

**BUREAU'S**  
**HIGHER SECONDARY (+2)**  
**BUSINESS STUDIES AND**  
**MANAGEMENT**

**PART - I**

**(For +2 First Year Commerce)**

*(Approved by the Council of Higher Secondary Education, Odisha)*

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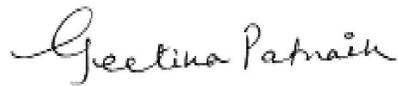
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## **FOREWORD**

The Odisha State Bureau of Textbook Preparation and Production, Bhubaneswar has made a pioneer attempt to publish text books for +2 Commerce Stream with an excellent team of teachers in different subjects.

The present book “**Business Studies and Management- Part I**” is meant for Higher Secondary Commerce students. This book has been written by a team of learned academicians namely Dr. Upendra Nath Sahu, Sri Bijoy Kumar Das, Dr. Ajit Kumar Kar and Sri Jyoti Prakash Rath and reviewed by Dr. Dhruva Prasad Pattnaik. I would like to record my sincere gratitude to all of them for accomplishing this maiden venture in time. The main purpose of developing this text book is to provide a thorough exposure to the students of Commerce in this subject. The book, prepared according to the new syllabus prescribed by the CHSE, Odisha, shall cater to the needs of young students.

I believe that the students and teachers of commerce stream shall welcome and appreciate the book. I would also like to welcome constructive suggestions for further improvement of the book.



(Dr. Geetika Pattnaik)

**Director**

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## **PREFACE**

“Business Studies” has emerged as an important subject for students of Commerce Stream. It is our proud privilege to present the new volume of Business Studies and Management (Part-I) for +2 1<sup>st</sup> year Commerce students of the State as per the new syllabus of Council of Higher Secondary Education(CHSE), Odisha. This paper is considered as foundation paper in Commerce stream on which all other subjects rest. Keeping this in view the panel appointed to frame the syllabus has taken into consideration many new areas of business operations which are relevant to the students at +2 level.

The salient features of this book are simple language, lucid style, comprehensive coverage and latest information on the topics covered. A sincere attempt has been made to present the relevant materials of this book in such a way that it can enable the students to clearly understand all the topics as well as prepare them for answering all possible examination questions. This book is divided into 14 chapters. The objective type, short answer type and essay type questions have been given at the end of each Chapter with answers to objective type questions. We are also confident that this book will prove useful to students and teachers of business studies.

The authors owe personal debt of gratitude to friends, colleagues, eminent scholars and authors on business studies. We are deeply indebted to various authors whose works have been adopted in this book. We take this opportunity to express our grateful thanks to Dr. D. P. Pattnaik for his invaluable assistance in reviewing the text for this book. The present edition of this book would not have seen the light of day but for the direct assistance of Odisha State Bureau of Text Book Preparation and Production, Department of Higher Education, Government of Odisha. We are thankful to all staff members of the Bureau for their active co-operation.

The authors would be very glad to receive continuously constructive criticism and creative feedback from the student readers, esteemed teachers and also from practicing managers and businessmen.

***Board of Writers***

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# SYLLABUS

## **BUSINESS STUDIES & MANAGEMENT (BSM)**

### **First Year 2<sup>nd</sup> Elective (Compulsory), Paper - 1**

#### **Unit-I : Nature, purpose and forms of Business Organization**

##### **Nature and Purpose of Business**

Meaning, Characteristics, objectives, Requisites of successful business, Classification of Business activities-Industry, commerce, Trade and Aids to trade and Business Risk Concept

##### **Forms of Business Organizations**

**Sole Proprietorship:** Concept, Importance and Limitations, Partnership Concept. Types Importance and Limitations of partnership, Registration of a Partnership Firm, Concept of Partnership Deed and its contents.

#### **Unit-II : Company, Co-operative Society, Public, Private and Global Enterprises**

**Company (As per Companies Act, 2013)** - Concept, Merits and Limitations; Types, private and public concept, Distinction between a Public and Private Company, Formation, of a Company-Stages, Important Documents(Memorandum of Association, Articles of Association, Certificate of Incorporation and commencement.

**Co-operative Society:** Meaning, Characteristics, Advantages, and Disadvantages

**Public, Private and Global Enterprises:** Concept of Public & Private Sector enterprises, changing Role of Public Sector enterprises, Forms of public Sector Enterprises (Departmental Undertakings, Statutory Corporation and Government Company), Concept of Global Enterprises, joint Ventures and Public Private Partnership (PPP).

#### **Unit-III : Internal Trade**

**Wholesalers-** Meaning, Characteristics, Functions & Types

**Retailer-**meaning, Characteristics and Function types of Retailers, Itinerant retailer, Small Independent Retailers, Large Scale Retail Organizations- Departmental Stores, Multiple Shop Mail Order Business, Super Market, Network Marketing, E- marketing, Service of Retailers to Wholesaler and Consumers, Distinction Between Wholesaler and Retailer.

#### **Unit-IV : International Trade & Business Services**

**International Trade:** Meaning, Nature, Importance & Limitations of International Trade Distinction between Internal and International Trade, Export Procedure- Enquiry, Receipt of order, Clearance for export, Foreign Exchanges Formalities, Exchange rate, Shipping order Invoice, Shipment of goods and Securing payment, Import procedure- Permission to Import, Indent, Letter of Credit, Custom Formalities, Clearing Goods, Making Payment and Closing Transactions.

**Ware Housing:** Meaning & Functions

**Transportation:** Importance of Railway, Air & Water

# CHAPTER- 1

## BUSINESS ENVIRONMENT

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### STRUCTURE

- 1.0 Introduction
- 1.1 Meaning / Definition
- 1.2 Features
- 1.3 Importance
- 1.4 Dimension of Business Environment
  - 1.4.1 Internal Environment
  - 1.4.2 External Environment
- 1.5 Business Environment and New Economic Reform measures after 1991
  - 1.5.1 Liberalization
  - 1.5.2 Privatization
  - 1.5.3 Globalization
- 1.6 Model Questions

### 1.0 INTRODUCTION :

Every possible living and non living entities from the microscopic ones to the mightiest ones come under the impact and influence of the environment and struggle to survive and grow encountering the ever changing challenges that environment poses for them. There is constantly a kind of challenge and response syndrome and those who successfully respond to the challenge of environmental changes survive and grow and those who fail to respond wither away or get gradually extinguished. This is unwritten law of nature and it explains why so many civilizations and different species have appeared and disappeared in different phases of time.

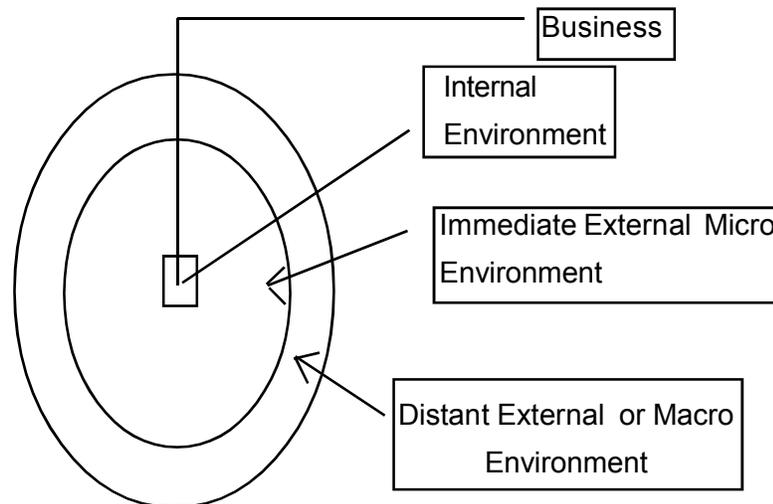
If environment is so powerful, let us understand what it exactly represents. Environment, in its simplest sense, means the surrounding that encircles us from the closest possible range affecting and influencing us immediately and directly to the remotest possible ranges affecting and influencing us slowly and indirectly. In a broader sense, environment can be explained to mean the sum total of all possible situations and circumstances, events and occurrences that impact and influence the living styles and patterns, thoughts, actions and behavior of individuals and institutions. These events and occurrences go on happening at micro and macro levels and may be of demographics, political, economic, socio-cultural or technological nature. So anything happening or any change taking place in the surroundings is considered as a component of environmental change syndrome. In short, environment can be said to represent all that constantly happens around us, encircle us and influence us in one form or the other, sometimes directly and at times indirectly.

### **1.1 Business Environment:**

Business or entities which conduct business also come under the impact and influence of environmental pressures and are subjected to the challenge and response syndrome in their relationship with the environment. Business activities are conducted under situations and circumstances, some of which exist within the premises of business units, some exist just outside of the business premises but very close to it while a few others may exist far away from the business premises. The situation that prevails just outside of the premises but very close to it is called 'micro' external environment. All business units do get immediately and directly affected and influenced by such micro external environment. The situations and circumstances that prevail within its own business premises constitute its internal environment. The situation and circumstances that exist far away from business premises is called Macro external environment. They operate at national or international level.

Thus, it is clear from the above discussion that business operates under environment pressure of which some are encountered within their own premises, some they encounter just at the peripheral surrounding very close to the premises and others

at national or international spheres. Such interface of business with environment can be presented in a diagram form as shown below:



**Definition of business environment :**

Before defining business environment, it need to be cleared that the term business environment is generally understood as the environment that prevails outside business premises as most of the authors view business environment as an environment composed of only external forces and factors. The ground they take in explaining such a view is that internal environment has limits and restricted impact and are controllable and as such that may not form an important part of business environment. This view is clearly evidenced from the important definitions of business environment as presented below.

According to **Richnam and Copen** “Environment factors or constraints are largely if not totally external and beyond the control of individual enterprises and their management. These are essentially the givers within which the firms and their management must operate in specific country and they very often differ from country to country”. Here the clear focus is on external forces and factors which are beyond the control of management.

According to Arthur **M. Weimer** “Business environment encompasses the climate or set of conditions, economic social, political or institutional in which business operations

are conducted”. Thus business environment refers to a set of external conditions with different dimensions under which the business operates.

**Keith Davis** observes that “Business Environment is the aggregate of all conditions, events and influences that surround and affect it”. It is a broad approach to the concept of business environment which focuses the impact of aggregated conditions on the business operations.

According to **William Gluck and Janch**, “Environment contains the external factors that creates opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions”. This definition endorses the varied character of business environment as envisaged by earlier authors with more focus on its external aspects.

On the basis of the above observation it can be concluded that business environment represent a mixture of several forces and factors situations and circumstances under which business operate and constantly get influenced and affected sometimes directly and at times indirectly.

### **1.2 FEATURES :-**

In the light of the explanation given on the meaning and definitions of business environment above, the following appear to be the essential features of business environment.

1. Business environment may be of internal nature or of external nature. The forces and factors within the organization constitute internal environment while the forces and factors or the situations operating outside the organization constitute external environment.
2. Internal environment shows the areas of strength and weaknesses of the organization while external environment indicates the opportunities and threats for the organization.

3. In between internal and external environment, business is more concerned about external environment. Conditions of internal environment are controllable because management has the scope to modify or correct them whenever necessity arises. But the forces, factors and situations under external environment are beyond the control of the management as they originate from distant sources or thrust upon business by outside force and factors..
4. Business environment sets the limits and provides the path and direction while pursuing the business activities of an organization. Under no circumstances, the activities of business can be pursued unaffected by environmental conditions. This is because the strategies plans, policies etc of the business are the true reflection of the business environment under which it operates.
5. Between the two elements of business environment, internal environment is specific, individualistic and organization related while external environment is universal, common and complex in nature.
6. Business environment is always uncertain, dynamic and of ever changing in nature.
7. Business environment does not influence and affect all types business equally and uniformly. Some business entities may be directly influenced while others may be affected and influenced only indirectly.

### **1.3 IMPORTANCE**

Business environment is as important for business entities as weather conditions for farmers undertaking agricultural operations'. It immensely help business in preparing the future road map for movement forward. It provides right direction about the future courses of action. The following are the reasons why knowing and understanding of environment is considered important for business. Study of business environment helps in

#### **1. Promoting proactive action :**

The Internal environment contains several elements which highlights the strength and weakness of an organization. An in-depth study of these elements helps the

management to identify the areas in which the business has good prospects and areas it has constraints. This enables the management to think much in advance and choose the correct path to follow and concentrate all their efforts to achieve the goal overcoming all possible constraints.

**2. Formulating of long term strategy.**

By analysing the different implications of both internal and external environment, the management is able to assess and judge the probable changes both financial and non-financial that may take place in future and affect and influence the positions of the business. This in-depth study enables the management to proactively formulate the most appropriate strategy for future success of the business.

**3. Understanding market conditions.** It is imperative for each and every enterprise to understand the market structure and the changes taking place there since the ultimate success depends upon their marketing performance. A thorough study of external environment enriches the knowledge of the management about the reasons for increase and decrease in demand and supply, monopolistic practices, government interference etc to formulate realistic and most suitable marketing policies for the firm.

**4. Understanding the implications of economic policies.**

Economic policy framed by government from time to time plays a crucial role in the economic development of a country where business is playing a lead role. Clear understanding of business environment helps the management to interpret the implications and impacts of different policies of the government like export and import policy, pricing policy, monetary policy, foreign exchange policy, industrial policy etc and enable them to adjust their plans, policies etc accordingly to make their performance effective.

**5. Understanding the socio-economic conditions:**

Each and every business concern is susceptible to socio-economic conditions and their changes. The study of business environment helps the management to understand different dimensions of socio-economic issues and their reasons for

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changes over the period. This helps the management to formulate appropriate strategies, plans, policies etc to face such challenges and carry toward their business activities successfully.

**6. Identifying areas needing control :**

The study of business environment helps the management to identify the areas where the organization has the immediate need to control them. This enables the management to adjust to the prevailing conditions and thus influence the environment in order to make it congenial for the business.

**7. Facilitating research and development process:**

As the environment is changing fast it brings new challenges before the business to explore substitutes to go for upgradation of technology and reforms in management process.. The change in competitive atmosphere, availability of substitutes economic and industrial policies of government etc are a few examples of such challenges. To meet such challenges business concerns are forced to undertake research work to find-out matching solutions. These measures infact, add strength to the business which brings speedy development in different areas of business activities.

**8. Promoting public image and reputation:** By monitoring closely the environmental factors the business can formulate policies and programmes which would be friendly with customers. This improves the image of the business before the customer as a feeling develops in their mind that the business is very much concerned about their aspirations. Leading business institutions like Reliance industry, Tata group of industries, ICICI bank etc have built up a good image by being sensitive and responsive to environmental forces.

**9. Facilitating adoption of needs:** In this modern world, the technology is changing fast. It is essential for a business organization to cope-up with such changes to ensure its survival. This is possible only if the business concern closely studies the business environment well. An indepth study of business environment helps the business unit to upgrade technology as per the requirement of the situations and to take advantages of it.

## **10. Creating of a tension –free atmosphere :**

The environmental scrutiny helps the business unit to formulate policies and programmes in line with the requirements of the situations. This enables the business unit to remove many of the hindrances in its course of action which makes all its stake holders such as customers, government, suppliers etc well satisfied. A healthy atmosphere prevails over the organization free from any anxiety or tension.

### **1.4 DIMENSIONS/COMPONENTS/ELEMENTS OF BUSINESS ENVIRONMENT:**

All business concerns, irrespective of their size, nature and location, work under environmental conditions. These environmental condition, as already discussed, are of two types namely internal and external which are discussed below:-

#### **1.4.1 INTERNAL ENVIRONMENT**

Within the premises of every business entity a number of internal factors and forces operate which influence its operational strategy and policy decisions. These internal factors collectively constitute its internal environment and under the control of the management of the business enterprise. Each such factor or component may prove to be a strength or weakness depending upon how it is used or handled by the management. The internal environment comprises of several components which are discussed below:-

- 1. Company image-** The image, reputation or status of the company matters much while raising fund from institutional agencies or public or engaging marketing intermediaries to avail marketing facilities. Similarly, purchasing of input or selling of output in the market or introducing a new product becomes easier when the company enjoys good reputation as regards its brand name.
- 2. Physical structure and facilities** –The availability of production capacity, the technology used, the effectiveness and efficiencies of productive apparatus, distributions logistics etc are among other internal factors which influence the competitiveness of the firm.

3. Research and development- The provision of research and development facilities in the organization determines the company's ability to innovate and compete.
4. **Marketing Resources-** The presence of good marketing structure quality marketing manpower, well defined distribution network have direct bearing on marketing efficiency.
5. **Finance-** A good frame work of financial policies, financial position, capital structure are also important internal environmental factors which affect business performance, strategies and decisions.
6. **Human Resources-** Finally the strength of the business is built up with the presence and active involvement of well qualified, experienced and trained manpower to shoulder responsibilities of different activities of the company.

#### 1.4.2 EXTERNAL ENVIRONMENT

The environment comprising of factors and forces that operate outside the business premises is known as external environment.

The external environment may provide opportunities or pose threats to an organization.

Broadly the external environments of a business can be classified as a) Micro environment and b) Macro environment.

##### (a) Micro Environment

The micro environment consists of forces and factors that exist and operate in the environment very close to the business or at the periphery of business premises. These factors affect the performance of the business directly and immediately. Management of these factors requires a lot of attention. The elements or components of micro environment are :

- I. **Customers:-** Customers form the core of the micro environment. Business exists only for customers. All its activities are directed to serve the customers. Unless customers are there business stands for nothing . Business may have several customers like households producers, retailers, government and foreign buyers.

- II. Suppliers** : Suppliers are also an importance constituent of micro environment. They supply input and help for smooth conduct of the business. Their policies strategies affect the business. For example, increase in price of input or shortage of inputs affects sales, profit margin and production schedule. Therefore, a firm should opt for several suppliers to tide over such contingencies.
- III. Competitors** – The competitive environment varieties of problems and threats which every firm has to take note of. No company, however large it may be, enjoy total monopoly. In the business world a company encounters various forms of competitions. Therefore, business firms should constantly watch actions policies and strategies of the competitors and adjust themselves accordingly to gain an edge over them and also customers confidence.
- iv. Public** : Literally public refers to people in general. The environmentalists, consumer protection groups, media persons and local people are some of the well known constituents of public. Such people are considered as the guardian of the society. The company has a duty to satisfy such people at large along with competitors and consumers. It is an exercise which has a huge impact on the wellbeing of the company for future growth. Creating goodwill amongst people helps to get favorable response for the business.
- v. Market intermediaries:** Intermediaries are the link-men who help business to promote sale and distribute their products to the ultimate consumers. They are seen in varieties of forms such as physical distributors (transport firms), service agencies (media firms) financial intermediaries (banks, insurance companies) etc who help in producing, marketing and insuring against loss of theft and fire etc. Firms should maintain good relation with them to carry their activities smoothly.
- vi. Workers** - Now a days workers' unions are a major component of modern industries. They are being formed by workers to protect their interest, improve their working conditions etc. These Unions are now considered as a sub system of the business organization. Therefore, for the interest of the business maintenance of healthy relationship with them is very much needed as conflict between labourers and management may prove destructive for both the sides.

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(b) **Macro Environment** – Macro environment refers to those forces and factors which operate at national and international spheres which do not always affect business directly and immediately. These forces affect business operation and working conditions indirectly. These forces are uncontrollable, therefore business have to adjust their operations under such environment. Macro environment are broadly of two types namely **(I) economic environment and (II) non economic environment.**

I) **Economic environment** – Economic environment consists of economic factors and forces that affect business activities. Industrial production, agriculture, infrastructure, national income, per capita income policy, money supply, price level, monetary and fiscal policies, population, business cycles, economic policies etc. constitute some of the elements of economic environment. The present day economic environment of business is a mixture of national and international environment. Therefore the economic environment is very much complex in its character. It is the reason for which firms operating in the same economic environment often take different decisions. However, a single business concern can do little to change such economic environment. But collectively they can do a lot to make economic environment conducive to their activities. One example of such collective effort is the formulation of Federation of Indian Chamber of Commerce and Industries (FICCI). Following are the main components of economic environment.

**Nature of economy:** The ownership pattern of the factors of production determine the nature of economy. When they are all owned by government, the economy is termed as socialistic or public sector economy. In contrast when the private sector economy or capitalistic economy is that economy where factors of production are owned by private individuals. Finally, where both government and private individuals share the ownership, it is termed as mixed economy or joint sector economy. The Indian economy is a mixed economy where both public and private sectors are assigned separate and specific role to act.

**Economic Policies** :The philosophy of a government is normally reflected in its economic policies adopted from time to time. In business environment economic policies exercise a very much significant impact.

**Industrial policy**- It earmarks the areas within which different sectors have to pursue their industrial activities. The Industrial Policies are announced by Government from time to time. The first Industrial policy was announced in the year 1948 and all subsequent policies till 1991 kept reserved major industries for public sector and opened a limited space for private sector. However, from 1991 a radical change has taken place in the Industrial Policy of the government, where excepting three industries such as atomic energy, mine and rail transport, almost all industries have been made open for private sector.

**Fiscal policy**- It is composed of policy decisions relating to entire financial structure of the government including tax revenue public expenditure, loan, debt management, budgetary deficit and so on. It holds great importance in the social and economic sector of a country. Business environment is directly affected by the fiscal measures undertaken by the government from time to time.

**Monetary policy**- Though such policy the supply of money and the cost and availability of credit in the economy is regulated. It deals with both the lending and borrowing rates of interest of commercial banks. The monetary policy aims to maintain price stability, full employment and economic growth. RBI formulates and implements the policy. The inflationary situation is regulated by RBI from time to time through monetary policy. In view of above reasons, the business world is greatly affected by it. Hence it is an important constituent of the business environment.

**Demand pattern**: The state of demand for product and services determines the nature and volume of business activities in a country. An increase in demand pushes production upward which brings a great stride in business activities. A situation of this nature is generally affected by several factors such as income level of the people, credit facilities, quality of the produce, services available etc.

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Where these factors are positive, the business environment is conducive but once they turned into negative, business environment becomes unfavorable.

**Competition Situation:** Competition stands as a challenge for each and every organization. They have to formulate matching strategy to face such challenges successfully. After the advent of multinationals, Indian industries could realise the importance of competitive pricing to sustain their existence. Thus business environment is highly influenced by the level of competition faced by business organization.

**Infrastructure facilities-** Infrastructure facilities include roads, railways, airport, ports, warehouses, communication system, banking and insurance services etc. Development of such facilities is very much essential for industrial growth which in turn attracts more and more investment options. In view of this, business environment is favorable where there is the availability of well developed infrastructure provisions.

**Money market and capital market:** Money market is meant for short term fund which business units raise from banks and other sources to ensure their uninterrupted flow of business activities. Capital market provides facilities to business organizations to raise long and medium term funds by issuing shares or bonds or by raising loans from institutional agencies to strengthen their infrastructure base. The business environment is favorable where these facilities are amply present.

**International Environment-** International environment consists of those factors which create impact on international trade and commerce of a country. These factors include foreign policy, international treaties, foreign investment policies and various Acts which are concerned with dealing with other countries in trade matters.

With the introduction of new economic reforms in our country, our exports have increased considerably and many foreign companies have started to trade with our country. With the formation of World Trade Organization(WTO) there is a significant change in the international trading environment.

**(II) Non-Economic Environment**

Non-economic environment consists of several factors which have multiple characteristics and they influence in a significant way the trade and commerce of a country. Some of the important elements of non-economic environment are (a) Political environment (b) Socio cultural environment (c) Legal environment (d) Natural environment as discussed below:

**(a) Political Environment:**

The political situation or conditions prevailing in a country is normally termed as political environment. In this environment several forces and factors play crucial role in determining the economy of a country. In fact, these elements have direct impact on business environment. It can be further analysed as follows:

**(i) Political System:**

Political system is generally found in three formats-democratic, communistic and socialistic format. In a democratic system, the state is governed collectively by people. People are free to pursue their business activities with minimum restrictions. Communist system, in contrast is a system where all means of production are controlled by the state and people work as per the direction of the government. In the socialistic system there is a concept of mixed ownership of basic means of production, distribution and exchange with the operational spheres clearly earmarked for public and private sectors.

