutions require fulfillment of other norms. The relative ease with which these norms can, be met or the procedures completed may also have a bearing upon the choice of the source of finance.

13. Stock Market Conditions: If the stock markets are bullish, equity shares are more easily sold even at a higher price. Use of equity is often preferred by companies in such a situation. However, during a bearish phase, a company, may find raising of equity capital more difficult and it may opt for debt. Thus, stock market conditions often affect the choice between the two.

14. Capital Structure of other Companies: A useful guideline in the capital structure planning is the debt-equity ratios of other companies in the same industry. There are usually some industry norms which may help. Care however must be taken that the company does not follow the industry norms blindly. For example, if the business risk of a firm is higher, it can not afford the same financial risk. It should go in for low debt. Thus, the management must know what the industry norms are, whether they are following them or deviating from them and adequate justification must be there in both cases.

Fixed and Working Capital

Meaning

Every company needs funds to finance its assets and activities. Investment is required to be made in fixed assets and current assets. Fixed assets are those which remains in the business for more than one year, usually for much longer, e.g., plant and machinery, furniture and fixture, land and building, vehicles, etc.

Decision to invest in fixed assets must be taken very carefully as the investment is usually quite large. Such decisions once taken are irrevocable except at a huge loss. Such decisions are called capital budgeting decisions.

Current assets are those assets which, in the normal routine of the business, get converted into cash or cash equivalents within one year, e.g., inventories, debtors, bills receivables, etc.

Management of Fixed Capital

Fixed capital refers to investment in long-term assets. Management of fixed capital involves allocation of firm's capital to different projects or assets with long-term implications for the business. These decisions are called investment decisions or capital budgeting decisions and affect the growth, profitability and risk of the business in the long run. These long-term assets last for more than one year.

It must be financed through long-term sources of capital such as equity or preference shares, debentures, long-term loans and retained earnings of the business. Fixed Assets should never be financed through short-term sources.

Investment in these assets would also include expenditure on acquisition, expansion, modernisation and their replacement. These decisions include purchase of land, building, plant and machinery, launching a new product line or investing in advanced techniques of production. Major expenditures such as those on advertising campaign or research and development programme having long term implications for the firm are also examples of capital budgeting decisions. The management of fixed capital or investment or capital budgeting decisions are important for the following reasons:

(i) *Long-term growth:* These decisions have bearing on the long-term growth. The funds invested in long-term assets are likely to yield returns in the future. These will affect the future prospects of the business.

(ii) *Large amount of funds involved:* These decisions result in a substantial portion of capital funds being blocked in long-term projects. Therefore, these investments are planned after a detailed analysis is undertaken. This may involve decisions like where to procure funds from and at what rate of interest.

(iii) *Risk involved:* Fixed capital involves investment of huge amounts. It affects the returns of the firm as a whole in the long-term. Therefore, investment decisions involving fixed capital influence the overall business risk complexion of the firm.

(iv) *Irreversible decisions:* These decisions once taken, are not reversible without incurring heavy losses. Abandoning a project after heavy investment is made is quite costly in terms of waste of funds. Therefore, these decisions should be taken only after carefully evaluating each detail or else the adverse financial consequences may be very heavy.

Factors affecting the Requirement of Fixed Capital

1. Nature of Business: The type of business has a bearing upon the fixed capital requirements. For example, a trading concern needs lower investment in fixed assets compared with a manufacturing organisation; since it does not require to purchase plant and machinery, etc.

2. Scale of Operations: A larger organisation operating at a higher scale needs bigger plant, more space etc. and therefore, requires higher investment in fixed assets when compared with the small organisation.

3. Choice of Technique: Some organisations are capital intensive whereas others are labour intensive. A capital-intensive organisation requires higher investment in plant and machinery as it relies less on manual labour. The requirement of fixed capital for such organisations would be higher. Labour intensive organisations on the other hand require less investment in fixed assets. Hence, their fixed capital requirement is lower.

4. Technology Upgradation: In certain industries, assets become obsolete sooner. Consequently, their replacements become due faster. Higher investment in fixed assets may, therefore, be required in such cases. For example, computers become obsolete faster and are replaced much sooner than say, furniture. Thus, such organisations which use assets which are prone to obsolescence require higher fixed capital to purchase such assets.

5. Growth Prospects: Higher growth of an organisation generally requires higher investment in fixed assets. Even when such growth is expected, a company may choose to create higher capacity in order to meet the anticipated higher demand quicker. This entails larger investment in fixed assets and consequently larger fixed capital.

6. Diversification: A firm may choose to diversify its operations for various reasons, With diversification, fixed capital requirements increase e.g., a textile company is diversifying and starting a cement manufacturing plant. Obviously, its investment in fixed capital will increase.

7. Financing Alternatives: A developed financial market may provide leasing facilities as an alternative to outright purchase. When an asset is taken on lease, the firm pays lease rentals and uses it. By doing so, it avoids huge sums required to purchase it. Availability of leasing facilities, thus, may reduce the funds required to be invested in fixed assets, thereby reducing the fixed capital requirements. Such a strategy is specially suitable in high risk lines of business.

8. Level of Collaboration: At times, certain business organisations share each other's facilities. For example, a bank may use another's ATM or some of them may jointly establish a particular facility. This is feasible if the scale of operations of each one of them is not sufficient to make full use of the facility. Such collaboration reduces the level of investment in fixed assets for each one of the participating organisations.

Working Capital

Apart from the investment in fixed assets every business organisation needs to invest in current assets. This investment facilitates smooth day-to-day operations of the business. Current assets are usually more liquid but contribute less to the profits than fixed assets. Examples of current assets, in order of their liquidity, are as under.

1. Cash in hand/Cash at Bank
2. Marketable securities
3. Bills receivable
4. Debtors
5. Finished goods inventory
6. Work in progress
7. Raw materials
8. Prepaid expenses

These assets, as noted earlier, are expected to get converted into cash or cash equivalents within a period of one year. These provide liquidity to the business. An asset is more liquid if it can be converted into cash quicker and without reduction in value. Insufficient investment in current assets may make it more difficult for an organisation to meet its payment obligations. However, these assets provide little or low return. Hence, a balance needs to be struck between liquidity and profitability.

Current liabilities are those payment obligations which are due for payment within one year; such as bills payable, creditors, outstanding expenses and advances received from customers, etc.

Working Capital Position

"Its been a rather glamorous 18 months, with sales just huge," says, CFO of PT Astra International, the US $4 billion in sales Indonesian automaker. Indonesia was on the growth path again, and a new breed of consumer was eager for a first vehicle – motorcycles – as well as Astra's more premium brands of Hondas and Toyotas. And one of the most beautiful parts of the proposition was that working capital management seems to be taking care of itself. "Depending on the business, and counting trade receivables only, we had between eight and 19 days working capital," which was manageable given the company's steady growth. One of the reasons that working capital had not expanded at the rate of the business was inventory, or rather the dearth of it. "We were in a market that responded very strongly to new products," said the manager "and the presales of products were very high. We had advanced orders form four to six months, with deposits paid, and this helped our cash position." Best of all, as soon as a vehicle was off the assembly line, it was out to the dealer. "We had low inventory costs and the product lines were very easy to move." The salutary role of banks in working capital management was a result reason that cashflow had improved in his business. Better management was a result of banking competition that had allowed the company to move from traditional bankers, the state-owned Indian institutions, to more competitive private institutions and teh foreign banks that partner with them. These banks had invested in technology, allowing a visibility over cashflow unheard of few years ago.

http://www.cfoasia.com/archives/200503-02.html

Some part of current assets is usually financed through short-term sources, i.e., current liabilities. The rest is financed through long-term sources and is called net working capital. Thus, NWC = CA – CL (i.e. Current Assets - Current Liabilities.) Thus, net working capital may be defined as the excess of current assets over current liabilities.

Factors Affecting the Working Capital Requirements

1. Nature of Business: The basic nature of a business influences the amount of working capital required. A trading organisation usually needs a smaller amount of working capital compared to a manufacturing organisation. This is because there is usually no processing. Therefore, there is no distinction between raw materials and finished goods. Sales can be effected immediately upon the receipt of materials, sometimes even before that. In a manufacturing business, however, raw material needs to be converted into finished goods before any sales become possible. Other factors remaining the same, a trading business requires less working capital. Similarly, service industries which usually do not have to maintain inventory require less working capital.

2. Scale of Operations: For organisations which operate on a higher scale of operation, the quantum of inventory and debtors required is generally high. Such organisations, therefore, require large amount of working capital as compared to the organisations which operate on a lower scale.

3. Business Cycle: Different phases of business cycles affect the requirement of working capital by a firm. In case of a boom, the sales as well as production are likely to be larger and, therefore, larger amount of working capital is required. As against this, the requirement for working capital will be lower during the period of depression as the sales as well as production will be small.

4. Seasonal Factors: Most business have some seasonality in their operations. In peak season, because of higher level of activity, larger amount of working capital is required. As against this, the level of activity as well as the requirement for working capital will be lower during the lean season.

5. Production Cycle: Production cycle is the time span between the receipt of raw material and their conversion into finished goods. Some businesses have a longer production cycle while some have a shorter one. Duration and the length of production cycle, affects the amount of funds required for raw materials and expenses. Consequently, working capital requirement is higher in firms with longer processing cycle and lower in firms with shorter processing cycle.

6. Credit Allowed: Different firms allow different credit terms to their customers. These depend upon the level of competition that a firm faces as well as the credit worthiness of their clientele. A liberal credit policy results in higher amount of debtors, increasing the requirement of working capital.

7. Credit Availed: Just as a firm allows credit to its customers it also may get credit from its suppliers. To the extent it avails the credit on purchases, the working capital requirement is reduced.

8. Operating Efficiency: Firms manage their operations with varied degrees of efficiency. For example, a firm managing its raw materials efficiently may be able to manage with a smaller balance. This is reflected in a higher inventory turnover ratio. Similarly, a better debtors turnover ratio may be achieved reducing the amount tied up in receivables. Better sales effort may reduce the average time for which finished goods inventory is held. Such efficiencies may reduce the level of raw materials, finished goods and debtors resulting in lower requirement of working capital.

9. Availability of Raw Material: If the raw materials and other required materials are available freely and continuously, lower stock levels may suffice. If, however, raw materials do not have a record of un-interrupted availability, higher stock levels may be required. In addition, the time lag between the placement of order and the actual receipt of the materials (also called lead time) is also relevant. Larger the lead time, larger the quantity of material to be stored and larger shall be the amount of working capital required.

10. Growth Prospects: If the growth potential of a concern is perceived to be higher, it will require larger amount of working capital so that it is able to meet higher production and sales target whenever required.

11. Level of Competition: Higher level of competitiveness may necessitate larger stocks of finished goods to meet urgent orders from customers. This increases the working capital requirement. Competition may also force the firm to extend liberal credit terms discussed earlier.

12. Inflation: With rising prices, larger amounts are required even to maintain a constant volume of production and sales. The working capital requirement of a business thus, become higher with higher rate of inflation. It must, however, be noted that an inflation rate of 5%, does not mean that every component of working capital will change by the same percentage. The actual requirement shall depend upon the rates of price change of different components (e.g., raw material, finished goods, labour cost,) Finished goods as well as their proportion in the total requirement.

Key Terms

Financial Management	Wealth Maximisation	Investment Decision
Financing Decision	Dividend Decision	Capital Budgeting
Working Capital	Financial Planning	Capital Structure
Trading on Equity		

SUMMARY

Business finance: The money required for carrying out business activities is called business finance. Almost all business activities require some finance. Finance is needed to establish a business, to run it, to modernise it, to expand, and diversify it.

Financial Management: Financial Management is concerned with optimal procurement as well as usage of finance. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks.

Objectives and Financial Decisions The primary aim of financial management is to maximise shareholders' wealth which is referred to as the wealth maximisation concept. The market price of a company's shares are linked to the three basic financial decisions

Financial decision-making is concerned with three broad decisions which are Investment Decision, Financing Decision, Dividend Decision

Financial Planning and Importance Financial planning is essentially preparation of a financial blueprint of an organisation's future operations. The objective of financial planning is to ensure that enough funds are available at right time.

Financial planning strives to achieve the following twin objectives.

(a) To ensure availability of funds whenever these are required:

(b) To see that the firm does not raise resources unnecessarily:

Financial planning is an important part of overall planning of any business enterprise. It aims at enabling the company to tackle the uncertainty in respect of the availability and timing of the funds and helps in smooth functioning of an organisation.

Capital Structure and Factors One of the important decisions under financial management relates to the financing pattern or the proportion of the use of different sources in raising funds. On the basis of ownership, the sources of business finance can be broadly classified into two categories viz., 'owners funds' and 'borrowed funds'. Capital structure refers to the mix between owners and borrowed funds.

Deciding about the capital structure of a firm involves determining the relative proportion of various types of funds. This depends on various factors which are: Cash Flow Position, Interest Coverage Ratio (ICR), Debt Service Coverage Ratio (DSCR), Return on Investment (RoI), Cost of debt, Tax Rate, Cost of Equity, Floatation Costs, Risk Consideration, Flexibility, Control, Regulatory Framework, Stock Market Conditions, and Capital Structure of other Companies.

Fixed and Working Capital Fixed capital refers to investment in long-term assets. Management of fixed capital involves around allocation of firm's capital to different projects or assets with long-term implications for the business. These decisions are called investment decisions or capital budgeting decisions. They affect the growth, profitability and risk of the business in the long run.

Factors affecting the Requirement of Fixed Capital are: Nature of Business, Scale of Operations, Choice of Technique, Technology Upgradation, Growth Prospects, Diversification, Financing Alternatives and Level of Collaboration.

Apart from the investment in fixed assets, every business organisation needs to invest in current assets. This investment facilitates smooth day-to-day operations of the organisation. Current assets are usually more liquid but contribute less to the profits than fixed assets.

Factors affecting the working capital requirement are: Nature of Business, Scale of Operations, Business Cycle, Seasonal Factor, Production Cycle, Credit Allowed, Credit Availed, Operating Efficiency, Availability of Raw Material, Growth Prospects, Level of competition, and rate of Inflation.

EXERCISES

Very Short Answer Type

1. What is meant by capital structure?
2. Sate the two objectives of financial planning.
3. Name the concept of financial management which increases the return to equity shareholders due to the presence of fixed financial charges.
4. Amrit is running a 'transport service' and earning good returns by providing this service to industries. Giving reason, state whether the working capital requirement of the firm will be 'less' or 'more'.

5. Ramnath is into the business of assembling and selling of televisions. Recently he has adopted a new policy of purchasing the components on three months credit and selling the complete product in cash. Will it affect the requirement of working capital? Give reason in support of your answer.

Short Answer Type

1. What is financial risk? Why does it arise?
2. Define current assets? Give four examples of such assets.
3. What are the main objectives of financial management? Briefly explain.
4. Financial management is based on three broad financial decisions. What are these?
5. Sunrises Ltd. dealing in readymade garments, is planning to expand its business operations in order to cater to international market. For this purpose the company needs additional ₹80,00,000 for replacing machines with modern machinery of higher production capacity. The company wishes to raise the required funds by issuing debentures. The debt can be issued at an estimated cost of 10%. The EBIT for the previous year of the company was ₹8,00,000 and total capital investment was ₹1,00,00,000. Suggest whether issue of debenture would be considered a rational decision by the company. Give reason to justify your answer. (Ans. No, Cost of Debt (10%) is more than ROI which is 8%).
6. How does working capital affect both the liquidity as well as profitability of a business?
7. Aval Ltd. is engaged in the business of export of canvas goods and bags. In the past, the performance of the company had been upto the expectations. In line with the latest demand in the market, the company decided to venture into leather goods for which it required specialised machinery. For this, the Finance Manager Prabhu prepared a financial blueprint of the organisation's future operations to estimate the amount of funds required and the timings with the objective to ensure that enough funds are available at right time. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources of the business. For the remaining funds, he is trying to find out alternative sources from outside.
   a. Identify the financial concept discussed in the above paragraph. Also, state the objectives to be achieved by the use of financial concept so identified. (Financial Planning).
   b. 'There is no restriction on payment of dividend by a company'. Comment. (Legal & Contractual Constraints)

Long Answer Type

1. What is working capital? Discuss five important determinants of working capital requirement?
2. "Capital structure decision is essentially optimisation of risk-return relationship." Comment.
3. "A capital budgeting decision is capable of changing the financial fortunes of a business." Do you agree? Give reasons for your answer?
4. Explain the factors affecting dividend decision?
5. Explain the term 'Trading on Equity'? Why, when and how it can be used by company.
6. 'S' Limited is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7–8 per cent and the demand for steel is growing. It is planning to set up a new steel plant to cash on the increased demand. It is estimated that it will require about ₹5000 crores to set up and about ₹500 crores of working capital to start the new plant.
   a. Describe the role and objectives of financial management for this company.
   b. Explain the importance of having a financial plan for this company. Give an imaginary plan to support your answer.
   c. What are the factors which will affect the capital structure of this company?
   d. Keeping in mind that it is a highly capital-intensive sector, what factors will affect the fixed and working capital. Give reasons in support of your answer.

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CHAPTER

10

FINANCIAL MARKETS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the meaning of Financial Market;
- explain the meaning of Money Market and describe its major Instruments;
- explain the nature and types of Capital Market;
- distinguish between Money Market and Capital Market;
- explain the meaning and functions of Stock Exchange;
- describe the functioning of NSEI and OTCEI; and
- describe the role of SEBI in investor protection.

SENSEX — THE BOMBAY STOCK EXCHANGE SENSITIVE INDEX

Have you counted the number of times newspaper headlines in the past few weeks have been discussing the SENSEX? It goes up and down all the time and seems to be a very important part of business and economic news. Has that made you wonder what the SENSEX actually is?

The SENSEX is the benchmark index of the BSE. Since the BSE has been the leading exchange of the Indian secondary market, the SENSEX has been an important indicator of the Indian stock market. It is the most frequently used indicator while reporting on the state of the market. An index has just one job: to capture the price movement. So a stock index will reflect the price movements of shares while a bond index captures the manner in which bond prices go up or down. If the SENSEX rises, it indicates the market is doing well. Since stocks are supposed to reflect what companies expect to earn in the future, a rising index indicates that investors expect better earnings from companies. It is also a measure of the state of the Indian economy. If Indian companies are expected to do well, obviously the economy should do well too.

The SENSEX, launched in 1986 is made up of 30 of the most actively traded stocks in the market. In fact, they account for half the BSE's market capitalisation. They represent 13 sectors of the economy and are leaders in their respective industries.

Introduction

You all know that a business needs finance from the time an entrepreneur makes the decision to start it. It needs finance both for working capital requirements such as payments for raw materials and salaries to its employees, and fixed capital expenditure such as the purchase of machinery or building or to expand its production capacity. The above example gives a fair picture of how companies need to raise funds from the capital markets. Idea Cellular decided to enter the Indian capital market for its needs of expansion. In this chapter you will study concepts like private placement, Initial public Offer (IPO) and capital markets which you come across in the example of Idea Cellular. Business can raise these funds from various sources and in different ways through financial markets. This chapter provides a brief description of the mechanism through which finances are mobilised by a business organisation for both short term and long term requirements. It also explains the institutional structure and the regulatory measures for different financial markets.

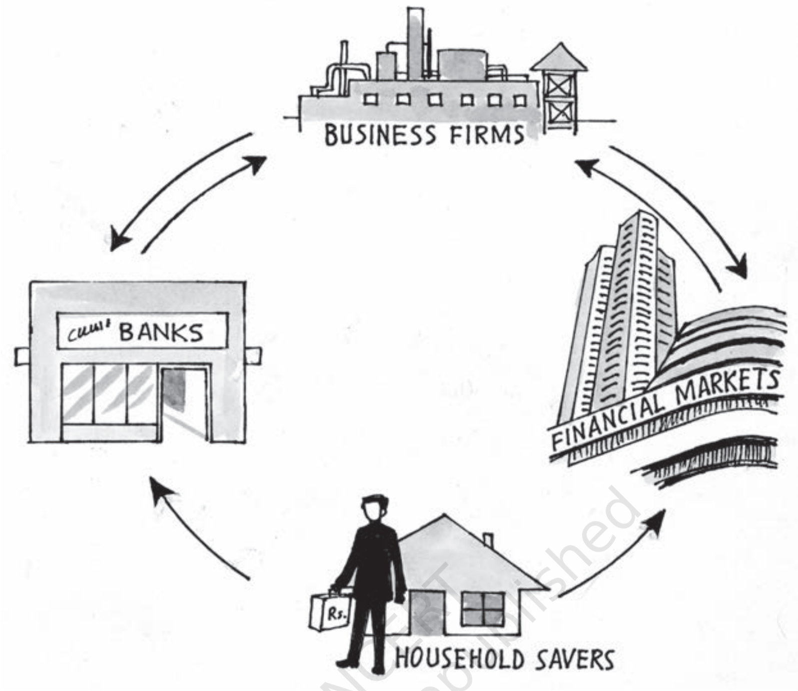
Concept of Financial Market

A business is a part of an economic system that consists of two main sectors – households which save funds and business firms which invest these funds. A financial market helps to link the savers and the investors by mobilizing funds between them. In doing so it performs what is known as an allocative function. It allocates or directs funds available for investment into their most productive investment opportunity. When the allocative function is performed well, two consequences follow:

- The rate of return offered to households would be higher
- Scarce resources are allocated to those firms which have the highest productivity for the economy.

There are two major alternative mechanisms through which allocation of funds can be done: via banks or via financial markets. Households can deposit their surplus funds with banks, who in turn could lend these funds to business firms. Alternately, households can buy the shares and debentures offered by a business using financial markets. The process by which allocation of funds is done is called financial intermediation. Banks and financial markets are competing intermediaries in the financial system, and give households a choice of where they want to place their savings.

A financial market is a market for the creation and exchange of



Financial System

financial assets. Financial markets exist wherever a financial transaction occurs. Financial transactions could be in the form of creation of financial assets such as the initial issue of shares and debentures by a firm or the purchase and sale of existing financial assets like equity shares, debentures and bonds.

Functions of Financial Market

Financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions.

1. Mobilisation of Savings and Channeling them into the most Productive Uses: A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelise surplus funds into the most productive use.

2. Facilitating Price Discovery: You all know that the forces of demand and supply help to establish a price for a commodity or service in the market. In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.

3. Providing Liquidity to Financial Assets: Financial markets facilitate easy purchase and sale of financial assets. In doing so they provide liquidity to financial assets, so that they can be easily converted into cash whenever required. Holders of assets can readily sell their financial assets through the mechanism of the financial market.