**(ii) Government system:**

The system of government in our country operates through top to bottom structure. The central government is looking after the administration of the entire country while at the state level the state government is responsible for the administration of their respective states. Even within the states level, the administration is decentralized. Panchayatraj in rural area and municipalities in urban areas are responsible for the administration of their respective areas. The plan and policies

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of all these government and public authorities influence the economic and other policies of the business.

**(iii) Political parties:**

In a democratic system political parties play a key role. People vote the political parties to form the government and to exercise power. Each political party has its own ideology and ethics. When they come to power, the plan and policies they frame reflect their ideology. Thus the political parties and their agenda greatly influence the business environment.

**iv) International relation :**

The nature of international relation determines the state of foreign trade and investment flows from outside the country which may be either favourable or unfavourable. When the relationship is good it has a positive effect on business environments. More and more entrepreneurs will come foreword from outside the country to invest their fund in different directions. Thus international relation has a great influence on business environment.

**(b) Social Cultural Environment:**

Business is a part of the society from its very inception. Hence social and cultural environment has a great influence on the business environment. Social environment refers to social values, concern for social problem like protection of environment against pollution, removal of employment problem, health care for aged people, consumerism and fair trade practices. The cultural environment, on the other side, represents values and the beliefs of the society. These beliefs create impacts on the attitude of the people and help business concerns to determine their need perceptions. The important constituents of social environment are as follows:

**(i) Family system:**

In India still joint family system is in practice. Members of the family are very much attached to each other. Traditional customs and beliefs are common with each and every family. A member of the family feels homesick when he is asked to do

a job at district place even if in the job is alluring. These practices and traditions have a direct bearing on business environment.

**(ii) Income Distribution:**

The quantum of income determines the economic condition of a family. High rate of income brings better purchasing power which helps a family to go for a luxurious and comfortable showmanship. In contrast, when the income is low, a family has to satisfy itself only by meeting its bare necessities. This trend in distribution of income greatly influence the business environment.

**(iii) Cultural factors:**

Cultural practices are common in each and every society though performed differently. However, in general sense, cultural factors refer to customs, tradition, moral values, religions etc. Some people feel that due to large scale industrialisation and regular use of modern technology, cultural values may be diluted.. Hence they resist such practices. But those who are progressive they prefer to adopt newer and better ways of using science and technology for economic development. Thus business organization should cope with these situations in the society in order to be successful.

**(iv) Literacy level:**

There is a greater preference for the development of science and technology when the literacy level in the society is high as educated people are aware of the benefits of these developments. Since industrial and business activities develop as per the need of the people, a highly educated society creates a very favorable atmosphere for the business.

**(v) Demographic factors:**

The demographic factors such as the size of the population, growth rate, age composition, sex ratio etc have a great impact on the state of demand for several provisions. For a growing population business activities must be tuned accordingly

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to cater to such increasing needs. Thus demographic factors have a direct influence on business environment.

**(c) Legal Environment:**

Regulatory or legal provisions are there in each and every country for regulating and monitoring the activities of business concerns. Therefore, business activities can not be pursued unless the prescribed legal provisions are fully complied with. Thus regulatory measures have a significant influence on business environment. Different components of legal provisions or regulatory environment are as follows.

**(i) Licensing Laws:**

It is a restrictive measure. To set up any new business unit in any areas of the country, permission or license is to be obtained from the appropriate authority. However from 1991 these restrictive provisions have been relaxed substantially to give a free hand to business organization to enter into new areas of business without restrictions.

**(ii) Business laws:**

Business laws include the Contract Act, the Sales of Goods Act, the Indian Partnership Act, the Indian Companies Act, the Negotiable Instrument Act, the Factory Act, the Restrictive Trade Practices Act etc. The provisions of these Acts are aimed to regulate business activities in side the country.

**(iii) Labour Laws:**

These laws are framed for workers and laborers engaged in trade and industry. The Minimum Wages Act, the Workmen's Compensation Act etc are some of the examples of labour laws. The basic objective of these Acts is to protect the interest of the workers.

**(iv) Taxation laws:**

Different tax laws are formulated both by central and state government to regulate the business activities as well as to boost their revenue. These laws includes Income Tax Act, Wealth Tax Act. Sales Tax Act, Custom Laws, Excise Laws etc.

Besides the above, different local bodies are also formulating various tax laws and duties for business organization operating in their respective areas.

**(v) Foreign Exchange Laws:**

These laws are formulated to regulate as well as to promote foreign trade and foreign currency balance in the country. A business unit engaged in foreign trade has to comply with the foreign exchange regulations. However from 1991 provisions of these laws are being modified favourably to invite more and more foreign investors to invest in India. For example FERA(Foreign Exchange Registration Acts) has been replaced by FEMA(Foreign Exchange Management Act) to encourage foreign investors to invest in India by removing its different restrictive measures.

**vi. Environmental pollution Laws:** Both central and state governments have promulgated different Acts from time to time to protect the natural environment of country. Now to setup any industry in any part of the country, the pollution clearance certificate has become mandatory.

**d) Natural Environment:** It represents the relationship patterns of all living beings (i.e human beings animal and plants) with non-living things (I.e. water soil river, land and mountain).It also covers natural factors like mineral and material resources, forest resources etc which have considerable influence on business. To preserve the society it is important to take suitable measures to protect the natural environment.

Business enterprises should care natural resources wisely and adopt methods to minimise environment pollution. Even renewable resources should be used properly so that their rate of consumption does not exceed the rate of replenishment.

**1.5 BUSINESS ENVIRONMENT AND NEW ECONOMIC REFORM MEASURES AFTER 1991**

By the close of the year 1990, the nation had already been slowly encircled with serious problems on all almost all economic fronts. With foreign exchange reserves touching all times low, Indian industries proving globally non-competitive, government owned business undertakings becoming a liability because of

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cumulative losses, the whole economy had been pushed into a disastrous situation or a kind of economy emergency situation. Three major areas of concern and which were the root causes for giving rise to such serious situations were :

- i) **Excessive Control and Regulation** : There was a kind of quota, permit and licence raj under which for almost every activity, permission or licence was a common requirement. This acted as a great disincentive for business and industry as it left no freedom for action and decision for them.
- ii) **Public Sector Undertaking Increasingly becoming Great Liabilities** : Huge investments had been made in public enterprises with the hope that they would become growth promoters and generate good return. But over the years, majority of these enterprises turned into perpetual loss making units because of their operational inefficiencies. Huge amount of budgetary support was needed to retain them.
- iii) **Excessive Protection** : With a view to helping the growth of Indian Industries, they were protected from foreign competition by restricting the entry of foreign made goods and foreign manufactures. Such protection policy made the Indian industry complacent, inefficient and non-competitive with no initiative taken on R & D front.

So to overcome the serious situation on the above three fronts, the government had no other alternative than to initiate drastic measures on three major fronts and they are

1. Measures for lifting all possible controls and regulations on industry and business so that they become free to take decision and all these measures were termed as **liberalization** or decontrol or deregulation measures.
2. Measures for drastically reducing the dominant role of public sector by speedily transferring the ownership of such enterprises to private people through outright sale, disinvestment etc. and these measures were termed as measures for **privatization**.

3. Measures to withdraw protection by removing maximum possible barriers or restrictions on the entry of foreign goods and foreign investments into industry & business. These measures of creating situation, where the Indian business and Industry will compete with foreign player were termed as measures for **globalisation**.

Let us now discuss each of these measures i.e. **a) Liberalisation, b) Privatisation c) Globalisation** all of which put together is popularly known as LPG.

### 1.5.1 LIBERALISATION:

Liberalisation in general sense means measure aiming at extending more liberty or freedom and reducing of control. When used in the context of business, it refers to all the measures initiated by government to provide relief to business freeing it from unnecessary regulations and control by Government on its activities. In other words, liberalization means measures intended to free business enterprises from excessive and unnecessary government regulation and control thereby giving them more freedom to make their own decisions regarding production, consumption, pricing, marketing borrowing, lending and investment.

The major steps initiated for liberalisation in India include:

- a) **Delicensing of industries:** Licensing provision was withdrawn for setting up any industry in India excepting six industries namely alcohol, cigarette, industrial explosives, defence products, drugs and pharmaceuticals, hazardous chemicals.
- b) **Liberalizations of foreign investment :** FDI regulation were drastically modified for encouraging more inflow of foreign investment. In certain sectors such as infrastructure, export, hotels, tourism etc. flows of foreign investment was allowed up to 100%.
- c) **Liberalizations of Import of foreign technology:** Automatic permission was accorded for foreign technology import. No permission was required for hiring foreign technician and foreign technology testing.

- d) **Liberalization in the choice of industrial location:** There is no need of approval for industrial location. Indian firms at large are allowed to set up industries at right location of their choice without much interference from government authority.
- e) **Liberal taxation:** There is liberal reduction in taxation rates on direct tax and indirect tax, custom duty excise duty, service charges which has greatly benefited the firms operating in India.

**Features:** A look into the liberalization policy framed by government since 1991 exhibits the following features.

1. It aimed at liberalizing the Indian business and industry from all unnecessary control and restrictions.
2. It indicated the end of the license permit and quota raj.
3. It conferred more freedom for business/related decisions.

### **Benefit of Liberalization**

#### **Liberalisation measures resulted in**

- a. abolishing licencing requirements in most of the industries.
- b. allowing greater freedom in deciding the scale of business activities ie. no restriction on expansion or contraction of business activities.
- c. removing of restrictions on the movement of goods and services
- d. allowing freedom in fixing the pricing of goods and services.
- e. favouring, reductions in tax rates and lifting of unnecessary control over economy.
- f. simplifying procedure for exports and imports
- g. making it easier to attract foreign capital and technology to India.

### 1.5.2 PRIVATIZATION:

The rapid growth of public sector was accepted both in developed and developing countries as a strategy for their speedy economic growth during the two decades from 1960 to 1980. Subsequently it was observed that performance of many public sector enterprises or State Owned Enterprises (SOE) remained far from satisfactory in several countries including India. Economic inefficiency in production activities, high cost of production, inability to innovate and costly delays in delivery of goods produced etc were the reasons for their failure. As a result, there was heavy financial burden imposed on the public through government budgetary provision and external debt. This brought wide scale discontentment amongst public towards these SOE and government was forced to think about their replacement through privatization.

Privatization refers to the measures initiated for transferring ownership of specified property or business operation from government organization to private entities as well as the removal of restrictions preventing private individuals and business from participating in a given industry.

In simple term, privatization refers to the transfer of ownership and /or management of an enterprise from the public sector to private sector. It also means the withdrawal of the state from the industry related activities partially or fully or drastically limiting the scope and importance of the public sector.

#### **Features:**

Though the concept of privatization has been practiced in different countries in different ways it bears certain common features which are discussed below:

1. **Transfer of Ownership :** Privatisation implies change of ownership of commercial and industrial enterprises from government to private entities.
2. **Adoption of different models of Ownership transfer** Ownership can be transferred through outright sale disinvestment or long term leasing contracts.

3. **Reflects restrictive role of Public Sector :** With privatization, the role or importance of public sector is greatly reduced.
4. **Encourages healthy completion.:** Public sectors compete with private sectors in servant fields. This is considered as a healthy trend as it makes both efficient.

#### **Impact and Implication of Privitization:**

1. Privatization has now been accepted as new role model of economics reform aimed at giving greater access to private sector in the nation building process and a reduced importance to the public sector.
2. In view of the emergence of the private sector under privatization strategy, the role of public sector has been redefined by formulating new industrial and fiscal policies.
3. Privatization develops competitive atmosphere in a big way which forces government to relax or withdraw restrictions imposed earlier in different areas of activities to smoothen their operations.
4. Privatization acts as a means of broad based ownership of economic assets, thereby reducing the problem of concentration of economic power.
5. It was presumed that through privatization huge fund will be generated in the country, hence government can introduce new fiscal and moentary policies to bring financial discipline,
6. To boost the private sector as well as to open the door for its modernization, government has brought significant changes in its import and export policies.
7. Finally, it was observed that private capital and managerial capabilities can be effectively utilised to improve the performance of PSUs.

#### **1. 5.3 GLOBALISATION:**

Globalisation has been accepted as a common strategy in the economic policies framed by different countries in the world. Globalisation implies adopting a global outlook for the business and business strategies aimed at enhancing global

competitiveness. In fact, it is the integration of international market for goods and services, technology, finance and to some extent labour. It is the integration of the country with the world economy. World is perceived as a global village. A country will be able to supply anything to or buy anything from anybody in the world. Globalization implies the linkage of a nation's market with the global market.

**Meaning/ Concept:**

According to Deepak Naryyor "Globalisation is simply an expansion of economic activities across political boundaries of nation states. In fact, it refers to a process of deepening economic integration, increasing economic openness and growing economic inter dependence between countries in the world economy. It is associated not only with phenomenal spread of and volume of cross broder economic transactions but also with organization of economic activities which straddles national boundaries.

**WHY GLOBALISATION:**

The internationalisation of local operation of a business concern is not an easy task. It requires huge fund, advanced technology, well trained man power and effective management which is beyond the reach of a single person or small units. Still globalization is a popular slogan in business circle. Broadly, two factors i.e. pull factors and push factors are inducing business people to go for globalization.

The pull factors also known as proactive reasons are those forces of attraction which pull the business people to foreign market. Such attractiveness of foreign market include, broadly the relative profitability and growth prospects.

The push factors refer to the compulsions of the domestic market which prompts firms to go for international marketing. Most of the push factors are reactive reasons such as saturation of demand for product in the domestic market, incentives for foreign currency.

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**FEATURES:** Globalisation is associated with certain features which are discussed below:

1. Globalisation is the outcome of the policies of liberalisation and privatization already initiated by governments.
2. Globalization is generally understood to mean integration of the economy of the country with the world economy. It is a complex phenomenon to understand and apply in practice.
3. It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
4. It involves creation of networks and activities transcending economic social and geographical boundaries.
5. It involves an increased level of interaction and inter dependence among the various nations of the global economy.
6. It stands for removal of all business related barriers.
7. Physical geographical gap or political boundaries no longer considered as barriers for a business enterprise to serve a customer in a distant geographical market across the globe.

### **1.6 MODEL QUESTIONS**

1. **Choose the correct answer from the alternatives given:**
  - (a) Conditions under internal environment are:
    - (i) Controllable (ii) Uncontrollable (iii) Flexible (iv) rigid
  - (b) Company image is an element of :
    - (i) Internal environment (ii) external environment
    - (ii) both of internal and external environment (iv) Partly of external environment
  - (c) The elements of external environment are :
    - (i) Controllable (ii) Uncontrollable
    - (ii) Part fully controllable (iv) rigid

- (d) Customers are belonging to the category of :  
(i) Micro environment (ii) macro environment  
(iii) Internal environment (iv) International environment
- (e) Economic environment is a part of :  
(i) Macro environment (ii) micro environment  
(ii) internal environment (iv) legal environment
- (f) Panchayat raj operates in :  
(i) Rural areas (ii) urban areas  
(iii) both rural and urban areas (iv) towns
- (g) State controls the entire property of the country under the political system of  
(i) Democracy (ii) communism (iii) Socialism (iv) mixed economy
- (h) The development of science and technology depends largely on :  
(i) Literacy level (ii) climatic condition (iii) Political stability (iv) public support
- (i) Demographic factors are related to  
(i) Population (ii) Literacy (iii) poverty (iv) finance
- (j) The nature of licencing provision is:  
(i) restrictive (ii) productive (iii) extensive (iv) sensitive
- (k) The basic objective of foreign exchange law is to promote:  
(i) home trade (ii) foreign trade (iii) local trade (iv) trade and commerce
- (l) The concept of liberlisation got its vigour from the year :  
(i) 1991 (ii) 1980 (iii) 1999 (iv) 2004
- (m) The strategic shift made from public sector to private sector in the year 1991 is called  
(i) Liberalisation (ii) globalization (iii) Privatisation (iv) Internalination
- (n) The integration of the country with world economy is called :  
(i) Globalisation (ii) liberalization (iii) internationalization (iv) privatization
- (o) The practice of licence permit in called :  
(i) Quota-raj (ii) red tapism (iii) federalism (iv) liberalism

**2. Answer the following as per instruction given in each care:****a. Express following sentences in one word /term**

- i. The transfer of ownership of public sector units to private sector is
- ii. The integration of the country with world economy
- iii. The environment that exists within the premises of the business entity
- iv. The environmental conditions which are beyond business control

**(b) Answer the following in one sentences each.**

- i. What is micro environment?
- ii. What is macro environment?
- iii. What do you mean be company image?
- vi. What is internal environment?

**(c) Fill up the blanks:**

- i. Political system has three forms namely democracy, communism and \_\_\_\_\_
- ii. In democracy \_\_\_\_\_ plays a key role
- iii. In India still \_\_\_\_\_ family system is in practice
- iv. \_\_\_\_\_ is conceived as a global village

**d. Correct the underlined portion of each sentences.**

- i. company image belongs to external environments
- ii. micro environment consist of factors in the company's own environment
- iii workers union belongs to \_\_\_\_\_ environment.

**3. Answer the following in 30 words:**

- a) What do you mean by business environment?
- b) Describe any two important features of business environment
- c) Explain any one importance of business environment
- d) What is internal environment?
- e) Name the environment outside to the business organisation
- f) What is micro environment?
- g) What is macro environment?
- h) What do you mean by economic environment ?
- i) What do you mean by nature of the economy?

- j) What is liberalization?
- k) What is privatization?
- l) What is globalization?
- m) What do you mean by political system?
- n) What is international environment?

**4. Answer the following in 50 words?**

- a) Discuss any two important features of business environment
- b) Discuss any two elements of internal environment
- c) What are the different government systems?
- d) Show any two distinctions between micro and macro environment
- e) How do political parties influence business environment?
- f) How does the family system affect business environment?
- g) Discuss any two significance of business environment
- h) What is quota-rat?

**Long Answer Type Questions**

5. What do you mean by business environment. Discuss its features and importance.
6. What are the different elements of internal environment and state the way they affect business environment.
7. What do you mean by micro environment? Discuss its different elements.
8. What do you mean by new economic policy? Discuss its three elements –LPG
9. What do you mean by economic and non-economic environment. Discuss different elements of non-economic environment.

**Answers**

(1) a) i b) i c) ii d) i e) i f) i g) ii h) i i) i j) i k) ii l) i m) iii n) i o) i

(2) a) i) Privatization ii) globalization iii) internal environment iv) external environment

c) i) Socialism ii) Political Parties iii) joint iv) World

d) i) External ii) Immediate iii) Micro

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## CHAPTER-2

# MANAGEMENT : MEANING, FEATURES, OBJECTIVES AND IMPORTANCE

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### **STRUCTURE**

- 2.1 Introduction
- 2.2 Meaning and Definition of Management
- 2.3 Features of Management
- 2.4 Objectives of Management
- 2.5 Importance of Management
- 2.6 Management : a Science or an art
- 2.7 Management as a Profession
- 2.8 Management and Administration
- 2.9 Distinction between Management  
and Administration
- 2.10 Levels of Management
- 2.11 Questions

### **2.1 INTRODUCTION:**

The emergence of management as an independent branch of knowledge or as a distinct discipline is indeed a significant event in the history of evolution of social sciences. As a distinct discipline, it embraces within its fold all possible management related ideas, theories, concepts, principles, thoughts and approaches and serves the purpose of being used as the instructional materials for educating future managers. But much before, management got recognition as a discipline, people since ages past had been practicing management in the sense of effectively handling group activities with the group heads getting work done through the members their respective groups. The group leaders used

to enjoy authority to plan, organize, direct, control and evaluate the activities of their group members. So they had already evolved formats of organizational structures as well as processes for handling group based activities. All these speak of their familiarities with the art of getting things done through others, which, in modern terms, is known as management. In all group based institutions like family units, religious, cultural, educational and also cast based communities, management was seen being commonly practiced. When commercial and trading activities emerged as new areas of activities and more specifically manufacturing activities following industrial evolution, the same organizational structure and process were followed for setting up and managing such commercial and industrial institutions. But as profit maximization was the prime aim of these institutions for which minimization of wastage of materials, labour, time and expenses and maximization of operational efficiency were considered as critical areas, the old organizational structure and processes were found inadequate and unsuitable. Hence started series of studies and experiments by managers in this field and thinkers in the academic world for revolutionary changes in the management structure and process. All these efforts resulted in giving management a modern shape with new concepts, theories and principles. With this backdrop let us understand more about management as discussed below.

## **2.2 MEANING AND DEFINITION OF MANAGEMENT:**

Traditionally 'Management' has been defined as 'the art of getting things done through others'. Though this simple and short definition highlights the basic character of management, yet, in view of the changing environment in general and business environment in particular, modern thinkers on management view that this definition does not reflect the whole picture of management. This is because, the definition impliedly focuses certain aspects which are not acceptable whereas fails to highlight certain important aspects, which are significantly relevant. For example-

- (i) The definition impliedly presumes that the employees are only a passive factor of production. Their position has been presumed to be something like cogs in the

wheel. Their needs and aspirations have not been considered as the concerns of the management.

- (ii) The function of the manager and the way to get results from others has not been indicated, as it does not specify the specific functions to be performed in management.
- (iii) The practice of management is not manipulative in character. But the statement, 'getting this done' seems to have a character of manipulation. In other words, it seems to suggest that management is concerned with getting things done by hook or by crook means and methods.
- (iv) The emphasis that needs to be given on the attainment of objectives and the social obligations of management etc have been overlooked.
- (v) The formal organization structure has not been highlighted which is essential for management.

#### **Modern Definitions:**

Taking note of these deficiencies in the above definition, attempts have been made by many thinkers and practitioners to define management in the context of changing time. Some of the important modern definitions of management are given below:

- (a) **George R. Terry**, "Management is a distinct process consisting of planning, organizing, activating and controlling, performed to determine and accomplish the objectives by the use of people and other resources".
- (b) **Henry Fayol**- "To manage is to forecast and plan to organize, to command, to co-ordinate and to control".
- (c) **Koontz and O' Donnell**, "Management is the creation and maintenance of an internal environment in an enterprise where individuals working in groups, can perform efficiently and effectively towards the attainment of group goals".

- (d) **Peter F Drucker:** "Management is a multi-purpose organ that manages business and manages managers and manages workers & work"
- (e) **Stanley vance,** "Management is simply the process of decision-making and control over the action of human beings for the express purposes of attaining pre-determined goals".

An analysis of these definitions reveals that, the essence of management as an art of managing group based activity focused in the traditional definition, has not been discarded altogether by the modern thinkers. Keeping in view the suggested basic features, they have rather more refined it by adding in their definitions some more important features of management. All these definitions highlight one or more functions of management. Taking a synthesized view of all these definitions, the meaning of management can be more comprehensively defined as, "Management is getting things done through and with people in formally organized groups and through the process that involves planning, organizing, directing, staffing and controlling".

When all these processes are applied to business, it becomes "Business Management".

### 2.3 FEATURES OR NATURE OF MANAGEMENT:

The features or nature or the characteristics of management can be understood through a study of its various definitions. From such close study one can find the followings as the important features or characteristics of management.

1. **Universal Phenomenon:** Management is a universal phenomenon. Its principles are applicable not only to business undertakings but also to political, social, religious and educational institutions. Even though there may be slight variations in approach and style from concern to concern, yet the management process remains the same everywhere. In fact, wherever there is group activity, there is bound to be the need for management.

2. **Distinct Process:** Management is a distinct process because it involves certain sequentially arranged steps or series of actions or operations. It is concerned with the sequentially arranged steps like determination of objectives, formulation of plans and policies, bringing together the various factors of production like men, money, materials, machines and methods, exercising effective control over the performance of various factors etc. In short, it covers the functions of planning, organizing, staffing, directing, co-ordinating and controlling in sequential order.
3. **Social Process:** Management is a social process in the sense that it operates through people and is primarily concerned with managing relations among people. The resources are handled by the management in such a manner that the needs of the various groups of society like shareholders, workers, consumers, government and suppliers are satisfied.
4. **Group Activity:** Management comes into existence only when there is an organized group activity that aims at achieving a common goal. It binds together, inspires and motivates the people to put forth their best efforts. The application of management principles to group activities brings co-ordination among individuals working in the group.
5. **Goal Oriented:** Management is a purposeful or goal oriented activity. It deals with the achievement of something specific, expressed as an objective or goal. In fact, the success of management is measured by the extent to which the organization goals are achieved.
6. **Dynamic and continuous process:** Management is dynamic and not static. It is dynamic in the sense that it adapts itself to changes in environment and also introduces changes i.e. innovations. It is a continuous process because it continues to operate so long as there is organization.
7. **System of Authority:** Management represents a system of authority. In organizations, managers are formally empowered to give orders and to get them

executed. Since management is a process of directing men to perform tasks, authority to extract the work from others is implied in the very concept of management. In fact, authority is considered to be the basis for the performance of all managerial functions. In every enterprise, there are built-up levels of authority to decide, direct and control the business operations.