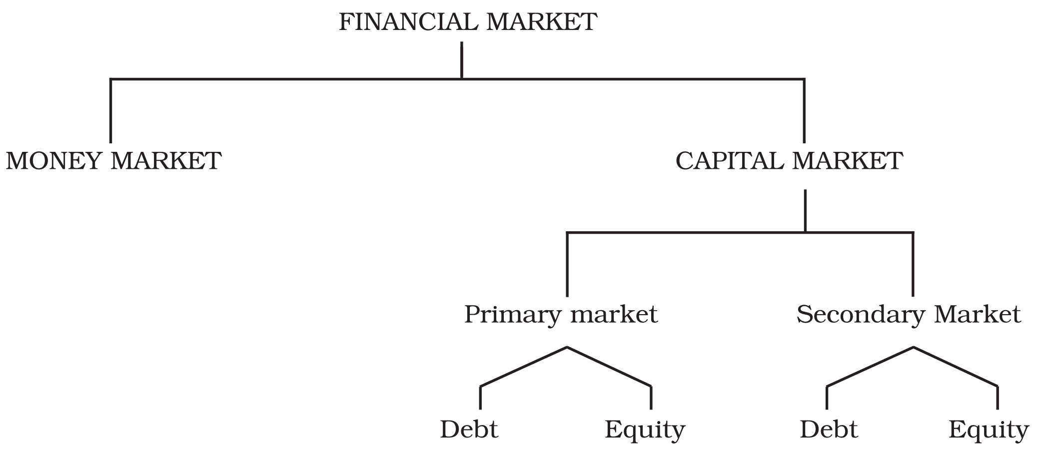
4.Reducing the Cost of Transactions: Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to otherwise spend to try and find each other. The financial market is thus, a common platform where buyers and sellers can meet for fulfillment of their individual needs.

Financial markets are classified on the basis of the maturity of financial instruments traded in them. Instruments with a maturity of less than one year are traded in the money market. Instruments with longer maturity are traded in the capital market.

Money Market

The money market is a market for short term funds which deals in monetary assets whose period of maturity is upto one year. These assets are close substitutes for money. It is a market where low risk, unsecured and short term debt instruments that are highly liquid are issued and actively traded everyday. It has no physical location, but is an activity conducted over the telephone and through the internet. It enables the raising of short-term funds for meeting the temporary shortages of cash and obligations and the temporary deployment of excess funds for earning returns. The major participants in the market are the Reserve Bank of India (RBI), Commercial Banks, Non-

Classification of Financial Markets



Banking Finance Companies, State Governments, Large Corporate Houses and Mutual Funds.

Money Market Instruments

1. Treasury Bill: A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the Reserve Bank of India on behalf of the Central Government to meet its short-term requirement of funds. Treasury bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par. The difference between the price at which the treasury bills are issued and their redemption value is the interest receivable on them and is called discount. Treasury bills are available for a minimum amount of ₹25,000 and in multiples thereof.

Example: Suppose an investor purchases a 91 days Treasury bill with a face value of ₹1,00,000 for ₹96,000. By holding the bill until the maturity date, the investor receives ₹1,00,000. The difference of ₹4,000 between the proceeds received at maturity and the amount paid to purchase the bill represents the interest received by him.

2. Commercial Paper: Commercial paper is a short-term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short-term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year. The issuance of commercial paper is an alternative to bank borrowing for large companies that are generally considered to be financially strong. It is sold at a discount and redeemed at par. The original purpose of commercial paper was to provide short-terms funds for seasonal and working capital needs. For example companies use this instrument for purposes such as bridge financing.

Example: Suppose a company needs long-term finance to buy some machinery. In order to raise the long term funds in the capital market the company will have to incur floatation costs (costs associated with floating of an issue are brokerage, commission, printing of applications and advertising, etc.). Funds raised through commercial paper are used to meet the floatation costs. This is known as Bridge Financing.

3. Call Money: Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial banks have to maintain a minimum cash balance known as cash reserve ratio. The Reserve Bank of India changes the cash reserve ratio from time to time which in turn affects the amount of funds available to be given as loans by commercial banks. Call money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio. The interest rate paid on call money loans is known as the call rate. It is a highly volatile rate that varies from day-to-day and sometimes even from hour-to-hour. There is an inverse relationship between call rates and other short-term money market instruments such as certificates of deposit and commercial paper. A rise in call money rates makes other sources of finance such as commercial paper and certificates of deposit cheaper in comparison for banks raise funds from these sources.

4. Certificate of Deposit: Certificates of deposit (CD) are unsecured, negotiable, short-term instruments in bearer form, issued by commercial banks and development financial institutions. They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high. They help to mobilise a large amount of money for short periods.

5. Commercial Bill: A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. It is a short-term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms. When goods are sold on credit, the buyer becomes liable to make payment on a specific date in future. The seller could wait till the specified date or make use of a bill of exchange. The seller (drawer) of the goods draws the bill and the buyer (drawee) accepts it. On being accepted, the bill becomes a marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill matures. When a trade bill is accepted by a commercial bank it is known as a commercial bill.

Capital Market

The term capital market refers to facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general. It directs these savings into their most productive use leading to growth and development of the economy. The capital market consists of development banks, commercial banks and stock exchanges.

An ideal capital market is one where finance is available at reasonable cost. The process of economic development is facilitated by the existence of a well functioning capital market. In fact, development of the financial system is seen as a necessary condition for economic growth. It is essential that financial institutions are sufficiently developed and that market operations are free, fair, competitive and transparent. The capital market should also be efficient in respect of the information that it delivers, minimise transaction costs and allocate capital most productively.

The Capital Market can be divided into two parts: a. Primary Market b. Secondary Market

Distinction between Capital Market and Money Market

The major points of distinction between the two markets are as follows:

(i) *Participants:* The participants in the capital market are financial institutions, banks, corporate entities, foreign investors and ordinary retail investors from members of the public. Participation in the money market is by and large undertaken by institutional participants such as the RBI, banks, financial institutions and finance companies. Individual investors although permitted to transact in the secondary money market, do not normally do so.

(ii) *Instruments:* The main instruments traded in the capital market are – equity shares, debentures, bonds, preference shares etc. The main instruments traded in the money market are short term debt instruments such as T-bills, trade bills reports, commercial paper and certificates of deposit.

(iii) *Investment Outlay:* Investment in the capital market i.e. securities does not necessarily require a huge financial outlay. The value of units of securities is generally low i.e. Rs 10, Rs 100 and so is the case with minimum trading lot of shares which is kept small i.e. 5, 50, 100 or so. This helps individuals with small savings to subscribe to these securities. In the money market, transactions entail huge sums of money as the instruments are quite expensive.

(iv) *Duration:* The capital market deals in medium and long term securities such as equity shares and debentures. Money market instruments have a maximum tenure of one year, and may even be issued for a single day.

(v) *Liquidity:* Capital market securities are considered liquid investments because they are marketable on the stock exchanges. However, a share may not be actively traded, i.e. it may not easily find a buyer. Money market instruments on the other hand, enjoy a higher degree of liquidity as there is formal arrangement for this. The Discount Finance House of India (DFHI) has been established for the specific objective of providing a ready market for money market instruments.

(vi) *Safety:* Capital market instruments are riskier both with respect to returns and principal repayment. Issuing companies may fail to perform as per projections and promoters may defraud investors. But the money market is generally much safer with a minimum risk of default. This is due to the shorter duration of investing and also to financial soundness of the issuers, which primarily are the government, banks and highly rated companies.

(vii) *Expected return:* The investment in capital markets generally yield a higher return for investors than the money markets. The possibility of earnings is higher if the securities are held for a longer duration. First, there is the scope of earning capital gains in equity share. Second, in the long run, the prosperity of a company is shared by shareholders by way of high dividends and bonus issues.

Primary Market

The primary market is also known as the new issues market. It deals with new securities being issued for the first time. The essential function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals.

A company can raise capital through the primary market in the form of equity shares, preference shares, debentures, loans and deposits. Funds raised may be for setting up new projects, expansion, diversification, modernisation of existing projects, mergers and takeovers etc.

Methods of Floatation

There are various methods of floating new issues in the primary market :

1. Offer through Prospectus: Offer through prospectus is the most popular method of raising funds by public companies in the primary market. This involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital, through an advertisement in newspapers and magazines. The issues may be underwritten and also are required to be listed on at least one stock exchange. The contents of the prospectus have to be in accordance with the provisions of the Companies Act and SEBI disclosure and investor protection guidelines.

2. Offer for Sale: Under this method securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers. In this case, a company sells securities enbloc at an agreed price to brokers who, in turn, resell them to the investing public.

3. Private Placement: Private placement is the allotment of securities by a company to institutional investors and some selected individuals. It helps to raise capital more quickly than a public issue. Access to the primary market can be expensive on account of various mandatory and non-mandatory expenses. Some companies, therefore, cannot afford a public issue and choose to use private placement.

4. Rights Issue: This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company. The shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.

5. e-IPOs: A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an Initial Public Offer (IPO). SEBI registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company. The issuer company should also appoint a registrar to the issue having electronic connectivity with the exchange. The issuer company can apply for listing of its securities on any exchange other than the exchange through which it has offered its securities. The lead manager coordinates all the activities amongst intermediaries connected with the issue.

Secondary Market

The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities. It also contributes to economic growth by channelising funds towards the most productive

Primary and Secondary Markets — A Comparison

Primary Market (New Issue Market)	*Secondary Market (Stock Exchange)*
(i) There is sale of securities by new companies or further (new issues of securities by existing companies to investors).	(i) There is trading of existing shares only.
(ii) Securities are sold by the company to the investor directly (or through an intermediary).	(ii) Ownership of existing securities is exchanged between investors. The company is not involved at all.
(iii) The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation.	(iii) Enhances encashability (liquidity) of shares, i.e. the secondary market indirectly promotes capital formation.
(iv) Only buying of securities takes place in the primary market, securities cannot be sold there.	(iv) Both the buying and the selling of securities can take place on the stock exchange.
(v) Prices are determined and decided by the management of the company.	(v) Prices are determined by demand and supply for the security.
(vi) There is no fixed geographical location.	(vi) Located at specified places.

investments through the process of disinvestment and reinvestment. Securities are traded, cleared and settled within the regulatory framework prescribed by SEBI. Advances in information technology have made trading through stock exchanges accessible from anywhere in the country through trading terminals. Along with the growth of the primary market in the country, the secondary market has also grown significantly during the last ten years.

Stock Exchange

A stock exchange is an institution which provides a platform for buying and selling of existing securities. As a market, the stock exchange facilitates the exchange of a security (share, debenture etc.) into money and vice versa. Stock exchanges help companies raise finance, provide liquidity and safety of investment to the investors and enhance the credit worthiness of individual companies.

Meaning of Stock Exchange

According to Securities Contracts (Regulation) Act 1956, stock exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

Functions of a Stock Exchange

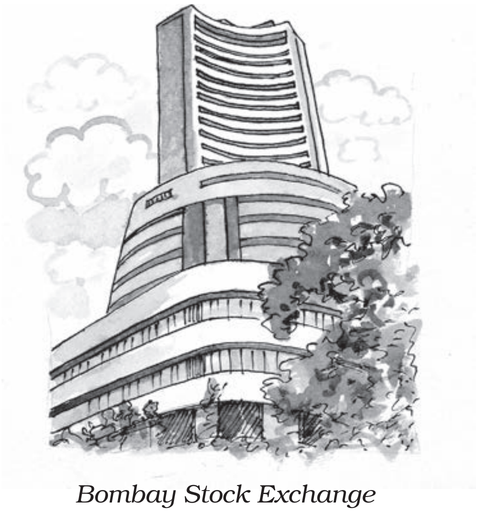
The efficient functioning of a stock exchange creates a conducive climate for an active and growing primary market for new issues. An active and healthy secondary market in existing securities leads to positive environment among investors. The following are some of the important functions of a stock exchange.

History of the Stock Market in India

The history of the stock market in India goes back to the end of the eighteenth century when long-term negotiable securities were first issued. In 1850 the Companies Act was introduced for the first time bringing with it the feature of limited liability and generating investor interest in corporate securities. The first stock exchange in India was set-up in 1875 as The Native Share and Stock Brokers Association in Bombay. Today it is known as the Bombay Stock Exchange (BSE). This was followed by the development of exchanges in Ahmedabad (1894), Calcutta(1908) and Madras(1937). It is interesting to note that stock exchanges were first set up in major centers of trade and commerce.

Until the early 1990s, the Indian secondary market comprised regional stock exchanges with BSE heading the list. After the reforms of 1991, the Indian secondary market acquired a three tier form. This consists of:

- Regional Stock Exchanges
- National Stock Exchange (NSE)
- Over the Counter Exchange of India (OTCEI)



Bombay Stock Exchange

1. Providing Liquidity and Marketability to Existing Securities: The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market.

2. Pricing of Securities: Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.

3. Safety of Transaction: The membership of a stock exchange is well- regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.

4. Contributes to Economic Growth: A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.

5. Spreading of Equity Cult: The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

6. Providing Scope for Speculation: The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

TRADING AND SETTLEMENT PROCEDURE

Trading in securities is now executed through an on-line, screen-based electronic trading system. Simply put, all buying and selling of shares and debentures are done through a computer terminal.

There was a time when in the open outcry system, securities were bought and sold on the floor of the stock exchange. Under this auction system, deals were struck among brokers, prices were shouted out and the shares sold to the highest bidder. However, now almost all exchanges have gone electronic and trading is done in the broker's office through a computer terminal. A stock exchange has its main computer system with many terminals spread across the country. Trading in securities is done through brokers who are members of the stock exchange. Trading has shifted from the stock market floor to the brokers office.

Every broker has to have access to a computer terminal that is connected to the main stock exchange. In this screen-based trading, a member logs on to the site and any information about the shares (company, member, etc.) he wishes to buy or sell and the price is fed into the computer. The software is so designed that the transaction will be executed when a matching order is found from a counter party. The whole transaction is carried on the computer screen with both the parties being able to see the prices of all shares going up and down at all times during the time that business is transacted and during

Electronic Trading System

business hours of the stock exchange. The computer in the brokers office is constantly matching the orders at the best bid and offer price. Those that are not matched remain on the screen and are open for future matching during the day.

Electronic trading systems or screen-based trading has certain advantages:

1. It ensures transparency as it allows participants to see the prices of all securities in the market while business is being transacted. They are able to see the full market during real time.
2. It increases efficiency of information being passed on, thus helping in fixing prices efficiently. The computer screens display information on prices and also capital market developments that influence share prices.
3. It increases the efficiency of operations, since there is reduction in time, cost and risk of error.
4. People from all over the country and even abroad who wish to participate in the stock market can buy or sell securities through brokers or members without knowing each other. That is, they can sit in the broker's office, log on to the computer at the same time and buy or sell securities. This system has enabled a large number of participants to trade with each other, thereby improving the liquidity of the market.
5. A single trading platform has been provided as business is

transacted at the same time in all the trading centres. Thus, all the trading centres spread all over the country have been brought onto one trading platform, i.e., the stock exchange, on the computer.

Now, screen-based trading or on-line trading is the only way in which you can buy or sell shares. Shares can be held either in physical form or an electronic book entry form of holding and transferring shares can also be adopted. This electronic form is called dematerialised form.

Steps in the Trading and Settlement Procedure

It has been made compulsory to settle all trades within 2 days of the trade date, i.e., on a T+2 basis, since 2003. Prior to the reforms, securities were bought and sold, i.e., traded and all positions in the stock exchange were settled on a weekly/ fortnightly settlement cycle whether it was delivery of securities or payment of cash. This system prevailed for a long time as it increased the volume of trading on the exchange and provided liquidity to the system. However, since trades were to be settled on specified dates, this gave rise to speculation and price of shares used to rise and fall suddenly due to trading and defaults by brokers. A new system, i.e, rolling settlement, was introduced in 2000, so that whenever a trade took place it would be settled after some days. Since 2003, all shares have to be covered under the rolling settlement system on a T+2 basis, meaning thereby that transactions in securities are settled within 2 days after the trade date. Since rolling settlement implies fast movement of shares, it requires effective implementation of electronic fund transfer and dematerialisation of shares.

The following steps are involved in the screen-based trading for buying and selling of securities:

1. If an investor wishes to buy or sell any security he has to first approach a registered broker or sub-broker and enter into an agreement with him. The investor has to sign a broker-client agreement and a client registration form before placing an order to buy or sell securities. He has also to

Project Work

1. Study the website of Mumbai Stock Exchange, i.e., www.bseindia.com and compile information which you find useful. Discuss it in your class and find out how it can help you should you decide to invest in the stock market. Prepare a report on your findings with the help of your teacher.
2. Prepare a report on the role of SEBI in regulating the Indian stock market. You can get this information on its website namely www.sebi.gov.in. Do you think something else should be done to increase the number of investors in the stock market?

provide certain other details and information. These include:

- PAN number (This is mandatory)
- Date of birth and address.
- Educational qualification and occupation.
- Residential status (Indian/ NRI).
- Bank account details.
- Depository account details.
- Name of any other broker with whom registered.
- Client code number in the client registration form.

The broker then opens a trading account in the name of the investor.

2. The investor has to open a 'demat' account or 'beneficial owner' (BO) account with a depository participant (DP) for holding and transferring securities in the demat form. He will also have to open a bank account for cash transactions in the securities market.
3. The investor then places an order with the broker to buy or sell shares. Clear instructions have to be given about the number of shares and the price at which the shares should be bought or sold. The broker will then go ahead with the deal at the above mentioned price or the best price available. An order confirmation slip is issued to the investor by the broker.
4. The broker then will go on-line and connect to the main stock exchange and match the share and best price available.
5. When the shares can be bought or sold at the price mentioned, it will be communicated to the broker's terminal and the order will be executed electronically. The broker will issue a trade confirmation slip to the investor.
6. After the trade has been executed, within 24 hours the broker issues a Contract Note. This note contains details of the number of shares bought or sold, the price, the date and time of deal, and the brokerage charges. This is an important document as it is legally enforceable and helps to settle disputes/claims between the investor and the broker. A Unique Order Code number is assigned to each transaction by the stock exchange and is printed on the contract note.
7. Now, the investor has to deliver the shares sold or pay cash for the shares bought. This should be done immediately after receiving the contract note or before the day when the broker shall make payment or delivery of shares to the exchange. This is called the pay-in day.
8. Cash is paid or securities are delivered on pay-in day, which is before the T+2 day as the deal has to be settled and finalised on the

T+2 day. The settlement cycle is on T+2 day on a rolling settlement basis, w.e.f. 1 April 2003.

9. On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the pay-out day. The broker then has to make payment to the investor within 24 hours of the pay-out day since he has already received payment from the exchange.

10. The broker can make delivery of shares in demat form directly to the investor's demat account. The investor has to give details of his demat account and instruct his depository participant to take delivery of securities directly in his beneficial owner account.

Dematerialisation and Depositories

All trading in securities is now done through computer terminals. Since all systems are computerised, buying and selling of securities are settled through an electronic book entry form. This is mainly done to eliminate problems like theft, fake/forged transfers, transfer delays and paperwork associated with share certificates or debentures held in physical form.

This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that she/he can hold it as an electronic balance in an account. This process of holding securities in an electronic form is called dematerialisation. For this, the investor has to open a demat account with an organisation called a depository. In fact, now all Initial Public Offers (IPOs) are issued in dematerialisation form and more than 99% of the turnover is settled by delivery in the demat form.

The Securities and Exchange Board of India (SEBI) has made it mandatory for the settlement procedures to take place in demat form in certain select securities. Holding shares in demat form is very convenient as it is just like a bank account. Physical shares can be converted into electronic form or electronic holdings can be reconverted into physical certificates (rematerialisation). Dematerialisation enables shares to be transferred to some other account just like cash and ensures settlement of all trades through a single account in shares. These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates. It is the broker's responsibility to credit the investor's account with the correct number of shares.

Working of the Demat System

1. A depository participant (DP), either a bank, broker, or financial services company, may be identified.
2. An account opening form and documentation (PAN card details, photograph, power of attorney) may be completed.
3. The physical certificate is to be given to the DP along with a dematerialisation request form.

4. If shares are applied in a public offer, simple details of DP and demat account are to be given and the shares on allotment would automatically be credited to the demat account.
5. If shares are to be sold through a broker, the DP is to be instructed to debit the account with the number of shares.
6. The broker then gives instruction to his DP for delivery of the shares to the stock exchange.
7. The broker then receives payment and pay the person for the shares sold.
8. All these transactions are to be completed within 2 days, i.e., delivery of shares and payment received from the buyer is on a T+2 basis, settlement period.

Depository

Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/ sold at any time and instruction to deliver or receive shares on behalf of the investor can be given. It is a technology driven electronic storage system. It has no paper work relating to share certificates, transfer, forms, etc. All transactions of the investors are settled with greater speed, efficiency and use as all securities are entered in a book entry mode.

In India, there are two depositories. National Securities Depositories Limited (NSDL) is the first and largest depository presently operational in India. It was promoted as a joint venture of the IDBI, UTI, and the National Stock Exchange.

The Central Depository Services Limited (CDSL) is the second depository to commence operations and was promoted by the Bombay Stock Exchange and the Bank of India. Both these national level depositories operate through intermediaries who are electronically connected to the depository and serve as contact points with the investors and are called depository participants.

The depository participant (DP) serves as an intermediary between the investor and the Depository (NSDL or CSDL) who is authorised to maintain the accounts of dematerialised shares. Financial institutions, banks, clearing corporations, stock brokers and non-banking finance corporations are permitted to become depository participants. If the investor is buying and selling the securities through the broker or the bank or a non-banking finance corporation, it acts as a DP for the investor and complete the formalities.

National Stock Exchange of India (NSE)

The National Stock Exchange is the latest, most modern and technology driven exchange. It was incorporated in 1992 and was recognised as a stock exchange in April 1993. It started operations in 1994, with trading on the wholesale debt market segment. Subsequently, it launched the capital market segment in November 1994 as a trading platform for equities and the futures and options segment in June 2000 for various derivative instruments. NSE has set up a nationwide fully automated screen based trading system.

The NSE was set up by leading financial institutions, banks, insurance companies and other financial intermediaries. It is managed by professionals, who do not directly or indirectly trade on the exchange. The trading rights are with the trading members who offer their services to the investors. The Board of NSE comprises senior executives from promoter institutions and eminent professionals, without having any representation from trading members.

Objectives of NSE

NSE was set up with the following objectives:

a. Establishing a nationwide trading facility for all types of securities.
b. Ensuring equal access to investors all over the country through an appropriate communication network.
c. Providing a fair, efficient and transparent securities market using electronic trading system.
d. Enabling shorter settlement cycles and book entry settlements.
e. Meeting international benchmarks and standards.

Within a span of ten years, NSE has been able to achieve its objectives for which it was set up. It has been playing a leading role as a change agent in transforming the Indian capital market. NSE has been able

Stock Market Index

A stock market index is a barometer of market behaviour. It measures overall market sentiment through a set of stocks that are representative of the market. It reflects market direction and indicates day-to-day fluctuations in stock prices. An ideal index must represent changes in the prices of securities and reflect price movements of typical shares for better market representation. In the Indian markets the BSE, SENSEX and NSE, NIFTY are important indices. Some important global stock market indices are:

- Dow Jones Industrial Average is among the oldest quoted stock market index in the US.
- NASDAQ Composite Index is the market capitalisation weightages of prices for stocks listed in the NASDAQ stock market.
- S and P 500 Index is made up of 500 biggest publicly traded companies in the US. The S and P 500 is often treated as a proxy for the US stock market.
- FTSE 100 consists of the largest 100 companies by full market value listed on the London Stock Exchange. The FTSE 100 is the benchmark index of the European market.

to take the stock market to the door step of the investors. It has ensured that technology has been harnessed to deliver the services to the investors across the country at the lowest cost. It has provided a nation wide screen based automated trading system with a high degree of transparency and equal access to investors irrespective of geographical location.

Market Segments of NSE

The Exchange provides trading in the following two segments.

(i) *Whole Sale Debt Market Segment:* This segment provides a trading platform for a wide range of fixed income securities that include central government securities, treasury bills, state development loans, bonds issued by public sector undertakings, floating rate bonds, zero coupon bonds, index bonds, commercial paper, certificate of deposit, corporate debentures and mutual funds.

(ii) *Capital Market Segment:* The capital market segment of NSE provides an efficient and transparent platform for trading in equity, preference, debentures, exchange traded funds as well as retail Government securities.

BSE (Bombay Stock Exchange Ltd.)

BSE Ltd (formerly known as Bombay Stock Exchange Ltd) was established in 1875 and was Asia's first Stock Exchange. It was granted permanent recognition under the Securities Contract (Regulation) Act, 1956. It has contributed to the growth of the corporate sector by providing a platform for raising capital. It is known as BSE Ltd but was established as the Native Share Stock Brokers Association in 1875. Even before the actual legislations were enacted, BSE Ltd already had a set of Rules and Regulations to ensure an orderly growth of the securities market. As discussed earlier, a stock exchange

Some Common Stock Market Terms

You would have often come across the following terms in magazines or newspapers when you read about the stock market.

BOURSES is another word for the stock market

BULLS and BEARS – The term does not refer to animals but to market sentiment of the investors. A Bullish phase refers to a period of optimism and a Bearish phase to a period of perssimism on the Bourses.

BADLA – This refers to a carry forward system of settlement, particularly at the BSE. It is a facility that allows the postponement of the delivery or payment of a transaction from one settlement period to another.

ODD LOT TRADING – Trading in multiples of 100 stocks or less.

PENNY STOCKS – These are securities that have no value on the stock exchange but whose trading contributes to speculation.

can be set up as a corporate entity with different individuals (who are not brokers) as members or shareholders. BSE is one such exchange set up as a corporate entity with a broad shareholder base. It has the following objectives:

(a) To provide an efficient and transparent market for trading in equity, debt instruments, derivatives, and mutual funds.

(b) To provide a trading platform for equities of small and medium enterprises.

(c) To ensure active trading and safeguard market integrity through an electronically-driven exchange.

(d) To provide other services to capital market participants, like risk management, clearing, settlement, market data, and education.

(e) To conform to international standards.

Besides having a nation-wide presence, BSE has a global reach with customers around the world. It has stimulated innovation and competition across all market segments. It has established a capital market institute, called the BSE Institute Ltd, which provides education on financial markets and vocational training to a number of people seeking employment with stock brokers. The exchange has about 5000 companies listed from all over the country and outside, and has the largest market capitalisation in India.

Securities and Exchange Board of India (SEBI)

The Securities and Exchange Board of India was established by the Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was to function under the overall administrative control of the Ministry of Finance of the Government of India. The SEBI was given a statutory status on 30 January 1992 through an ordinance. The ordinance was later replaced by an Act of Parliament known as the Securities and Exchange Board of India Act, 1992.

Reasons for the Establishment of SEBI

The capital market has witnessed a tremendous growth during 1980's, characterised particularly by the increasing participation of the public. This ever expanding investors population and market capitalisation led to a variety of malpractices on the part of companies, brokers, merchant bankers, investment consultants and others involved in the securities market. The glaring examples of these malpractices include existence of self – styled merchant bankers unofficial private placements, rigging of prices, unofficial premium on new issues, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges and listing requirements, delay in delivery of shares etc. These malpractices and unfair trading practices have eroded investor confidence and multiplied investor grievances. The Government and the stock exchanges were rather helpless in redressing the investor's problems because of lack of proper penal provisions in the existing legislation. In view of the above, the Government of India decided to set-up a separate regulatory body known as Securities and Exchange Board of India.

Purpose and Role of SEBI

The basic purpose of SEBI is to create an environment to facilitate efficient mobilisation and allocation of resources through the securities markets. It also aims to stimulate competition and encourage innovation. This environment includes rules and regulations, institutions and their interrelationships, instruments, practices, infrastructure and policy framework.

This environment aims at meeting the needs of the three groups which basically constitute the market, viz, the issuers of securities (Companies), the investors and the market intermediaries.

- To the issuers, it aims to provide a market place in which they can confidently look forward to raising finances they need in an easy, fair and efficient manner.
- To the investors, it should provide protection of their rights and interests through adequate, accurate and authentic information and disclosure of information on a continuous basis.
- To the intermediaries, it should offer a competitive, professionalised and expanding market with adequate and efficient infrastructure so that they are able to render better service to the investors and issuers.

Objectives of SEBI

The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. This may be elaborated as follows:

1. To regulate stock exchanges and the securities industry to promote their orderly functioning.
2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
3. To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

Functions of SEBI

Keeping in mind the emerging nature of the securities market in India, SEBI was entrusted with the twin task of both regulation and development of the securities market. It also has certain protective functions.

Regulatory Functions

1. Registration of brokers and sub-brokers and other players in the market.
2. Registration of collective investment schemes and Mutual Funds.
3. Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
4. Regulation of takeover bids by companies.
5. Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.
6. Levying fee or other charges for carrying out the purposes of the Act.
7. Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

Development Functions

1. Training of intermediaries of the securities market.
2. Conducting research and publishing information useful to all market participants.
3. Undertaking measures to develop the capital markets by adapting a flexible approach.

Protective Functions

1. Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
2. Controlling insider trading and imposing penalties for such practices.
3. Undertaking steps for investor protection.
4. Promotion of fair practices and code of conduct in securities market.

The Organisation Structure of SEBI

As SEBI is a statutory body there has been a considerable expansion in the range and scope of its activities. Each of the activities of the SEBI now demands more careful, closer, co-ordinated and intensive attention to enable it to attain its objectives. Accordingly, SEBI has been restructured and rationalised in tune with its expanded scope. It has decided its activities into five operational departments. Each department is headed by an executive director. Apart from its head office at Mumbai, SEBI has opened regional offices in Kolkalta, Chennai, and Delhi to attend to investor complaints and liaise with the issuers, intermediaries and stock exchanges in the concerned region.

The SEBI also formed two advisory committees. They are the Primary Market Advisory Committee and the Secondary Market Advisory Committee. These committees consist of the market players, the investors associations recognised by the SEBI and the eminent persons in the capital market. They provide important inputs to the SEBI's policies.

The objectives of the two Committees are as follows:

a. To advise SEBI on matters relating to the regulation of intermediaries for ensuring investors protection in the primary market.
b. To advise SEBI on issues related to the development of primary market in India.
c. To advise SEBI on disclosure requirements for companies.
d. To advise for changes in legal framework to introduce simplification and transparency in the primary market.
e. To advise the board in matters relating to the development and regulation of the secondary market in the country.

The committees are however non-statutory in nature and the SEBI is not bound by the advise of the committee. These committees are a part of SEBI's constant endeavor to obtain a feedback from the market players on various issues relating to the regulations and development of the market.

Key Terms

Financial Market	Money Market	Treasury Bills
Commercial Paper	Call Money	Certificate of Deposit
Commercial Bill	Money Market	Mutual Fund Capital
Market	Primary Market	Secondary Market
Stock Exchange	SEBI, NSE	OTCEI

SUMMARY

Financial Market is a market for creation and exchange of financial assets. It helps in mobilisation and channelising the savings into most productive uses. Financial markets also helps in price discovery and provide liquidity to financial assets.

Money Market is a market for short-term funds. It deals in monetory assets whose period of maturity is less than one year. The instruments of money market includes treasury bills, commercial paper, call money, Certificate of deposit, commercial bills, participation certificates and money market mutual funds.

Capital Market is a place where long-term funds are mobilised by the corporate undertakings and Government. Capital Market may be devided into primary market and secondary market. Primary market deals with new securities which were not previously tradable to the public. Secondary market is a place where existing securities are bought and sold.

Stock Exchanges are the organisations which provide a platform for buying and selling of existing securities. Stock exchanges provide continuous market for securities, helps in price discovery, widening share ownership and provide scope for speculation.

Securities and Exchange Board of India was established in 1988 and was given statutory status through an Act in 1992. The SEBI was set-up to protect the interests of investors, development and regulation of securities market.

EXERCISES

Very Short Answer Type

1. What is a Treasury Bill?
2. Name the segments of the National Stock Exchange (NSE).
3. State any two reasons why investing public can expect a safe and fair deal in the stock market. (Point w.r.t safety of Transactions – Functions of the Stock Exchange).
4. What is the common name for Beneficiary Owner Account, which is to be opened by the investors for trading in securities?
5. Name any two details that need to be provided by the investor to the broker while filling a client registration form.

Short Answer Type

1. What are the functions of Financial Market?
2. "Money Market is essentially a Market for short term funds." Discuss.
3. Distinguish between Capital Market and Money Market.
4. What are the functions of the Stock Exchange?
5. What are the objectives of SEBI?
6. State the objective of NSE?
7. Name the document prepared in the process of online trading of securities that is legally enforceable and helps to settle disputes/claims between the investor and the broker.

Long Answer Type

1. Explain the various Money Market instruments.
2. Explain the recent Capital Market reforms in India.
3. Explain the objectives and functions of the SEBI.
4. India's largest domestic investor Life Insurance Corporation of India has once again come to government's rescue by subscribing 70% of Hindustan Aeronautics' ₹4,200-crore initial public offering.
   a. Which market is being reflected in the above case?
   b. State which method of floatation in the above identified market is being highlighted in the case? (Primary Market)
   c. Explain any two other methods of floatation. (Private Placement, Offer through prospectus, offer for sale).
5. Lalita wants to buy shares of Akbar Enterprises, through her broker Kushvinder. She has a Demat Account and a bank account for cash transactions in the securities market. Discuss the subsequent steps involved in the screen-based trading for buying and selling of securities in this case.

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CHAPTER 11

MARKETING

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- explain the meaning of 'marketing';
- distinguish between 'marketing' and 'selling';
- list out important functions of marketing;
- examine the role of marketing in the development of an economy in a firm, to the society and to consumers;
- explain the elements of marketing-mix;
- classify products into different categories;
- analyse the factors affecting price of a product;
- list out the types of channels of distribution; and
- explain the major tools of promotion, viz. advertising, personal selling, sales promotion and publicity.

WHERE DO COMPANIES DO THEIR BUSINESS?

In the Markets or in the Society?

It is an undisputed fact that a company's survival does not depend upon its consumers alone, but a diverse set of stakeholders like the government, religious leaders, social activists, NGOs, media, etc. Hence, earning the satisfaction of these segments is also as imperative as they add to the power of the brand by word of mouth.

The social concern adds to the strength of the brand. Corporates that embraced the deepest social values, have been successful in building powerful brand, and, eventually, robust customer relationship. The area of corporate social justice fall under two broad categories. The issues such as the nutrition of children, child care, old-age homes, amelioration of hunger, offering aid to those affected by natural calamities, etc. needing instant attention with humanitarian perspective, comes under the first category.

The issues that contribute to making society a pleasant place to live in the long run, may be grouped under the second category. The issues which come under this category are health awareness and aid, education, environmental protection, women's employment and empowerment, preventing unjust discriminations (on the basis of caste, community, religion, ethnicity, race, and sex), eradication of poverty through employment, preservation of culture, values, and ethics, contribution to research, etc.

Procter and Gamble's (P&G) philosophy is that it should lead the industry in implementing a global environmental programme. P&G is one of the first companies in the world to actively study the influence of consumer products on the environment and introduce concentrated products, recycled plastic bottles, and refill packages to the industry. P&G contributes to sustainable development and addresses environmental and social issues connected with its products and services.

Source: Adapted from 'Effective Executive'

The term marketing has been described by different people in different ways. Some people believe that marketing is same as 'shopping'. Whenever they go out for shopping of certain products or services, they describe it as marketing. There are some other people who confuse marketing with 'selling' and feel that marketing activity starts after a product or service has been produced. Some people describe it to mean 'merchandising' or designing a product. All these descriptions may be partly correct but marketing is a much broader concept, which is discussed as follows:

Traditionally, marketing has been described in terms of its functions or activities. In this respect, marketing has been referred to as performance of business activities that direct the flow of goods and services from producers to consumers.

As we know, most of the manufacturing firms do not produce goods for their own consumption but for the consumption or use by others. Therefore, to move the goods and services from the producer to consumers, a number of activities, such as product designing or merchandising, packaging, warehousing, transportation, branding, selling, advertising and pricing are required. All these activities are referred to as marketing activities.

Thus, 'merchandising', 'selling' and distribution are all parts of a large number of activities undertaken by a firm, which are collectively called marketing.

It may be noted here that marketing is not merely a post- production activity. It includes many activities that are performed even before goods are actually produced, and continue even after the goods have been sold. For example, activities such as identification of customer needs, collection of information for developing the product, designing suitable product package and giving it a brand name are performed before commencement of the actual production. Similarly, many follow up activities are required for maintaining good customer relations for procuring repeat sale.

In modern times, emphasis is placed on describing marketing as a social process. It is a process whereby people exchange goods and services for money or for something of value to them. Taking the social perspective, Phillip Kolter has defined marketing as, "a social process by which individual groups obtain what they need and want through creating offerings and freely exchanging products and services of value with others".

"Business is not financial science, it's about trading, buying and selling. It's about creating a product or service so good that people will pay for it."

— Anta Roddick

"Marketing takes a day to learn. Unfortunately it takes time to master."

— Philip Kotler

Understanding Market

In the traditional sense, the term 'market' refers to the place where buyers and sellers gather to enter into transactions involving the exchange of goods and services. It is in this sense that this term is being used in day to day language, even today. The other ways in which this term is being used is in the context of a product market (cotton market, gold or share market), geographic market (national and international market), type of buyers (consumer market and industrial market) and the quantity of goods transacted (retail market and wholesale market).

But in modern marketing sense, the term market has a broader meaning. It refers to a set of actual and potential buyers of a product or service. For example, when a fashion designer designs a new dress and offers it for exchange, all the people who are willing to buy and offer some value for it can be stated to be the market for that dress. Similarly, market for fans or bicycles or electric bulbs or shampoos refers to all the actual and potential buyers for these products.

Thus, marketing is a social process where in people interact with others, in order to persuade them to act in a particular way, say to purchase a product or a service, rather than forcing them to do so. A careful analysis of the definition shows the following important features of marketing:

1. Needs and Wants: The process of marketing helps individuals and groups in obtaining what they need and want. Thus, the primary reason or motivation for people to engage in the process of marketing is to satisfy some of their needs or wants. In other words, the focus of the marketing process is on satisfaction of the needs and wants of individuals and organisations.

A need is a state of felt deprivation or feeling of being deprived of something. If unsatisfied, it leaves a person unhappy and uncomfortable. For example, on getting hungry, we become uncomfortable and start looking for objects that are capable of satisfying our hunger.

Needs are basic to human beings and do not pertain to a particular product. Wants, on the other hand, are culturally defined objects that are potential satisfiers of needs. In other words, human needs shaped by such factors as culture, personality and religion are called wants. A basic need for food, for example, may take various forms such as want for dosa and rice for a South Indian and chapatti and vegetables for a North Indian person.

A marketer's job in an organisation is to identify needs of the target customers and develop products and services that satisfy such needs.

2. Creating a Market Offering: On the part of the marketers, the effort involves creation of a 'market offering. Market offering refers to a complete offer for a product or service, having given features like size, quality, taste, etc; at a certain price; available at a given outlet or location and so on. Let us say the offer is for a cell phone, available in four different versions, on the basis of certain features such as size of memory, television viewing, internet, camera, etc., for a given price, say between ₹ 5,000 and ₹ 20,000 (depending on the model selected), available for sale at say firm's exclusive shops in and around all metropolitan cities in the country. A good 'market offer' is the one which is developed after analysing the needs and preferences of the potential buyers.

3. Customer Value: The process of marketing facilitates exchange of products and services between the buyers and the sellers. The buyers, however, make buying decisions on their perceptions of the value of the product or service in satisfying their need, in relation to its cost. A product will be purchased only if it is perceived to be giving greatest benefit or value for the money. The job of a marketer, therefore, is to add to the value of the product so that the customers prefer it in relation to the competing products and decide to purchase it.

4. Exchange Mechanism: The process of marketing works through the exchange mechanism. The individuals (buyers and sellers) obtain what they need and want through the process of exchange. In other words, the process of marketing involves exchange of products and services for money or something considered valuable by the people.

Exchange refers to the process through which two or more parties come together to obtain the desired product or service from someone, offering the same by giving something in return. For example, a person feeling hungry may get food by offering to give money or some other product or service in return to someone who is willing to accept the same for food.

In the modern world, goods are produced at different places and are distributed over a wide geographical area through various middlemen, involving exchanges at different levels of distribution. Exchange is, therefore, referred to as the essence of marketing. For any exchange to take place, it is important that the following conditions are satisfied:

(i) Involvement of at least two parties viz., the buyer and the seller.

(ii) Each party should be capable of offering something of value to the other. For example, the seller offers a product and the buyer, money.

(iii) Each party should have the ability to communicate and deliver the product or service. No exchange can take place if the buyers and sellers are not able to communicate with each other or if they can not deliver something of value to the other.

(iv) Each party should have freedom to accept or reject other party's offer.

(v) The parties should be willing to enter into transaction with each other. Thus, the acceptance or rejection of the offer takes place on voluntary basis rather than on the bases of any compulsion.

The points listed above are the necessary conditions for an exchange to take place. Whether the exchange actually takes place or not depends on the suitability of the act of exchange to both the parties, whether it makes the parties better off or at least not worse off.

Another important point to be noted is that Marketing is not merely a business phenomena or confined only to business organisations. Marketing activities are equally relevant to non-profit organisations such as hospitals, schools, sports clubs and social and religious organisations. It helps these organisations in achieving their goals such as spreading the message of family planning, improving the literacy standards of people and providing medication to the sick.

What can be Marketed?

Physical Products	:	DVD player, Motor cycle, ipods, Cell phone, Footwear, Television, Refrigerator.
Services	:	Insurance, Health Care, Business Process Outsourcing, Security, Easy Bill service, Financial Services (Investment),Computer Education, Online Trading.
Ideas	:	Polio Vaccination, Helpage, Family Planning, Donation of Blood (Red cross), Donation of money on Flag Day (National Foundation for Communal Harmony).
Persons	:	For Election of Candidates for Certain Posts.
Place	:	'Visit Agra – 'City of Love', 'Udaipur – 'The City of Lakes', 'Mysore – The City of Gardens', 'When Orisa celebrates, Eleven the God Join In'.
Experience	:	Customised Experiences as Dinner with a cricketer (say Dhoni); Lunch with a celebrity (say Bill Gates or Aishwarya Roy) or experience of Baloon Riding, mountaineering, etc.
Properties	:	Intangible rights of ownership of real estate in financial property (Shares, Debentures).
Events	:	Sports events (say Olympics, Cricket series), diwali mela, fashion show, music concert, film festival, elephant race (Kerala Tourism).
Information	:	Production packaging and distribution of information by organisations such as by universities, research organisation, providing information as market information (marketing research agencies), technology information.
Organisations	:	For boosting their public image organisations such as Hindustan Lever, Ranbaxy, Dabur, Proctor and Gamble, communicate with people. Example, Phillips says, Let's make Things Better'.

Marketing Management

Marketing management means management of the marketing function. In other words, marketing management refers to planning, organising, directing and control of the activities which facilitate exchange of goods and services between producers and consumers or users of products and services. Thus the focus of marketing management is on achieving desired exchange outcomes with the target markets. Taking a management perspective, the term marketing has been defined as "the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goals" by American Management Association, similarly Philip kotler has defined Marketing management as the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer values of management.

A careful analysis of the definition reveals that the process of management of marketing involves:

(i) Choosing a target market, say a manufacturer may choose to make readymade garments for children up to the age of 5 years;

(ii) In respect of the target market chosen, the focus of the process of management is on getting, keeping as well as growing the customers. That means the marketer has to create demand for his products so that the target customers purchase the product, keep them satisfied with the firm's products and also attract more customers to the firm's products so that the firm can grow; and

(iii) The mechanism for achieving the objective is through creating, developing and communicating superior values for the customers. That means, the primary job of a marketing manager is to create superior values so that the customers are attracted to the products and services and communicate these values to the prospective buyers and persuade them to buy these products.

Marketing management involves performance of various functions such as analysing and planning the marketing activities, implementing marketing plans and setting control mechanism. These functions are to be performed in such a way that organisation's objectives are achieved at the minimum cost.

Marketing management generally is related to creation of demand. However, in certain situations, the manager has to restrict the demand. For example, if there is a situation of 'overfull demand', i.e., the demand being more than what the company can or want to handle, (like what the situation in our country was before the adoption of policies of liberalisation and globalisation, in early 90's, in most consumer products be it automobiles or electronics goods

Marketing Versus Selling

Many people confuse 'selling' for 'marketing'. They consider these two terms as one and the same. Marketing refers to a large set of activities of which selling is just one part. For example, a marketer of televisions, before making the sale, does a lot of other activities such as planning the type and model of televisions to be produced, the price at which it would be sold and selecting the distribution outlets at which the same would be available, etc. In short, marketing involves whole range of activities relating to planning, pricing, promoting and distributing the products that satisfy customer's needs.