8. **Decision Making:** Decision making is the primary element of management. It basically involves selecting the most appropriate alternative out of the several alternatives available. Decisions are taken at all the levels for all the activities of management. The decision which a manager takes determines the quality of organizational performance. Therefore, the success or failure of an organization can be judged by the quality of decisions taken by the managers.
9. **Multi-disciplinary:** Management has to deal with verities of problems under different dynamic conditions. Therefore, it requires to make use of knowledge outsourced from different disciplines. Management as a separate discipline or subject, has therefore evolved drawing many ideas and concepts from various disciplines or subjects like economics, anthropology, sociology, psychology, engineering, mathematics, statistics, accountancy etc.
10. **One of the factors of production:** Management is considered as one of the factors of production. Like land, Labour and Capital, Managerial skill is one of the important economic resources which can be acquired and used for the production of goods and services.
11. **Intangible:** Management is intangible. It has been viewed as an unseen force. Its presence is evidenced by the result of its efforts such as increased morale of the employees and increased productivity. One may not see with the naked eye the functioning of management but one can gauge its effectiveness or ineffectiveness on the basis of end results.

12. **Both a Science and an Art:** Management is both a science and an art. It is considered to be a science as it has developed certain principles, laws, generalizations which are more or less universal in nature. It is regarded as an art because it is concerned with application of knowledge for the solution of organizational problems.
13. **A Profession:** Management is now recognized as a profession as it possesses almost all the characteristics of profession. It has a specialized body of knowledge, principles and techniques which can be taught and transferred. It involves special skills and adheres to a code of conduct.
14. **Situational:** Management is always situational because there is no one best way of doing things under each and every situation. Management takes into account situational differences. It is all about the application of knowledge to realities in order to attain desired results.

#### 2.4 OBJECTIVES OF MANAGEMENT:

Management as explained earlier is always goal oriented. It acts with specific objectives or purposes. All activities and resources of an enterprise are accordingly directed towards the achievement of such pre-determined objectives set by management. Though the specific objectives may differ from one organization to another on the basis of timing and situations yet the general objectives of management remain more or less the same for every organization or for every group activities. Such commonly followed objectives of management are as follows:

1. **Securing maximum results with minimum efforts:** It is the general objective of every management to secure maximum results with minimum of efforts and resources. As a result of fulfillment of this objective, the cost of production is reduced and returns are maximised.

2. **Enhancing the efficiency of the factors of production:** Every management aims at increasing the efficiency at all levels for ensuing proper utilization of all factors of production. As a result of this wastage of resource is reduced and productivity of resources is increased.
3. **Maximising returns for owner/owners and employees:** The goal of management is to secure maximum prosperity for owners by generating high profits incurring minimum cost and for employees by providing adequate remunerations and incentives for their services.
4. **Improving the quality of life of human resources:** Management ensures a better quality of life for its employees by providing them better facilities for health services, recreational activities and other services.
5. **Fulfilling social responsibilities:** one of the main objectives of management is to fulfil the social responsibilities of the enterprise. By making the better use of resources and providing quality goods and services it promotes the welfare of the society. It also provides protection to the society against polluting threats by modifying the use of resources according to the needs of the changing environment of the society.
6. **Ensuring better co-ordination:** The objective of management is to ensure better co-ordination by synchronizing the efforts of groups of people working in the organization. It also aims at ensuring co-ordination between the organization and the external groups-such as customers investors, suppliers dealers, trade unions, research institutions Government departments, competitors etc.
7. **Promoting better co-operation:** Management aims at achieving better co-operation through the collective actions of members in the organization for certain common goals. It tries to inculcate a spirit of dedication and service with absolute honesty and unquestionable integrity.

8. **Ensuring integration of objectives:** Management aims at integrating the objectives of individuals with that of the organization. Higher the degree of integration in the organization, higher becomes the degree of co-ordination and co-operation with greater possibility of achievement of organizational objectives.
9. **Setting performance standards:** The objective of management is to set standards against which performance of the organization, its units, its sub-units and individuals can be measured. Without performance standards there can not be any meaningful evaluation of activities in the organization.
10. **Encouraging in innovations:** Management wants to bring innovations in the product, market and other factors of productions to become a leader in the respective fields. According to Joshep Schumpter, innovation leads to the introduction of a new product in the market, institution of new method of production, opening of new market and finding of new source of supplying of materials.
11. **Ensuring justice to all:** Management aims at providing justice to all by following its policies on a uniform basis.
12. **Ensuring stability and growth of the organization :** This happens to be the ultimate objectives of every management through proper planning and proactive sections, they try to read the need of the future and constantly monitor the changes and keeps the organization fit to move forward.

## 2.5 IMPORTANCE OF MANAGEMENT:

The survival and growth of an organization depends decisively on the quality and character of its management as management happens to be the dynamic life giving force in every organization. Without management, the resources of production remain resources and can never become output. The following points highlight the importance of management.

1. **Determination of objectives:** The objectives of any organization are determined by the management. It is the management which communicates the objectives to others in the organization. No organization can succeed in its operations unless its objectives are identified and well-defined.
2. **Achievement of objectives:** Management is the main motivational force that activates people for the achievement of objectives. It integrates the objectives of the organization with those of the individuals working in it. The management directs, co-ordinates and accelerates the activities of the individuals for the achievement of pre-determined goals.
3. **Brain of the enterprise:** Management is the brain of any enterprise. All the policy decisions are taken by it. Management always keeps itself in touch with the current environment and makes appropriate decisions to meet the demands of changing challenges of the time. It predicts what is going to happen in future and what will influence the working of the enterprise.
4. **Effective utilization of resources:** Management tries to make effective utilization of various resources. All the resources are scarce in nature. Management can increase productivity by proper utilization of these resources. Their contribution should be maximum for the general interest of the society.
5. **Agent of economic development:** Efficient management is a key to the economic development of any country. The development of a nation depends to a great extent upon the quality of its managerial resources. No capital investment, no technology will bring economic development if such wealth producing resources are not managed properly.
6. **Creation of social benefits:** Management plays a key role in rendering varieties of service useful to the society. It improves the standard of living of the people by providing them useful products services manufactured with the latest technology. By establishing cordial relations between different social groups, management also promotes peace and prosperity in the society.

7. **Sound organization structure:** Management establishes a sound organization structure and avoids conflicts between the superiors and subordinates. Management does so by dividing the total work into specific jobs, grouping jobs into departments and establishing clear-cut authority relationships among the people in the organization.
8. **Stability of the organization:** Management ensures stability of an organization in a fast changing environment. It maintains team spirit among the people in the organization by co-ordinating the activities of different departments. An efficient management enables the organization to adjust to the complex and ever changing external environment.
9. **Promotes innovations:** Management promotes innovations by encouraging new ideas, imaginations and vision to the organization. In modern age, all organizations are moving towards high degree of sophistication. This is possible only through innovations.
10. **Human development:** Management is not simply the direction of things but the development of men. It improves the personality by raising the efficiency and productivity of the people. A good management serves as a friend, philosopher and guide to the people in the organization.
11. **Meeting the challenge of change:** In recent years, the challenge of changes has become intense and critical. The challenge of changing technology, changing tastes and needs of consumers, changes in rules and regulations by the Government etc. can be overcome by efficient management. Thus, management is the catalytic force to face the challenges of change.
12. **Integrating various interest groups:** Management integrates the interests of various groups. In an organization, there are various interest groups who put pressure over other groups for maximum share in the combined output. For example, in a business organization, there are various pressure groups such as shareholders, employees, government etc. These interest groups have pressure

on an organization, In such a situation, management has to balance these pressures and integrate their interests.

- 13. Efficient and smooth running of organization:** Management ensures efficient and smooth running of organization through better planning, sound organization and effective control of the various factors of production.

## **2.6 MANAGEMENT : A SCIENCE OR AN ART?**

It is often debated as to whether 'management' is a science or an art. To answer this question, it is necessary to know (a) the meaning and features of 'science' and 'Art' (b) whether "Management' has all or any of the features of 'science' and / or 'Art'. (c) to which category can ' Management' be put ? For this, we have to see if it has the features of science to categorise it as a science or has the features of art to categorise it as an art or if it has the features of both science as well as art.

### **Meaning and Features of Science:**

Science is defined as a systematized body of knowledge. It is related to different specialized fields of learning or subjects that contain concepts, hypotheses, theories, , inferences and principles derived through observation and experiments. Any subject which is systematically developed through observations and experiment, and based on universally accepted principles and systems is science. The important features of science, therefore, are as follows:

- 1. Systematized body of knowledge:** Science is systematized body of knowledge containing various clearly evolved concepts, principles and theories.
- 2. Based on observations and experiments:** Science is developed through careful observations and then tested by repeated experiments.
- 3. Universal validity and application:** The Principles of science have universal validity and application.
- 4. Cause and Effect relationship:** Science is based on proofs and is concerned with analyzing cause and effect relationship. In science it is believed that for a

definite cause, there is a definite effect and vice versa. With the application of the principles of science, one can, therefore, predict the future events.

**2.6.1. Management as a 'Science':** Management' can be regarded as a science because of the following reasons:

- (1) Management is backed by a systematized and organized body of knowledge containing many concepts theories and principles
- (2) Certain management principles have been developed through observations, experimentation, experience and inferences.
- (3) Management, as a process is applicable to all types of human activities. In other words it has universal applicability.
- (4) Like principles of science, many of the management principles have also the cause and effect relationship.

However, management cannot be considered as an exact and pure or hard science like Physics, Chemistry, Mathematics, Biology etc. The main reason for this is that management primarily deals with people whose behavior go on ever-changing and are most unpredictable under different situations and at different times. That is why, management is called an inexact science or soft science or behavioural science or mostly a social science. It is just like sociology, political science, economics etc.

#### **Meaning and Features of 'Art':**

The term 'art' refers to the application of skill and knowledge to attain the desired results. It is the way of doing specific things. It has the following features-

1. **Application of knowledge:** Art is concerned with the application of knowledge. Science seeks knowledge, art applies the knowledge.
2. **Personalised skill:** It involves personal skill which differs from practitioner to practitioner, like that of dancers, artists etc.
3. **Continuation of practice:** Perfection is achieved only through continuous practice.

4. **Creative:** It is creative in nature. One can develop one's own style of doing a thing or applying a principle.
5. **Personal feelings and emotions involved-** Actions are always interlinked with the feelings and emotions of the performers..

**2.6.2. Management as an 'Art':** Management can be regarded as an art due to the following reasons:

1. Management is concerned with the application of various knowhow and skills.
2. Management involves regular practice. The basic principles of management can be applied and practiced in specific situation.
3. Like any other art, management is creative. Creativity is the major dimension in managerial success. A manager having the creativity can apply the principles of management very successfully to get the desired results.
4. Management is personalized. Each manager has his individual feelings and emotions which influence his choice of approach and techniques in solving managerial problems.

However management cannot be claimed as a pure art like painting, dancing which have heavy contents of creativity imagination emotions etc. Management can not depend too much on immotion, feeling and imagination.

**2.6.3. Management is both a 'Science' as well as an 'Art' :** As its nature and features suggest, management can be regarded both as science and art, because it combines some of the features of both of them. It is considered to be a science because it has an organized body of knowledge which contains universal truths. It is called an art because scientific principles developed on scientific basis are applied in management and the application of principles involves personal skills and creativity of managers.

Science provides the knowledge and art provides the know-how or knowledge of the application of skills. To become a successful manager, one must apply theoretical knowledge along with one's personal skills and creativity. A manager is an applied scientist. He has not only the special knowledge of management but also possesses the skill to put this knowledge into practice. In fact, science and art are not mutually exclusive, rather complementary to each other. It is said, knowledge (science) without skill (art) is useless and dangerous and skill without knowledge means inertness.

The art of management is as old as human history, although the science of management is an event of the recent past, an event of the later part of the 19<sup>th</sup> century and the earlier part of the 20<sup>th</sup> century. It is rightly said that management is the oldest of arts and the youngest of sciences.

## **2.7 MANAGEMENT AS A PROFESSION:**

To decide whether management is a profession or not, it is necessary to-

- (a) Know the meaning and features of profession,
- (b) compare features of management with those of profession
- (c) consider the opinions of expert bodies; and
- (d) take into account the recent development in this field.

### **2.7.1 Meaning and features of profession:**

In its true sense, a profession is an occupation requiring specialized knowledge, skills and training and the entry into which or to take up the practice is restricted and regulated by a regulating body. The knowledge and skills are not meant for self-satisfaction only but used as a means of subsistence.

Profession need to have this following essential features :

- 1. Specialized knowledge:** A profession must be backed by an organized and specialized body of knowledge containing principles and techniques.

2. **Formal education and training:** A practitioner of a profession needs acquisition of knowledge through formal education and training. Hence there should be a system of transmission of knowledge and skill.
3. **Restricted entry:** Usually most of the professions have some restrictions for entry of the practitioners on the basis of education, training, and examinations.
4. **Recognized National Body:** There should be an agency, institute or association or a national body for the regulation of a profession. This body is to prescribe the syllabus for imparting education and training minimum qualification for entry and regulate the professional activities. The examples of such regulatory bodies are Institute of Chartered Accountants of India, Medical Council of India and Bar Council of India etc.
5. **Code of conduct:** There must be suitable codes of conduct or ethics. Every member of the profession is expected to observe the ethical standards laid down for that profession. Members who violate the code can be derecognized or disqualified from the profession.
6. **Not mechanical:** Although every profession has some basic procedures, yet, changes in the procedure is also a common thing. For example, a doctor does not apply exactly the same treatment procedure for each and every patient even for the similar diseases.

### 2.7.2 Is Management a profession ?:

Let us now see, if 'management' has the requisite features of a profession. A close look at the features of management reveals that the Management has the following features of a profession:

- (i) Management is backed by a systematic body of knowledge.
- (ii) Practice of management needs specialized knowledge and skill.

- (iii) Management is not mechanical. A manager has to apply his acquired knowledge and his personal skill to tackle the problems in organizations depending upon the situational requirements.
- (iv) Basics of management can be and being acquired through formal education and training.
- (v) The art of management can be sharpened by sincere and devoted practice in the course of time.

In view of these similarities in the features of profession and management, one may be inclined to categorise management as a profession. But excepting these features, management does not have some other important features of a profession. For example management has been practiced successfully by many without having any formal education and training on management. No national management body has been formed to make provision of membership for practicing managers and regulate entry into the profession. There has been no commonly accepted code for managers.

**Conclusion:**

From the above discussion, it can be concluded that management cannot be considered as a fully developed profession. This is because it does not possess all the essential characteristics of a profession.

**2.8 MANAGEMENT AND ADMINISTRATION:**

The term 'Administration' is very often used alongwith the term 'management'. Both the terms are usually considered as interchangeable terms implying having the same meaning. And yet, some also think that these two terms do not exactly mean the same thing. It is, therefore, necessary to know the meaning and nature of 'administration' and the similarity or distinction, if there is any, between 'management' and 'administration'. It is to be noted here that in the present context, both the terms are considered as processes and/or functions.

At the initial stage of development of management thoughts, no distinction was made between management and administration. Both the terms were used interchangeably. In 1923, the terminological conflict between the two was first raised by the American author Oliver Sheldon. He opined that administration is a decision-making function and management is an executive function. Since then, there have been lots of controversies over the use of the two terms. These controversies have given rise to three different views.

(A) Management and Administration are one.

(B) Administration is above management.

(C) Administration is a part of management.

**(A) Management and Administration are one:** Some authors like Henry Fayol, William Newman, Chester Barnard, George Terry, Louis Allen, Harold Koontz, Cyril O' Donnell, Peter F. Drucker etc. are of the view that administration and management are one and the same. Both the terms can be used interchangeably. According to them, to run and manage a business unit or a social institution or a government, specialized skill is required. This special skill is called "Management" in business enterprises and "Administration" in Government and social institutions. This means that the executive-functions in business are called 'management' and the same executive-functions in Government and social institutions is referred to as 'Administration". Henry Fayol, the originator of this approach, categorically states that there is only one 'administration and management science' which can be applied equally to all institutions, whether business or social organizations or government.

**(B) Administration is above Management:** According to this approach, Administration and Management are two different functions. Administration is a top level function which is concerned with the determination of major policies and objectives of an organization. On the other hand, Management is a lower level function involving

the execution of those policies and objectives laid down by the administration. Because of this, managers are called executives. This view is held by American experts like Oliver Sheldon, G.E. Milward, W.R. Spriegel, S. Florence, Ordway Tead, William Schulze, Lansberg, Theo Haimann etc. According to these authors, administration is concerned with policy making and management with the execution of the policies and supervision of day to day operations. Hence, administration is superior to management.

- ( C) **Administration is a part of Management:** This approach holds the view that management is a comprehensive term and administration is only a part of it. Management can be divided into two types-(i) Administrative management and (ii) Operative Management. The administrative management is the higher level of management. It is concerned with policy determination, planning and control. The operative management is the lower level of management. It is concerned with the use of men, machines, materials and money in the execution of policies and routine activities. If this view is accepted, administration becomes a subordinate function to overall management function. European management experts like E.F.L. Brech, Kimball and Kimball, Richman and Copen hold such views which is exactly opposite to the American views point.

### **Conclusion:**

Although different approaches and views have been advanced to compare and contrast the two terms, in practice however, no such comparisons and distinctions are either felt necessary or desired to be made in business organizations. In an organization, no personnel are appointed exclusively either for administration or for management. It is of course found that, depending upon the levels, persons at higher levels devote more time on planning and policy making and less time on execution of such policies and lower level personnel devote more time on execution and less time on policy making. It means that, persons at all the levels of management, in certain degrees, do both the functions, i.e. administration and management.

**2.9 DISTINCTION BETWEEN MANAGEMENT AND ADMINISTRATION**

Sl. No.	Bases of Distinction	Management	Administration
1.	Meaning	It means getting the work done through and with others	It means formulation of objectives, plans and policies of the organization.
2.	Scope	It takes decisions within the frame work of administration	It takes decisions related to major objectives and has a wider scope than management.
3.	Nature of works	It is a doing function	It is a thinking function.
4.	Level of authority	It is largely a function of middle and lower level of authority	It is mainly a function of top level of authority.
5.	Main functions	The main functions are organizing and directing which are executive and governing in nature.	The main functions are planning and controlling which are determinative in nature.
6.	Type of Decisions	It decides who should do it and how should he do it.	It decides what to be done and when it is to be done.
7.	Status	It represents the employees at the middle and lower level of the organization	It represents the owners and top level executives of an organization.
8.	Usage	It is widely used in business organizations in the private sector.	It is often used in government and non-business organizations.
9.	Influence	It is influenced by the internal factors such as values, objectives and policies of organization.	It is generally influenced by external factors such as social, political and legal etc.
10.	Ability	It requires more technical ability than administrative ability	It requires more administrative ability than technical ability.
11.	Report Making	It makes report on the working of the enterprise to the administration.	It seeks report on the working from the management.
12.	Area of Importance	Technical skill is given more importance.	Conceptual skill is given more importance.

## 2.10 LEVELS OF MANAGEMENT

The term 'level' implies position or rank and its occupants arranged in a series. A series of 'managerial positions' from top to bottom is called 'levels of management'. A level determines the amount of authority and status enjoyed by any managerial position. Higher the position more is the authority enjoyed, and authority goes on reducing as the level goes lower and lower. In this way a chain of authority or command is created in an organisation. This chain of command consisting of a series of managerial positions is also known as "Management Hierarchy". Therefore, "Levels of Management" and "Management Hierarchy" are used interchangeably.

The levels of management may differ from organisation to organisation depending upon the number of positions or ranks in an organisation. However, there are three easily identifiable management levels in most of the large organisations. They are -

1. Top level of Management
2. Middle level of management, and
3. Supervisory or operating management or lower level management

### **Top level of Management :**

Top level of management or Top Management consists of the Board of Directors, Chairman and the Chief executive. Chief Executive may be an individual like the Managing Director, the General Manager, etc., or a group consisting of the Chairman and functional Executive Directors. In a company, the Board of Directors is accountable to the shareholders. It is basically an organ of overall review and control. The Chief Executive is concerned with the overall management of the operations of the organisation. He maintains co-ordination among different departments/units. In case of a company, the basic difference between the Board of Directors and the Chief Executive is that the Board is constituted by persons taken from outside the organisation i.e. they are non-employees while the Chief Executive is a regular employee of the organisation.

### **Functions of the Top Level Management :**

The main functions of the Top Management are

- (i) To determine the objectives or goals of the organisation
- (ii) To formulate plan and policies to achieve the objectives
- (iii) To approve the master budget and departmental budgets
- (iv) To design broad organisation structure
- (v) To appoint departmental heads and key executives
- (vi) To co-ordinate and integrate the activities of different departments and divisions.
- (vii) To provide overall direction and leadership to the organisation.
- (viii) To exercise overall control over the financial and other operations of the enterprise.
- (ix) To decide the utilisation and distribution profits etc.

#### **Middle Level Management :**

Middle level management or middle management stands between top management and supervisory management, The number of positions or levels within the middle management depends on the size of the organisation and number of employees. The middle/management is sometimes classified into "Upper middle level" and "lower middle level". Upper middle level management comprises departmental heads or divisional heads such as works manager, marketing manager, finance manager etc. Every divisional or departmental heads is the overall incharge of one particular division or department. He is accountable for the performance of his division or department to the chief executives. He co-ordinates and controls the activities of all personnel working in different branches or sections of his department.

Lower middle management consists of sectional heads such as plant manager, area sales manger, branch manager, office manager etc. They serve as a link between upper middle management and the operative/supervisory staff, identified as supervisory level of management.

#### **Functions of Middle Level Management :**

The main functions o middle level management are

- (i) To interpret the plans and policies formulated by top management
- (ii) To establish link with the top management and the supervisory staff
- (iii) To transmit orders, suggestions, policy decisions and detailed instructions downwards.

- (iv) To carry the problems and suggestions upward
- (v) To train, motivate and develop operating managers for better performance
- (vi) To lay down rules and regulations to be followed by supervisory staff.
- (vii) To integrate the various activities of a department
- (viii) To manage the department in such a way that it contributes to the functioning of other departments for achieving the common organisational goals.

### **Supervisory or Lower Level Management :**

This is the lowest level of management in an organisation. It consists of superintendents, supervisors, foremen, sales officers, accounts officers, purchase officers etc. The most important features of this management is that its basic responsibility is supervision and it deals with the workers. It has a direct touch with them. Because of this, this the level is also known as the “First Level Management” and the staff in the level as “First-Line Supervisory Staff”. The Supervisory Level acts as a link between the middle management and the workers. The actual implementation of plans and policies is done at this level.

### **Functions of Supervisory/Lower Level Management :**

The major functions of Supervisory/Lower level management are

- (i) To plan and undertake day-to-day production, keeping the goals of the organisation in view
- (ii) To assign jobs and tasks to workers
- (iii) To make arrangements for the training and development of workers
- (iv) To issue orders and instructions
- (v) To arrange machinery, tools and materials for the workers.
- (vi) To supervise and control operations and workers performance
- (vii) To report the problems faced and suggestions made by workers to higher level of management.
- (viii) To maintain discipline and good human relations among workers.
- (ix) To ensure the work performance of requisite quantity and required quality.

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## 2.11 MODEL QUESTIONS

### OBJECTIVE TYPE QUESTIONS

#### Group-A

Q.I. Multiple Choice Questions: From the given alternatives, choose and write the correct answer along with its' serial number:

(i) Management is -

- (a) Only an art; (b) Only a science;  
(c) Art as well as science; (d) Neither science nor art.