The function of selling, on the other hand, is restricted to promotion of goods and services through salesmanship, advertising, publicity and short-term incentives so that title of the product is transferred from seller to buyer or in other words product is converted into cash.

or other durable products. The job of marketing mangers, in these situations would be to find ways to reduce the demand temporarily by say reducing the expenditure on promotion or increasing the prices. Similarly, if the demand is 'irregular', such as in case of seasonal products, (say fans, woollen clothes) the marketer's job is to change the time pattern of demand through such methods as providing short-term incentives, to the buyers. Thus, the marketing management in not only concerned with creating demand but with managing the demand effectively, as per the situation in the market.

Marketing Management Philosophies

In order to achieve desired exchange outcomes with target markets, it is important to decide what philosophy or thinking should guide the marketing efforts of an organisation. An understanding of the philosophy or the concept to be adopted is important as it determines the emphasis or the weightage to be put on different factors, in achieving the organisational objectives. For example, whether the marketing efforts of an organisation will focus on the product—say designing its features etc or on selling techniques or on customer's needs or the social concerns.

The concept or philosophy of marketing has evolved over a period of time, and is discussed as follows.

The Production Concept

During the earlier days of industrial revolution, the demand for industrial goods started picking up but the number of producers were limited. As a result, the demand exceeded the supply. Selling was no problem. Anybody who could produce the goods was able to sell. The focus of business activities was, therefore, on production of goods. It was believed that profits could be maximised by producing at large scale, thereby reducing the average cost of production. It was also assumed that consumers would favour those products which were widely available at an affordable price. Thus, availability and affordability of the product were considered to be the key to the success of a firm. Therefore, greater emphasis was placed on improving the production and distribution efficiency of the firms.

The Product Concept

As a result of emphasis on production capacity during the earlier days, the position of supply increased over period of time. Mere availability and low price of the product could not ensure increased sale and as such the survival and growth of the firm. Thus, with the increase in the supply of the products, customers started looking for products which were superior in quality, performance and features. Therefore, the emphasis of the firms shifted from quantity of production to quality of products. The focus of business activity changed to bringing continuous improvement in the quality, incorporating new features, etc. Thus, product improvement became the key to profit maximisation of a firm, under the concept of product orientation.

The Selling Concept

With the passage of time, the marketing environment underwent further change. The increase in the scale of business further improved the position with respect to supply of goods, resulting in increased competition among sellers. The product quality and availability did not ensure the survival and growth of firms because of the large number of sellers selling quality products. This led to greater importance to attracting and persuading customers to buy the product. The business philosophy changed. It was assumed that the customers would not buy, or not buy enough, unless they are adequately convinced and motivated to do so. Therefore, firms must undertake aggressive selling and promotional efforts to make customers buy their products. The use of promotional techniques such as advertising, personal selling and sales promotion were considered essential for selling of products. Thus, the focus of business firms shifted to pushing the sale of products through aggressive selling techniques with a view to persuade, lure or coax the buyers to buy the products. Making sale through any means became important. It was assumed that buyers can be manipulated but what was forgotten was that in the long run what matters most is the customer satisfaction, rather than anything else.

The Marketing Concept

Marketing orientation implies that focus on satisfaction of customer's needs is the key to the success of any organisation in the market. It assumes that in the long run an organisation can achieve its objective of maximisation of profit by identifying the needs of its present and prospective buyers and satisfying them in an effective way. All the decisions in a firm are taken from the point of view of the customers. In other words, customer's satisfaction become the focal point of all decision making in the organisation. For example, what product will be produced, with what features and at what price shall it be sold, or where shall it be made available for sale will depend on what do the customers want. If the customers want features like double door in a refrigerator or a separate provision for water cooler in it, the organisation would produce a refrigerator with these features, would price it at a level which the customers are willing to pay and so on. If all marketing decisions are taken with this prospective, selling will not be any problem. It will automatically follow. The basic role of a firm then is to 'identify a need and fill it'. The concept implies that products ad-services are bought not merely because of their quality, packing or brand name, but because they satisfy a specific need of a customer. A pre-requisite for the success of any organisation, therefore, is to understand and respond to customer needs.

To sum up, the marketing concept is based on the following pillars:

(i) Identification of market or customer who are chosen as the target of marketing effort.

Differences in the Marketing Management Philosophies

Philosophies/ Bases	Production Concept	Product Concept	Selling Concept	Marketing Concept	Societal Concept
1. Starting Point	Factory	Factory	Factory	Market	Market, Society
2. Main Focus	Quantity of product	Quality, performance, features of product	Existing product	Customer needs	Customer needs and society's well being
3. Means	Availability and affordability of product	Product improve-ments	Selling and promoting	Integrated marketing	Integrated marketing
4. Ends	Profit through volume of production	Profit through product quality	Profit through sales volume	Profit through customer satisfaction	Profit through customer
satisfaction					
					and social welfare

(ii) Understanding needs and wants of customers in the target market.

(iii) Development of products or services for satisfying needs of the target market.

(iv) Satisfying needs of target market better than the competitors.

(v) Doing all this at a profit.

Thus, the focus of the marketing concept is on customer needs and the customer satisfaction becomes the means to achieving the firms' objective of maximising profit. The purpose of marketing is to generate customer value at a profit.

The Societal Marketing Concept

The marketing concept, as described in the preceeding section cannot be considered as adequate if we look at the challenges posed by social problems like environmental pollution, deforestation, shortage of resources, population explosion and inflation. It is so because any activity which satisfies human needs but is detrimental to the interests of the society at large cannot be justified. The business orientation should, therefore, not be short-sighted to serve only consumers' needs. It should also consider large issues of long-term social welfare, as illustrated above.

The societal marketing concept holds that the task of any organisation is to identify the needs and wants of the target market and deliver the desired satisfaction in an effective and efficient manner so that the long-term well-being of the consumers and the society is taken care of. Thus, the societal marketing concept is the extension of the marketing concept as supplemented by the concern for the long-term welfare of the society. Apart from the customer satisfaction, it pays attention to the social, ethical and ecological aspects of marketing. There are large number of such issues that need to be attended.

Functions Of Marketing

Marketing is concerned with exchange of goods and services from producers to consumers or users in such a way that maximises the satisfaction of customers' needs. From the view point of management function, number of activities are involved, which have been described as below:

1. Gathering and Analysing Market Information: One of the important functions of a marketer is to gather and analyse market information. This is necessary to identify the needs of the customers and take various decisions for the successful marketing of the products and services. This is important for making an analysis of the available opportunities and threats as well as strengths and weaknesses of the organisation and help in deciding what opportunities can best be pursued by it. For example, rapid growth is predicted in several areas in the Indian economy, say in the use of the Internet, market for cell phones and several other areas. Which of these areas a particular organisation should enter, or in which area should it expand, requires a careful scanning of the strengths and weaknesses of the organisation, which is done with the help of careful market analysis.

With the growth of computers, a new trend has emerged in the collection of market information. More and more companies are using interactive sites on the internet, to gather customer views and opinions, before taking important business decisions. One of the popular TV News Channel (in Hindi) seeks viewers choice (through SMS) on which of the given four or five main news stories of the day would be broadcasted as detailed story at the prime time, to ensure that the viewers get to listen to the story of their own choice.

2. Marketing Planning: Another important activity or area of work of a marketer is to develop appropriate marketing plans so that the marketing objectives of the organisation can be achieved. For example a marketer of colour TV, having 10 per cent of the current market share in the country, aims at enhancing his market share to 20 per cent, in the next three years. He will have to develop a complete marketing plan covering various important aspects including the plan for increasing the level of production, promotion of the products, etc., and specify the action programmes to achieve these objectives.

3. Product Designing and Development: Another important marketing activity or decision area relates to product designing and development. The design of the product contributes to making the product attractive to the target customers. A good design can improve performance of a product and also give it a competitive advantage in the market. For example, when we plan to buy any product say a motorbike, we not only see its features like cost, mileage, but also the design aspects like its shape, style, etc.

4. Standardisation and Grading: Standardisation refers to producing goods of predetermined specifications, which helps in achieving uniformity and consistency in the output. Standardisation ensures the buyers that goods conform to the predetermined standards of quality, price and packaging and reduces the need for inspection, testing and evaluation of the products.

Grading is the process of classification of products into different groups, on the basis of some of its important characteristics such as quality, size, etc. Grading is particularly necessary for products which are not produced according to predetermined specifications, such as in the case of agricultural products, say wheat, oranges, etc. Grading ensures that goods belong to a particular quality and helps in realising higher prices for high quality output.

5. Packaging and Labelling: Packaging refers to designing and developing the package for the products. Labelling refers to designing and developing the label to be put on the package. The label may vary from a simple tag to complex graphics.

Packaging and labelling have become so important in modern day marketing that these are considered as the pillars of marketing. Packaging is important not only for protection of the products but also serves as a promotional tool. Sometimes, the quality of the product is assessed by the buyers form packaging. We have seen that in the success of many of the consumer brands in recent times such as Lays or Uncle Chips potato wafers Clinic Plus shampoos, and Colgate Toothpaste, etc., packaging has played an important role.

6. Branding: A very important decision area for marketing of most consumer products is whether to sell the product in its generic name (name of the category of the product, say Fan, Pen, etc.) or to sell them in a brand name (such as Pollar Fan or Rottomac Pen). Brand name helps in creating product differentiation, i.e., providing basis for distinguishing the product of a firm with that of the competitor, which in turn, helps in building customer's loyality and in promoting its sale. The important decision areas in respect of branding include deciding the branding strategy, say whether each product will be given a separate brand name or the same brand name will be extended to all products of the company, say Phillips bulbs, tubes and television or Videocon washing machine, television, and refrigerator. Selection of the brand name plays an important role in the success of a product.

7. Customer Support Services: A very important function of the marketing management relates to developing customer support services such as after sales services, handling customer complaints and adjustments, procuring credit services, maintenance services, technical services and consumer information. All these services aim at providing maximum satisfaction to the customers, which is the key to marketing success in modern days. Customer support services are very effective in bringing repeat sales from the customers and developing brand loyality for a product.

8. Pricing of Product: Price of product refers to the amount of money customers have to pay to obtain a product. Price is an important factor affecting the success or failure of a product in the market. The demand for a product or service is related to its price. Generally lower the price, higher would be the demand for the product and vice-versa. The marketers have to properly analyse the factors determining the price of a product and take several crucial decisions in this respect, including setting the pricing objectives, determining the pricing strategies, determining the price and changing the prices.

9. Promotion: Promotion of products and services involves informing the customers about the firm's product, its features, etc., and persuading them to purchase these products. The four important methods of promotion include advertising, Personal Selling, Publicity and Sales Promotion. A marketer has to take several crucial, decisions in respect of promotion of the products and services such as deciding the promotion budget, the promotion mix, i.e., the combination of the promotional tools that will be use, the promotion budget, etc.

10. Physical Distribution: Managing physical distribution is another very important function in the marketing of goods and services. The two major decision areas under this function include (a) decision regarding channels of distribution or the marketing intermediaries (like whole salers, retailers) to be used and (b) physical movement of the product from where it is produced to a place where it is required by the customers for their consumption or use. The important decision areas under physical distribution include managing inventory (levels of stock of goods), storage and warehousing and transportation of goods from one place to the other.

11. Transportation: Transportation involves physical movement of goods from one place to the other. As generally the users of products, particularly consumer products are wide spread and geographically separated from the place these are produced, it is necessary to move them to the place where it is needed for consumption or use, For example, tea produced in Assam has to be transported not only within the state but to other far off places like Tamil Nadu, Punjab, Jammu and Kashmir and Haryana, Rajasthan, where it is consumed.

A marketing firm has to analyse its transportation needs after taking into consideration various factors such as nature of the product, cost and location of target market and take decisions in respect of mode of transportation to be chosen and other related aspects.

12. Storage or Warehousing: Usually there is a time gap between the production or procurement of goods and their sale or use. It may be because of irregular demand for the products such as in the case of woollen garments or raincoats, or there may be irregular supply because of seasonal production such as in the case of agricultural products (sugarcane, rice, wheat, cotton, etc.). In order to maintain smooth flow of products in the market, there is a need for proper storage of the products. Further, there is a need for storage of adequate stock of goods to protect against unavoidable delays in delivery or to meet out contingencies in the demand. In the process of marketing, the function of storage is performed by different agencies such as manufacturers, wholesalers and retailers.

Marketing Mix

The marketing mix consists of various elements, which have broadly been classified into four categories, popularly known as four Ps of marketing. These are: (i) Product, (ii) Price, (iii) Place, and (iv) Promotion. These are briefly discussed as follows:

1. Product: Product means goods or services or 'anything of value', which is offered to the market for sale. For example, Hindustan lever offers number of consumer products like toiletries (Close-Up toothpaste, Lifebuoy soap, etc.), detergent powder (Surf, Wheel), food products (Refined Vegetable Oil); Tata offers Tata Steel, Trucks, Salt and a large number of other products; LG electronics offers televisions, refrigerators, colour monitors for computers, etc; Amul offers a number of food products (Amul milk, ghee, butter, cheese, chocolates, etc.).

The concept of product relates to not only the physical product as mentioned in the above examples but also the benefits offered by it from customer's view point (for example toothpaste is bought for whitening teeth, strengthening gums, etc.). The concept of product also include the extended product or what is offered to the customers by way of after sales services, handling complaints, availability of spare parts etc. These aspects are very important, particularly in the marketing of consumer durable products (like Automobiles, refrigerators, etc.). The important product decisions include deciding about the features, quality, packaging, labelling and branding of the products.

2. Price: Price is the amount of money customers have to pay to obtain the product. In case of most of the

Marketing Mix: Elements

Product
Product Mix
Product Quality
New Product
Design and Development
Packaging
Labelling
Branding

Price
Price Level
Margins
Pricing Policy
Pricing Strategies
Price Change

Place
Channel Strategy
Channel Selection
Channel Conflict
Channel Cooperation
Physical Distribution

Promotion
Promotion Mix
Advertising
Personal Selling
Sales Promotion
Publicity
Public Relations

products, level of price affects the level of their demand. The marketers have not only to decide about the objectives of price setting but to analyse the factors determining the price and fix a price for the firm's products. Decisions have also to be taken in respect of discounts to customers, traders and credit terms, etc., so that customers perceive the price to be in line with the value of the product.

3. Place: Place or Physical Distribution include activities that make firm's products available to the target customers. Important decision areas in this respect include selection of dealers or intermediaries to reach the customers, providing support to the intermediaries (by way of discounts, promotional campaigns, etc.). The intermediaries in turn keep inventory of the firm's products, demonstrate them to potential buyers, negotiate price with buyers, close sales and also service the products after the sale. The other decision areas relate to managing inventory, storage and warehousing and transportation of goods from the place it is produced to the place it is required by the buyers.

4. Promotion: Promotion of products and services include activities that communicate availability, features, merits, etc., of the products to the target customers and persuade them to buy it. Most marketing organisations, undertake various promotional activities and spend substantial amount of money on the promotion of their goods through using number of tools such as advertising, personal selling and sales promotion techniques (like price discounts, free samples, etc.). A large number of decisions are to be taken in each of the area specified above. For example, in the respect of advertising it is important to decide about the message, the media to be used (example, print-media–newspaper, magazines, the objections of customers, etc.).

The success of a market offer will depend on how well these ingredients are mixed to create superior value for the customers and simultaneously achieve their sale and profit objectives. Let us say a firm would like to achieve necessary volume of sale at a cost that will permit a desired level of profit. But so many alternative mixes can be adopted by a firm to achieve this objectives. The issue before a firm then is to decide what would be the most effective combination of elements to achieve the given objectives.

PRODUCTS

From the customer's point of view, a product is a bundle of utilities, which is purchased because of its capability to provide satisfaction of certain need.

A buyer buys a product or service for what it does for her or the benefit it provides to her. There can be three types of benefits a customer may seek to satisfy from the purchase of a product, viz.,

(i) functional benefits,
(ii) psychological benefits, and
(iii) social benefits.

For example, the purchase of a motorcycle provides functional utility of transportation, but at the same time satisfies the need for prestige and esteem and provides social benefit by the way of acceptance from a group, by riding a motorbike. Thus, all these aspects should be considered while planning for a product.

Classification of Products

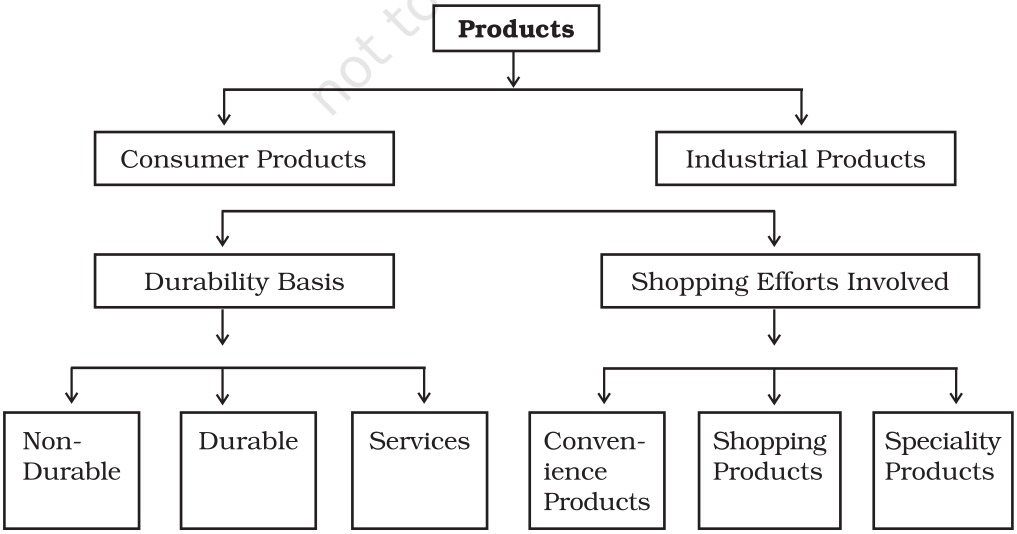
Products may broadly be classified into two categories — (i) consumers' products, and (ii) industrial products. The consumer products may further be classified into different groups, as detailed below:

Consumer Products

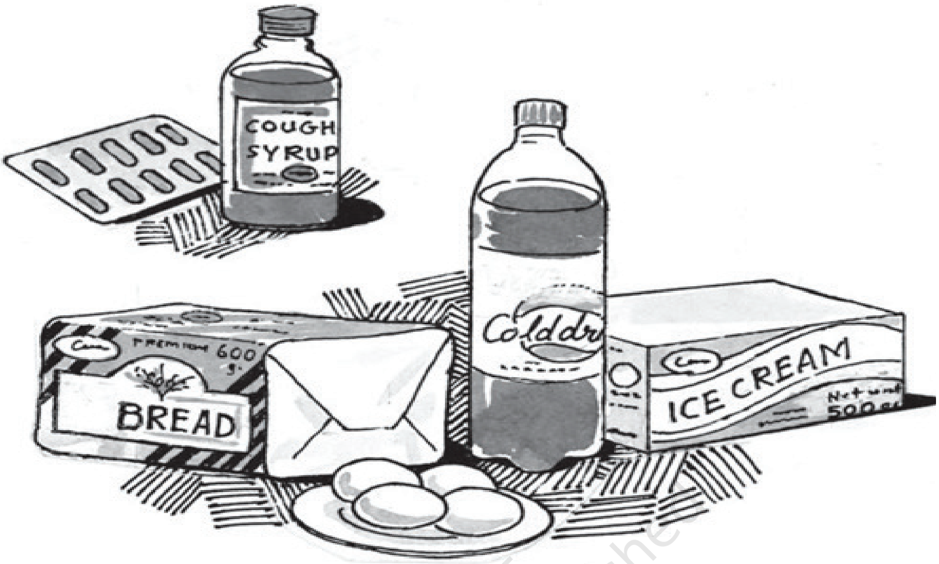
Products, which are purchased by the ultimate consumers or users for satisfying their personal needs and desires are referred to as consumer products. For example, soap, edible oil, eatables, textiles, toothpaste, fans, etc. which we use for our personal and non-business use are consumer goods. We can classify the consumer product into the following three categories as here under:

1. Convenience Products: Those consumer products, which are purchased frequently, immediately and with least time and efforts are referred to as convenience goods. Examples of such products are cigarettes, ice creams, medicines, newspaper, stationery items toothpaste etc. These products have low unit-value and are bought in small qualities.

2. Shopping Products: Shopping products are those consumer goods where buyers devote considerable time, to compare the quality, price,



Classification of Products



Convenience Products

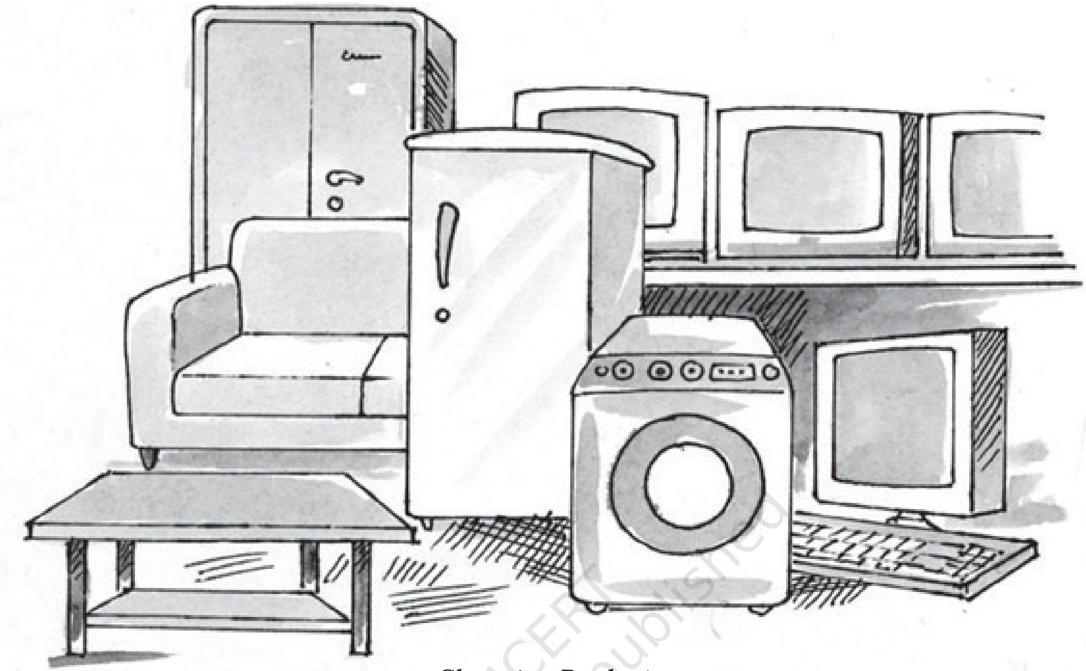
style, suitability, etc., at several stores, before making final purchase. Some of the examples of shopping products are clothes, shoes, jewellery, furniture, radio, television, etc.