(ii) Management is -

- (a) Tangible; (b) Intangible;  
(c) Fictitious; (d) Superfluous;

(iii) The process of management is considered -

- (a) Individual; (b) Abnormal;  
(c) Universal; (d) Non-universal

(iv) Management is not so essential in -

- (a) Business; (b) Government;  
(c) Industry; (d) Unorganized efforts.

(v) Management as a Science is -

- (a) Inexact; (b) Exact;  
(c) Pure; (d) Hard.

(vi) The following is not a nature of management -

- (a) Intangible (b) Universal  
(c) Social (d) Mechanical

(vii) Which of the following is not an objective of Management -

- (a) Inventions (b) Innovations;  
(c) Co-operations; (d) Co-ordinations;

- (viii) Which part of the human being is compared with management -
- (a) Stomach (b) Brain  
(c) Eyes (d) Body

**Q.2. Correct the underlined portion of the following sentences.**

- (a) Management is static by nature.
- (b) Management is considered to be a Science because it is concerned with application of knowledge.
- (c) Administration means getting the work done through and with others.
- (d) Management is mainly a function of top level of authority.
- (e) There must be suitable codes of conduct or ethics in management.
- (f) Management is considered to be oldest Science and youngest art.

**Q.3. Fill in the Blanks.**

- (a) Management is \_\_\_\_\_ oriented by nature.
- (b) Management is \_\_\_\_\_ disciplinary.
- (c) A profession should have a \_\_\_\_\_ of conduct.
- (d) Decision making involves selecting the most appropriate \_\_\_\_\_ out of the several.
- (e) Management is getting things done through and with \_\_\_\_\_ in organized groups.
- (f) Administration is a \_\_\_\_\_ of management.
- (g) Management is situational because there is no \_\_\_\_\_ best way of doing things.

**Q.4. Express in one word/phrase.**

- (a) Getting things done through and with the people.

- (b) Knowledge and Skill used as a means of subsistence within a standard norm of behavior or code of conduct.
- (c) A body of knowledge which draws ideas and concepts from various disciplines.
- (d) A systematized body of knowledge.
- (e) It requires more conceptual skill than technical skill.
- (f) It cannot be seen and touched.
- (g) It involves selecting the most appropriate alternative out of several.

**ANSWERS:**

1. (i) (c) art as well as Science (ii) (b) Intangible (iii) (c) Universal (iv) (d) unorganized efforts (v) (a) inexact (vi) (d) mechanical (vii) (a) inventions (viii) (b) Brain
2. (a) Dynamic (b) Art (c) Management (d) Administration (e) Profession (f) Art: Science
3. (a) Goal oriented (b) multi-disciplinary (c) Code (d) alternative (e) people (f) part (g) one.
4. (a) management (b) profession (c) multi-disciplinary (d) Science (e) Administration (f) Intangible (g) Decision making.

**SHORT TYPE ANSWER****Group-B****Q.5. Answer within 30 words**

- (i) What do you mean by Management?
- (ii) What is universality of Management?
- (iii) What do you understand by multi-disciplinary nature of Management.
- (iv) 'Management is intangible' Explain
- (v) What is decision making?
- (vi) 'Management is dynamic' Explain

- (vii) 'Management is goal oriented' Explain
- (viii) What is profession?
- (ix) 'Administration is a part of management' Explain
- (x) Explain two features of profession.

**Q.6. Answer within 50 words-**

- (i) Management promotes innovations. Explain.
- (ii) Management is a brain of the enterprise. Explain.
- (iii) Is management both a 'Science' and an 'Art'?
- (iv) Management meet the challenge of change. Explain
- (v) Distinguish between management and profession.
- (vi) Make a comparison between management and Administration.
- (vii) Distinguish between management and Administration.
- (viii) What is code of conduct ?
- (ix) Management is an inexact Science, explain.
- (x) Why management is a social process?

**LONG TYPE ANSWER**

**Group-C**

- Q.6. Define 'Management'. Explain its essential characteristics.
- Q.7. Discuss briefly the need and importance of management.
- Q.8. Discuss, whether management is a Science or an art or both.
- Q.9. what is management ? Distinguish between management and administration.
- Q.10. Can management be called a profession ? Give arguments.

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# CHAPTER-3

## MANAGEMENT FUNCTIONS

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### **STRUCTURE**

- 3.1 Introduction
- 3.2 Classification of Management Functions
- 3.3 Planning
- 3.4 Organising
- 3.5 Staffing
- 3.6 Directing
- 3.7 Controlling
- 3.8 Co-ordination: The Essence of Management
- 3.9 Management Functions and Management Levels
- 3.10 Questions

### **3.1 INTRODUCTION:**

All business organizations, be they small or big, need people with appropriate power and authority to command and control the activities to keep the organizations constantly activated in their strives for accomplishing set goals. These people are designated as managers or executives or managerial personnel. They operate at different levels like, at the top, middle or lower levels of the organization and form the hierarchy of management. The power, authority and status they enjoy vary with the positions they occupy in the hierarchy. But irrespective of their hierarchical positions all of them share a common responsibility- the responsibility of ensuring optimal utilization of resources within their respective jurisdictions keeping in view the overall organizational goals and objectives.

For this, all managers at all levels are constantly called upon to perform varieties of functions which are known as management functions.

### 3.2 CLASSIFICATION OR TYPES OF MANAGEMENT FUNCTION:

Since organizations differ from one another on grounds of size, nature of business, approaches, and attitudes of management, there exists significant differences among organizations in the identifications of functions which can be listed as management functions. This is the reason why we notice sharp differences among authorities on management subject while prescribing management functions. This is evidenced from the views suggested by some of the leading authors like:

Sl. No.	Name of the author/authors	Functions Identified as Management Functions
1.	Henry Fayol	<u>Planning</u> <u>organizing</u> commanding, Co-ordinating and <u>controlling</u> .
2.	Luther Gullick	<u>Planning</u> , <u>Organising</u> , Directing, staffing, Co-ordinating, reporting and Budgeting.
3.	R. Davis	<u>Planning</u> motivating and <u>controlling</u>
4.	George R. Terry	<u>Planning</u> , <u>Organising</u> , Activating and <u>Controlling</u>
5.	Koontz and O'Donnell	<u>Planning</u> , <u>organizing</u> , staffing, Directing and <u>controlling</u>
6.	James Lundy	<u>Planning</u> , Co-ordinating motivating and controlling.

From the different types of functions identified as management functions by different authors, it can be seen that there is no unanimity among the authors about functions of the management. But the most significant thing noticed is that there is total unanimity on certain functions as indicated by underlining and near unanimity as regards staffing and directing or commanding as management functions. The remaining functions like motivating, activating, reporting and budgeting suggested by a few authors can be

considered as a kind of extensions and derivatives or even substitutes of some of the main functions as accepted by majority of the authors. As regards the function of co-ordinating, it is not considered as an independent function as co-ordination constitutes an integral part of all important functions of management.

### **INTER-RELATIONSHIP AND SEQUENTIAL ORDER OF MANAGEMENT FUNCTIONS:**

Thus from the discussion above it follows that there are basically and broadly five types of functions which are universally acknowledged as the functions of management and they are (a) **Planning** (b) **Organising** (c) **Staffing** (d) **Directing** and (e) **Controlling**.

All management functions are closely linked or inter-related with each other. Without planning, for instance, the organizing function cannot be taken up as the decision as to what to achieve how much to achieve etc shall determine what form and type of organizational structure you should opt for. Similarly, on the basis of organization structure decided, staffing function shall take place. Likewise directing of activities are linked with activities planned to be executed etc.

As regards the sequential order of management functions is concerned, they are generally performed in the sequential order as suggested above. It starts with planning followed by organizing, staffing, directing and concludes with controlling. But it should be carefully noted that these functions are not performed one after another on a fixed pattern on the basis of a routine. Rather, interrelated as they are, all activities are simultaneously taken up on a continuous basis.

With this general back drop, let us discuss in brief each of the management functions.

### **3.3 PLANNING**

Planning is essentially a thinking or intellectual exercise concerned with the preparation of blue prints or road maps for the future courses of actions. It implies thinking before doing or looking ahead and deciding in advance what is intended to be achieved when how and by whom it is to be achieved. Planning, therefore, involves deciding in advance

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the objectives or goals of the organization, policies, strategies and detail programmes to be followed to achieve a set of objectives and goals.

### 3.3.1 DEFINITIONS

Planning has been defined by different authors as mentioned below-

According to **Koontz and O.Donnell** "Planning is deciding in advance what to do, how to do it, When to do it and who is to do it. It bridges the gap from where we are to where we want to go".

According to **M.S Hurley**, "Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives.

**L. Urwick** defines it as "planning is fundamentally a mental disposition to do things in an orderly way to think before acting and to act in the light of facts rather than of guesses".

According to **W.H Newman** "Planning is deciding in advance what is to be done, that is a plan is a projected course of action".

### 3.3.2 FEATURE / NATURE OF PLANNING:

Planning has the following important features.

1. **Primary function** : it is a primary function of management and precedes all other functions. In fact, all other functions of management rest on planning because planning provides the directions or future courses of actions.
2. **Intellectual exercise**: It is a function that requires a lot of thinking, brain storming and abilities to foresee, fore cast and visualize the future.
3. **Goal oriented**: It is essentially a goal setting function. All planning related exercises revolve round exploring examining and finally deciding best possible objectives or goals.
4. **Continuous activity**: Planning is a type of activity whose need and importance is continuously felt. It is an ongoing process with new plans frequently made, when required revised or altered.

5. **Forward looking and proactive** : Planning is futuristic in nature as it is concerned with examining analyzing and understanding the future challenges and opportunities. All this help in preparing action plans much in advance to meet the challenges.
6. **Pervasive**: Pervasive means something whose need and importance is felt at all levels. Planning is an activity which is needed at all levels of management and by all managers no matter in what fields or areas they work.
7. **Time bound**: Usually all plans are made indicating the time limits or periods within which the projected objectives or activities are expected to be completed. Time limits helps in evaluating performance and progress of work.
8. **Flexibility**: Since plans are made on presumptions and assumptions, there are always chances of some assumptions proving wrong. Such situations necessitate changes in the plan to adjust with changes.
9. **Assumptions**: Plans are always made on the basis of certain assumptions or expectations or anticipations. Expecting certain things to happen, certain things to move in a certain way etc. are called planning assumptions or premises of planning.
10. **Choice of alternatives**: Planning is essentially a task of exploring all possible alternatives available for achieving a given objective and choosing the best alternative on the basis of comparison among all alternatives. It is a choice making exercise.

**3.3.3 IMPORTANCE OF PLANNING:** Planning, as has already been explained, is considered in all organizations a very crucial activity because all other functions of management are initiated, carried forward and evaluated on the basis of plans made or formulated. Plans for organizations are as important and indispensable as rail tracks for rail engines to move forward.

Highlighting the importance of planning for organizations **G.R Terry** writes, "Planning is basic to the other fundamental management functions that is organizing, activating and controlling. Without the activities determined by planning, there would be nothing to organize, no one to activate and no need to control". In the same manner **E.M**

**Miller** observes “Without plans actions must become nearly random activity producing nothing but chaos”.

Planning is considered important for the following reasons:-

1. **Provides direction:** The road map prepared under planning indicates the objectives or goals to be achieved, the time limits within which they are to be achieved, the manner in which they are to be achieved etc. It provides clear direction to all people at all levels about their role and responsibilities.
2. **Minimizes risks and uncertainties:** Planning is essentially proactive in nature. The probable changes and challenges are identified much in advance through scientific methods and accordingly plans of actions are prepared in advance to face the problems and challenges. Such information of likely changes in future makes the organization alert and fully prepared so that the organization is able to avoid or minimize the adverse impact of changing situations.
3. **Facilitates decisions making:** Since the objectives to be achieved, the time within which to be achieved, the manner and methods through which to be achieved etc. are clearly laid down through planning, they act as guidelines or basis for taking decisions by management at different levels.
4. **Ensures stability of the organizations:** With objectives clearly defined and roadmaps for forward movements laid down, positive conditions are created for every one to work with interest and involvement. All these contribute for the steady growth of the organization with minimum jolts and jerks.
5. **Promotes unity of purpose :** Planning is made taking an aggregative or comprehensive view of all departments and of all the people in the organizations for the purpose of achieving the overall objectives of the organizations. Through planning, all activities both at departmental and individual levels are so well linked up or co-ordinated that all feed working for a common purpose. Confusions and contradictions are replaced by co-operation through mutual understandings.
6. **Provides base for control:** Control by definition means a process of evaluating actual performance with the planned performance to find out deviations. So planning fixes the targets which form the base for evaluation and control. According

to **H.G. Hicks**, "Planning is clearly a pre-requisite for effective controlling. It is utterly foolish to think that controlling could be accomplished without planning".

7. **Optimum utilization of resources:** All organizations have limited resources and planning helps in challenging resources in the best possible ways so that the resources are optimally utilised at the places where these are most required.
8. **Converting threats into opportunities:** With forward looking approach under planning, probable future threats are identified and means and methods are explored to utilise the threats as new opening for business ventures.
9. **Economy in operations:** Work with perfect planning ensures minimization of wastages, unnecessary expenditures, duplication of work and services on the one hand and optimum utilization of time, facilities and other resources. All these contribute in making operations at all levels cost effective and economical.
10. **Commitments honoured :** Business is generally bound by many types of commitments- commitment to suppliers, customers, employees, in different matters. The goodwill of the organization is closely linked with the honouring of such commitments. When activities are conducted in accordance with plans, there remains very little chance of any commitment not being honoured or fulfilled.

### 3.4 ORGANISING

In the sequential order of management functions, after planning comes the function of organizing. Under planning the goals or objectives and the time limits within which they are to be achieved are fixed. But to achieve the objectives and goals, the details of activities to be undertaken need to be clearly identified, number of posts or positions with job responsibilities etc. need to be decided, power and authority needed to be conferred to enforce performance also need to be clearly listed. Thus a perfect organizational framework or structure has to be developed and established for carrying forward the activities. All such activities or the whole process concerned with the creation of facilities and structure for organizational activities is referred as the organizing function of management.

**3.4.1 Definitions:** Organizing function of management has been defined by different authors in the following ways.

According to **Louis A Allen** "Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives".

According to **Koontz O Donnell** "Organising involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provisions for authority, delegation and co-ordination."

**Oliver Sheldon defines** "Organisation is the process of so combining the work which the individuals or groups have to perform with the facilities necessary for the creation so that the duties so performed provide the best channels for the efficient, systematic, positive and co-ordinated applications of the available efforts".

### **3.4.2 Natures or Features of Organising Function:**

From the discussions and definitions given above it follows that organizing has the following nature or features

1. **Organizing involves grouping of activities and individuals:** Organisation is formed when a group of individuals who come together and act collectively through co-operative relationship with each other for contributing their efforts to achieve the predetermined goals. In fact, in the absence of group of individuals there is no existence of organization. Thus, it is clear that organization represents a group of individuals and their activities.
2. **Organizing is a process:** It can be considered as a process, because a large number of events or activities are done under the process of organizing towards the attainment of predetermined goals. Organizing involves division of works, grouping of activities, delegation of authority and the establishment of proper co-ordination among various departments and individuals. Thus, organizing is said to be a process.

3. **Organizing is a 'means' not an 'End':** It is a means to reach out the goals of an enterprise. Organizing provides such platforms to the enterprise where all the activities are clearly predefined and duties and responsibilities are clearly laid down. As a result of this attainment of goals is facilitated.
4. **Organising is an important function of management:** Organising is an important function of management because through this functions the management creates the structural framework or base for all other functions of management like staffing, directing, controlling etc.
5. **Organising is goal or objective related:** Organising is directly concerned with the attainment of objectives of the enterprises. In the absence of objectives there is no life of organization. If there is an organization then the objectives must be attached with it. Hence, it is closely related with its goals.
6. **Facilitates Communication:** Communication can be treated as the life line of organization. Because, in the absence of proper network of communication among the people involved in group actions, co-operation and co-ordination amongst them can not be maintained. In fact, the foundation of an organization depends primarily on communication. On the whole it can be said that organization represents system of communication.
7. **Organizing is a never ending process:** Organizations function through group of people with a defined relationship in which they work together to achieve the goals of that organization. This relationship does not come to an end after completing each task. As there is continuation of activities,organizing is said to be a never ending process.

**3.4.3 Steps or activities covered under the function of Organising :** Organising is a step-by-step process. At each step, some activities or tasks are performed by the managers working at different levels of management. While organizing, the management carry out the following step-wise tasks or activities.

1. **Understanding of objectives:** In the first step, the common objectives of the organization already fixed need to be clearly understood.

2. **Identification of Activities:** Secondly, all the activities i.e. works or jobs which are required to achieve these predefined objectives are clearly identified and listed.
3. **Grouping of activities:** Thirdly, the identified activities are divided into small units, or small groups known as sections or departments or divisions. Under each such unit or group activities having common features are only included. For instance, the financial unit shall have all activities of financial nature.
4. **Assignment of responsibility :** Fourthly, the management define the responsibilities and duties of all the staff members or employees working in each Department or section.
5. **Delegation of authority :** Fifthly, authority needed to command and control the staff members is delegated. Those given authority to command are designated as superiors and those to obey as subordinates.
6. **Hierarchy of authority:** Sixthly, the authority relationships between superiors and subordinates are established indicating the flow of authority.
7. **Resources made available :** Seventhly, the staff members are provided with all the essential requirements like money, materials, machines etc. which are needed for achieving the objectives.
8. **Co-ordination :** Eighthly, the management co-ordinate the efforts of all staff members and direct it towards achieving the common objectives of the organization.

#### 3.4.4 Importance of Organising:

For the following reasons, organization or organizing is considered important

1. **Helps achieving organizational goal:** Every organization has its own purposes and objectives. Organising function prepares the structural frame work as the main means to achieve the overall goals of the organization. It harmonizes the individual goals of the employees with the overall objectives of the enterprise.
2. **Facilitates growth and diversification:** A good organization structure is essential for expanding business activities. It determines the input resources needed for expansion of a business activity. Similarly organization is essential for product diversification such as establishing a new product line. Thus, a good organization is adaptive to change and responsive to growth and diversification.

3. **Optimum use of resources:** A sound organization structure ensures optimal use of resources such as men, money, material, machine and method. This happens because under sound organization activities are appropriately divided, right people are placed at right places and their duties and responsibilities are clearly defined. All this help to reduce the wastage of resources in an organization.
4. **Optimum use of technologies:** Sound organization also provides for optimum use of technological improvements. Increasing use of automation and internet can increase the operational efficiency of the organization. Updated and optimal use of technology helps the organization to remain competitive in the market.
5. **Facilitates administration:** The top management should focus on the future growth of the organization. But if they are overburdened with routine work, they will not be able to concentrate on the policy formulation and designing the growth strategy of the organization. Therefore, it is essential that part of the work load is shared by middle and lower level managers. This is made possible through proper structuring of the organisation. The top management is relieved from routine activities and get time to concentrate on policy formulation.
6. **Improves inter personal relationships:** Individuals form a group and the groups form an organization. Thus, an organization is the composition of individuals and groups. A sound organization structure ensures that the work load is divided into well defined jobs and assigned to each individual according to his abilities and skill. Placing the right person in the right job ensures job satisfaction. This creates healthy atmosphere in the organization and results in improving good interpersonal relationship.
7. **Facilitates team work:** Organising function creates teams and the culture of working together collectively. The team members work as per their assigned duties at their individual level and collectively as a formal group to attain the goal.
8. **Facilitates communication:** Communication is the key to the successful performance of an organization. A well designed communication system i.e. both horizontal and vertical is facilitated through effective organization.

### 3.5 STAFFING

**Meaning:** An organization functions through its employees who are called the staff of the organisation. It is these people who carry out the various jobs at different levels which are needed for the achievement of the goals of the organisation. They are the most important resource of the organization. They represent the talent, skills, knowledge and experience to achieve the goal of the organization. In fact, the performance of the organization largely depends on the quality of its people. Hence every organization attaches great importance to the staffing function of the management. It is an important function as it involves in the building of the organizational work force. It takes care of the job of providing manpower with the required skills for manning the organization structure.

#### 3.5.1 Definition:

According to **Koontz and O' Donnell**, "the managerial function of staffing involves manning the organizational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure".

According to **Theo Haimann**, "Staffing relates to recruitment, selection, development and compensation of subordinates".

Staffing, therefore, refers to that function of the management which is concerned with searching, selecting, training, employing, developing, appraising, remunerating and retaining people so that right type of people are available at right positions and at right time in the organization.

#### 3.5.2 Nature/Features of Staffing:

Staffing function has the following features

1. **Concerned with manpower management:** Staffing function covers all activities concerning human resources. It deals with the assessment of manpower requirements, search for persons, their recruitment and selection, training and development and periodic performance appraisal. It ultimately aims at selecting right people for right jobs at right time and retaining them in the organization.

**2. A sequential process :**

The staffing function comprises of activities which are all sequentially linked. The sequential steps are manpower planning followed by searches, selection, training, performance appraisal, development and their retention.

**3. An important managerial function:**

It is an important function of management because all the five managerial functions such as planning, organizing, directing, co-ordinating and controlling can only be carried through the employees of the organization. The required manpower are made available only through the staffing function.

**4. It is all pervasive:** Staffing is a pervasive activity. It is carried out in every organization and at all the levels of the management in the organization right from the levels of Board of Directors down to the levels of supervisors.**5. It is a continuous function:** Staffing function is to be performed continuously. It is equally important in the established organizations and also in the new organizations. In a new organization, there has to be more of initial recruitments, selection and training of personnel. In a running organization, every manager is engaged in various staffing activities. He is to guide and train the workers and also evaluate their performance on a continuous basis.**6. Concerned with human relations skill:** Staffing function is concerned with the management and development of human resources. Every manager should use human relations skill in providing guidance and training to the sub-ordinates. Human relations skill are also required in performance appraisal, transfer and promotion of sub-ordinates. If the staffing function is performed properly, the human relations in the organization will be cordial.**3.5.3 Steps or activities covered under the staffing function:****1. Manpower planning:** It is the very first step of the staffing function. It involves estimating the manpower requirement of the organisations, considering its present and future requirements.

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2. **Recruitment:** It is the step for searching or exploring and identifying sources of potential employees and attracting capable applicants for employment. It starts with searches through contacts advertisement and ends with the submission of applications by the aspirants.
  3. **Selection:** It is the next step of choosing of the fit candidates from the applications received in the process of recruitment.
  4. **Placement and orientation:** Placement takes place after selection by putting right man on the right job. It means putting the appointed employee on the job for which he is found most suitable. Orientation is making the appointed employee familiar with the organization and with the job. He is made familiar with the working units and work environment through the orientation programmes.
  5. **Training and Development:** It is the next step and is concerned with imparting and developing specific skills for a particular purpose. It provides the appointed employees benefits of indepth knowledge both of theoretical and practical nature in their functional areas.
  6. **Promotion and Transfer:** Promotion implies upgrading the position of employees to higher positions involving increase in their rank, prestige or status. Transfer implies shifting of employees from one job to another or one location to another location. Normally transfer takes place between jobs having approximately the same salaries but sometimes employees are also transferred during their promotion.
  7. **Performance appraisal:** It is the periodical systematic evaluation of personnel by superiors or others familiar with their performance so as to rank employees for ascertaining their eligibility for promotions. It includes appraisal of their (a) ability to do work, (b) spirit of co-operation (c) Job knowledge (d) discipline and sincerity (e) managerial ability (f) self confidence (g) initiative (h) problem solving abilities and (i) intelligence etc.

**8. Remuneration:** It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- they perform whether they are skilled or unskilled and their physical or mental strength. Fixation of remuneration is the most difficult and complex function of the management since there is no definite or exact means to determine the correct wages.

### **3.5.4 Importance of Staffing**

Staffing functions assumes great importance for the reasons mentioned below

1. **Realistic manpower planning :** Through staffing function, the manpower needs of an organization is not only assessed on continual basis but also appropriate measures are planned for fulfilling the manpower requirements.
2. **Efficient performance of other functions:** Staffing function is the key to the efficient performance of other functions of management. Competent personnel are needed to carry function of planning, organizing, directing and controlling function. Such competent persons are selected financial and developed and that ultimately results in efficient performance at all levels.
3. **Identification of right persons for right jobs:** Staffing helps in identifying and obtaining competent personnel for various jobs. It aims at selecting right persons for right jobs at right time.
3. **Effective use of technology and other resources:** It is the human factor that is instrumental in the effective utilization of latest technology, capital, material etc. The management can ensure the adoption and utilization of latest technology by selecting right kinds of personnel by performing the staffing function effectively and efficiently.
4. **Optimum utilization of Human Resources:** Staffing function helps in the optimum utilization of the human resources. It improves the quantity and quality of the output by putting the right personnel on the right job. It reduces the cost of manpower by eliminating the wastage of the human resources.

5. **Development Human Capital:** Staffing helps in the development of human capital through proper recruitment, selection, placement and continuous training and development of manpower. It ensures constant and continuous up-gradation of the skill and knowledge of the employees to face the future challenges.
6. **Building high morale:** Staffing helps in providing job satisfaction to the employees and thus keeps their morale high with proper training and development programmes. Because of this their efficiency improves and they feel assured of their career advancement.
7. **Maintain harmony in the organization:** Through proper staffing, individuals are not just recruited and selected but they are also regularly guided motivated and trained to work with team spirit with perfect coordination and co-operation. This fosters harmony and peace in the organization.
8. **Motivation of employees:** Staffing helps in creating an ideal and inspiring atmosphere for collective work. The employees are also motivated through a great varieties of financial and non-financial incentives.
9. **Enable the organization to face competition:** In the present era of globalization, every enterprise faces tough competition from national and international competitors. A well staffed organization provides the appropriately skilled and highly motivated manpower to cope with the changes and challenges that the competition poses.

### 3.6 DIRECTING

With objectives or goal set under planning, organisational frame work in the form of departments and sections created and staff appointed under staffing, now the staff need to be ordered and instructed as to what and how they are to work. They need to be continuously guided and motivated. When management gets involved in these activities, management is said to be performing the Directing functions.

Directing, therefore is said to be the heart of management process. It is the triggering force that activates people for action for the attainment of goals. Planning, organizing, staffing carry no importance without the function of the directing linked with them. A few philosophers call 'Direction' as, "Life spark of an enterprise". It is also called

as an actuating function of management because 'Directing' initiates action and it is from here actual work starts.

### **3.6.1 Definition :**

The management experts have defined directing function in many ways. Some of the definitions are as follows:

According **J.L Massie**, "Directing concerns the total manner which a manager influences the actions of his subordinates. It is the final action of a manager in getting others to act after all preparations have been completed".

According to **Urwick and Bretch**, "Directing is the guidance, the inspiration, the leadership of those men and women that constitute the real core of the responsibilities of management"

According to Earnest Dale, "Direction is telling people what to do and seeing that they do it to the best of their ability."

According to Marshall, "Directing involves determining the course, giving orders and instructions and providing dynamic leadership."

Taking into consideration the different views expressed by different authors as noted above, Directing may now be defined as, "the process of instructing, guiding, supervising, motivating and leading the subordinates to contribute to the best of their capability for the achievement of organizational objectives." In short, directing can be said to have the following four basic elements

- Communication of orders and instructions
- Persuasive leadership
- Proper monitoring and supervision
- Proper motivation

### **3.6.2 Nature/Features of Directing:**

**Directing is characterized by the following distinguishing features:**

1. **An Important function of management:** Directing is one of the most important functions of management. It is through direction that management initiates actions in the organization. It is considered as the life-spark or triggering force which sets

in motion the action of people because planning, organizing and staffing only represent the phases of mere preparations for doing the work.

2. **Continuing function:** Directing is a continuous process and it continues throughout the life of the organization. A manager cannot just rest after issuing orders and instructions. He must continuously take steps to make sure that orders and instructions are issued and carried as and when needed.
3. **Pervasive function:** Directing is a pervasive function. It is performed at all levels of management and in every department of organization. Every manager has to instruct, guide, motivate and communicate with his subordinate to get things done.
4. **Flows from top to bottom:** Directions are given by senior managers to their subordinates. Every manager can direct his immediate subordinate and take directions from immediate boss or superior. Directing starts from top level and flows to lower level.
5. **Performance oriented:** Directing is a performance oriented function. It makes things happen and converts plans into performance. It directs the performance of individuals towards achievement of organizational goal. Thus, obtaining or extracting performance is the essence of directing.
6. **Linking function:** Under planning, organizing and staffing merely preparations are made for doing the work and the actual work starts with the directing function. Direction puts plans into action and provides performance for measurement and control. In this way, directing serves as a connecting link between planning and control.
7. **Management of human factor:** Directing function involves study and molding of human behavior. It improves inter personal and inter group relationships. It motivates employees to work with their best of ability. Since human factor is complex and human behavior is unpredictable, direction function assumes much importance and has become challenging now-a-days.

**3.6.3 Steps activities covered under Directing Function:**

1. **Issuing orders and instructions:** The first step in directing is the issuing of orders and instructions by the superiors to the subordinates for getting the work done in the desired manner. The orders and instructions should be reasonable, complete and clear. It must be in writing, so that the possibility of misunderstanding can be avoided.
2. **Providing leadership to the subordinates:** The subordinates are to be guided counseled and taught as and when felt necessary for following the proper methods of work. The manager should guide counsel and teach the subordinates to carry out their jobs effectively and efficiently.
3. **Supervising the work of subordinates:** Every work of subordinates should be supervised by the manager to ensure that their performance conforms to the plan is prepared and instructions issued.
4. **Motivating the subordinates:** It requires manager to inspire or induce the employees to act with interest and enthusiasm and get the expected result.
5. **Maintaining discipline:** Proper discipline is required to be maintained in the organization for the orderly behavior of the employees.
6. **Proper communication:** Proper communication results in clarity and securing the co-operation of subordinates. It is through the communication net work that a manager instructs his subordinates as to what they should do and how they should do it.

**3.6.4 Importance of Directing:**

Directions is considered important for the following reasons :

1. **It initiates actions:** Plans remain mere plans unless they are put into actions. Directing is such a function which activates and motivates people for action. It initiates work performance by subordinates. Subordinates understand their jobs and act according to the directions given.

- 2. Facilitates Co-ordination:** Directing aims at linking of activities performed by different people through continuous supervision of their activities. It helps in achieving co-ordination by ensuring that people undertake the planned activities in an integrated manner. It is through the directing function that the efforts of every department are linked, co-related and integrated with each other.
- 3. Means of motivation:** Directing function is always associated with providing leadership. As a leader, a manager encourages and inspires employees by making use of the different methods of motivation to extract the best performance from the subordinates. This can be done by providing incentives or compensation, whether in monetary or non-monetary forms, which serves as a "morale booster" to the employees. Motivation is also helpful for enhancing the loyalty of the subordinates for the organization, which ultimately helps in its growth.
- 4. Provides stability:** Stability is an index of growth of an enterprise. Stability and growth are very important for long-run survival in the market. This can be brought about by the managers with the help of four tools or elements of the directing function, such as persuasive leadership, effective communication, strict supervision, and proper motivation. The performance standards of the employees can be maintained by using all these four elements of directing.
- 5. Best utilization of resources:** Resources can be utilized effectively only when there is less wastage, no duplication of efforts, and overlapping of performances etc. Through direction, the role of subordinates is made very clear, a very conducive working atmosphere is created within the organization, and proper supervision, guidance, and motivation is ensured, which helps in ensuring maximum possible utilization of resources like men, money, materials, machines, and methods etc. by reducing costs and increasing profits.
- 6. Coping up with changes:** Human beings generally resist change. But adaptability to a changing environment is a pre-requisite for the planned growth of the organization. It is the directing function which enables the employees to accept and move forward with changes in the environment, both internal and external. Effective communication helps in conditioning employees and making them prepared for coping up with the changes. It is the manager who communicates

the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptations, and smooth running of an enterprise.

7. **Timely performance of work** : Directing function involves close monitoring of performance in the light of time schedules set. It ensures that activities are performed strictly as per the timing set.

### 3.7 CONTROLLING

**Meaning:** Controlling is also one of the most important functions of management. Managerial functions start with planning and end with controlling. The final managerial function of controlling is essential to ascertain whether the activities are performed as per given instructions. Control is also necessary in an organization for ensuring timely achievement of its goals effectively and efficiently.

#### 3.7.1 Definitions :

Managerial function of controlling has been defined by different authors in different ways. A few definitions are :

According to **Koontz and O' Donnell** "Control is the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished".

According to **Henry Fayal** "control consists in varying whether everything occurs in conformity with the plans adopted, the instructions issued and principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence"

According to **George R Terry**, "Controlling is determining what is being accomplished, that is evaluating the performance and, if necessary, applying corrected measures so that the performance takes place according to plans".

According to **E.F.L. Brech**, "Controlling is checking performance against predetermined standards contained in the plans with a view to ensuring adequate progress satisfactory performance."

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Thus, controlling can be defined as the process of analyzing and checking whether actions are being taken as per the plans made, instructions issued and principles and guidelines laid down followed by taking corrective actions to rectify them if needed.

### 3.7.2 Nature and Features of Controlling:

From the definitions and discussion above it follows that contributing has this following features:-

1. **Crucial function of management:** Controlling is a very important function because it is a follow-up action to the other functions of management. While activities relating to planning, organizing, staffing and directing are being carried out, controlling of such activities are necessary to check whether things are moving in proper direction or there are deviations that need correction.
2. **A follow up management functions :** Controlling comes at the end as a follow up action to other functions of management. It is a kind of post-mortum of activities being performed or after performed. After an activity is performed it needs to be compared with the plans set, standards fixed to know whether it is correct or deviations noticed and corrective actions are needed.
3. **Linked with standards of performances-** Control is always exercised within reference to the standard or expected or prefixed level of performances. Standard of performance may be fixed in terms of timing, cost, physical units etc.
4. **A continuous process:** Control is not a one time activity but a continuous process. It involves constant review, verification and analysis of actual performance against standards set, probing reasons for the deviations between actual and planned performance and initiating correcting measures.
5. **Pervasive in nature:** Controlling is a pervasive function implying that it is required at all the levels of management and in every type of organization. It starts from top level executives and flows down to the level of supervisors.
- 6 **Information based:** Control basically depends upon the information regarding actual performance. Accurate and timely availability of feedback on actual performance is essential for effective control of action. An efficient system of reporting is required for a sound control system.

7. **Eessence of control is action:** The basic objective of control is achieved only when corrective action is taken on the basis of feedback information. It is only action, which adjusts performance to predetermined standards when deviations occur. A good system of control facilitates timely action so that there is minimum waste of time and energy.
8. **Future oriented:** Control follows actual performance and involves the comparison between actual and standards. Thus, corrective action is designed to improve performance in future.
9. **Backward and Forward Looking :** Control may be exercised on activities already performed or to be performed.
10. **Controlling is positive:** The function of controlling is positive. It is to make things happen i.e. to achieve the goal instead of surrendering to constraints. Controlling can never be viewed as being negative in Character.

### 3.7.3 Basic Steps in Controlling process:

Controlling is exercised through the following sequential steps

1. **Setting standards of performance:** The first step in the process of controlling is concerned with setting performance standards. Standards are yardstick or the bench marks which form the basis for measuring the actual performance. Standards act as a light house that warns and guides the ships at sea. These are parameters towards which efforts of entire organization are directed. These standards can be expressed in quantitative and qualitative terms. The examples of quantitative standards are- Units to be produced or sold, revenue to be earned, cost to be incurred, time to be spent in performing a task, amount of inventories to be maintained etc. with a given period of time. The examples of qualitative standards are: Improving motivation level of employees, Improving labour relation, improving quality of products, improving goodwill etc.
2. **Measurement of actual performance:** Once the standards have been determined, the next step is to measure the actual performance. Various techniques for measuring performance are: Sample checking, performance reports, personal observations etc.

3. **Comparing actual performance with the standards:** This step involves comparing the actual performance with standards laid down in order to find out deviations. For example, performance of a salesman in terms of unit sold in a week can be measured against the standard set in the number of units desired to be sold for the week.
4. **Analyzing Deviations:** Some deviations are possible in all the activities. However, the important deviations need to be noted which are to be corrected more urgently as compared to insignificant deviations.
5. **Taking corrective actions:** The last step in the controlling process involves taking corrective actions. If the deviation is within acceptable limits, no corrective measure is required. However, if the deviations exceed the limit they should be immediately brought to the notice of the management for taking corrective action.

#### 3.7.4 Importance of Controlling

Controlling is considered important for the following reasons.

1. **Helps in achieving organizational goals:** Controlling function ensures that all the activities in the organization take place according to the plan set instructions issued and policies framed. If there is any deviation, timely action is taken to bring back the activities on the right track. When all the activities are being performed according to plan then automatically achievement of organizational goal is ensured.
2. **Judging accuracy of standards:** An efficient control system helps in judging the accuracy of standards. It revises standards from time to time according to changes in the organization and the environment.
3. **Making efficient use of resources:** Like traffic signal, controlling guides the organization and keeps it on the right track. It checks the working of employees at each and every stage of operations and deviations noticed are immediately corrected. As a result, there is optimal and effective use of resources through proper utilization of human, physical and financial resources.
4. **Improving employee motivation:** Through the function of controlling, an effort is made to motivate the employees. It makes all the employees to work with complete dedication because they know that their better performance will be

rewarded. If the progress report is satisfactory, they know that they will receive special recognition in the organization. This motivates the employees to give better performance.

5. **Ensures order and discipline:** Controlling ensures a close check on the activities of the employees. It helps in reducing all the undesirable activities like theft, corruption, delay in work and noncooperative attitude of the employees. This brings more order and discipline in work environment.
6. **Facilitates co-ordination:** Controlling helps to promote better Co-ordination among the different departments and units. All the departments are controlled according to pre-determined standards which are well co-ordinated with one another. This ensures unity of direction.
7. **Facilitates decentralization:** An effective system of controlling facilitates decentralization of authority. With standards clearly set, comparison of actual performance with standard and taking up of corrective measures becomes an easier task. Hence, the task of controlling can be delegated to subordinates at all the levels. This results in lessening the burden of supervisors.
8. **Helps in minimizing errors:** Controlling helps in minimizing the errors. Continuous monitoring and check makes people extraordinarily alert. The managers try to detect the error on time and take remedial steps to minimize the effect of error.
9. **Facilitates testing of plans and policies:** Controlling helps in testing the appropriateness of plans and policies being followed

### 3.8 CO-ORDINATION- THE ESSENCE OF MANAGEMENT

It has already been stated that co-ordination is not a separate function of management but is an inseparable part of every function of management. Co-ordination is said to be the essence of management. It is so because all the managerial functions are performed with the sole purpose of achieving the common objective of a business unit. And this is possible only when all the varied activities performed in the unit are well integrated and harmonized. This process of promotion of well integrated or collective efforts is called co-ordination. Mooney and Railey define co-ordination as, "the orderly arrangement of group effort to provide unity of action in pursuit of a common purpose".

### 3.8.1 Nature and Characteristics:

Coordination has the following important characteristics :-

- (a) Co-ordination is relevant for group efforts and not for individual efforts.
- (b) It is a managerial activity needed at all levels of management.
- (c) It is a continuous and dynamic process which continues to exist over the life of the organization and may change over the period of time
- (d) It emphasizes unity of efforts which is the heart of co-ordination.
- (e) Higher the degree of co-ordination, higher is the possibility of achievement of organizational objectives.

**3.8.2 Basic steps:** Co-ordination involves three basic steps, viz. Balancing, Timing and Integration.

- (a) **Balancing:** Balancing refers to giving weightage or importance to each people or activity on the basis of merit and need. Giving undue emphasis on one activity and neglecting others results in unbalanced operations and hence failed operation. For example, if it is proposed to increase sale, proportionately more goods should be procured or production should be increased and therefore more raw material should be purchased.
- (b) **Timing:** Timing refers to the timely movement of interrelated activities. If any of the interrelated activities is delayed, the total operation is delayed.
- (c) **Integration:** Integration means unification of related activities or bringing the activities together. This is actually the grouping of the interrelated and inter dependent activities.

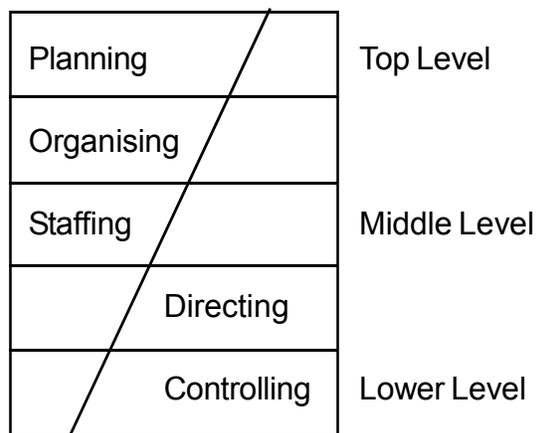
Co-ordination is expected to be accomplished automatically, if all the five functions of management are carried out properly.

### 3.9 MANAGEMENT FUNCTIONS AND MANAGEMENT LEVELS:

Managerial functions are performed at all levels of management in the organization. This means that regardless of his level in the managerial hierarchy, every manager engages himself with all the five functions of planning, organizing, staffing, directing and controlling. Here, the term 'manager' includes all managers from the Chief Executive

down to the supervisors or foremen. But the relative significance of different functions may not be the same at all the levels of management. The top management like Chief Executive spends more time in planning and organizing and less time in staffing, directing and controlling. On the other hand, lower level management like a supervisor usually devotes less time in planning and organizing and more time in supervising or directing and controlling.

Relationship of management levels and management functions is shown in the following chart.



### 3.10 MODEL QUESTIONS:

**Q.1. From the given alternatives in respect of each bit, chose and write serially the correct answer.**

(i) Planning is

- |                                       |                              |
|---------------------------------------|------------------------------|
| (a) a mental exercise                 | (b) a Physical exercise      |
| (c) both mental and Physical exercise | (d) A Psychological exercise |

(ii) Planning is essentially

- |                      |                      |
|----------------------|----------------------|
| (a) backward looking | (b) forward looking  |
| (c) upward looking   | (d) downward looking |

- 
- (iii) The function that precedes all other functions of management is
- (a) controlling (b) directing  
(c) organizing (d) planning
- (iv) Staffing is primarily concerned with
- (a) capital (b) machineries  
(c) employee (d) finance
- (v) Organising is concerned with
- (a) decision making (b) fixing standards  
(c) division of work (d) corrective action
- (vi) Directing function does not deal with
- (a) leadership (b) communication  
(c) motivation (d) deviation
- (vii) Controlling is
- (a) backward looking (b) forward looking  
(c) both backward and forward looking (d) upward looking
- (viii) Development of potential managers is done under
- (a) planning (b) organizing  
(c) staffing (d) controlling
- (ix) The top management spends more time in
- (a) planning (b) staffing  
(c) directing (d) controlling
- (x) The lower level management devotes less time in
- (a) planning (b) directing  
(c) Co-ordinating (d) controlling

**Q.2. Correct the underlined portion of the following sentences.**

- (a) Planning comes under the operative functions of management..

- (b) Organizing is the process of measurement and correction of the performance of the activities of subordinates.
- (c) Controlling is essentially forward looking.
- (d) Planning is both backward looking and forward looking.
- (e) A chief Executive Officer (CEO) spends major time on controlling.

**Q.3. Fill in the Blanks.**

- (a) Planning looks \_\_\_\_\_ whereas controlling looks backward.
- (b) Staffing identifies \_\_\_\_\_ persons for right job.
- (c) Organising is the process of \_\_\_\_\_ and grouping of the identical activities.
- (d) Planning is goal oriented where as controlling is \_\_\_\_\_ oriented.
- (e) Leadership and motivation are two important elements of \_\_\_\_\_

**Q.4. Express in one word or phrase.**

- (a) The orderly arrangement of activities to be performed.
- (b) A forward looking managerial function.
- (c) Measurement and correction of the performance of subordinates.
- (d) The act of instructing, guiding, supervising and motivating the subordinates to achieve organizational objectives.
- (e) The management function dealing with identifying right persons for right job.

**Q.5. Answer within 30 words-**

- (i) What is planning?
- (ii) Define the term organization.
- (iii) Define staffing.
- (iv) What is controlling ?
- (v) What is Co-ordination ?

**Q.6. Answer within 50 words-**

- (i) Name the managerial functions of management.
- (ii) What do you mean by operative functions of Management ?
- (iii) How controlling is both backward and forward looking ?
- (iv) Name the steps in planning process.
- (v) What are the basic steps in controlling ?
- (vi) What do you mean by levels of management ?
- (vii) What are the major functions of lower levels of management.
- (viii) Explain the term middle level of management.

**Q.7.** Explain the nature of planning and point out its importance.

**Q.8** What are the basic functions of management ? Discuss any two of them.

**Q.9** Explain the nature and importance of organizing as a functions of Management.

**Q.10** What is staffing ? Discuss its nature and importance.

**Q.11** State the nature of controlling and explain the various steps in the process of controlling.

**Q.12** Explain different levels of management with the help of a suitable chart.

**ANSWERS TO OBJECTIVE QUESTIONS (Q1 TO Q4)**

1. (i) (a) mental exercise (ii) (b) forward looking (iii) (d) planning iv(c) employees (v) (c) division of work (vi) (d) deviation (vii) (c) both backward and forward looking (viii) (c) staffing (ix) (a) Planning (x) (a) Planning
2. (a) Administrative (b) controlling (c) Planning (d) Controlling (e) Planning
3. (a) forward (b) right (c) identifying (d) action (e) directing
4. (a) organizing (b) Planning (c) controlling (d) directing (e) staffing

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# CHAPTER - 4

## PRINCIPLES OF MANAGEMENT

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### STRUCTURE

- 4.0 Introduction
- 4.1 Meaning of Principles of Management
- 4.2 Nature of Principles of Management
- 4.3 Significance of Principles of Management
- 4.4 Taylor's Scientific Management
  - 4.4.1 Principles of Scientific Management
  - 4.4.2 Techniques of Scientific Management
  - 4.4.3 Evolution
  - 4.4.4 Criticism
- 4.5 Fayol's Principles of Management
  - 4.5.1 Evolution
  - 4.5.2 Criticism
- 4.6 Comparison of Taylor's and Fayol's Theories
- 4.7 Model Question

### 4.0 INTRODUCTION :

Broadly there are two ways of acting or deciding on a matter or issue at hand. One way is to act and decide arbitrarily without bothering to know if there is any existing norm, guidelines or past experience to follow. The other way is to act and decide with reference to existing norms, guidelines or past experiences. Actions and decisions taken following the former route cannot be always correct and sound. Further, there would always be possibility of taking two different or divergent decisions on the same issue. But these possibilities would not be there when actions or decisions are taken basing on

available norms, guidelines or past experiences. Such types of activities or decision are said to be based on principles. Principles are prescribed norms, guidelines or broad inferences drawn from past experiences. Principles act as guides for thinking and action and provide the overall framework for managerial action and decisions.

Principles are not evolved instantly or overnight. They take long years and require contribution from researches thinkers and more specifically practioners of management. The output of such researches thinking and experiences form the base for formulation of Principles. Most of the principles of management have evolved through this process and most of the contributions have come from practicing managers like F.W. Taylor, Henery Fayol, etc.

#### **4.1 MEANING AND DEFINITION OF PRINCIPLE OF MANAGEMENT**

Principles of management are fundamental statements of truth which explain the relationship between two or more sets of variables under a given situation. They prescribe certain norms, guidelines and cause effect relationships that act as guides for thinking or action. They also form the basic elements of management theory. However, management principles are neither absolute nor totally static as the study of management advances, new principles emerge and old principles are discarded or modified.

#### **4.2 NATURE OF PRINCIPLES OF MANAGEMENT**

The following features of management principles characterize their nature.