3. Speciality Products: Speciality products are those consumer goods which have certain special features because of which people make special efforts in their purchase. These products are such, which have reached a brand loyalty of the highest order, with a significant number of buyers. The buyers are willing to spend a lot of time and efforts on the purchase of such products. For example, if there is a rare collection of artwork or of antiques, some people may be willing to spend a lot of shopping effort and travel long distance to buy such products. In our day-to-day life, we see people going to a particular hair-cutting saloon or restaurant, or a tailor. The demand for these goods is relatively inelastic, i.e., even if the price is increased, the demand does not come down.

Durability Of Products

On the basis of their durability, the consumer products have been classified into three categories—Durable, Non-durable and Services.

1. Non-durable Products: The consumer products which are normally consumed in one or few uses are called non-durable products. For example, products like toothpaste, detergents, bathing soap and stationary products etc. From the marketing point of view, these products generally command a small margin, should be made available in many locations and need to be heavily advertised.



Shopping Products

2. Durable Products: Those tangible consumer products which normally survive many years, for example, refrigerator, radio, bicycle, sewing machine and kitchen gadgets are referred to as durable products. These goods are generally used for a longer period, command a higher per unit margin, require greater personal- selling efforts, guarantees and after sales services, on the part of the seller.

3. Services: By services we mean those intangible activities, benefits which are offered for sale, e.g., dry cleaning, watch repairs, hair cutting, postal services, services offered by a doctor, an architect and a lawyer.

INDUSTRIAL PRODUCTS

Industrial products are those products, which are used as inputs in producing other products. The examples of such products are raw materials, engines, lubricants, machines, tools, etc. In other words, industrial products are meant for non-personal and business use for producing other products.

The market for industrial products consists of manufacturers, transport agencies, banks and insurance companies, mining companies and public utilities. Industrial products are those products, which are used as inputs in producing other products. The examples of such products are

Speciality Products

raw materials, engines, lubricants, machines, tools, etc. In other words, industrial products are meant for non-personal and business use for producing other products.

The market for industrial products consists of manufacturers, transport agencies, banks and insurance companies, mining companies and public utilities.

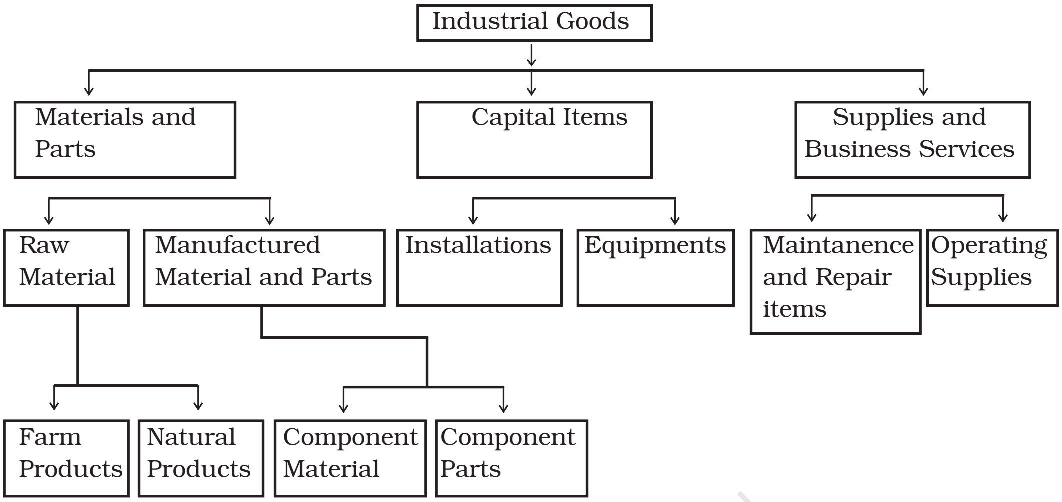
Classification

The industrial goods are classified into the following major categories:

(i) Materials and Parts: These include goods that enter the manufacture's products completely. Such goods are of two types: (a) raw material: including farm products like cotton, sugar cane, oil seed and natural products such as minerals (say crude petroleum, iron ore), fish and lumber; and (b) manufactured material and parts. These are again of two types – component materials like glass, iron, plastic and component parts such as tyre, electric bulb, steering, and battery.

(ii) Capital Items: These are such goods that are used in the production of finished goods. These include: (a) installations like elevators, mainframe Computers, and (b) equipments like Hand Tools, Personal Computer, Fax Machines, etc.

(iii) Supplies and Business Services: These are short lasting goods and services that facilitate developing or managing the finished product. These include: (a) maintenance and repair items like Paint, Nails, etc., and (b) operating supplies like Lubricant, Computer Stationary, Writing Paper, etc.



Classification of Industrial Goods

Branding

One of the most important decisions that a marketer has to take in the area of 'product' is in respect of branding. He has to decide whether the firm's products will be marketed under a brand name or a generic name. Generic name refers to the name of the whole class of the product. For example, a book, a wristwatch, tyre, camera, toilet soap, etc. We know that a camera is a lens surrounded by plastic or steel from all sides and having certain other features such as a flash gun and so on. Similarly book is a bunch of papers, which are in a bound form, on which some useful information about a subject is printed. Thus, all products having these characteristics would be called by the generic name such as camera or book.

If products were sold by generic names, it would be very difficult for the marketers to distinguish their products from that of their competitors. Thus, most marketers give a name to their product, which helps in identifying and distinguishing their products from the competitors' products. This process of giving a name or a sign or a symbol etc., to a product is called branding. The various terms relating to branding are as follows:

1. Brand: A brand is a name, term, sign, symbol, design or some combination of them, used to identify the products—goods or services of one seller or group of sellers and to differentiate them from those of the competitors. For example, some of the common brands are Bata, Lifebuoy, Dunlop, and Parker. Brand is a comprehensive term, which has two components—brand name and brand mark.

2. Brand Name: That part of a brand, which can be spoken, is called a brand name. In other words, brand name is the verbal component of a brand.

3. Brand Mark: That part of a brand which can be recognised but which is not utterable is called brand mark. It appears in the form of a symbol, design, distinct colour scheme or lettering.

4. Trade Mark: A brand or part of a brand that is given legal protection is called trademark. The protection is given against its use by other firms. Thus the firm, which got its brand registered, gets the exclusive right for its use. In that case, no other firm can use such name or mark in the country.

Though branding adds to the cost e.g., to the cost of packaging, labelling, legal protection, and promotion, it provides several advantages to the sellers as well as the consumers.

Characteristics of Good Brand Name

Choosing the right brand name is not an easy decision. What makes this decision important is the fact that once a brand name is chosen and the product is launched in the market, changing the brand name is very difficult. So, getting it right the first time is very essential.

Perspectives of Brands and Branding

Branding is creating a corporate brand identity for consumer, and getting that brand identity imprinted on the minds of consumer, and this requires brand positioning and brand management.

A brand today is an entity (product. service, company, person, technology, etc.), that offers a set of value exchange measures between what the owner/market seeks and the price he is willing to pay for.

It has always seemed to me that your brand is formed primarily, not by what your company says about itself, but what the company does.

— Jeff Bezos

A product is something made in a factory; a brand is something that is bought by the customer. A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless.

— Stephen King

Your brand's power lies in dominance. It is better to have 50% of one market, instead of 10% of five markets.

— Al Ries

Your brand image is primarily an emotional construct. Emotion is probably always more powerful in swaying people than reason. but people like to be able to rationalise their choices.

— Drayton Bird

Source: Adopted from Effective Executive, 2006

Following are some of the considerations, which should be kept in mind while choosing a brand name.

(i) The brand name should be short, easy to pronounce, spell, recognise and remember e.g., Ponds, VIP, Rin, Vim, etc.

(ii) A brand should suggest the product's benefits and qualities. It should be appropriate to the product's function.

(iii) A brand name should be distinctive.

(iv) The brand name should be adaptable to packing or labelling requirements, to different advertising media and to different languages.

(v) The brand name should be sufficiently versatile to accommodate new products, which are added to the product line.

(vi) It should be capable of being registered and protected legally.

(vii) Chosen name should have staying power i.e., it should not get out of date.

Packaging

One of the most important developments affecting the business world in recent years has been in the area of packaging. Many products, which we thought could never lend themselves to packing because of their nature, have been successfully packed e.g., Pulses, Ghee, Milk, Salt, Cold Drinks, etc. Packaging refers to the act of designing and producing the container or wrapper of a product. Packaging plays a very important role in the marketing success or failure of many products, particularly the consumer non-durable products. In fact if one makes an analysis of the reasons for the success of some of the successful products in the recent past, it can be noted that packaging has played its due role. For example, it was one of the important factors in the success of products like Maggie's Noodles, Uncle Chips or Crax wafers.

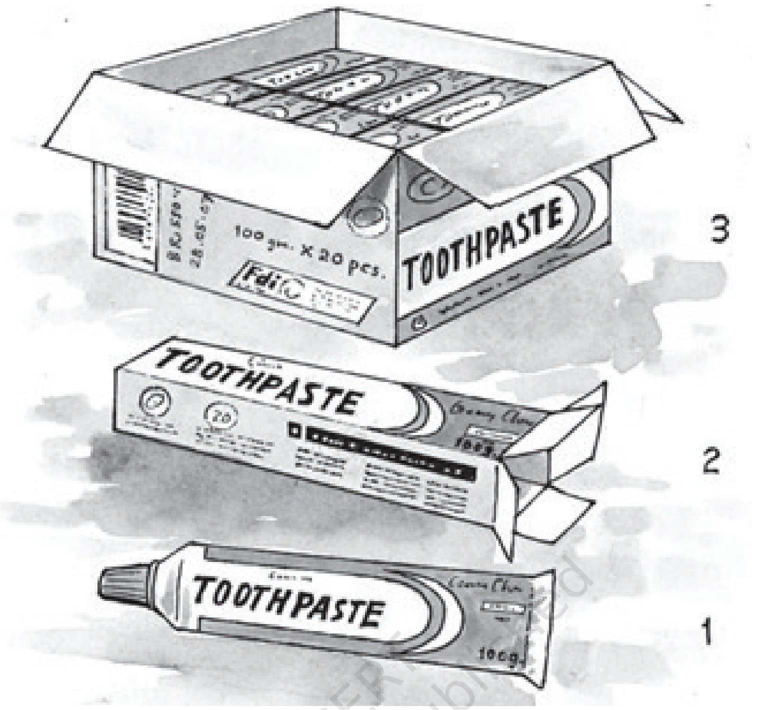
Levels of Packaging

There can be three different levels of packaging. These are as below:

1. Primary Package: It refers to the product's immediate container. In some cases, the primary package is kept till the consumer is ready to use the product (e.g., plastic packet for socks); whereas in other cases, it is kept throughout the entire life of the product (e.g., a toothpaste tube, a match box, etc.).

2. Secondary Packaging: It refers to additional layers of protection that are kept till the product is ready for use, e.g., a tube of shaving cream usually comes in a card board box. When consumers start using the shaving cream, they will dispose off the box but retain the primary tube.

3. Transportation Packaging: It refers to further packaging components necessary for storage, identification or transportation. For example, a toothpaste manufacturer may send the goods to retailers in corrugated boxes containing 10, 20, or 100 units.



Levels of Packaging

Importance of Packaging

Packaging has acquired great significance in the marketing of goods and services, because of following reasons:

(i) *Rising Standards of Health and Sanitation:* Because of the increasing standards of living in the country, more and more people have started purchasing packed goods as the chances of adulteration in such goods are minimised.

(ii) *Self Service Outlets:* The self-service retail outlets are becoming very popular, particularly in major cities and towns. Because of this, some of the traditional role assigned to personal selling in respect of promotion has gone to packaging.

(iii) *Innovational Opportunity:* Some of the recent developments in the area of packaging have completely changed the marketing scene in the country. For example, milk can now be stored for 4-5 days without refrigeration in the recently developed packing materials. Similarly, in the area of pharmaceuticals, soft drinks, etc., lots of new innovations have come in respect of packaging. As a result, the scope for the marketing of such products has increased.

(iv) *Product Differentiation:* Packaging is one of the very important means of creating product differentiation.

The colour, size, material, etc., of package makes real difference in the perception of customers about the quality of the product. For example, by looking at the package of a product say Paint or Hair Oil, one can make some guess about quality of the product contained in it.

Functions of Packaging

As stated above, packaging performs a number of functions in the marketing of goods. Some of the important functions are as follows:

(i) *Product Identification:* Packaging greatly helps in identification of the products. For example, Colgate in red colour, or Ponds cream jar can be easily identified by its package.

(ii) *Product Protection:* Packaging protects the contents of a product from spoilage, breakage, leakage, pilferage, damage, climatic effect, etc. This kind of protection is required during storing, distribution and transportation of the product.

(iii) *Facilitating Use of the Product:* The size and shape of the package should be such that it should be convenient to open, handle and use for the consumers. Cosmetics, medicines and tubes of toothpastes are good examples of this.

(iv) *Product Promotion:* Packaging is also used for promotion purposes. A startling colour scheme, photograph or typeface may be used to attract attention of the people at the point of purchase. Sometimes it may work even better than advertising. In self-service stores, this role of packaging becomes all the more important.

Labelling

A simple looking but important task in the marketing of goods relates to designing the label to be put on the package. The label may vary from a simple tag attached to the product (such as in case of local unbranded products like sugar, wheat, pulses, etc.) indicating some information about the quality or price, to complex graphics that are part of the package, like the ones on branded products. Lables are useful in providing detailed information about the product, its contents, method of use, etc. The various functions performed by a label are as follows:

1. Describe the Product and specify its contents: Let us look at some of the labels of the products used by us in our day to day life. The label on the package of a local tea company describes the company as 'Mohini Tea Company, an ISO 9001:200C Certified Company'; a popular brand of Prickly Heat Powder, describes how the product provides relief from prickly heat and controls bacterial growth and infection, giving caution forbidding its application on cuts and wounds. Package of fast food products like ready to eat Dosa, Idli or Noodles, describe the procedure of cooking these products; the Package of a toothpaste brand lists the 'Ten Teeth and Gum Problems', which the product claims to fight with its 'Complete Germicheck Formula'; the Package of a brand of Coconut Oil describes the product as pure coconut oil with Heena, Amla, Lemon and specifies how these are good for Hair. Thus, one of the most important functions of labels is to describe the product, its usage, cautions in use, etc. and specify its contents.

2. Identification of the Product or brand: The other important function performed by labels is to help in identifying the product or brand. For example, the brand name of any product, say Biscuits or Potato Chips imprinted on its package helps us to identify, from number of packages, which one is our favourite brand. Other common identification information provided by the labels include name and address of the manufacturer, net weight when packed, manufacturing date, maximum retail price and Batch number.

3. Grading of Products: Another important function performed by labels is to help grading the products into different categories. Sometimes marketers assign different grades to indicate different features or quality of the product. For example, a popular brand of Hair Conditioners comes in different categories for different hair, say for 'normal hair' and for other categories. Different type of tea is sold by some brands under Yellow, red and Green Label categories.

4. Helps in Promotion of Products: An important function of label is to aid in promotion of the products. A carefully designed label can attract attention and give reason to purchase. We see many product labels providing promotional messages for example, the pack of a popular Amla Hair Oil states, 'Baalon mein Dum, Life mein Fun'. The label on the package of a brand of Detergent Powder says, 'keep cloth look good and your machine in top condition'. Labels play important role in sales promotional schemes launched by companies. For example the label on the package of a Shaving Cream mentions, '40% Extra Free' or package of a toothpaste mentioning, 'Free Toothbrush Inside', or 'Save ₹ 15'.

5. Providing Information Required by Law: Another important function of labeling is to provide information required by law. For example, packaged food articles must have list of ingredients declaration regarding vegetarian or non-vegetarian food additives and date of manufacturing or packing on the label. Such information is required on processed foods, drugs and tobacco products. In case of hazardous or poisonous material, appropriate safety-warning need to be put on the label.

Thus, labels perform number of important functions relating to communicating with the potential buyers and promoting the sale of the products.

PRICING

When a product is bought, some money is paid for it. This money represent the sum of values that consumers exchange for the benefit of having or using the product and is referred to as the price of the product. Similarly, money paid for the services such as fare for the transport service, premium for an insurance policy, and fee to a doctor for his medical advise represent the price of these services. Price may therefore be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a services.

Pricing occupies an important place in the marketing of goods and services by a firm. No product can be launched without a price tag or at least some guidelines for pricing. Pricing is often used as a regulator of the demand of a product. Generally, if the price of a product is increased, its demand comes down, and vice-versa.

Pricing is considered to be an effective competitive weapon. In the conditions of perfect competition, most of the firms compete with each other on the basis of this factor. It is also the single most important factor affecting the revenue and profits of a firm. Thus, most marketing firms give high importance to the fixation of price for their products and services.

Factors affecting Price Determination

There are number of factors which affect the fixation of the price of a product. Some of the important factors in this regard are discussed as below:

1. Product cost: One of the most important factor affecting price of a product or service is its cost. This includes the cost of producing, distributing and selling the product. The cost sets the minimum level or the floor price at which the product may be sold. Generally all marketing firms strive to cover all their costs, at least in the long run. In addition, they aim at earning a margin of profit over and above the costs. In certain circumstance, for example, at the time of introducing a new product or while entering a new market, the products may be sold at a price, which does not cover all the costs. But in the long run, a firm cannot survive unless at least all its costs are covered.

There are broadly three types of costs: viz., Fixed Costs, Variable Costs and Semi Variable Costs. Fixed costs are those costs, which do not vary with the level of activity of a firm say with the volume of production or sale. For example, rent of a building or salary of a sales manager remains the same whether 1000 units or 10 units are produced in a week.

Those costs which vary in direct proportion with the level of activity are called variable costs. For example, the costs of raw material, labour and power are directly related with the quantity of goods produced. Let us say, if the cost of wood for manufacturing one chair comes to ₹100 the cost of wood for 10 chairs would be ₹1000. Obviously, there will be no cost of wood if no chair is produced.

Semi variable costs are those costs which vary with the level of activity but not in direct proportion with it. For example, compensation of a sales person may include a fixed salary of say ₹10,000 plus a commission of 5 per cent on sales. With an increase in the volume of sales, the total compensation will increase but not in direct proportion with the change in the volume of sale.

Total Costs are the sum total of the fixed, variable and semi-variable costs for the specific level of activity, say volume of sales or quantity produced.

2. The Utility and Demand: While the product costs set the lower limits of the price, the utility provided by the product and the intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay. In fact the price must reflect the interest of both the parties to the transaction—the buyer and the seller. The buyer may be ready to pay up to the point where the utility from the product is at least equal to the sacrifice made in terms of the price paid. The seller would, however, try to at least cover the costs. According to the law of demand, consumers usually purchase more units at a low price than at a high price.

3. Extent of Competition in the Market: Between the lower limit and the upper limit where would the price settle down? This is affected by the nature and the degree of competition. The price will tend to reach the upper limit in case there is lesser degree of competition while under conditions of free competition, the price will tend to be set at the lowest level

Competitors' prices and their anticipated reactions must be considered before fixing the price of a product. Not only the price but the quality and the features of the competitive products must be examined carefully, before fixing the price.

4. Government and Legal Regulations: In order to protect the interest of public against unfair practices in the field of price fixing, Government can intervene and regulate the price of commodities. Government can declare a product as essential product and regulate its price. For example, the cost of a drug manufactured by a company having monopoly in the production of the same come to ₹20 per strip of ten and the buyer is prepared to pay any amount for it, say ₹200. In the absence of any competitor, the seller may be tempted to extort the maximum amount of ₹200 for the drug and intervene to regulate the price. Usually in such a case, the Government does not allow the firms to charge such a high price and intervene to regulate the price of the drug. This can be done by the Government by declaring the drug as essential commodity and regulating its price.

5. Pricing Objectives: Pricing objectives are another important factor affecting the fixation of the price of a product or a service. Generally the objective is stated to be maximise the profits. But there is a difference in maximising profit in the short run and in the long run. If the firm decides to maximise profits in the short run, it would tend to charge maximum price for its products. But if it is to maximise its total profit in the long run, it would opt for a lower per unit price so that it can capture larger share of the market and earn greater profits through increased sales.

Apart from profit maximisation, the pricing objectives of a firm may include**:**

(a) Obtaining Market Share Leadership: If a firms objective is to obtain larger share of the market; it will keep the price of its products at lower levels so that greater number of people are attracted to purchase the products;

(b) Surviving in a Competitive Market: If a firm is facing difficulties in surviving in the market because of intense competition or introduction of a more efficient substitute by a competitor, it may resort to discounting its products or running a promotion campaign to liquidate its stock; and

(c) Attaining Product Quality Leadership: In this case, normally higher prices are charged to cover high quality and high cost of research and Development.

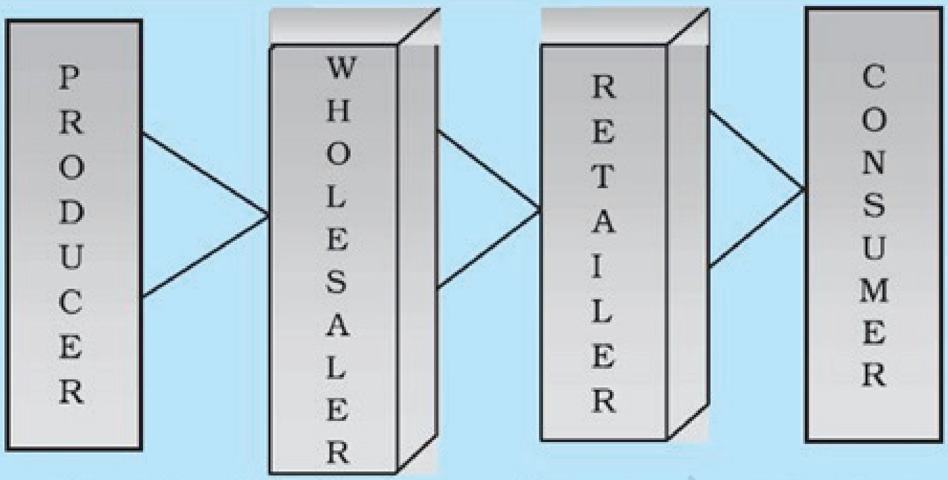
Thus, the price of a firm's products and services is affected by the pricing objective of the firm.