1. **General statements-** The principles of management are mostly evolved on the basis of long observation, experience and analysis and not always through scientific testing. Therefore, they cannot be as exact and rigid as principles of physical sciences. Moreover, they deal with human beings who have different back grounds, perceptions and needs and different people read react differently to a given situation or stimuli . That is why management principles are expressed in the from of general statements

2. **Dynamic guidelines**- As changes are inevitable in the business world, refinement in principles takes place continuously. This is made possible by ever expanding scope and dimension of research in the field of management. This makes the principles of management more dynamic and responsive to the changing situations and becomes more acceptable to business organization. In fact they are accepted as the best diagnostic guides.
3. **Situation oriented** – The principles are neither absolute nor static for all time to come. They are flexible in the sense that they can undergo change according to the changed conditions. The manager can modify them as per the specific situation he comes across. As such, principles serve as the foundation for efficient management in future by withstanding the test of time.
4. **Universality in nature**- The principles of management are practical in nature and are based on genuine observation of human behavior from very close angles. Therefore, the principles are followed in all possible organizations irrespective of their nature, class, kind and the conditions under which they operate. This is because same managerial functions of planning organizing directing and controlling are required to be performed for achieving the objectives in all organizations and all managerial functions are linked with the application of principles.
5. **Cautious approach**- Management principles are relative in nature and should not be applied recklessly in all situations. Their application requires careful analysis of organizations requirements and situational conditions. If management principles are misapplied according to the whims of those who are not well matured, their application may put the organization in trouble. In the words of G.R. Terry management principles are “Capsules of selected management wisdom to be used carefully and discretely”.

#### 4.3 SIGNIFICANCE / IMPORTANCE

Principles of management are considered important and significant because of the following reasons:

1. **Facilitate management work-** Principles provide key to the understanding of problems. They serve as guidelines to managers to operate effectively under different situations. This makes the job of the manager simple and easy. Even in the face of complex and risky job, the manager can take decisions without any reluctance because of the background. In fact, application of principles of management avoids the need for the use of trial and error approaches and upgrades the quality of management practice.
2. **Promote managerial knowledge-** Management teachings evolved on the basis of management principles further enrich management theories and thoughts. The principles also provide sufficient inputs for expanding future horizon of knowledge through research. These principles of management provide a framework for the education and training of managers. In the absence of principles such education and training would have been inadequate and haphazard.
3. **Enhance efficiency** – Principles of management provide broad based guidelines and appropriate tracks for practicing sound management. In addition, the principles contain combined wisdom or distilled experience. A thorough understanding of these aspects of management acts as a guiding lamp for the manager to save time and resources of the organization and sort out complicated managerial problems quite easily. In this way, principles streamline the jobs of the manager and help in improving his efficiency.
4. **Facilitate management training** – Management principles evolved through experience and researches serve as base materials for training of managers. Clear understanding and application of principles can significantly improve the quality of managers..
5. **Better handling of the human factor-** Management is a behavioral science. People and their performance form the core of management. Management principles elaborate the ways to understand them as well as to motivate them in order to bring excellence in their performance.

6. **Improve productivity-** The principles of management are the end products of manager's experience over a long period of time. They serve as the guidelines for thinking and action of managers. Application of principles leads to optimum utilization of resources of the organization which in turn improves the ability and quality of management productivity.
7. **Serve social objective-** Better understanding of principles of management makes the management social conscious and orient them to take a realistic view of the organizations relationship with the society. Such realization results in more efficient utilization of human and material resources there by improving the quality of life and creating a great impact on the standard of living of the society.

#### 4. 4 TAYLOR'S SCIENTIFIC MANAGEMENT

Frederick Winslow Taylor (1856-1915) was born in 1856 in Philadelphia. He started his career as an apprentice in a company called Midvale Steel Works in 1870 and rose to the position of Chief Engineer in 1884. He had conducted several experiments revolving round workers and management about their different activities for two decades. He observed that the prime cause of general inefficiency and huge wastages in factories was total dependence on old and outdated traditional styles of management based on rule of thumb methods. He was convinced that there is a science for doing each job. He made all out efforts to replace the primitive rule of thumbs methods by modern scientific methods based on investigation, analysis and measurement. He stated that management is truly a science based upon rules and principles. He exhorted both workers and managers to substitute exact scientific investigation and knowledge for the traditional systems. He cleared his ideas by defining the management as "the art of knowing exactly what you want to do and seeing that they do it in the best and cheapest way". He elaborated all these aspects in his book Principles of Scientific Management published in 1911.

**4.4.1. Principles of Scientific Management-** Taylor felt that most of the problems that management face can be sorted out effectively if the following principles are properly enforced in an organization. These principles as suggested by him form the basis of Scientific Management Theory.

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- a) **Replacement of traditional methods by scientific methods.** Having closely observed the adverse impact of the traditional approach on operational results he pleaded for discarding it and opting for scientific way of doing things. Scientific way of working includes predetermination of activities, timing for performance of each activity and performing activities with precision and exactness as against on the basis of the rule of thumb which is based on guessing.
- b) **More harmony and no discord in group action.** Both employer and employee should work as a team. Conflict should be resolved by mutual discussion and co-ordination and disagreement should be eliminated. All group actions should be based on mutual understanding so that group as a whole contribute to maximization of output.
- c) **Thrust on Co-operation and not individualism-** Individual interest should not be promoted at the cost of organizational interest. There should be co-operation amongst all and each solving others' problems and all should work as a team. This requires a total change in mental attitude of both management and workers towards each other. Taylor called it '**mental revolution**'. When mental revolution takes place management and workers work as a team and organization flourishes.
- d) **Maximisation of output-** The management and workers should try to achieve maximum output in place of restricted output. This will be beneficial to both the parties. Maximum out put will also be in the interest of the society.
- e) **Scientific selection and training of workers-** The process of selection of workers should be designed scientifically. Right person should be selected for the right job. Those selected should be properly educated, motivated and trained to enable them to give their best for the interest of the organization.
- f) **Clear cut division of responsibilities-** There must be clear division of responsibilities between the managers and workers. The division of work should be such that no body is over burdened. Planning should be separated from doing.

Management is responsible for planning and organizing the work, whereas the workers are responsible for the execution of work as per the instruction of the management.

### **Techniques of Scientific Management**

4.4.2 Along with the principles, F.W Taylor has also suggested several techniques for the effective application of the principle and practice of scientific management. These techniques are explained below:

- 1) **Scientific task setting:** This technique is useful for setting standard task for an average worker working in an organization. He termed it as a fair day's work and emphasized its need because it will prevent the workers from doing work below to their capacity.
- 2) **Work study:** Work study aims at improving efficiency by making systematic observation of each process of work. It is the study of an activity with an objective to remove inefficiency and find out one best way of performing it. It is defined as "study of work, giving close analysis of a given piece of work, in order to eliminate every unnecessary operation and in order to approach the quickest and the best method of performing each necessary operation". The work study includes the following techniques which help in setting the task scientifically.
  - a) **Method Study :** The aim of method study is to maximize efficiency in the use of materials, machinery, manpower and capital by improving work methods. It involves the critical examination of plant layout, product design, material handling and work processes to minimize time, distance and cost involves in the transportation and storage materials.
  - b) **Motion Study :** Motion study means close observation or study of the movements of a workers body and limbs involved in performing a job. The purpose is to avoid wasteful motions and determine the best way of doing a job. Such observations may reveal some unnecessary movements made by

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the worker. These wasteful movements may be eliminated and a better way of doing the job may be determined

- c) **Time Study:** It refers to the study or measurement of the time that may be taken by a workman of a reasonable skill and efficiency to perform various elements of a job. According to Gilbreth, "it is the art of recording, analyzing and synthesizing the time elements of any operation". The aim of time study is to fix the time standards for each operation. It is helpful in deciding the standard time required to perform a given job.
  - d) **Fatigue Study:** Fatigue is generally caused by long working hours without rest and pauses, repetitive operations, excessive specialization and poor working condition. Physical and mental fatigue affects the health and efficiency of workers. In order to minimize the incidence of fatigue it is necessary to provide rest people after regular time intervals. During the rest period, the worker can regain his energy. Fatigue study seeks to find out how long a person can perform the standard task without any adverse effect on his health and efficiency. Physical exhaustion and mental tiredness can be reduced by improving working conditions, reducing noise and hours of work etc. Thus, fatigue study helps to determine the amount and frequency of rest intervals in completing a job.
- 3) **Planning separated from execution** - Taylor suggested that planning and its execution should be separated. Workers should not have any access to planning. A separate body called planning department be created to prepare detailed instruction for the workers as to the type, quality and quantity to be produced.
- 4) **Standardization** : Standards should be set for each aspect of the operation like equipments costing system, working environment method of production etc. Taylor feels that standardization can reduce spoilage and wastage, cost of production, fatigue amongst workers and improve quality of work.

- 5) **Scientific selection and training** :- This technique is based on the notion of selecting right person for the right job. Taylor has suggested several steps for achieving such objective. In the first, determination of job for which workers will be required. Appropriate qualification, training, experience and level of efficiency required for the job should be determined as the second step. Finally, keeping above conditions in view workers should be selected impartially to perform the job effectively.
- 6) **Differential Piece Wage Plan:** The aim of this technique is to attract highly efficient workers to the organization. Taylor has suggested to set a standard either in terms of time or output on the basis of time and motion study. The performance of the workers which is at standard or beyond will get a higher rate of wages than the workers whose performance is below the standard.
- 7) **Specialization** Taylor has strongly recommended for promoting specialisation in the operational functions of the organisation. He has suggested eight forms in this regard i.e. four foreman, such as route clerk, instruction card clerk, time and cost clerk and shop disciplinarian to look after planning while remaining four as gang boss, speed boss, repair boss and inspector to get required performance from the workers.

**4.4.3 Evaluation of Scientific Principles of Management:** Taylor's ideas laid the foundation for scientific management movement in the industrial world. According to Gilbreth's, the main benefits of scientific management are 'Conservation and savings, making adequate use of every one's energy of any type that is expended". Taylor will always be remembered for the following beneficial effects of his principles.

- 1) Manager realised that to improve the management standard in different organizations scientific methods such as works study, incentive plans, better working conditions etc should be used discarding the traditional ones.

- 2) Management realized that even though the workers have enough capacity to multiply the production, their full potentialities cannot be explored unless a positive remuneration policy which provides a fair day wages for a fair days work is adopted.
- 3) Emphasis was put on scientific selection, education and development of workers on the basis of job requirements. Training method were expected to be scientifically designed to develop workers to perform the jobs they are best suited for.
- 4) Planning and execution of plans were identified as two distinct different jobs.
- 5) Much importance was paid on the establishment of harmonious relationship between the workers and management for smooth and effective functioning of the organization.
- 6) Mental revolution on the part of both employer and employees was recognised as an effective way to promote revolutionary changes in the attitude of the management and workers towards their work and relationships.
- 7) Clear cut division of responsibilities between the workers and management was encouraged to ensure balanced flow of work in the organization.

#### **4.4.4 Criticisms of Scientific Management**

Despite Taylor's philosophy of scientific management gaining wide popularity in the industrial circle, it was also criticized on different issues which are presented below:

1. Taylor focused only on physical and economic needs of the worker ignoring their social and ego needs which affect their behaviour. He viewed workers as mere factors of production and not as human beings with social and emotional ties.
2. It was feared that application of principles may facilitate increased production but would reduce the work force. Workers were convinced that if they adopt Taylor's work method they would lose their jobs.
3. It is argued that the principles of scientific management as advocated by Taylor were confined mostly to production management. He has ignored certain other

essential aspects of management like finance marketing, accounting and personnel.

4. As stipulated in different principles about the ways to perform a job, a worker has to work along predefined lines of action. This may make the work monotonous and the workers may lose interest in that job. This may lead to workers resentment, labour absenteeism and turn over.
5. The differential wage system as suggested by Taylor distinguishes between efficient and inefficient workers on the basis of standard output. It may raise conflict amongst workers, labour resentment and increase labour absentees.

#### **4.5 FAYOL'S PRINCIPLES OF MANAGEMENT**

Henri Fayol (1841-1925) was born in 1841 in France and started his career as a junior engineer in a coal mining company in 1860 and became its General Manager in 1880. He focused on managing the organization as a whole. He was concerned with general management and overall control of the organization and not with supervision and control of operations at lower level management as advocated by Taylor. His work was thus related more to the top level management. Against the age old belief that managers are born and are not made, he believed that managers can be made by making them aware about the fundamental principles underlying the management theory. He is considered as the first person who systematized the administrative approach to management. His work on general management was first published in 1916 in French as *General and Industrial Management* which was translated to English in 1929.

**4.5.1 Contributions of Fayol** - The contributions of Fayol to management can be discussed under four heads namely (A) Division of activities of business (B) classification of functions of management (C) Identification of Managerial Qualities (D) General Principles of Management. These are discussed below:

**(A) Division of activities of business** – Fayol divided business activities into six groups (a) Technical (manufacturing and production) (b) Commercial (buying selling and exchange

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(c) Financial (search for and optimum use of capital (d) Security (protection of property and person) (e) Accounting (including statistics (f) Management.

**(B) Classification of functions of management** -Fayol identified five functions as commonly performed functions of management.

1. Planning – a function of foreseeing the future and preparing future courses of action.
2. Organizing – a function to coordinate the human and non-human resources of the organization to put the plan into action.
3. Commanding- a function to direct and guide the workers to do their duties well.
4. Co-ordinating- a function to unify and harmonalise all activities and efforts.
5. Controlling- a function To ensure that everything occur in conformity with the plan prepared, established rules and command given.

**(C) Classification of Managerial Qualities-** Fayol suggested that a successful manager should possess the following qualities.

1. Physically fit
2. Mentally sound
3. Morally strong
4. Educationally well placed
5. Technically competent and
6. Experienced

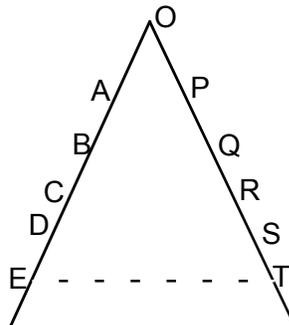
**(D) General Principles of management:** Fayol suggested fourteen principles of management based purely on his experience. However, he has cautioned that these principles are not hard and fast laws, and can be modified in different situations as management feels fit,

The principles are as follows:

1. **Division of work-** The work must be divided amongst units and employees according to their respective requirement of skill. This leads to specialization which helps them to do more and better work with the same effort.
2. **Authority and Responsibility** –Authority can not be conceived of without owning responsibility. When ever authority is exercised responsibility arises. The two are co-extensive and complementary to each other and therefore a parity should be maintained between the two This principle therefore suggests that authority should be given on the basis of the nature and extent of responsibilities to be discharged. When authority exceeds or fall short of responsibility there would be problems of mismanagement.
3. **Discipline-** Discipline means respect for rules and agreement. This principles requires that there should be clear and fair agreements, good supervision and judicious application of penalties. It should be self imposed and people should feel committed to their leaders.
4. **Unity of command** –This principle suggests that every employee should have only one boss and should be only accountable to him for the orders received from him. It is necessary to avoid a subordinate receiving simultaneously conflicting orders from more than one bosses and to ensure order and stability in the organization.
5. **Unity of direction-** According to this principle there should be one head and one plan for a group of activities having same objective e.g. all operations related to finance should be grouped in finance department headed by a Finance Manager. This is essential to ensure unity and co-ordination in the enterprise and all moving in a single direction.
6. **Subordination of Individual Interest to General Interest-** Some time there is conflict between the individual interest and organizational interest. In such cases, as per this principle, preference should be always given to organizational interest

sacrificing interest of the individual. All efforts therefore should be made to reconcile individual interest with common interest to keep the employees well satisfied. This requires continuous and exemplary supervision and fair agreement.

7. **Just and fair remuneration to personnel**-This principle suggests that the amount of remuneration and its method of payment should be just and fair and provide maximum satisfaction to both employees and the employer.
8. **Centralization**- It refers to restricting the role of subordinates in the decision making process. Major decisions should be taken by top level managers. However where necessary some authority should be delegated to lower level managers to perform their duties well. The question of centralization and decentralization should be determined on the basis of individual circumstances.
9. **Scalar chain** - It refers to the chain of superiors ranging from the top level to the lowest level in the organization. This is also known as hierarchy of authority. It indicates the flow pattern of authority from the top to the bottom. If under any situation this line affects the interest of the organization, the links in the chain may be dropped which Fayol has explained with an example.



In this graph E wants to communicate with T as per the practice message from E to T via D, C, B, A and from O it will come down to T through P,Q,R,S. But if there is urgency in communication, a gang blank (dotted lines) may be created between E and T without harming the chain of command. The gang blank makes it comfortable for the two employees to deal directly with each other. However, each must inform his superior of any action taken by him.

10. **Order** – According to Fayol this principle tells that “A place for every thing and every thing in its place”. It tells that every thing i.e. human and non –human resources should be placed at the right place. When human beings are kept at the right place (right man at right place) it is social order and when non human or materials are kept at the right place it is material order. This kind of order requires precise knowledge of human requirements and resources of the concern, so that proper balance may be created between them.
11. **Equity** – This principle suggest that employees should be treated with justice and kindness. Managers should be impartial and sympathetic in their dealings with their employees. Similarly the employees should be loyal, obedient to their bosses. Equity thus creates a cordial and harmonious relationship between management and workers which are essential for the successful functioning of the organization.
12. **Stability of tenure of personnel** –According to this principle the employees should be allowed to serve the organisation for a fairly long period of time which ensures their job security. An employee can not render worth to his job if he is uncertain about the tenure of his service. Therefore, management should strive to minimize labour turnover.
13. **Initiative**- If refers to the freedom to think for one self and use discretion in doing work. Employees at all levels should be given the opportunity to take initiative and exercise their judgment as regards their work because that develops their potentiality to work and provides them job satisfaction.
14. **Esprit de corps**- This principle tells that union is strength and unity in staff is the foundation of success. It can be developed through proper communication and co ordination. Therefore, the management should strive to maintain team sprit and co-operation among employees for smooth functioning of the organization as well as to achieve its objectives.

**4.5.1 Evaluation of principles of Fayal-** Fayol’s principles have got wide recognition in the areas of modern management. His principles of management are still in use in both business and non-business organizations. His view that manages are not born but can

be made holds true as management theory is being taught in various management institutes today to groom managers. The positive attributes of Fayol's principles are summarized below:

- a) Fayol's principles have wider prospective. He tried to evolve principles which would have universal application to different kinds of organizations in different societies.
- b) The focus and analysis of management as a separate discipline is another contribution of him to the evolution of management as a developed social science.
- c) The identification of functions of management developed by him helps systematic understanding of the process of management.

#### **4.5.2 Criticisms**

Fayol's principles have been subjected to the following criticisms.

1. In this modern world things are changing fast and business houses are striving hard to sustain themselves. In this changing scenario, the concept of universality of management does not hold good. For example centralization may not enable the organization to adapt to the changing environments. In fact, workers' participation in management is the feature of today's management practices.
2. He has over emphasized the formal structure of the organisation and ignored informal structure. In this complex business world, the informal structure holds equal position as formal for smooth functioning of the organization.
3. Fayol has not taken into consideration the impact of external environment on business and non-business organizations. In fact, in modern business, an organization can ensure its existence only by tuning itself to its external environment well.

#### **4.5.3 Comparison of contributions of Taylor and Fayol**

##### **Points of similarities:**

Following are the similarities observed in principles suggested by Taylor and Fayol.

1. Both have emphasized that managerial qualities can be acquired. Therefore, organisation should develop these qualities.
2. They have recognized the financial needs of the employees and have suggested the introduction of different financial incentive schemes to give them maximum satisfactions.
3. Both have suggested different measures to maximise the output of the organization.
4. Both have added new dimensions to the concept of management. Taylor - Scientific Management, Fayol-Functional Management.
5. Both Taylor and Fayol developed a set of principles which are important for speedy growth of industries.
6. Both have ignored the impact of external environment on the organization. They thought that the organization is an independent unit.
7. Both developed their principles on the basis of practical experiences from their respective companies.

### **Points of differences**

Following are the differences marked between the contributions of Taylor and Fayol.

1. Fayol's principles are mostly relevant to higher levels of management. Taylor's principles are, on the contrary, relevant mainly at the supervisory or operating levels of management.
2. Taylor paid greater attention to standardization of work methods and tools. Fayol laid more emphasis on the principles of management and functions of managers.
3. Taylor tried to improve productivity of the workers and eliminating all kinds of wastages. But Fayol tried to develop principles which will help in improving the quality of management.
4. Taylor wanted to improve the efficiency of employees at the lowest level and then he moved upward while formulating his principles. But Fayol began from top level

and proceeded downward with the emphasis on unity of direction, unity of command and co-ordination.

5. Taylor's approach was a kind of efficiency movement. Thus it had a narrow perspective. On the other side, Fayol's had a wider perspective because he tried to evolve principles which have universal applications.

## 4.7 MODEL QUESTIONS

**1. Choose and write the correct answer from the alternatives given below:**

- (a) The person who has developed the concept of Scientific Management is  
(i). Henry Fayol (ii) Max Webber (iii) F.W Taylor (iv) Elton Mayo
- (b) Functional management concept is developed by :  
(i). Henri Fayol (ii) Max Webber (iii). F.W Taylor (iv) Elton Mayo
- (c) Main aim of Taylor is to:  
(i). improve labour relation (ii) improve productivity  
(iii) develop theory of management (iv) fight for workers right
- (d) Taylor focused his attention on management at the  
(i). top level (ii) middle level (iii) top and middle level (iv) lower level
- (e) Management principles are:  
(i). general statements (ii) body of rules (iii) useful concepts (iv) basic ideas
- (f) Study of management principles helps to :  
(i). increase efficiency (ii) elevate organization status  
(iii) bring discipline into the organization (iv) enhance earnings.
- (g) F.W Taylor had started his career as  
(i) apprentice (ii) engineer (iii). manager (iv) advisor

- (h) One of the principles suggested by F.W Taylor is:  
(i). co-operation not individualism (ii) division of work  
(iii) authority and responsibility (iv). Discipline
- (i) According to Taylor, the two functions planning and doing should be:  
(i) combined (ii) separated (iii) flexible (iv). rigid
- (j) Henri Fayol is a/an  
(i) French (ii) English (iii) American (iv) German
- (k) The person who systematised the administrative approach to management for the first time is:  
(i)F.W Taylor (ii) Henri Fayol (iii) Elton Mayo (iv) Max Webber
- (l) One of the management functions advocated by Henri Fayol is:  
(i) commanding (ii) staffing (iii) directing (iv) decision making
- (m) One of the similarities between the theories of Taylor and Fayol is  
(i) financial incentive to worker (ii) improving productivity of workers  
(iii) relevance of top level management (iv) relevance of lower level management
- (n) The principle of unity of command is concerned with  
(i) money (ii) people (iii) materials (iv). machine
- (o) Fayol classified business activities into  
(i).five groups(ii) three groups (iii) six groups (iv) four groups

**2. A) Express each of the following in one word/ term**

1. The principle that suggest that there should be one head and one plan for subordinates

2. The communication link established under urgency between two employees without weakening the chain of command
3. The principle that is concerned with the arrangement of things and the placement of people
4. The process that Taylor suggested for bringing in change in the attitude of the workers and the management towards each other

**B) Answer the following question with in one sentence**

1. What is scientific management ?
2. What is time study ?
3. What is division of labour ?
4. What is the principle of initiative ?

**C) Fill in the blanks:**

1. Responsibility and authority are \_\_\_\_\_ to each other
2. Division of work leads to \_\_\_\_\_
3. The scalar chain indicates the flow of \_\_\_\_\_
4. The maximization of output is the point of \_\_\_\_\_ between the principles suggested by Taylor & Fayol.

**D) Correct the underlined portion of the following sentences.**

1. The concept of functional management is the contribution of Taylor
2. Under functional management workers are reduced to the position of machine
3. Taylor suggested that planning and its execution should be combined.

**3. Answer the following questions with in 30 words**

- a) What is fatigue study?
- b) Discuss any two principles of scientific management.
- c) Explain the principle of scalar chain.
- d) Do management principles have universal application.
- e) What is unity of direction ?
- f) State any two criticisms of functional management.
- g) What is esprit de-corps ?
- h) State any two advantages of scientific management
- i) Why management principles are considered as dynamic guidelines?
- j) What prompted F.W. Taylor to develop the concept of scientific management ?
- k) What do you mean by co-operation and not individualism ?
- l) Describe any two advantages of functional management.
- m) What is the basic objective of Differential Price Wage Plan ?
- n) Describe any two criticisms against scientific management ?

**4. Answer the following question with in 50 words.**

1. Why shall the manager be cautious while applying the principle of management?
2. What do you mean by mental revolution as suggested by F.W Taylor?
3. Why F.W Taylor suggested that planning should be separated from its execution?
4. Why is fatigue study necessary?
5. What steps are involved in the scientific selection and training of workers?
6. State any two similarities between the principles of management advocated by Taylor and Fayol.

7. Show any two distinctions between the concept of management as stated by Taylor & Fayol
8. Why Taylor put emphasis on standardization?

**Long type questions**

5. Define management principles. Briefly discuss their features and significance
6. Describe in brief Fayol's 14 principles of management
7. What is Scientific Management? Describe its different principles and techniques in brief.
8. Make a comparative study of principles of management as suggested by Taylor and Fayol.
9. **Write short notes on:**
  - (b) Scalar Chain
  - (c) Universality of management principles
  - (d) Work study.

**ANSWERS**

1. a-iii, b-I, c-ii, d-iv, e -i, f-I, g-I, h-I, i-ii, j-I, k-ii, l-I, m-I, n-ii, o-iii
2. a)(1). Unity of direction (2). Gang plank (3). Order (4) Mental Revolution  
c) (1). Complementary, (2) specialization, (3) authority, (4) similarity  
d) (1) Fayol, (2) Scientific Management, (3) separated

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## CHAPTER -5

# FINANCIAL MARKETS

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### **STRUCTURE**

- 5.0 Introduction
- 5.1 Financial Market- Meaning & Definition
- 5.2 Types of Financial Market
  - 5.21 Money Market
  - 5.2.2 Capital Market
- 5.3 Functions of Financial Market
- 5.4 Stock Exchange
- 5.5 SEBI
  - 5.5.1 Objectives of SEBI
  - 5.5.2 Importance of SEBI
- 5.6 Model Questions

### **5.0 INTRODUCTION :**

A sound and healthy financial system needless to say is an important pre requisite for rapid and sustained economic growth. The effective functioning of a financial system is of critical importance as it allows the flow of funds from surplus units to deficit units. Thus, the financial system represents the whole lot of institutional arrangements and instruments through which financial surpluses are mobilized from areas of surplus to areas of deficit. After independence, the financial system was found dominated by individual

money lenders. Then came a phase of chit fund and indigenous bankers. Further came the cooperative banking system followed by joint stock banks set up under the Companies Act. The consolidation and nationalisation of banks resulted in the emergence of a healthy network of commercial banks and then came the development banks and specialised financial institutions. Now the financial sector in India is witnessing an era of rapid changes and innovations. Since India has entered into the LPG(Liberalisation, privatisation and Globalisation) era, a lot of sweeping changes have taken place in the financial sector. Several new financial products and instruments have been introduced to modernize the financial sector and inject efficiency into its operation. The structure of Indian financial system can be broadly segmented into two parts as (a) Organized sectors and (b) Unorganized sector

The organized sector consists of stock market, nationalized banks, cooperative banks and development banks, set up by the government. It also includes the private sector institutions working in financial sector. On the other hand, the unorganized sector comprises of money lenders, indigenous bankers, landlords and traders. Financial market constitutes an important component of the organized sector of Indian financial system. In this back drop let us understand the meaning and functioning of the financial market.

### **5.1 FINANCIAL MARKET: MEANING & DEFINITION:**

Financial markets are defined as markets where the financial assets such as shares, bonds etc. are sold and purchased. They mobilize the savings of different sectors having surplus funds and channelize them to the sectors having deficit of funds. In addition to enabling exchange of financial assets, financial markets also facilitate borrowing and lending by facilitating the sale of newly issued financial assets.

Financial market can also be defined as a place where people and organisations wanting to borrow money are brought together with those having surplus funds. Financial market does not refer to a physical location. The fund requirements of the corporate sector generally far exceed their savings. The savings of the household sector are channelized into the corporate and public sectors for productive purposes. The participants in financial markets are the investors or buyers of securities, sellers of securities, intermediaries and regulatory bodies.

**5.2 Types of Financial Market-** Broadly the financial market is categorized into two types. They are.

**(A) Money Market**

**(B) Capital Market**

### **5.2.1 MONEY MARKET**

A money market may be defined as the market for lending and borrowing of short-term funds. A transaction which is meant to meet short term fund requirement of business houses and others, having a maturity period of not more than one year is called money market transaction. The seekers of short term fund can be individuals, companies, government banks, business men etc. Through money market, borrowers and lenders exchange short term funds to meet their liquidity needs. The instruments commonly used for transactions in money market are money at call and short notice, treasury bill, commercial bills, certificate of deposit, commercial paper, promisory notes and hundi etc., These are known as money market instruments. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability.

**Instruments of money market-** The money market instruments, as explained above, are designed to meet the different requirements of the participants of money market. They are discussed below:

- 1. Call Money Market-**It is short term loan market. This market is also known as market for money at call and short notice. The main lenders of the fund in the call money market are SBI,LIC,GIC,IDBI,NABARD and other financial institutions and the main borrowers are the scheduled commercial banks. This market has two segments(a) the call market or overnight market,(b) short notice market. The rate at which funds are borrowed and lent in this market is called as the call money rate .Call money rates are market determined i.e.by the demand for and supply of short-term funds.Mumbai is the main centre of call money market along with Kolkata, Delhi, Chennai, Ahmadabad and Bangalore.

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- 2. Treasury Bills-** The government usually issues treasury bills through RBI when it is in need of short term fund. It is just like promissory note having a maturity of maximum one year period. It is generally issued at discount and matures at its face value. The difference between the maturity amount and the price at which it is issued is the gain to the purchaser of the bill. The 91-day treasury bills are the most common way the government of India raises fund for the short period. As it is issued by the government, it is considered to be highly safe and contains high degree of liquidity. Some years ago, the government had introduced the 182-day treasury bills and subsequently 364-day treasury bills. In 1997 the government introduced the 14-day intermediate treasury bills.
  - 3. Commercial Bills-** It is a promise to pay the fixed specified amount within the specific period by the purchaser of the goods to the seller. The main feature of the bill is to help the businessman not to stop the business activity due to non-availability of cash. It promotes credit transaction in the economy or to postpone the cash payment in the near future. When the goods are sold on credit, the seller draws the bill on the buyer, the buyer accepts the bills by signing it to make the payment of the amount due after the specified period. The period of maturity of bill mostly ranges from three months to six months.
  - 4. Certificate of Deposit:-** Certificate of deposit is negotiable and is marketable, having specific value and maturity period with grace period. To raise large sum of money for short term period, this instrument is issued by banks and financial institutions. In India, certificate of deposits are being issued since 1989 by banks either directly to the investors or through the dealers. They are interest bearing maturity dated obligations of banks and are technically considered as a part of the bank deposits. The certificates of deposits are high cost liability and are issued only when deposit growth is sluggish but credit demand is high.
  - 5. Commercial paper –**Commercial paper is a money market security issued by large corporations to obtain funds to meet short-term debt obligations and is backed only by an issuing bank or company with promise to pay the face value amount on

the maturity date specified on the note. Commercial paper is usually sold at a discount from face value, and generally carries lower interest repayment rates than bonds due to the shorter period of maturities. Typically, the longer the maturity on a note, the higher is the interest rate that the issuing institution pays. Interest rates fluctuate with market conditions, but are typically lower than banks' rates.

- 6. Inter Bank Participation Certificate-** (IBP Certificate) This is a scheme through which banks are authorized to fund their short term needs within the system by issuing interbank participation certificate amongst themselves. The period is restricted to minimum 91 days and a maximum of 120 days. The IBPs are of two types (a) Risk sharing (b) Non- risk sharing. The risk sharing IBPs are issued with a specific interest rate and their duration can be for 91 to 180 days The non-risk sharing IBPs cannot have tenure more than 90 days and the interest is decided by concerned banks.
- 7. Repo instruments-** Repo is an abbreviation for Repurchase agreement which involves a simultaneous "sale and purchase" agreement. When banks have any shortage of funds, they can borrow it from Reserve Bank of India or from other banks. The rate at which the RBI lends money to commercial banks is called repo rate. A reduction in the repo rate will help banks to get money at a cheaper rate. When the repo rate increases borrowing from RBI becomes more expensive. On the other hand, reverse repo is an opposite contract under which banks can park their excess cash with the RBI by availing a rate of interest which is called reverse repo rate. Here, when the banks have excess money for the coming days, they can give it as a loan to the RBI. But here, the RBI will not give any securities (like Treasury Bills) to them.
- 8. Money Market Mutual Fund (MMMF)-**Money market mutual funds invest money in specifically, high-quality and very short maturity-based money market instruments. The RBI has approved the establishment of a very few of such funds in India. MMMFs are considered as safest investment because individuals who are not having knowledge of financial investment due to multiple types of

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instruments in the market, can invest in MMMFs for a specific period and can get return on the basis of Net Asset Value (NAV).

9. **Promissory Note-** The promissory note is the oldest instrument. It is a written promise by the debtor to pay the creditor a specified sum of money by an agreed specified future date, usually within a year. These are issued by individuals, corporations and government agencies. It is an I.O.U. (I owe you) document and creditor can get it discounted from his bank at a premium by paying interest.
10. **Hundi-** Hundi is one of the credit instruments of unorganized financial market. It is called interval bill of exchange. Indigenous bankers write, sell and discount hundis for trade purposes.

### 5.2.2 CAPITAL MARKET

Capital markets are the markets for long term funds. They refer to all the facilities and the institutional arrangements for borrowing and lending on medium and long term basis. They do not deal in capital goods but are concerned with the raising of capital for the purpose of investment. Capital markets are markets for buying and selling of equity and debt instruments. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government and individuals. Capital markets are vital to the functioning of an economy, since capital is a critical component for generating economic output.

#### KINDS OF CAPITAL MARKET

On the basis of the nature of transaction carried through capital markets they are broadly classified as **(a) Primary market**, where new stock and bond issues are sold to investors, and **(b) Secondary markets**, which trade existing securities.

**(a) Primary market:** The primary market is that part of the capital market that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. This process of selling new issues to investors is called underwriting. In the case of a new stock issue, the sale is termed as an initial

public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus.

### **Features of primary market**

- It is a market for long term capital where the securities are sold for the first time. Hence it is called new issue market.
- Funds are collected and securities are issued directly by the company to the investors.
- Primary issues are carried out by the companies for the purpose of incorporation and functioning of business.

### **Advantages of primary market**

- Enables newly floated companies to raise capital.
- Company need not repay the money raised from the market.
- Money has to be repaid only in the case of winding up or buy back of shares
- There is no financial burden, because it does not involve interest payment. If the company earns profit, dividend may be paid.
- Better performance of the company enhances the value for the shareholders.
- There is greater transparency in corporate governance.

### **Disadvantages**

- It is a time consuming process.
- It is expensive and many intermediaries are involved in it.
- Speculative trading of the company's equity may affect its reputation.

**(b) Secondary market:** The secondary market is that part of this capital market where investors buy and sell securities they already own. It is also known as the "stock market," This is also popularly known as stock exchange. Bombay Stock Exchange (BSE), National

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Stock Exchange (NSE) are examples of secondary capital market. Debt instruments like bonds and debentures are also traded in the stock market. Well-regulated and active stock market promotes capital formation. Growth of the primary market depends on the secondary market. The health of the economy is reflected by the growth of the stock market.

### **Primary vs. Secondary markets**

It is important to understand the distinction between the secondary market and the primary market. When a company issues stock or bonds for the first time and sells those securities directly to investors, that transaction is said to have taken place on the primary market. Some of the most common and well-publicized primary market transactions are IPOs, or initial public offerings. During an IPO, a primary market transaction occurs between the purchasing investor and the investment bank underwriting the IPO. Any proceeds from the sale of shares of stock on the primary market go to the company that issued the stock, after accounting for the bank's administrative fees. If these initial investors later decide to sell their stake in the company, they can do so on the secondary market. The proceeds of each sale go to the selling investor, not to the company that issued the stock or to the underwriting bank, so the basic difference between primary and secondary market lies in the fact that the former deals with fresh and new issues while later deals in old issues.

## **5.3 FUNCTIONS OF FINANCIAL MARKET**

### **Financial Market perform the following functions**

- a) **Mobilisation of savings and channelizing the funds to more productive uses:**  
Financial market plays a crucial role in fund mobilization. Many financial instruments are made available for transferring finance from one side to the other side. The investors can invest in any of these instruments according to their wish. It ensures availability of funds for the businesses for effective and efficient operation.
- b) **Price determination:** The price of any goods or services is determined by the forces of demand and supply. Like goods and services, the investors also try to discover the price of their securities. The financial market is helpful to the investors in giving them proper price.

- c) **Provides Liquidity to Financial Assets:** This is a market where the buyers and the sellers of all the securities are available all the times. This is the reason that provides liquidity to securities. It means that the investors can invest their money, whenever they desire, in securities through the medium of financial market. They can also convert their investment into money whenever they so desire.
- d) **Provide credit related information:** Various types of information are needed while buying and selling securities. Much time and money is spent in obtaining the same. The financial market makes available every type of information without spending any money. In this way, the financial market reduces the cost of transactions.
- e) **Enhancing income:** Financial markets allow lenders to earn interest or dividend on their surplus invisible funds, thus contributing to the enhancement of the individual and the national income.

#### **5.4 STOCK EXCHANGE**

A stock exchange or bourse is an exchange where stock brokers and traders can buy and/or sell stocks (also called shares), bonds, and other securities. Stock exchanges may also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include stock issued by listed companies, units trusts, derivatives, pooled investment products and bonds. Therefore we can say that stock exchange is concerned \ with the sale and purchase of second-hand securities. It is in simple terms a highly organized market for the purchase and sale of shares and debentures as well as financial securities. In such a .market an investor can easily dispose of his shares as he will find a buyer readily available when his shares are admitted on the official list of a stock exchange.

The Securities Contracts (Regulation) Act. 1956 defines a stock exchange as “ an association, organization or body of individuals, whether incorporate or not, established for the purposes of assisting, regulating and controlling business in buying, selling and

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dealing in securities” To sum up, we can say that a stock exchange is an open market for the sale and purchase of securities.

#### 5.4.1 Essential features of stock exchange

- 1) It is an organised market where securities of corporate enterprises, government, and semi-government bodies are bought and sold.
- 2) It deals in second hand listed securities. This means they are not fresh issues. This characteristic makes stock exchange different from “new issue market”.
- 3) Only individuals can buy and sell securities on a stock exchange.
- 4) Only listed securities are bought and sold in a stock exchange.
- 5) A stock exchange may be registered or unregistered.
- 6) Transactions at stock exchange must be conducted according to the rules framed by the stock exchange authorities.

#### 5.4.2 Function of Stock Exchange

Stock Exchanges play a vital role in the economy of a nation. The important functions they performs are

- **Continuous market-** The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold on a regular basis with little variation in the current market price. It facilitates the marketability of shares and debentures and enables investors to realise their money quickly with least possible loss. Persons with cash can convert it into securities and those with securities can readily obtain cash for them. This easy marketability increases the liquidity of the securities which results in the increase of the value of the securities in the eyes of the creditors.
- **Proper evaluation of securities-** It is mandatory under stock exchange rule to record and make public all the transactions so that the prices paid and received become the official price quotations. The prices quoted in stock exchanges for all

the securities help the investors to know the real worth of their securities.

- **Ensures safe and fair dealings-** A well-managed stock exchange brings equity and safety in dealings because transactions are made in a transparent manner under well-defined rules, regulations, and bye-laws of the stock exchange. If any member is found to be indulged in unfair practices and dealings, he may be punished with suspension, fine or expulsion.
- **Protection of the interest of the investors-** Strict adherence to the rules and procedures ensures ethical and legal functioning of the stock exchange. This protects the interest of the shareholders who may not have much clout and knowledge of the stock exchange operation. Apart from that, investors are assured of the liquidity of their investment, which means that they may sell them at any time they want to do so.
- **Proper cannalisation of capital-** The stock exchanges direct and allocate the flow of savings into the most productive areas. People like to invest their savings in securities of companies yielding good profits. The direction of the investment changes once investors feel that the securities are no longer profitable and invest in new profitable securities. The presence of stock exchange facilitates such movement of funds in profitable direction.
- **Promotes capital formation-** Proper and ethical functioning of stock exchange attracts small as well as large investors to invest in listed securities. The investors save more money to invest in stock exchange thus increasing the supply of capital at reasonable rate of interest to business enterprises.
- **Provides facilities for speculation-** The stock exchange provides immense scope for speculation to businessmen who can get profits from fluctuations. Securities prices are determined by the market forces i.e. the forces of demand and supply. Speculation by equalising demand and supply forces smoothens price of securities. For example if a share is selling at high price in one market, the speculators purchase them from other markets where the price is comparatively low and sell them in high priced market. This results in increase in the supply of

those securities, in the process the supply there matches the demand. This will bring down the security price. Such operations keep the prices of securities within reasonable and safe range.

### **5.5 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) :**

The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India. It was established in the year 1992 and given statutory powers on 12 April 1992 through the SEBI Act, 1992. It is the designated regulatory body for the finance and investment markets in -India. The Board plays a vital role in maintaining stable and efficient financial and investment markets by creating and enforcing effective regulation in India's financial market place. SEBI is a body corporate having a separate legal existence and perpetual succession. Its activities are carried through five departments. Each department is headed by an executive director. The head office of SEBI is in Mumbai and it has branch offices in Kolkata, Chennai, Ahmedabad and New Delhi. The SEBI is a statutory body comprising of members as per the following pattern:-

1. A chairman who is appointed by union Government of India.
2. Two members from among the officials of the Ministry of Central Government dealing with finance and administrate of the Act.
3. One member from among the officials of the Reserve Bank of India
4. Five other members nominated by Union Government of India out of whom at least three shall be the whole time members.

#### **5.5.1 Objectives of SEBI:**

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.
2. To protect the rights of investors and ensuring safety to their investment.
3. To prevent fraudulent and malpractices by having balance between self-regulation

of business and its statutory regulations.

4. To register and regulate intermediaries such as brokers, underwriters etc and develop code of conduct for them with a view to making them competitive and professional
5. The undertake drives for financial inclusion
6. To undertake investigation and audit of stock when required
7. To promote a healthy and vibrant market for securities.

### **5.5.2 Importance of SEBI**

The SEBI has a multidimensional role in ensuring a fair play in the stock market operation. Unlike in the past, more and more people are now participating in the buying and selling of shares in the stock market. The participation of the small investors and common people, many of whom are not well conversant with the intricacies of the stock market, require protection from unfair dealings and manipulation. This has made the role of SEBI all the more important. The importance of SEBI can be discussed in the light of the different roles it discharges::

- (i) **It checks price rigging**-Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI prohibits such practice because this can defraud and cheat the investors.
- (ii) **It prohibits Insider trading.** Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, e.g., the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

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- (iii) **It prohibits fraudulent and unfair trade practice** –SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.
  - (iv) **It educates-** SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities .
  - (v) **It ensures fair practices:** SEBI promotes fair practice and code of conduct in security market.
  - (vi) **It Facilitates training** –SEBI promotes training of intermediaries of the securities market.
  - (vii) **It regulars and controls intermediaries-** SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustee, merchants bankers and all those who are associated with stock exchange in any manner.
  - (viii) **It undertakes inspection and audit work :-** SEBI conducts audit, inquires and audit of stock exchanges.
  - (ix) **It registers and regulates** - Venture capital funds are reregistered and regulated by it.
  - (x) **It regulates** substantial acquisitions and take areas
  - (xi) **It collects and disseminates** : information on a wide variety of capital market related matters are collected and made available to interested parties.
  - (xii) **It acts as a civil court** in certain specified matters. The SEBI has been vested with the power of a civil court.
  - (xiii) **It is empowered** to exercise all powers that had been given to the Central Government under the Securities Contracts (Regulation) Act 1956 like the powers to call for physical returns from stock exchange, power to amend or make approve a bylaws of stock exchange.
  - (xiv) **It regulates issue of prospectus and other documents** or advertisement soliciting money for issue of securities.

**(xv) It enjoys certain powers under the provisions of the Companies Act 1956** especially in relations to issue and transfer of securities and non payment of dividend.

**(xvi) It can impose penalties for**

- (a) failure to furnish information and returns etc.
- (b) failure to redress grievances
- (c) certain default in case of mutual funds.
- (d) failure to observe rules and regulations for assets management companies.
- (e) for fraudulent and unfair trade practices etc.

## **5.6 MODEL QUESTIONS**

### **OBJECTIVE AND SHORT QUESTIONS**

#### **1. CHOOSE THE CORRECT ALTERNATIVES:**

- a) A type of money market instrument issued by the government when it is in need of short term fund is called
- I. Hundi
  - II. Commercial Bills
  - III. Treasury Bills
  - IV. Certificate of deposit
- b) A scheme, through which banks are authorized to fund their short term needs within the system by issuing certificate is known as,
- I. Promissory note
  - II. Hundi
  - III. Interbank Participation Certificate
  - IV. Money Market Mutual Fund
- c) A part of capital market that deals with the issuance of new securities is called,
- I. Secondary market
  - II. Primary market
  - III. Money market
  - IV. Financial market

d) Bombay Stock Exchange (BSE) is a

- I. Primary market
- II. Money market
- III. Secondary market
- IV. Commodity market

**Q.2- Express in one word/phrase**

- a) A money market instrument issued by the Government for short term funds.
- b) A market meant for lending and borrowing short term funds
- c) The rate at which the RBI lends money to commercial banks.
- d) A market for long term funds.
- e) A rate at which banks keep their excess cash with the RBI.

**Q.3- Correct the underlined portion of the following sentences**

- a) A money market is meant for lending and borrowing of long term funds
- b) Treasury Bills are issued by corporate houses for procuring short term funds.
- c) Inter Bank Certificates are issued by companies for meeting their short term requirements among themselves.
- d) Commercial Bills are I.O.U.(I owe you) documents.
- e) Stock exchange is a primary market.

**Q.4- Fill in the gaps:**

- a) Inter Bank Certificates are issued by \_\_\_\_\_within the system for their short term requirements.
- b) \_\_\_\_\_is one of the credit instruments of unorganized financial market.
- c) National Stock Exchange is a \_\_\_\_\_market.
- d) Securities prices are determined by \_\_\_\_\_forces.
- e) SEBI prohibits \_\_\_\_\_trading which is an unethical action by top officials of companies.

**Q.5- Answer the following questions (Within 30 words)**

- a) What is a money market?
- b) What do you mean by Commercial Bills?
- c) What is Repo rate?

d) What is meant by Reverse Repo Rate?

e) What do you mean by Hundi?

**Q.6- Answer the following questions (Within 50 words)**

a) What is capital market? How it helps the business houses?

b) Explain Money Market Mutual Funds.

c) What do you mean by financial market?

d) What is insider trading?

**LONG ANSWER TYPE QUESTIONS**

Q.7- Define Money market. Explain different types of Money market instruments.

Q.8- What is SEBI? Discuss the objectives and importance of SEBI.

Q.9- What is Capital market? Explain different kinds of capital markets with their relative advantages and disadvantages.