6. Marketing Methods Used: Price fixation process is also affected by other elements of marketing such as distribution system, quality of salesmen employed, quality and amount of advertising, sales promotion efforts, the type of packaging, product differentiation, credit facility and customer services provided. For example, if a company provides free home delivery, it has some of flexibility in fixing prices. Similarly, uniqueness of any of the elements mentioned above gives the company a competitive freedom in fixing prices of its products.

Physical Distribution

The fourth important element of marketing mix is the physical distribution of products and services. Through this component of marketing mix, the goods and services are made available at right place, at right time to right people without change.

Once goods are manufactured, packaged, branded, priced, and promoted, these must be made available to customers at the right place, in right quantity and at the right time. For example, a person convinced about the quality, etc. of a product, say, a detergent bar, wants to purchase the same. He/She goes to a retail outlet and asks for the product. If that product is not available in that shop, he/she may purchase some of the alternative brand available. This way a sure sale is lost



Channels of Distribution used for a Consumer Product

because goods were not available at the place where the customer wanted to purchase. Thus, it is an important responsibility of the marketers to make the product physically available at a place where the customers would like them to buy. The physical handling and movement of goods from place of production to the place of distribution is referred to as physical distribution, which is a very important element of marketing mix.

Physical distribution covers all the activities required to physically move goods from manufacturers to the customers. Important activities involved in the physical distribution include transportation, warehousing, material handling, and inventory control. These activities constitute major components of physical distribution.

Components of Physical Distribution

The main components of physical distribution are explained as follows:

1. Order Processing: In a typical buyer-seller relationship, order placement is the first step. Products flow from manufacturers to customers via channel members while orders flow in the reverse direction, from customers to the manufacturers. A good physical distribution system should provide for an accurate and speedy processing of orders, in the absence of which, goods would reach the customers late or in wrong quantity or specifications. This would result in customer dissatisfaction, with the danger of loss of business and goodwill.

2. Transportation: Transportation is the means of carrying goods and raw

Nothing Beats Word of Mouth in India

Nothing sways an Indian buyer's choice more than a word of reassurance from the people he knows. Even for the purchases like cars, mobile phones and home loans, majority of the consumers in India rely on the references from their friends and relatives while making their decisions.

The story is different in developed economies. Take the case of automobiles. In markets like the US, Canada and Japan, more people are influenced by conventional advertising by automobile companies, in developing markets like India, Malaysia and Thailand it's the neighbour or the colleague who tips the scales one way or the other. "In case of luxury goods, the psyche of Indians has always been different. Buying a car is a family decision, so it is only natural that all the members of the family will talk to all the other users of a similar products, who they know", General Motors India director P Balendran said.

When the whole world is going crazy with Internet and mobile marketing, it is interesting that for Indians it's still conventional advertising and word of mouth campaigns that sways their choices. Unlike in the West, Indians come from a very closely-knit society where people get influenced by their peers, relatives and local celebrities. People are more than willing to accept a brand if it's endorsed by their favourite superstar or is recommended by their close associates.

materials from the point of production to the point of sale. It is one of the major elements in the physical distribution of goods. It is important because unless the goods are physically made available, the sale cannot be completed.

3. Warehousing: Warehousing refers to the act of storing and assorting products in order to create time utility in them. The basic purpose of warehousing activities is to arrange placement of goods and provide facilities to store them. The need for warehousing arises because there may be difference between the time a product is produced and the time it is required for consumption. Generally the efficiency of a firm in serving its customers will depend on where these warehouses are located and where are these to be delivered.

Generally larger the number of warehouses a firm has, lesser would be the time taken in serving customers at different locations but greater would be the cost of warehousing and vice-versa. Thus the firm has to strike a balance between the cost of warehousing and the level of customer service.

For products requiring long-term storage (such as agricultural products) the warehouses are located near production sites. This helps in minimising the charges on transportation of the goods. On the other hand, the products which are bulky and hard to ship (machinery, automobiles) as well as perishable products (bakery, meat, vegetables) are kept at different locations near the market.

4. Inventory Control: Linked to warehousing decisions are the inventory decisions which hold key to success for many manufacturers, especially those where the per unit cost is high. A very important decision in respect of inventory is deciding about the level of inventory. Higher the level of inventory, higher will be the level of service to customers but the cost of carrying the inventory will also be high because lot of capital would be tied up in the stock. Thus, a balance is to be maintained in respect of the cost and customer satisfaction.

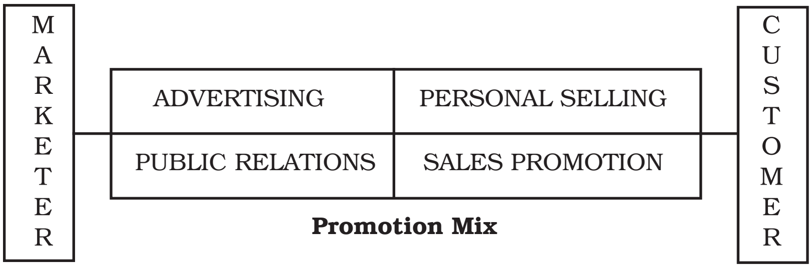
Promotion

A company may produce a good quality product, price it appropriately and make it available at the selling points, which are convenient to customers. But in spite of all this, the product may not sell well in the market. There is a need for developing proper communication with the market. In the absence of communication, the customers would not be able to know about the product and how it can satisfy their needs and wants or may not be convinced about its utility and benefits.

Promotion refers to the use of communication with the twin objective of informing potential customers about a product and persuading them to buy it. In other words, promotion is an important element of marketing mix by which marketers makes use of various tools of communication to encourage exchange of goods and services in the market.

Promotion Mix

Promotion mix refers to combination of promotional tools used by an organisation to achieve its communication objectives. Various tools of communication are used by the marketers to inform and persuade customers about their firm's products. These include: (i) Advertising, (ii) Personal Selling, (iii) Sales Promotion, and (iv) Publicity. These tools are also called elements of promotion mix and can be used in different combinations, to achieve the goals of promotion. For example, consumer goods firms may use more of advertising through mass media while the industrial goods firms may be using more of personal



Marketing Communications

selling. What combination of these elements is used by a firm will depend upon various factors such as nature of market, nature product, the promotions budget, objectives of promotion, etc. Let us first know about these elements in some details.

ADVERTISING

We generally come across hundreds of advertising messages everyday, which tell us about various products such as toilet soaps, detergent powder, soft drinks and services such as hotels, insurance policies, etc.

Advertising is perhaps the most commonly used tool of promotion. It is an impersonal form of communication, which is paid for by the marketers (sponsors) to promote some goods or service. The most common modes of advertising are 'newspapers', 'magazines', 'television', and 'radio'. The important distinguishing features of advertising are as follows:

(i) *Paid Form:* Advertising is a paid form of communication. That is, the sponsor has to bear the cost of communicating with the prospects.

(ii) Impersonality: There is no direct face-to-face contact between the prospect and the advertiser. It is therefore, referred to as impersonal method of promotion. Advertising creates a monologue and not a dialogue.

(iii) Identified Sponsor: Advertising is undertaken by some identified individual or company, who makes the advertising efforts and also bears the cost of it.

Merits of advertising

Advertising, as a medium of communication, has the following merits:

(i) Mass Reach: Advertising is a medium through which a large number of people can be reached over a vast geographical area. For example, an advertisement message placed in a national daily reaches lakhs of its subscribers.

(ii) Enhancing Customer Satisfaction and Confidence: Advertising creates confidence amongst prospective buyers as they feel more comfortable and assured about the product quality and hence feel more satisfied.

(iii) Expressiveness: With the developments in art, computer designs, and graphics, advertising has developed into one of the most forceful medium of communication. With the special effects that can be created, even simple products and messages can look very attractive.

(iv) Economy: Advertising is a very economical mode of communication if large number of people are to be reached. Because of its wide reach, the overall cost of advertising gets spread over numerous communication links established. As a result the per-unit cost of reach comes low.

Objections To Advertising

Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of criticism. The opponents of advertising say that the expenditure on advertising is a social waste as it adds to the cost, multiplies the needs of people and undermines social values. The proponents, however, argue that advertising is very useful as it increases the reach, brings the pay unit cost of production down and adds to the growth of the economy. It is therefore, important to examine the major criticisms against advertising and see the extent to which these are true. This is taken up as follows:

1. Adds to Cost: The opponents of advertising argue that advertising unnecessarily adds to the cost of product, which is ultimately passed on to the buyers in the form of high prices. An advertisement on TV, for a few seconds, for example, costs the marketers several lakhs of rupees. Similarly an advertisement in print media say in a newspaper or a magazine costs the marketers a large amount of money. The money spent adds to the cost, which in an important factor in fixation of the price of a product.

True, advertisement of a product costs lot of money but it helps to increase the demand for the product as large number of potential buyers come to know about the availability of the products, its features, etc. and are persuaded to buy it. The increased demand leads to higher production, which brings with it the economies of scale. As a result, the per unit cost of production comes down as the total cost is divided by larger number of units. Thus, the expenditure on advertisement adds to the total cost but the per unit cost comes down, which in fact lessens the burden of consumers rather than adding to it.

2. Undermines Social Values: Another important criticism of advertising is that it undermines social values and promotes materialism. It breeds discontent among people as they come to know about new products and feel dissatisfied with their present state of affairs. Some advertisements show new life styles, which don't find social approval.

This criticism is not entirely true. Advertisement in fact helps buyers by informing them about the new products, which may be improvement over the existing products. If the buyers are not informed about these products, they may be using inefficient products. Further, the job of an advertisement is to inform. The final choice to buy or not to buy anyway rests with the buyers. They will buy if the advertised product satisfies some of their needs. They may be motivated to work harder to be able to purchase these products.

3. Confuses the Buyers: Another criticism against advertisement is that so many products are being advertised which makes similar claims that the buyer gets confused as to which one is true and which one should be relied upon. For example, we may note similar claims of whiteness or stain removing abilities in competing brands of detergent powder or claims of whiteness of tooth or 'feelings of freshness' in competing brands of toothpaste that it is sometimes confusing to us as to which one to buy.

The supporters of advertisement, however, argue that we are all rational human beings who make our decisions for purchase of products on factors such as price, style, size, etc. Thus the buyers can clear their confusion by analysing the information provided on the advertisements and other sources before taking a decision to purchase a product. However, this criticism cannot be completely overruled.

4. Encourages Sale of Inferior Products: Advertising does not distinguish between superior and inferior products and persuade people to purchase even the inferior products.

In fact superiority and inferiority depends on the quality, which is a relative concept. The desired level of quality will depend on the economic status and preferences of the target customers. Advertisements sell products of a given quality and the buyers will buy if it suits their requirements. No advertisement should however, make false claim about the quality of a product. If a firm makes a false claims it can be prosecuted for the same.

Personal Selling

Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. It is a personal form of communication. Companies appoint salespersons to contact prospective buyers and create awareness about the product and develop product preferences with the aim of making sale.

Features of Personal selling

(i) Personal Form: In personal selling a direct face-to-face dialogue takes place that involves an interactive relationship between the seller and the buyer.

(ii) Development of Relationship: Personal selling allows a salesperson to develop personal relationships with the prospective customers, which may become important in making sale.

Merits of Personal selling

(i) Flexibility: There is lot of flexibility in personal selling. The sales presentation can be adjusted to fit the specific needs of the individual customers.

(ii) Direct Feedback: As there is direct face-to-face communication in personal selling, it is possible to take a direct feed back from the customer and to adapt the presentation according to the needs of the prospects.

(iii) Minimum Wastage: The wastage of efforts in personal selling can be minimised as company can decide the target customers before making any contact with them.

Role Of Personal Selling

Personal selling plays a very important role in the marketing of goods and services. The importance of personal selling to businessmen, customers and society may be described as below.

Importance to Businessmen

Personal selling is a powerful tool for creating demand for a firm's products and increasing their sale. The importance of personal selling to a business organisation may be described as follows:

(i) *Effective Promotional Tool:* Personal selling is very effective promotional tool, which helps in influencing the prospects about the merits of a product and thereby increasing its sale.

(ii) *Flexible Tool:* Personal selling is more flexible than other tools of promotion such as advertising and sales promotion. It helps business persons in adopting their offer in varying purchase situations.

(iii) *Minimises Wastage of Efforts:* Compared with other tools of promotion, the possibility of wastage of efforts in personal selling is minimum. This helps the business persons in bringing economy in their efforts.

(iv) *Consumer Attention:* There is an opportunity to detect the loss of consumer attention and interest in a personal selling situation. This helps a business person in successfully completing the sale.

(v) *Lasting Relationship:* Personal selling helps to develop lasting relationship between the sales persons and the customers, which is very important for achieving the objectives of business.

(vi) *Personal Rapport:* Development of personal rapport with customers increases the competitive strength of a business organisation.

(vii) *Role in Introduction Stage:* Personal selling plays very important role in the introduction stage of a new product as it helps in persuading customers about the merits of the product.

(viii) *Link with Customers:* Sales people play three different roles, namely persuasive role, service role and informative role, and thereby link a business firm to its customers.

Importance to Customers

This role of personal selling becomes more important for the illiterate and

> ***Personal Selling***
>
> 'Most people think 'selling' is the same as 'talking'. But the most effective salespeople know that listening is the most important part of their job.'
>
> **—Roy Bartell**
>
> 'You don't close a sale, you open a relationship if you want to build a long-term, successful enterprise.'
>
> **—Patricia Fripp**

rural customers, who do not have many other means of getting product information.

The customers are benefited by personal selling in the following ways:

(i) Help in Identifying Needs: Personal selling helps the customers in identifying their needs and wants and in knowing how these can best be satisfied.

(ii) Latest Market Information: Customers get latest market information regarding price changes, product availability and shortages and new product introduction, which help them in taking the purchase decisions in a better way.

(iii) Expert Advice: Customers get expert advice and guidance in purchasing various goods and services, which help them in making better purchase.

(iv) Induces Customers: Personal selling induces customers to purchase new products that satisfy their needs in a better way and thereby helps in improving their standards of living.

Importance to Society

Personal selling plays a very productive role in the economic progress of a society. The more specific benefits of personal selling to a society are as follows:

(i) Converts Latest Demand: Personal selling converts latest demand into effective demand. It is through this cycle that the economic activity in the society is fostered, leading to more jobs, more incomes and more products and services. That is how economic growth is influenced by personal selling.

(ii) Employment Opportunities: Personal selling offers greater income and employment opportunities to the unemployed youth.

(iii) Career Opportunities: Personal selling provides attractive career with greater opportunities for advancement and job satisfaction as well as security, respect, variety, interest and independence to young men and women.

(iv) Mobility of Sales People: There is a greater degree of mobility in sales people, which promote travel and tourism in the country.

(v) Product Standardisation: Personal selling increases product standardisation and uniformity in consumption pattern in a diverse society.

Sales Promotion

Sales promotion refers to short- term incentives, which are designed to encourage the buyers to make immediate purchase of a product or service. These include all promotional efforts other than advertising, personal selling and publicity, used by a company to boost its sales. Sales promotion activities include offering cash discounts, sales contests, free gift offers, and free sample distribution. Sales promotion is usually undertaken to supplement other promotional efforts such as advertising and personal selling.

Companies use sales promotion tools specifically designed to promote to customers (e.g., free samples, discounts, and contests), tradesmen or middlemen (e.g., cooperative advertising, dealer discounts and dealer incentives and contests) and to sales person (e.g., bonus, salesmen contests, special offers). Sales promotions include only those activities that are used to provide short term incentives to boost the sales of a firm.

Merits of Sales Promotion

(i) *Attention Value:* Sales promotion activities attract attention of the people because of the use of incentives.

(ii) *Useful in New Product Launch:* Sales promotion tools can be very effective at the time of introduction of a new product in the market. It induces people to break away from their regular buying behaviour and try the new product.

(iii) *Synergy in Total Promotional Efforts:* Sales promotion activities are designed to supplement the personal selling and advertising efforts used by a firm and add to the over all effectiveness of the promotional efforts of a firm.

Limitation of Sales Promotion

(i) *Reflects Crisis:* If a firm frequently rely on sales promotion, it may give the impression that it is unable to manage its sales or that there are no takers of its product.

(ii) *Spoils Product Image:* Use of sales promotion tools may affect the image of a product. The buyers may start feeling that the product is not of good quality or is not appropriately priced.

Commonly used sales Promotion activities

1. Rebate: Offering products at special prices, to clear off excess inventory. Example, a car manufacturer's offer to sell a particular brand of car at a discount of ₹ 10,000, for a limited period.

2. Discount: Offering products at less than list price. Example, a shoe company's offer of 'Discount Up to 50%' or a shirt marketer's offer of '50+40% Discount'.

3. Refunds: refunding a part of price paid by customer on some proof of purchase, say on return of empty foils or wrapper. This is commonly used by food product companies, to boost their sales.

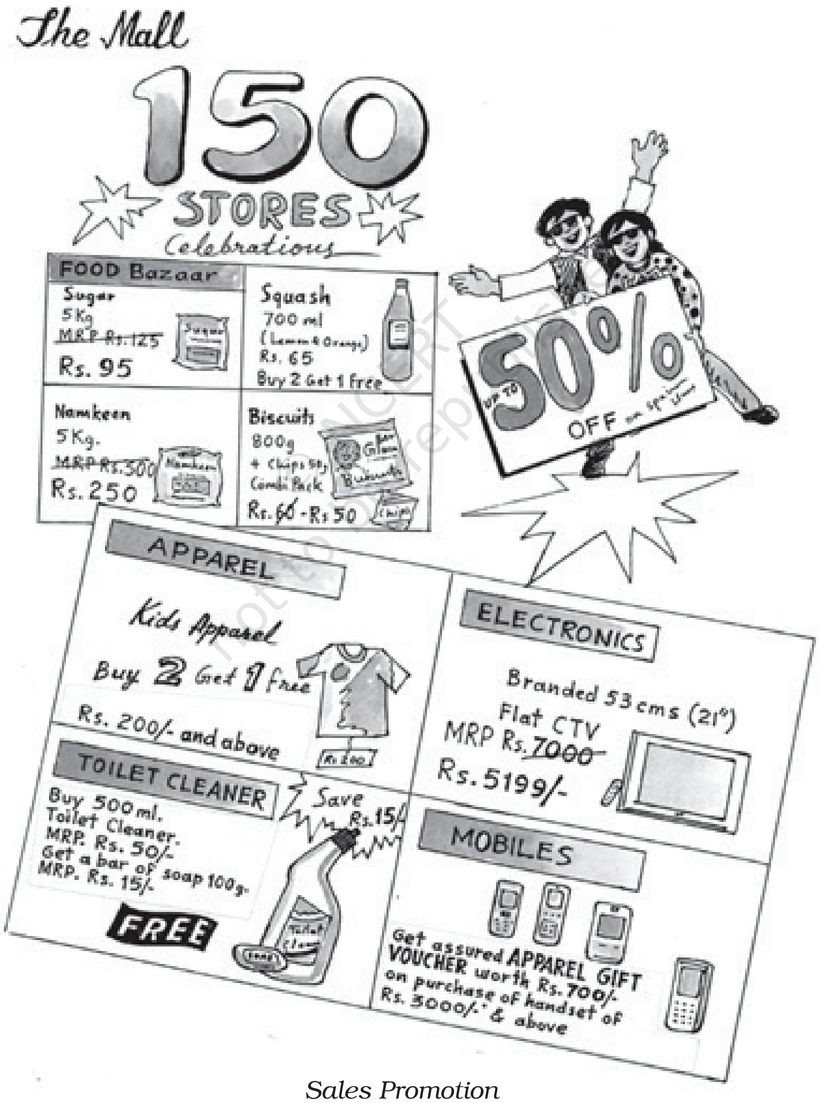
4. Product combinations: Offering another product as gift along with the purchase of a product, say offer of a pack of ½ kg of rice with the purchase of a bag of Aatta (wheat flour), or 'Get 128 KB Memory Card Free with a Digicam' or Buy a TV of 25+ and Get a Vacuum Cleaner Free' or '100 Gm Bottle of Sauce Free With 1 kg Detergent.'

5. Quantity gift: Offering extra quantity of the product commonly used by marketer of toiletry products. For example, a shaving cream's offer of

'40% extra' or A Hotel's offer of "Take a 2 Night 3 Days Package At the Hotel and Get an extra Night Stay At Just ₹500" or 'Buy 2 Get 1 Free' offer of a marketer of shirts.

6. Instant Draws and Assigned Gift: For example, 'Scratch a Card' or 'Burst a Cracker' and instantly win a refrigerator, Car, T-shirt, Computer, with the purchase of a TV.

7. Lucky Draw: For example, the offer of a bathing soap to win a gold coin on lucky draw coupon for free petrol on purchase of certain quantity of



Sales Promotion

petrol from given petrol pump or lucky draw coupon on purchase of easy undergarment and win a car offer.

8.Usable Benefit: Purchase goods worth ₹ 3000 and get a holiday package worth ₹ 3000 free' or 'Get a Discount Voucher for Accessories on Apparel Purchase of ₹ 1000 and above.'

9. Full finance @ 0%: Many marketers of consumer durables such as Electronic goods, automobiles etc offer easy financing schemes such as '24 easy instalments, Eight Up Front and 16 To Be Paid as Post Dated Cheques'. However, one should be careful about the file charges, which sometimes is nothing but interest recovered in advance.

10. Sampling: Offer of free sample of a product, say a detergent powder or tooth paste to potential customers at the time of launch of a new brand.

11.Contests: Competitive events involving application of skills or luck, say salving a quiz or answering some questions.

Publicity

Publicity is similar to advertising, in the sense that it is a non-personal form of communication. However, as against advertising it is a non-paid form of communication. Publicity generally takes place when favourable news is presented in the mass media about a product or service. For example, if a manufacturer achieves a breakthrough by developing a car engine, which runs on water instead of petrol, and this news is covered by television or radio or newspapers in the form of a news item. It would be termed as publicity because the engine manufacturer would benefit from such dissemination of information about its achievement by the media but would not bear any cost for the same. Thus, the two important features of publicity are that:

(i) Publicity is an unpaid form of communication. It does not involve any direct expenditure by the marketing firm; and

(ii) There is no identified sponsor for the communication as the message goes as a news item.

In publicity, as the information is disseminated by an independent source, e.g., the press in the form of news stories and features, the message has more credibility than if that comes as a sponsored message in advertising.

Also, as the message goes in the form of a news rather than direct sales communication, it can reach even to those persons who otherwise may not pay attention to paid communication.

However, an important limitation of publicity is that as a medium of promotion, it is not within the control of a marketing firm. The media would cover only those pieces of information, which are news worthy and which symbolise some achievement in the field. Thus, a firm can't use publicity to actively promote its products.

Public Relations

Managing public opinion of an organisation is an important task which can be performed by the marketing department. The business needs to communicate effectively to customers, suppliers, and dealers, since they are instrumental in increasing the sales and profit. Besides those who come into direct contact with the organisation or its products, there are other members of the general public whose voice or opinion is equally important. This public may be interested in the company and its product and have an impact on the business ability to achieve its objectives. Thus, it becomes imperative to manage public opinion and the company's relation with the public on a regular basis. Therefore, public relations involve a variety of programmes designed to promote or protect a company's image and its individual products in the eyes of the public.

The business relates with a number of groups including suppliers, shareholders, intermediaries, activist groups, and the government. For example, active support of middlemen is needed if the firm wants to survive in a competitive selling environment. Similarly, consumer activist groups need to be satisfied because they can impose restriction on the sales of the firm's products directly by urging customers to refrain from buying them or through the imposition of laws. Most organisations, business or otherwise nowadays, have a separate department to manage public relations. They may also utilize the services of any outside public relations agency.

Their main task is to disseminate information and build goodwill about the business. Concrete steps are to be taken to monitor the attitude of the general public and generate positive publicity. They are especially useful when there is negative publicity about the company or its products. At that time, the situation has to be tackled like an emergency to improve public image. The public relations department then has to do something drastic so that damage to company's images is controlled and minimised. They also advise top management to adopt certain programmes which will add to their public image and ensure that negative publicity does not take place at all.

Role of Public Relations

The role of public relations can be discussed with respect to the functions which the department performs. Public relations itself is an important tool in the hands of the marketing department, which can be used to the advantage of the business. The public relations department performs five functions:

1. **Press relations:** Information about the organisation needs to be presented in a positive manner in the press. Generating news requires skill in developing and researching a story and getting the media to accept press releases is a difficult task. The public relations department is in contact

with the media to present true facts and a correct picture about the company. Otherwise news can get distorted if taken from other sources.

2. **Product publicity:** New products require special effort to publicise them and the company has to sponsor such programmes. The public relations department manages the sponsoring of such events. The company can draw attention to new products by arranging sports and cultural events like news conferences, seminars and exhibitions.

3. **Corporate communication**: The image of the organisation needs to be promoted through communicating with the public and the employees within the organisation. This is usually done with the help of newsletter, annual reports, brochures, articles and audio-visual materials. Companies rely on these materials to reach and influence their target markets. Speeches by the company's executives at a meeting of trade associations or trade fairs can really boost the company's image. even interviews with TV channels and responding to queries from the media go a long way in promoting public relations.

4. **Lobbying:** The organisation has to deal with government officials and different ministers in charge of corporate affairs, industry, finance with respect to policies relating to business and the economy. The government also seeks to maintain a healthy relationship with associations of commerce and industry and solicits the opinion of major stakeholders while formulating industrial, telecom, taxation policies, etc. The public relations department then has to be really proactive in promoting or decoding regulations that affect them.

5. **Counselling:** The public relations department advises the management on general issues which affect the public and the position the company would like to the take on a particular issue. The company can build goodwill by contributing money and time to certain causes like environment, wildlife, children's rights, education, etc. Such cause-related activities help in promoting public relations and building goodwill.

In addition, maintaining good public relations also helps in achieving the following marketing objectives:

(a) Building awareness: Public relations department can place stories and dramatise the product in the media. This will build marketplace excitement before the product reaches the market or media advertising takes place. This usually creates a favourable impression on the target customer.

(b) Building credibility: If news about a product comes in the

The major differences between advertising and personal selling are as follows:

Difference between Advertising and Personal Selling

S. No.	Advertising	Personal Selling
1.	Advertising is an impersonal form of communication.	Personal selling is a personal form of communication.
2.	Advertising involves transmission of standardised messages, i.e., same message is sent to all the customers in a market segment.	In personal selling, the sales talk is adjusted keeping view customer's background and needs.
3.	Advertising is inflexible as the message can' t be adjusted to the needs of the buyer.	Personal selling is highly flexible. as the message can be adjusted.
4.	It reaches masses, i.e., a large number of people can be approached.	Only a limited number of people can be contacted because of time and cost considerations.
5.	In advertising the cost per person reached is very low.	The cost per person is quite high in the case of personal selling.
6.	Advertising can cover the market in a short time.	Personal selling efforts take a lot of time to cover the entire market.
7.	Advertising makes use of mass media such television, radio, newspaper, and magazines.	Personal selling makes use of sales staff, which has limited reach.
8.	Advertising lacks direct feedback. Marketing research efforts are needed to judge customers' reactions to advertising.	Personal selling provides direct and immediate feed back. Sales persons come to know about the customers' reactions immediately.
9.	Advertising is more useful in creating and building interest of the consumers in the firms products.	Personal selling plays important role at the awareness stage of decision making.
10.	Advertising is more useful in marketing to the ultimate consumer's who are large in numbers.	Personal selling is more helpful in selling products to the industrial buyers or to imtermediaries such as dealers and retailers who are relatively few in numbers.

media whether print or electronic it always lends credibility and people believe in the product since it is in the news.

(c) Stimulates sales force: It becomes easier for the sales force to deal with the retailers and convince dealers if they have already heard about the product in the news before it is launched. Retailers and dealers also feel it is easier to sell the product to the ultimate consumer.

(d) Lowers promotion costs: Maintaining good public relations costs much less than advertising and direct mail. However, it requires a lot of communication and interpersonal skills to convince the media to give space or time for the organisation and its product.

Key Terms

Marketing	Brand Mark	Market Packaging
Marketing Management Channels of Distribution	Labelling Marketing Offering	Marketing Mix Physical Distribution
Consumer Product Promotion Mix	Promotion Convenience Product	Industrial Product Advertising
Shopping Product Publicity	Personal Selling Generic Name	Speciality Product Sales Promotion
Brand	Brand Name	Trade Mark

SUMMARY

In the traditional sense, the term 'market' refers to the place where buyers and sellers gather to enter into transactions involving the exchange of goods and services. But in modern marketing sense, it refers to a set of actual and potential buyers of a product or service.

Marketing: The term marketing has been described as performance of business activities that direct the flow of goods and services from producers to consumers. Marketing is not merely a post-production activity. It includes many activities that are performed even before goods are actually produced and continue even after the goods have been sold.

Functions of Marketing: The important functions of marketing include Gathering and Analysing Market Information, Marketing Planning, Product Designing and Development, Standardisation and Grading, Packaging and

Labelling, Branding, Customer Support Services, Pricing of Products, Promotion, Physical distribution, Transportation, Storage or Warehousing.

Role of Marketing: By adopting marketing orientation, an organisation whether profit making or non-profit making, can achieve its goals in the most effective manner. Also marketing acts as a catalyst in the economic development of a country and helps in raising the standards of living of people.

Marketing Mix is a set of marketing tools that the firm uses to pursue its marketing objectives in a target market. The variables or elements of marketing mix have been classified in to four categories, popularly known as four Ps of marketing viz., Product, Price, Place and Promotion. These elements are combined to create an offer.

Product: In common parlance, the word 'product', is used to refer only to the physical or tangible attributes of a product. In marketing, product is a mixture of tangible and intangible attributes, which are capable of being exchanged for a value, with ability to satisfy customer needs. It is anything that can be offered to a market to satisfy a want or need. Products may broadly be classified into two categories—industrial products and consumers' products. Products, which are purchased, by the ultimate consumers or users for satisfying their personal needs and desires are referred to as consumer products. On the basis of shopping efforts involved, the products are classified as Convenience Product, Shopping Products and Speciality Products. On the basis of their durability, consumer products have been classified into categories—Durable, Non-durable, and Services.
Those activities, benefits or satisfactions, which are offered for sale, e.g., dry cleaning, watch repairs, hair cutting, are called services.
Industrial products are those products, which are used as inputs in producing other products. These are broadly classified in to (i) Materials and Parts, (ii) Capital Items, and (iii) Supplies and Business Services.

Packaging: The act of designing and producing the container or wrapper of a product is referred as packaging. There can be three different levels of packaging viz., Primary package, Secondary packaged, Transport package. Packaging performs a number of functions in the marketing of goods. Some of the important functions, include Product identification; Product protection; Facilitating the use of the product and Promotion of goods and services.

Labelling: A simple looking but important task in the marketing of goods relates to designing the label to be put on the package. The label may vary from a simple tag attached to the product to complex graphics that are part of the package. The most important functions of labels include i) describing the product ii) help in identifying the product or brand; iii) help in grading the products into different categories; and aids in promotion of the products.

Pricing: Price may be defined as the amount of money paid by a buyer or received by a seller in consideration of the purchase of a product or service. Generally, if the price of a product is increased, its demand comes down, and vice-versa. Pricing is considered to be an effective competitive weapon. It is also the single most important factor affecting the revenue and profits of a firm.
The factors affecting price determination are (i) Product Cost (ii) The Utility and Demand (iii) Competition (iv) Government and Legal regulations and (v) Marketing Methods Used.

Physical Distribution: There are two important decisions relating to this aspect- one regarding physical movement of goods and two, regarding the channels. Physical Distribution covers all the activities required to physically move goods from manufacturers to the customers. The main component of physical distribution are (i) Order Processing; (ii) Transportation; (iii) Warehousing; and (iv). Inventory Control: Just-in-Time-Inventory.

Promotion: Promotion refers to the use of communication with the twin objective of informing potential customers about a product and persuading them to buy it. There are four major tools, or elements of promotion mix, which are — (i) Advertising, (ii) Personal Selling, (iii) Sales Promotion, and (iv) Publicity. These tools are used in different combinations to achieve the goals of promotion.

Advertising is the most commonly used tool of promotion. It is an impersonal form of communication, which is paid for by the marketers (Sponsors) to promote some goods or service. The merits of advertising, as a medium of communication, include (i) Mass reach; (ii) Enhancing customer satisfaction and confidence; (iii) Expressiveness; and (iv) Economy.

The limitations of advertising are that it is (i) less forceful (ii) lacks Feedback (iii) inflexibility (iv) low effectiveness. The most common Objections to Advertising are that it (i) adds to cost; (ii) undermines social Values; (iii) confuses the buyers; and (iv) encourages sale of Inferior Products.
Most of the criticisms against advertising are not fully true. Advertising is therefore considered an essential function of marketing.

Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. Personal Selling plays important role for the business persons as well as for the society.

Sales Promotion refers to short-term incentives, which are designed to encourage the buyers to make immediate purchase of a product service. These include promotional efforts other than advertising, personal selling and publicity, used by a company to boost its sales. Commonly used Sales Promotion Activities include rebate, Discount, refunds, Product Combinations, Quantity Gift, Instant Draws and Assigned Gift, Lucky Draw, Usable Benefit, Full Finance @ 0%, sampling, and contests.

Publicity is similar to advertising, in the sense that it is a non-personal form of communication. However, as against advertising it is a non-paid form of communication. In publicity, as the information is disseminated by an independent source. However, an important limitation of publicity is that as a medium of promotion, it is not within the control of a marketing firm.

EXERCISES

Very Short Answer Type

1. State any two advantages of branding to marketers of goods and services?
2. How does branding help in differential pricing?
3. What is the societal concept of marketing?
4. Enlist the advantages of packaging of consumer products.
5. List five shopping products purchased by you or your family during the last few months.
6. A marketer of colour TV having 20% of the current market share of the country aims at enhancing the market share to 50 per cent in next three years. For achieving this objective he specified an action programme. Name the function of marketing being discussed above. (Ans. Marketing planning.)

Short Answer Type

1. What is marketing? What functions does it perform in the process of exchange of goods and services? Explain.
2. Distinguish between the product concept and production concept of marketing.

3. Product is a bundle of utilities. Explain.
4. What are industrial products? How are they different from consumer products? Explain.
5. Distinguish between convenience product and shopping product.
6. Describe the functions of labeling in the marketing of products.
7. Discuss the role of intermediaries in the distribution of consumer non-durable products.
8. Define advertising? What are its main features? Explain.
9. Discuss the role of 'sales promotion' as an element of promotion mix.
10. As the marketing manager of a big hotel located at an important tourist destination, what societal concerns would be faced by you and what steps would you plan to take care of these concerns? Discuss.
11. What information is generally placed on the package of a food product? Design a label for one of the food products of your choice.
12. For buyers of consumer durable products, what 'customer care services' would you plan as a manager of a firm marketing new brand of motorcycle. Discuss.

Long Answer Type

1. What is marketing concept? How does it help in the effective marketing ofgoods and services.
2. What is marketing mix? What are its main elements? Explain.
3. How does branding help in creating product differentiation? Does it help in marketing of goods and services? Explain.
4. What are the factors affecting determination of the price of a product or service? Explain.
5. Explain the major activities involved in the physical distribution of products.
6. 'Expenditure on advertising is a social waste.' Do you agree? Discuss.
7. Distinguish between advertising and personal selling.
8. Explain the factors determining the choice of channel of distribution.

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CHAPTER

12

Consumer Protection

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- state the importance of consumer protection;
- briefly explain legal framework for consumer protection in India;
- describe consumer rights in India;
- list out consumer responsibilities;
- briefly describe the ways and means of consumer protection; and
- describe the role of consumer organisations and NGOs in protecting consumers' interests.

Consumer forum fines SBI for ignoring customer's problem

Now, if you do not get money from ATMs, it would be considered as lack of service on part of bank, due to which it can also be penalised. In a similar case, Consumer Forum imposed a fine of ₹2,500 on State Bank of India after considering reduction in bank service.Bank officials believe that it is possible that the penalty on the bank due to lack of service in ATM. It is probably the first matter. Lawyer Rajiv Aggarwal went to SBI ATM to withdraw money on 25, 26 and 30 April, 2017. On May 4, 2017, he filed a petition in the Consumer Forum.

In front of the forum, the bank gave a unique argument. The bank told the forum that although ATM runs with Internet connectivity, so at the time when users use ATM, at that time he is not directly our client, so if money not withdrawn from ATM, then it cannot be considered as a reduction in service.

On this, the forum said that bank is taking an ATM fee every year from the customer and then this argument does not mean that he is not a customer of the bank. The forum rejected the bank's logic completely. The petitioner has presented photo and video recording at the time of withdrawal as evidence in front of forum. Forum acknowledged that the consumers at various times go to ATM to withdrawn money every time the message of 'cash not available' is the lack in service.

The forum accepted the petition. After hearing the arguments of both the parties, the forum ordered that if the bank will not provide ATM service to the customer, then it will be considered a reduction in service. The forum has ordered the bank to pay ₹1500 for the mental harassment suffered by the complainant and ₹1000 for a judicial expense within 30 days.

Source: http://dailypost.in/news/consumer-forum-fines-sbi-ignoring-customers/

The above case is just one of the examples of the many problems that consumers might have to face in the purchase, use and consumption of goods and services. The case also highlights the need for an appropriate legal protection to be provided to consumers to protect them from various forms of exploitation from the seller. Have you ever thought what would be the plight of consumers if adequate protection is not provided to them? Can the present day businesses afford to ignore the interests of consumers? The area of consumer protection has emerged as a very important area of study having significance for both the consumers and businesses alike.

Introduction

A consumer is said to be a king in a free market economy. The earlier approach of *caveat emptor*, which means "Let the buyer beware", has now been changed to *caveat venditor* ("Let the seller beware"). However, with growing competition and in an attempt to increase their sales and market share, manufacturers and service-providers may be tempted to engage in unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing, etc. This means that a consumer might be exposed to risks due to unsafe products, might suffer from bad health due to adulterated food products, might be cheated because of misleading advertisements or sale of spurious products, might have to pay a higher price when sellers engage in overpricing, hoarding or black-marketing, etc. Thus, there is a need for providing adequate protection to consumers against such practices of the sellers. Let us now discuss the importance of consumer protection.

Importance of Consumer Protection

Consumer Protection has a wide agenda. It not only includes educating consumers about their rights and responsibilities, but also helps in getting their grievances redressed. It not only requires a judicial machinery for protecting the interests of consumers but also requires the consumers to get together and form themselves into consumer associations for protection and promotion of their interests. At the same time, consumer protection has a special significance for businesses too.

From Consumers' point of view

The importance of consumer protection from the consumers' point of view can be understood from the following points:

(i) Consumer Ignorance: In the light of widespread ignorance of consumers about their rights and reliefs available to them, it becomes necessary to educate them about the same so as to achieve consumer awareness.

(ii) Unorganised Consumers: Consumers need to be organised in the form of consumer organisations which

Compensation for impurities in cold drinks

would take care of their interests. Though, in India, we do have consumer organisations which are working in this direction, adequate protection is required to be given to consumers till these organisations become powerful enough to protect and promote the interests of consumers.

(iii) Widespread Exploitation of Consumers: Consumers might be exploited by unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing, etc. Consumers need protection against such malpractices of the sellers.

From the point of view of Business

A business must also lay emphasis on protecting the consumers and adequately satisfying them. This is important because of the following reasons:

(i) Long-term Interest of Business: Enlightened businesses realise that it is in their long-term interest to satisfy their customers. Satisfied customers not only lead to repeat sales but also provide good feedback to prospective customers and thus, help in increasing the customer-base of business. Thus, business firms should aim at long-term profit maximisation through customer satisfaction.

(ii) Business uses Society's Resources: Business organisations use resources which belong to the society. They, thus, have a responsibility to supply such products and render such services which are in public interest and would not impair public confidence in them.

(iii) Social Responsibility: A business has social responsibilities towards various interest groups. Business organisations make money by selling goods and providing services to consumers. Thus, consumers form an important group among the many stakeholders of business and like other stakeholders, their interest has to be well taken care of.

(iv) Moral Justification: It is the moral duty of any business to take care of consumer's interest and avoid any form of their exploitation. Thus, a business must avoid unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing, etc.

(v) Government Intervention: A business engaging in any form of exploitative trade practices would invite government intervention or action. This can impair and tarnish the image of the company. Thus, it is advisable that business organisations voluntarily resort to such practices where the customers' needs and interests will well be taken care of.

In view of the above, the government of India has enacted several regulations designed to provide adequate protection to consumers. We shall now discuss some of these regulations.

Legal Protection to Consumers

The Indian legal framework consists of a number of regulations which provide protection to consumers. As per the Right to Information Act 2005, Section 4, all relevant information is required to be made available to all citizens of the country. Other regulations are as under.

1. The Consumer Protection Act, 1986: The Consumer Protection Act, 1986 seeks to protect and promote the interests of consumers. The Act provides safeguards to consumers against defective goods, deficient services, unfair trade practices, and other forms of their exploitation. The Act provides for the setting up of a three-tier machinery, consisting of District Forums, State Commissions and the National Commission. It also provides for the formation of consumer protection councils in every District and State, and at the apex level.

2. The Indian Contract Act, 1872: The Act lays down the conditions in which the promises made by parties to a contract will be binding on each other. The Act also specifies the

Protection against malpractices and exploitation

remedies available to parties in case of breach of contract.

3. The Sale of Goods Act, 1930: The Act provides some safeguards and reliefs to the buyers of the goods in case the goods purchased do not comply with express or implied conditions or warranties.

4. The Essential Commodities Act, 1955: The Act aims at controlling production, supply and distribution of essential commodities, checking inflationary trend in their prices and ensuring equal distribution of essential commodities. The Act also provides for action against anti-social activities of profiteers, hoarders and black-marketeers.

5. The Agricultural Produce (Grading and Marking) Act, 1937: The Act prescribes grade standards for agricultural commodities and live-stock products. The Act stipulates the conditions which govern the use of standards and lays down the procedure for grading, marking and packing of agricultural produce. The quality mark provided under the Act is known as AGMARK, an acronym for Agricultural Marketing.

6. The Prevention of Food Adulteration Act, 1954: The Act aims to check adulteration of food articles and ensure their purity so as to maintain public health.

7. The Standards of Weights and Measures Act, 1976: The provisions of this Act are applicable in case of those goods which are sold or distributed by weight, measure or number. It provides protection to consumers against the malpractice of under-weight or under-measure.

8. The Trade Marks Act, 1999: This Act has repealed and replaced the Trade and Merchandise Marks Act, 1958. The Act prevents the use of fraudulent marks on products and thus, provides protection to the consumers against such products.

9. The Competition Act, 2002: This Act has repealed and replaced the Monopolies and Restrictive Trade Practices Act, 1969. The Act provides protection to the consumers in case of practices adopted by business firms which hamper competition in the market.

10. The Bureau of Indian Standards Act, 1986: The Bureau of Indian Standards has been set up under the Act. The Bureau has two major activities: formulation of quality standards for goods and their certification through the BIS certification scheme. Manufacturers are permitted to use the ISI mark on their products only after ensuring that the goods conform to the prescribed quality standards. The Bureau has also setup a grievance cell where consumers can make a complaint about the quality of products carrying the ISI mark.

The most important of these regulations is the Consumer Protection Act which provides for six consumer rights and helps consumers in getting their grievances redressed for any shortcoming in the goods purchased or services availed.

The Consumer Protection Act, 1986

The Consumer Protection Act (CPA) seeks to protect and promote the consumers' interest through speedy and inexpensive redressal of their grievances.

The scope of the Act is very wide. It is applicable to all types of undertakings, big and small, whether in the private or public sector, or in the co-operative sector, whether a manufacturer or a trader, and whether supplying goods or providing services.

The Act confers certain rights to consumers with a view to empowering them and to protect their interests.

Consumer Rights

The Consumer Protection Act provides for six rights of consumers. The consumer protection councils set up under the Act are intended to promote and protect the various rights of consumers. These rights include the following:

1. Right to Safety: The consumer has a right to be protected against goods and services which are hazardous to life and health. For instance, electrical appliances which are manufactured with substandard products or do not conform to the safety norms might cause serious injury. Thus, consumers are educated that they should use electrical appliances which are ISI marked as this would be an assurance of such products meeting quality specifications.

2. Right to be Informed: The consumer has a right to have complete information about the product he intends to buy including its ingredients, date of manufacture, price, quantity, directions for use, etc. It is because of this reason that the legal framework in India requires the manufactures to provide such information on the package and label of the product.

3. Right to Choose: The consumer has the freedom to choose from a variety of products at competitive prices. This implies that the marketers should offer a wide variety of products in terms of quality, brand, prices, size, etc. and allow the consumer to make a choice from amongst these.

4. Right to be Heard: The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firms have set up their own consumer service and grievance cells. Many consumer organisations are also working towards this direction and helping consumers in redressal of their grievances.

5. Right to seek Redressal: The consumer has a right to get relief in case the product or service falls short of his expectations. The Consumer Protection Act provides a number of reliefs to the consumers including replacement of the product, removal of defect in the product, compensation paid for any loss or injury suffered by the consumer, etc.

6. Right to Consumer Education: The consumer has a right to acquire knowledge and to be a well informed consumer throughout life. He should be aware about his rights and the reliefs available to him in case of a product or service falling short of his expectations. Many consumer organisations and some enlightened businesses are taking an active part in educating consumers in this respect.

The Consumer Protection Act by conferring these rights on the consumers empowers them to fight against any unscrupulous, exploitative and unfair trade practices adopted by sellers. The Box on East Delhi eatery shows how a restaurant owner was fined for overpricing bottled water.

Consumer rights, by themselves, cannot be effective in achieving the objective of consumer protection. Consumer protection can, in effect, be achieved only when the consumers also understand their responsibilities.

Consumer Responsibilities

A consumer should keep in mind the following responsibilities while purchasing, using and consuming goods and services—

Eatery fined for Overpricing Bottled Water

A restaurant owner in east Delhi has been directed to pay a fine of ₹5,000 to a customer who was asked to shell out ₹34 for a water bottle which had a maximum retail price (MRP) of ₹12. The fine comes at a time when consumer courts are turning the heat on shop-owners who overcharge. In a recent landmark decision, the state consumer commission had slapped a fine of ₹50,000 on a cineplex for similar malpractice. Goel was awarded the compensation by east district consumer forum president and members directing Zaika Bazaar, Karkardooma Complex, to compensate Goel for overcharging. The Forum said: "The present complaint is covered by the judgment of the state consumer commision in case of Nirulas vs Ankit Jain in which it said no trader or service provider can charge more price than an item's MRP printed on the packed item, if delivered packed". Ordering the restaurant owner to discontinue the malpractice, the forum said charging higher amount than MRP, if delivered in packed form, was against the law of the land. Goel had bought a bottle of Aquafina water from the restaurant in November last year and was asked to pay ₹34 for it, including a VAT of ₹4, when the bottle had a MRP of ₹12 printed on it.

Source: www.corecentre.org

(i) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.

(ii) Buy only standardised goods as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry, etc.

(iii) Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely.

(iv) Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc.

(v) Assert yourself to ensure that you get a fair deal.

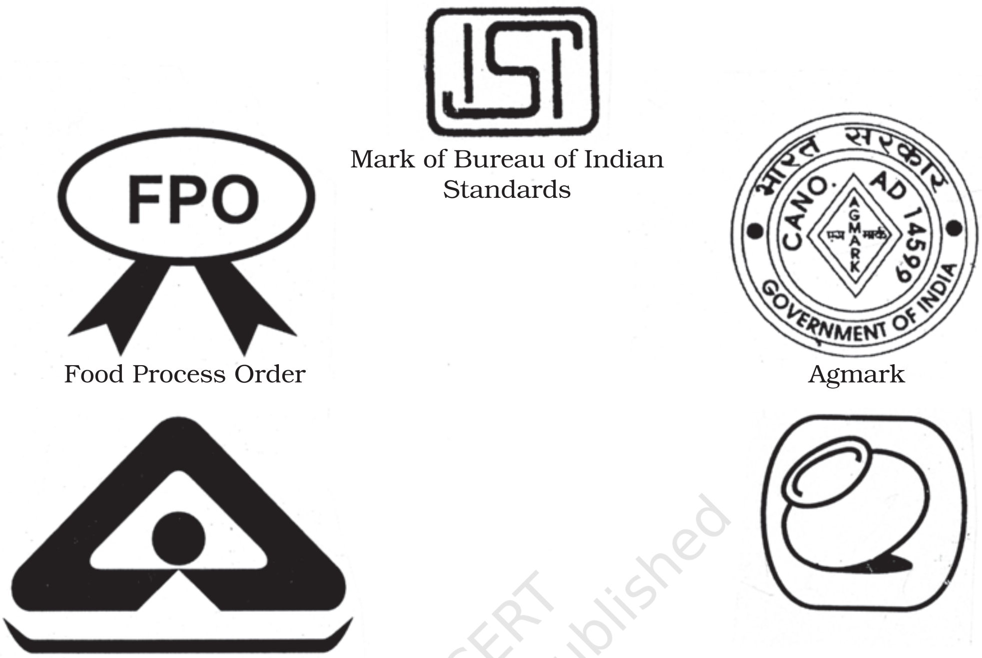
(vi) Be honest in your dealings. Choose only from legal goods and services and discourage unscrupulous practices like black-marketing, hoarding, etc.

(vii) Ask for a cash memo on purchase of goods or services. This would serve as a proof of the purchase made.

(viii) File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.

(ix) Form consumer societies which would play an active part in educating consumers and safeguarding their interests.

(x) Respect the environment. Avoid waste, littering and contributing to pollution.



Marks indicating quality in different products

A consumers' awareness about his rights and responsibilities is just one of the ways in which the objective of consumer protection can be achieved. There are other ways in which this objective may be achieved.

Ways and Means of Consumer Protection

There are various ways in which the objective of consumer protection can be achieved.

1. Self Regulation by Business: Enlightened business firms realise that it is in their long-term interest to serve the customers well. Socially responsible firms follow ethical standards and practices in dealing with their customers. Many firms have set up their customer service and grievance cells to redress the problems and grievances of their consumers.

2. Business Associations: The associations of trade, commerce and business like Federation of Indian Chambers of Commerce of India (FICCI) and Confederation of Indian Industries (CII) have laid down their code of conduct which lay down for their members the guidelines in their dealings with the customers.

3. Consumer Awareness: A consumer, who is well-informed about his rights and the reliefs available to him, would be in a position to raise his voice against any unfair trade practices or unscrupulous exploitation. In addition to this, an understanding of his responsibilities would also enable a consumer to safeguard his interests. In this regard, the Department of Consumer Affairs, GOI, has been undertaking the campaign, *Jago Grahak Jago* through multimedia awareness.

4. Consumer Organisations: Consumer organisations play an important role in educating consumers about their rights and providing protection to them. These organisations can force business firms to avoid malpractices and exploitation of consumers.

5. Government: The government can protect the interests of the consumers by enacting various measures. For example, the GOI has set up a toll-free national consumer Helpline Number 1800114000 (9:30 am – 5:30 pm) for this purpose. The legal framework in India encompasses various legislations which provide protection to consumers. The most important of these regulations is the Consumer Protection Act, 1986. The Act provides for a three-tier machinery at the district, state and national levels for redressal of consumer grievances. The redressal mechanism under this three-tier machinery has been explained hereunder.

Consumer Awareness

Redressal Agencies Under the Consumer Protection Act

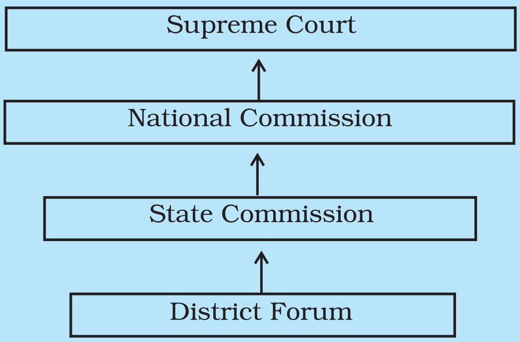
For the redressal of consumer grievances, the Consumer Protection Act provides for setting up of a three-tier enforcement machinery at the District, State, and the National levels, known as the District Consumer Dispute Redressal Forum, State Consumer Disputes Redressal Commission, and the National Consumer Disputes Redressal Commission. They are briefly referred to as the 'District Forum', 'State Commission', and the 'National Commission', respectively. While the National Commission is set up by the Central Government, the State Commissions and the District Forums are set up, in each State and District, respectively, by the State Government concerned. The Figure on redressal agencies shows the hierarchical structure of this three-tire machinery.

Before studying the set-up and functioning of these redressal agencies let see how the Consumer Protection Act defines a consumer and who can file a complaint under the Consumer Protection Act.

Consumer: A 'consumer' is generally understood as a person who uses or consumes goods or avails of any service. Under the Consumer Protection Act, a consumer is defined as:

(a) Any person who buys any goods for a consideration, which has been paid or promised, or partly paid and partly promised, or under any scheme of deferred payment. It includes any user of such goods, when such use is made with the approval of the buyer, but does not include a person who obtains goods for re-sale or any commercial purpose.

(b) Any person who hires or avails of any service, for a consideration which has been paid or promised, or partly paid and partly promised, or under any system of deferred payment. It includes any beneficiary of services when such services are availed of with the approval of the person concerned, but does not



Redressal Agencies under the Consumer Protection Act

include a person who avails of such services for any commercial purpose.

Who can file a complaint?: A complaint before the appropriate consumer forum can be made by:

(i) Any consumer can file a complaint on his/her own and does not need the services of advocate/professionals;

(ii) Any registered consumers' association;

(iii) The Central Government or any State Government;

(iv) One or more consumers, on behalf of numerous consumers having the same interest; and

(v) A legal heir or representative of a deceased consumer.

(vi) A complaint under Section 2 (b) of the Consumer Protection Act 1986.

Let us now see how the consumer grievances are redressed by the three-tire machinery under the Consumer Protection Act.

1. District Forum: There are 644 district commissions in India. The District Forum consists of a President and two other members, one of whom should be a woman. They all are appointed by the State Government concerned. A complaint can to be made to the appropriate District Forum when the value of the goods or services in question, along with the compensation claimed, does not exceed ₹20 lakhs. On receiving the complaint, the District Forum shall refer the complaint to the party against whom the complaint is filed. If required, the goods or a sample thereof, shall be sent for testing in a laboratory. The District Forum shall pass an order after considering the test report from the laboratory and hearing to the party against whom the complaint is filed. In case the aggrieved party is not satisfied with the order of the District Forum, he can appeal before the State Commission within 30 days of the passing of the order.

2. State Commission: There are 365 State Commission of India. Each State Commission consists of a President and not less than two other members, one of whom should be a woman. They are appointed by the State Government concerned. A complaint can to be made to the appropriate State Commission when the value of the goods or services in question, along with the compensation claimed, exceeds ₹20 lakhs but does not exceed ₹1 crore. The appeals against the orders of a District Forum can also be filed before the State Commission. On receiving the complaint, the State Commission shall refer the complaint to the party against whom the complaint is filed. If required, the goods or a sample thereof, shall be sent for testing in a laboratory. The State Commission shall pass an order after considering the test report from the laboratory and hearing to the party against whom the complaint is filed. In case the aggrieved party is not satisfied with the order of the State Commission, he can appeal before the National Commission within 30 days of the passing of the order.

3. National Commission: The National Commission has territorial jurisdiction over the whole country. The National Commission consists of a President and at least four other members, one of whom should be a woman. They are appointed by the Central Government. A complaint can to be made to the National Commission when the value of the goods or services in question, along with the compensation claimed, exceeds ₹ 1 crore. The appeals against the orders of a State Commission can also be filed before the National Commission. On receiving the complaint, the National Commission shall refer the complaint to the party against whom the complaint is filed. If required, the goods or a sample thereof, shall be sent for testing in a laboratory. The National Commission shall pass an order after considering the test report from the laboratory and hearing to the party against whom the complaint is filed.

An order passed by the National Commission in a matter of its original jurisdiction is appealable before the Supreme Court. This means that only those appeals where the value of goods and services in question, along with the compensation claimed, exceeded ₹ 1 crore and where the aggrieved party was not satisfied with the order of the National Commission, can be taken to the Supreme Court of India. Moreover, in a case decided by the District Forum, the appeal can be filed before the State Commission and, thereafter, the order of the State Commission can be challenged before the National Commission and no further.

Relief Available

If the consumer court is satisfied about the genuineness of the complaint, it can issue one or more of the following directions to the opposite party.

(i) To remove the defect in goods or deficiency in service.

(ii) To replace the defective product with a new one, free from any defect.

(iii) To refund the price paid for the product, or the charges paid for the service.

(iv) To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the opposite party.

(v) To pay punitive damages in appropriate circumstances.

(vi) To discontinue the unfair/restrictive trade practice and not to repeat it in the future.

(vii) Not to offer hazardous goods for sale.

(viii) To withdraw the hazardous goods from sale.

(ix) To cease manufacture of hazardous goods and to desist from offering hazardous services.

(x) To pay any amount (not less than 5% of the value of the defective goods or deficient services provided), to be credited to the

Some Decided Cases

Under the Consumer Protection Act, a consumer can file a complaint against the manufacturers or sellers for any defective good supplied to him or any deficient services rendered to him.

In *Jose Philip Mampillil vs. M/s Premier automobiles Ltd. & Anr*, a diesel car purchased by the appellant (consumer) was found defective. The defects in the car were not removed by the defendants (manufacturer and dealer). The Commissioner appointed by the District Forum found a large number of defects in the car. Consequently, the District Forum directed repair of car free of cost and replacement of engine. The order was upheld by the State Commission except for the direction for replacement of engine.

In the case of *Sashikant Krishnaii Dole vs. Shikshan Prasarak Mandali*, the National Commission held that failure to amount basic safeguards in the swimming pool amounts to deficiency in service. A school owned a swimming pool and offered swimming facilities to the public on payment of a fee. The school conducted winter and summer training camps to train boys in swimming and for this purpose engaged a coach. The plaintiffs enrolled their only son for learning swimming under the guidance of the coach. It was alleged that due to the negligence of the coach, the boy drowned and died. The school denied any responsibility on its part. The coach claimed that he had considerable experience in coaching young boys is swimming. When the deceased was found to have been drowned, the coach immediately took him out of the water and removed the water from his stomach and gave him artificial respiration and thereafter took him to a doctor. The doctor advised that the boy be taken to the nearest hospital where the boy died. The State Commission held the school and the coach deficient in rendering service to the deceased. On appeal, the order was upheld by the National Commission.

Adapted from: www.indiainfoline.com

Consumer Welfare Fund or any other organisation/person, to be utilised in the prescribed manner.

(xi) To issue corrective advertisement to neutralise the effect of a misleading advertisement.

(xii) To pay adequate costs to the appropriate party.

Bring out some decided cases where a complaint was filed in a consumer court for defective goods and deficient services.

Role of Consumer Organisations and NGOs

In India, several consumer organisations and non-governmental organisations (NGOs) have been set up for the protection and promotion of consumers' interests. Non-governmental organisations are non-profit organisations which aim at promoting the welfare of people. They have a constitution of their own and are free from government interference. Consumer organisations and NGOs

CERS Wins Case against Railways

In a case filed by Consumer Education and Research Society (CERS), Ahmedabad, and a senior couple, the Consumer Dispute Redressal Forum, Ahmedabad City, has held the Railways responsible for negligence and directed it to pay ₹2000 to the couple for its mental agony and ₹3000 towards cost.

Mr. Man Mohan Singh and his wife Kamlesh had bought a railway journey-cum-reservation ticket at Ahmedabad for travel from New Delhi to Kanpur Central by the Shatabdi Express on 2 December 2001. The details on the ticket, including the coach number, the date of journey, etc., were illegible. Hence, they were forced to buy another ticket for journey from New Delhi to Kanpur. They applied for a refund for the earlier ticket but, as the Forum noted, they had to suffer much for the purpose. In spite of the couple's giving the Ahmedabad residential address for sending the refund, the Railways sent it to their Delhi address. They approached CERS for help.

CERS filed a complaint against the Railways before the Consumer Dispute Redressal Forum, Ahmedabad City, under Sections 2(1)(g) and 2(1)(o) of the Consumer Protection Act, 1986. CERS claimed that the two senior citizens had to face mental harassment due to the deficiency in service by the Railways. The Railways contended, among other things, that the Forum had no territorial jurisdiction after cancellation of the ticket, the couple were no more consumers in the eye of the law, the complaint was time-barred and the Railway Claim Tribunal was the proper forum to entertain the complaint about refund.

The Forum, however, observed that the couple's difficulties amounted to the Railways' deficiency in service and ordered it to pay ₹2000 to the couple for the mental agony suffered by them and ₹3000 as cost. The Forum did not decide on the amount of refund, which it said, was "to be exclusively dealt with by the Railway Claim Tribunal".

Source: www.corecentre.org

perform several functions for the protection and promotion of interest of consumers. These include:

(i) Educating the general public about consumer rights by organising training programmes, seminars and workshops.

(ii) Publishing periodicals and other publications to impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest.

(iii) Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.

(iv) Encouraging consumers to strongly protest and take an action against unscrupulous, exploitative and unfair trade practices of sellers.

(v) Providing legal assistance to consumers by way of providing aid, legal advice etc. in seeking legal remedy.

(vi) Filing complaints in appropriate consumer courts on behalf of the consumers.

(vii) Taking an initiative in filing cases in consumer courts in the interest of the general public, not for any individual.

Some of the important consumer organisations and NGOs engaged in protecting and promoting consumers' interests include the following.

(i) Consumer Coordination Council, Delhi

(ii) Common Cause, Delhi

(iii) Voluntary Organisation in Interest of Consumer Education (VOICE), Delhi

(iv) Consumer Education and Research Centre (CERC), Ahmedabad

(v) Consumer Protection Council (CPC), Ahmedabad

(vi) Consumer Guidance Society of India (CGSI), Mumbai

(vii) Mumbai Grahak Panchayat, Mumbai

(viii) Karnataka Consumer Service Society, Bangalore

(ix) Consumers' Association, Kolkata

(x) Consumer Unity and Trust Society (CUTS), Jaipur

Key Terms

Consumer Protection	Consumer Rights	Consumer Responsibilities
Redressal of grievance	Grades	Standards

SUMMARY

Importance of Consumer Protection: From the point of consumers, consumer protection is important because consumers are ignorant, unorganised and exploited by sellers. Consumer Protection is also important for a business because (i) It is in the long-term interest of business, (ii) Business uses society's resources, (iii) It is a social responsibility of business, (iv) It has moral justification, (v) It avoids government intervention in the functioning of business.

Legal Protection to Consumers: The Indian legal framework consists of a number of legislations which provide protection to consumers. These include (i) The Consumer Protection Act, 1986, (ii) The Indian Contract Act, 1872, (iii) The Sale of Goods Act, 1930, (iv) The Essential Commodities Act,1955, (v) The Agricultural Produce (Grading and Marking) Act, 1937, (vi) The Prevention of Food Adulteration Act, 1954, (vii) The Standards of Weights and Measures Act, 1976, (viii) The Trade Marks Act, 1999, (ix) The Competition Act, 2002, (x) The Bureau of Indian Standards Act, 1986.

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Consumer Rights: The Consumer Protection Act, 1986, provides for six consumer rights. These are: (i) Right to safety, (ii) Right to be informed, (iii) Right to choose, (iv) Right to be heard, (v) Right to seek redressal, (vi) Right to consumer education.

Consumer Responsibilities: In addition to exercising his rights, a consumer should also keep in mind his responsibilities while purchasing, using and consuming goods and services.

Ways and Means of Consumer Protection: There are various ways in which the objective of consumer protection can be achieved. These Include (i) Self regulation by business, (ii) Business associations, (iii) Consumer awareness, (iv) Consumer organisations, (v) Government.

Redressal Agencies under the Consumer Protection Act: The Consumer Protection Act provides for setting up of a three-tier enforcement machinery at the District, State, and the National levels. They are referred to as the 'District Forum', 'State Commission', and the 'National Commission'. There are various reliefs available to a consumer under the Act. The appropriate consumer court may pass an order for removal of defect in goods, replace a defective product, refund the price of the product, pay compensation for the loss suffered, etc.

Consumer Organisations and NGOs: In India, several consumer organisations and non-governmental organisations (NGOs) are playing an active role in protection and promotion of consumers' interests.

EXERCISES

Very Short Answer Type

1. Under which consumer right does a business firm set up consumer grievance cell?
2. Which quality certification mark is used for agricultural products?
3. What is the jurisdiction of cases that can be filed in a State Commission?
4. State any two relief available to consumers under CPA.
5. Name the component of product mix that helps the consumer to exercise the right to information.

Short Answer Type

1. Enumerate the various Acts passed by the Government of India which help in protection of consumers' interests.
2. What are the responsibilities of a consumer?
3. Who can file a complaint in a consumer court?

4. FSSAI (Food Safety and Standards Authority of India) has made a proposal for hotels and other food outlets to declare the kind of oil/fat used in cooking each of the food items on their menus. Name and explain the Consumer Right being reinforced by this proposal.
5. Who is a consumer as per CPA?

Long Answer Type

1. Explain the importance of consumer protection from the point of view of a business.
2. Explain the rights and responsibilities of consumer?
3. What are various ways in which the objective of consumer protection can be achieved?
4. Explain the redressal mechanism available to consumers under the Consumer Protection Act, 1986.
5. Explain the role of consumer organisations and NGOs in protecting and promoting consumer's interest.
6. Mrs. Mathur sent a jacket to a laundry shop in January 2018. The jacket was purchased at a price of ₹4,500. She had previously sent the jacket for dry cleaning with Shine Dry Cleaners and the jacket was cleaned well. However, she noticed that her jacket had white discoloration marks when she collected the jacket this time. On informing the dry cleaner, Mrs. Mathur received a letter confirming that discolouration indeed appeared after the jacket was dry cleaned. She contacted the dry cleaner multiple times and requested for compensation for discoloured jacket but to no avail.

   Upon Consumer court's intervention, Shine Dry Cleaners agreed to compensate ₹2,500 to Mrs. Mathur for the discoloured jacket.
   a. Which right was exercised by Mrs. Mathur at the first instance.
   b. Name and explain the right which helped Mrs. Mathur to avail the compensation.
   c. State which consumer responsibility has been fulfilled by Mrs. Mathur in the above case.
   d. State any other two responsibilities to be assumed by the consumers.

Project work

1. Visit a consumer organisation in your town. List down the various functions performed by it.
2. Collect some newspaper cuttings of some consumer cases and the rulings given therein.