**ANSWERS OF OBJECTIVE QUESTIONS**

Q.1 a-III, b) III, c) II, d) III

Q2. a) Treasury bills  
b) Money market  
c) Repo rate  
d) Capital market  
e) Revenue repo rate

Q3. a) Capital markets  
b) Government  
c) Banks  
d) Promissory notes  
e) Secondary

Q4 a) Banks, b) Hundi, c) Secondary, d) Market e) Insider trading

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# CHAPTER – 6

## MARKETING MANAGEMENT

### CONCEPTS, TYPES AND FUNCTIONS

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#### **STRUCTURE**

- 6.0 Introduction
- 6.1 The concept of market
- 6.2 The classification of market
- 6.3 The meaning of marketing
- 6.4 The evolution of the marketing concept
- 6.5 Distinction between marketing concept and selling concept
- 6.6 The objectives of marketing
- 6.7 The functions of marketing
- 6.8 Concept and Importance of Marketing Mix
- 6.9 Model Questions

#### **6.0 INTRODUCTION :**

In an industrial economy, production has no meaning unless the products are exchanged for money or money's worth. The success of any business depends on its ability to effect a fruitful exchange of its products or services among its customers. Marketing is the key to that success. Efficient marketing management is a pre-requisite for the successful operation of any business. A business organization has many functional areas of operation like finance, production, human resource management, research and development, purchasing, marketing and the like. Marketing occupies an important position in the running

of a business. Marketing is an exciting, dynamic and contemporary field. It influences us every day in both our roles as producers of goods and services and as customers. The role of marketing in the success of a business is as old as the business. But this importance was realized much later. Peter Drucker, one of the notable writers and thinkers of management highlighted the role of marketing in his book, 'The Practice of Management'. According to Peter Drucker, if we want to know what a business is, we have to start with its purpose, and its purpose must lie outside the business itself. In fact it must lie in society since a business organization is an organ of the society. There is one valid definition of business purpose—"To create a customer." Marketing managers are responsible for most of the activities necessary to create the customers. Therefore, marketing is known as an outward looking function. It is said so because creating a customer means identifying needs in the market place, finding out which needs the organization can profitably serve, and developing a marketing programme to convert potential buyers into the customers of the organization. Let us discuss the terms market and marketing.

### 6.1 CONCEPT OF MARKET

The word market is derived from the Latin word 'marcatuus'. According to Philip Kotler, "A market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want". We may describe market in the following ways:

- i. **Place concept-** A place, may be an area, location or situation where buying and selling of commodities takes place.
- ii. **Activity concept-** An art of buying and selling. Market for some commodities may be thought of, not as a geographical meeting place but as getting together of buyers and sellers in person, by mail, telephone, and internet or online or any other means of communication with an intention to engage in an exchange process for mutual gain.
- iii. **Demand concept :** The group of people who have desire for the purchase of goods accompanied by their ability to purchase. In other words we can say that it is the sum total of the existing as well as the potential buyers.

**Therefore MARKET =PEOPLE+PURCHASING POWER+MOTIVATION.**

(Willingness to purchase) People who have the capacity and willingness to purchase a particular product or service form the market base for a business.

## **6.2 CLASSIFICATION OF MARKET**

Market can be classified on the basis of different considerations like the area they cover time spans, nature of transaction, types of goods dealt with and volume of business etc. These different types and forms of mistakes have been discussed below :

### **(a) ON THE BASIS OF AREA**

**Local market-** This is a market which is confined to a limited geographical area. Markets situated in a town or in a particular area involving buyers and sellers of that particular area are known as local markets.

**Regional markets-** This is larger in size than the local market. This covers a wider area. Regional markets may be at block level, state level or even an area comprising of a few states like eastern region, western region, southern and northern regional markets. The buyers in the respective regions have some commonalities amongst them in terms of buying power, style of living, food habits and cultural similarity etc.

**National market-** It covers the entire length and breadth of a country. Goods and services are bought and sold within the geographical area of the country. The operation of marketing moves beyond the limits of local and regional markets. The entire country is treated as a market.

**International/Global market-** The entire world is treated as market. When companies carry out their business operation beyond the geographical limits of their own country or domestic market, they are said to have been engaged in international marketing. In the present era of open economy companies are moving around the globe in search of business opportunity in a barrier free economic and business environment, which is an essential feature of global market.

### **(b) ON THE BASIS OF TIME**

**Short Period Market-** Short period markets usually deal with highly perishable items. Fruits, vegetables, milk etc are some of the items which call for quick consumption as they cannot be stored for a long period of time. The utility or life period of the products determines the time duration of the market.

**Long Period market-** Long period markets deal with durable products which have a long staying power in the market and can be put into repeated uses.

(c) **ON THE BASIS OF NATURE OF TRANSACTIONS AND METHODS OF BUSINESS**

**Spot Market-** This is a type of market where the purchase and the delivery of the product takes place simultaneously.

**Future Market-** In such type of markets the transactions are finalized pending delivery of goods and payment of its price to take place at a future date.

(d) **ON THE BASIS OF THE NATURE OF GOODS / COMMODITIES**

**Commodity Market-** The different produces required by the consumers or businesses are bought and sold in such type of markets. It includes goods like wheat, cotton, jute, iron, oil seeds etc. Manufactured goods and bullion markets where gold, silver etc. are bought and sold also come under such markets.

**Money Market-** It provides short term finance to the business concerns. It consist of number of agencies and various money market instruments.

**Capital Market-**This is a market where long term financial requirements of business concerns are made available. Term lending institutions, stock exchange and primary Markets where shares are issued directly to the public are the components of capital market.

(e) **ON THE BASIS OF VOLUME OF BUSINESS TRANSACTED**

**Retail Market-** The retail market deals with the ultimate or final consumers. In such markets the consumers purchase for their final consumption not for resale.

**Wholesale Market-**In these market goods are purchased in bulk quantity and sold to retailers in small quantities.

**(f) ON THE BASIS OF POSITION OF THE SELLERS**

**Primary Market-**In this type of market producers sell their farm products to the wholesalers or their agents. ‘

**Secondary market-** Here the wholesalers sell their products to retailers for reselling and also to the users directly for ultimate consumption

**Terminal market-** A terminal market is a central site, often in a metropolitan area, that serves as an assembly and trading place for commodities. Terminal markets for agricultural commodities are usually at or near major transportation hubs.

**6.3 MARKETING: Definition and Meaning**

Marketing has assumed much importance in the present day business world. The success or failure of any organization, profit making or loss incurring, depends on marketing. As the economy develops, the importance of marketing increases. Marketing is the creation of utilities as goods and services get value addition by the time they reach the consumers. That is why marketing refers to all the activities involved in the creation of place, time, form and possession utilities. Marketing is an ancient art. It has been practiced in one form or the other and is as old as the concept of business itself. But its emergence as a professional field of knowledge and an important functional area of business is of relatively recent origin. Let us discuss some definitions of marketing.

- **Marketing is the human activity directed at satisfying needs and wants through an exchange process.’ Philip Kotler**
- **‘Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging of products and value with others.’Philip Kotler.**
- **‘Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.’ American Marketing Association (AMA)**
- **Marketing is an organizational function and a set of processes for creating, capturing, communicating and delivering value to customers and for**

**managing customer relationships in ways that benefit the organization and its stakeholders.’ American Marketing Association (AMA)**

- **‘Marketing is the creation and delivery of a standard of living.’ Paul Major**
- **‘Marketing is a total system of business activities designed to plan, price, promote and distribute want-satisfying goods and services to present and potential customers.’ William J. Stanton**

The definition of marketing has been changing from time to time with changes in the market place and the perspective of the marketing persons. From the definitions given above we can find the changing views on marketing by the writers with the passage of time. Philip Kotler, the famous author on marketing modified and redefined his earlier definition to make it more contemporary with changing values and needs of the society. We can also see the same change in the perception of the concept of marketing in the definitions of AMA. The earlier definitions or views on marketing were based on the assumption that whatever is produced will be sold in the market. This does not hold good in today’s market setting. No business firm can afford to ignore the needs and desires of the customers. Marketing now encompasses the needs and requirements of customers. The currently accepted total marketing concept of business is customer –oriented, hence AMA needed modification in its earlier definition.

**Essential feature of Marketing** :-From the various definition given above, marketing as a function can be said to have the following features.

- **Marketing entails an exchange** :- At its core, marketing is a function involving transaction or exchange. It consists of activities designed to generate and facilitate exchanges intended to satisfy human or organizational needs or wants.
- **Marketing is a need satisfying endeavour** : - Marketing is all about satisfying customer needs and wants.
- **Marketing strives for value addition or creation** :- Marketing helps create value for the customers. It provides various types of utilities like time, place, form and possession utilities.

- **Marketing is pervasive :- Marketing is an all pervasive activity and occurs in many settings.**
- **Marketing can be performed by both individuals and organizations.**
- **Marketing revolves round 4 Ps :-** Marketing activity revolves round product, price, place and promotion.
- **Marketing is a social and managerial process.**

#### 6.4 EVOLUTION OF MARKETING CONCEPT

Concept means certain thoughts, ideas or notions which are commonly or largely accepted or endorsed. They are, in other words, considered as largely accepted ideas or notions. Marketing concepts, therefore, means commonly or largely accepted thought, notions on different core areas of marketing. No concept, however, remains static or unchanged. It goes on changing with change of time.

The concept of marketing has also undergone different changes and the changes have taken place due to the differing orientation or notion or the focus area of marketing by the firms or business houses. The different concepts of marketing are discussed below.

- **The exchange concept-** The exchange of a product between the buyer and the seller forms the core of marketing. Both the parties come together with the sole objective of exchange of goods and services and money or money's worth on a give and take basis. But marketing is much broader in its scope than mere exchange.
- **The production concept-** This is a concept of marketing which believes that marketing can be managed by managing production. It focuses on the internal capabilities of a firm rather than on the desires and needs of the consumers. The concept assumes that consumers will accept those products that are produced in large volume at a low unit cost. As a result, the emphasis always remains on cost reduction and maximization of output. Mass production and mass distribution with low cost per unit is the central idea of production concept.

- **The Product concept** - Product concept believes in product quality and product excellence. While production concept emphasizes on quantity of production with lower cost for achieving profit and growth, the product concept seeks to achieve the same object with product innovation and product excellence. This concept assumes that good, noble and innovative products will be sold automatically. The marketer puts too much emphasis on product quality and ignores consumers' needs and aspirations.
- **The Sales Concept** - A sales concept is based on the idea that people will purchase more goods and services if aggressive sales techniques are used. It assumes that people will not purchase in bulk on their own. They need persuasion and hard selling to purchase the products. Heavy advertising, high power personal selling, heavy price discount and strong publicity and public relations are used to achieve the sales target.
- **The Marketing Concept** - The marketing concept recognizes the importance of consumer. The needs and aspirations of consumer are given top priority while formulating the business strategy and designing the products and services. It is based on the underlying assumption that business should be organized keeping the customer at the center and the task of such business should be one of anticipating, stimulating and meeting customer's requirements. In this context the view expressed by Peter Drucker assumes much significance when he says 'the essence here is that the entire business has to be seen from the point of view of the customer. Consumer satisfaction and consumer delight are the key features of marketing concept. Achieving a market orientation involves obtaining information about customers, competitors and markets and determining how to deliver superior value or service to the customers.
- **Societal Marketing Concept** - This concept believes that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives,

but also to preserve and enhance society's long term interest. Both the organization and the customers should develop a concern for the welfare of the society while satisfying their respective needs. In a societal marketing practice, the company should earn profit and achieve growth, the customers must get their products in a satisfying manner and the most important of all these is that every thing must be done in an atmosphere of broad social welfare with least adverse impact on the society.

- **Social Marketing Concept** - Marketing has two dimensions. One is profit oriented marketing and the other one is non-profit marketing. The scope of marketing moves beyond the profit orientation. That is known as non-profit marketing. Here the marketing effort aims to propagate a socially relevant cause and change the opinion and attitude of the society towards a better living. This is also known as cause related marketing. Save forest, Plant a tree, Preserve water and energy, Aids Awareness etc. are some of the examples of cause related or non-profit oriented marketing efforts.

## **6.5 DISTINCTION BETWEEN MARKETING CONCEPT AND SELLING CONCEPT**

The scope of marketing is much wider than selling. Selling revolves around the needs and interest of the seller whereas marketing focuses on customer's needs and wants and aims to fulfill those to the utmost satisfaction of the customers. Let us discuss them in detail:

Basis	Marketing	Selling
a) Emphasis	Emphasis is on customer's needs and wants	Emphasis is on the seller's needs and wants
b) Orientation	Buyer is the kingpin	Seller is the kingpin
c) Approach	Converts customer's needs into products	Converts existing products into money.
d) Philosophy	Views business as a customer satisfying process.	Views business as a profit guaranteeing process
e) Price mechanism	Market determines the price	Cost determines the price
f) Position of the customer	Customer is the very purpose and at the centre of the business.	Customer is the last link and treated as a passive factor.
g) Managerial perception	Management is profit oriented through customer satisfaction.	Management is profit oriented through increase in the volume of sales.

## 6.6 OBJECTIVES OF MARKETING

Marketing objectives are essential for any organization that wants to raise awareness about itself, its products, or its services. Great marketing objectives should help build organizational awareness and grow customer loyalty. A business predominantly aims at earning reasonable long-term profits by satisfying the needs of the customers. Marketing objectives may differ from organization to organization. The following are the commonly accepted major marketing objectives.

- To satisfy the customers:** The marketing manager must scientifically study the demands of customers before offering them any goods or services. Selling the goods or services is not as important as the satisfaction of the customer's needs. Modern marketing thus always begins and ends with the needs of customers. Once customers are satisfied with product or service, sales will automatically follow.

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- **To increase profits for the growth of the business:** The marketing department is the principal department which generates revenue for the business. Sufficient profits must be earned as a result of sale of want-satisfying products. If the firm is not earning profits, it will not be able to survive in the market. Moreover, profits are also needed for the growth and diversification of the firm.
  - **To increase market share:** Every business aims at increasing its market share, i.e., the ratio of its sales to the total sales in the economy. For this, companies adopt innovative and efficient marketing strategies.
  - **To create Goodwill and public image for the company:** Marketing is the only department or function which has the scope to interact directly with the target customers as well as the public. The company builds its image by providing good quality product and serving the customers in a satisfying manner.
  - **To determine marketing-mix-** Product, pricing, promotion and physical distribution are the elements of marketing mix. The success of any marketing programme depends on a right combination of the marketing mix keeping in view the need of its target customers. This is an important objective of marketing which should be planned in such a manner so as to meet the requirements of different kinds of customers.
  - **To help in the improvement of the standard of living of the people-** Innovative marketing approach always makes efforts to find out new ways for satisfying customers needs. It develops and designs new products and services for the customers. All these things bring around a change in the life style of the people and increase their standard of living
  - **To ensure customer retention-** The primary focus of marketing is to achieve customer satisfaction. It tries to develop a lasting relationship with the customers. This relationship is one of trust and confidence .An honest and ethical way of doing business earns goodwill and trust for the products as well as the company .As a result of this customers develop loyalty for the company and its brands and remain with it for a long time.

## 6.7 FUNCTIONS OF MARKETING

Marketing functions refer to the various activities involved in the marketing process. Marketing process broadly consists of three aspects. They are (a) Concentration (b) Equalisation (c) Dispersion. Concentration involves collection of goods from various sources at a central point for sale at required places. Equalisation is concerned with the proper adjustment of supply at all the distribution centers in the light of prevailing market conditions. Equalisation can be achieved through storage and transportation. Storage or warehousing ensure organization of supplies time wise and transportation brings about equalisation of supplies place wise. On the other hand dispersion is about movement of the goods from the producers to the ultimate or final consumers. This movement takes place through the channel of distribution or intermediaries. In the back drop of the above mentioned marketing process we can describe marketing function as an act, operation or service by which the original producer and the final consumers are linked together.

Different authors have classified the marketing function in different ways but all these classifications are built upon the process of marketing i.e. concentration, equalization and dispersion. Broadly the marketing functions can be discussed as follows:

- a) **Buying and assembling-** The buying function generally involves searching the sources of supply, assembling of products from different sources. It involves procurement of stock from various sources and assembling them at one place for sale purposes.
- b) **Selling-**The primary objective of any business activity is to sell the product. The selling function includes search of buyers, creation of demand by using all market promotion tools and transfer of title and possession of goods to the buyers.
- c) **Product Planning and Development-** It is one of the important functions of marketing. The product is planned keeping in view the customers' needs so that it can satisfy them. The product planning and development is a continuous process. Change in the technology, change in the customers' tastes and preferences, change in the life style of the customers and many other factors influence the product planning process. In order to survive and grow, the companies take these

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into consideration for increasing customers' support base and the reputation of the Companies.

- d) Storage-** The storage function ensures availability of goods to the customers at right time .Storage function equalizes the demand and supply in the market. It also provides time utility to the customers.
- e) Standardisation and Grading-** Standardisation means prescribing basic limits or grades on the basis of which products may be sorted and producers of goods must conform to the pre determined specifications. This brings uniformity as far as the quality and functionality of the product is concerned.
- f) Risk Taking:** Risk is inherent in any business. The marketer operates in an atmosphere of uncertainty. The fluctuation in the market demand, the changes in the preferences of the customers and other such related factors cause a risk profile for the marketers. The marketers assume the risk and try to overcome them.
- g) Pricing-** Pricing is a unique element of marketing mix .It is the only element which earns revenue for the company. It is determined by the forces of demand and supply. The marketer can use pricing as a tool to face the competition.
- h) Financing-**Financing as a marketing function, involves the use of capital to meet the various marketing activities. It is said that money is the lubricant that facilitates the operation of marketing machine. Finance is required from the procurement stage to the stage of selling to the final consumers in the form of providing credit to the customers. Being the life blood of any business, financing function is the most important function.
- i) Transportation-** The producer and the ultimate consumers as well as the other intermediaries stay in different places. There remains a spatial difference between the place of production and the place of consumption. Transportation function bridges this gap. It provides the place utility to the final consumers. Therefore it is an essential marketing service at every stage in the flow of goods during

concentration as well as dispersion in the process of marketing.

- j) Promotion-** Promotion is otherwise known as marketing communication. It creates awareness about the product and builds an image about the product and the company in the market. It persuades the customers to buy the product and remain loyal to the brand as well as to the company. Personal selling, advertising, sales promotion and public relation are the different tools of promotion. Together they form the promotion mix for the company.
- k) Marketing Information-** In today's competitive world no decision can be taken without proper information. The marketing information system plays a dominant role in taking various important marketing decisions. Marketing information enables a marketer to gain knowledge when to sell, at what price to sell, who are the competitors, the needs and aspirations of the target market, the various policies of the government etc. Therefore a planned collection, analysis and presentation of relevant marketing information are of utmost importance to a marketer.

## **6.8 CONCEPT AND IMPORTANCE OF MARKETING MIX**

We know that the essence of the concept of marketing is customer centric. It revolves around consumer satisfaction. That is why marketing is known as a process of creating and delivering value to the customers. The marketer delivers value to the customers through his market offerings. The offerings are designed, keeping in view the needs of the customer, not on the basis of the whims and desires of the marketers. He also takes care to see that his market offerings and their effective delivery should be done to the utmost satisfaction of the consumers. Now the question that comes to the mind is how a company or a firm creates and delivers the value to the customers. The answer is, by designing an appropriate marketing mix for its target market.

### **6.8.1 The Concept of Marketing Mix**

The term marketing mix refers to a unique blend of product, pricing strategy, promotion and place (distribution), designed to produce mutually satisfying exchanges with a target market. This combination is popularly called the four Ps of marketing. All the components must be blended properly in order to produce the desired result in the market

place. If the product is of poor quality, even a heavy promotion and lowest price cannot save the product. Similarly excellent products cannot succeed in the market if they are not supported by appropriate pricing, promotion and suitable distribution strategies. It can be seen that all activities and programmes which a marketer designs and implements with a view to win over the consumers, relate to one or the other of the above mentioned four Ps. These four Ps are also called the elements of marketing mix. Jerome McCarthy the well-known American professor of marketing described marketing mix in terms of the four Ps. He classified the marketing mix variables under four heads each one starting with the alphabet 'P'. They are Product, Price, Promotion and Placement.

### **6.8.2 Elements of Marketing Mix: (Four Ps.)**

Let us discuss the various elements of marketing mix.

**PRODUCT**-Product is the heart of the marketing mix, the starting point. The designing of all other elements of marketing mix is strategically linked to the most important element of product. In marketing, we need a broader definition of product to indicate that customers are not really buying a set of attributes, but rather the benefits that satisfy their needs. For example we can say that users or buyers don't want sandpaper, they really want a smooth surface. Similarly when a buyer buys a fair and lovely cream he is more concerned with the benefits of the cream rather than its process or technology used for its production. Therefore it is said that product is nothing but a bundle of satisfaction i.e. satisfaction derived by the consumers after using or acquiring the product. The product includes not only the physical unit but also its package, warranty, after-sale service, brand name, value, company image and such other factors. Products can be tangible goods such as television, washing machine, and intangible services such as consultancy, banking insurance, medical care which we can feel but cannot see or touch.

**PRICING STRATEGIES**- Price is the value which a customer must pay to the seller in order to obtain a product. It is the most flexible element of market mix' Price is the only element which earns revenue for the firm. The pricing decision of a company include the determination of the overall level of prices (Low, Medium or High). The relationship between price and quality how prices are computed, how to react to competitor's prices.

**PROMOTION**-Promotion is marketing communication. The basic objectives of the promotion strategies of a company are to inform, persuade and to remind and retain the consumers. The elements of Promotion includes advertising, personal selling, sales promotion and public relation. Promotion's role in the marketing mix is to bring about mutually satisfying exchanges with target markets by informing, educating, persuading and reminding them of the benefits of an organisation or a product. Through various tools of promotion a company effectively relate itself to its target market.

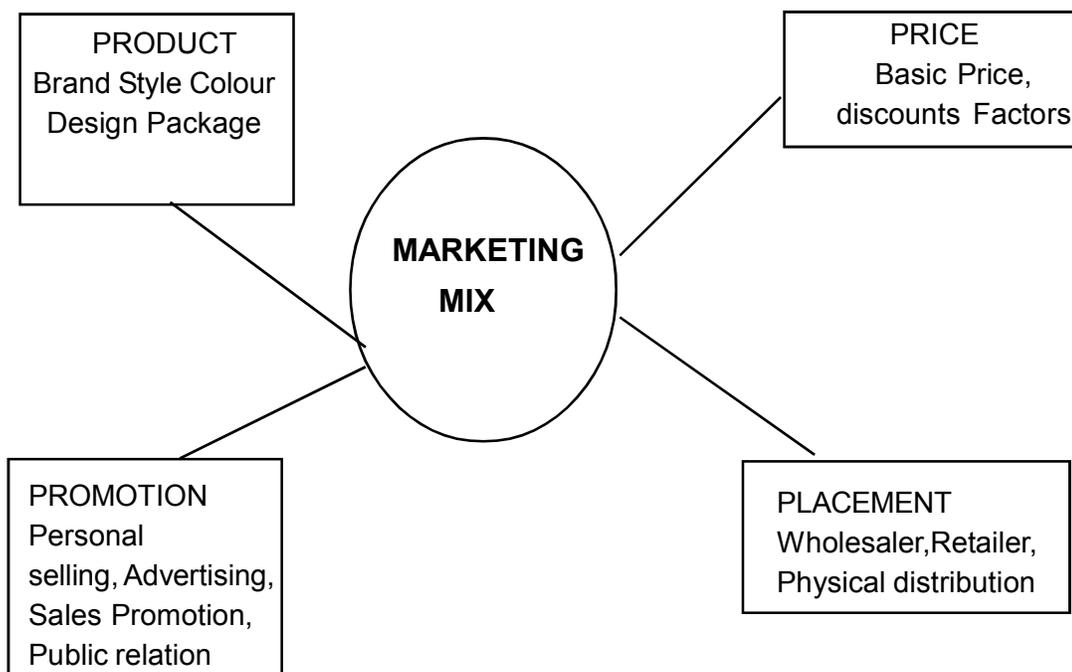
**PLACE (DISTRIBUTION)**- Placement or distribution strategies are concerned with making products available when and where customers want them. The products can be delivered to the ultimate consumers either through direct channel or with the help of middlemen which is called indirect channel. A channel is the path or route which a product travels on its way from the producer to the ultimate consumers. The Placement element of marketing mix comprises of two parts. They are channel of distribution and physical distribution or logistics. Wholesalers, agents, distributors and retailers are called channel members or middlemen. The physical distribution involves physical movement of goods from the place of production to the place of consumption. Transportation, warehousing and inventory management are the components of physical distribution. The goal of physical distribution is to make sure products arrive in usable condition at designated places when needed. (All these element have been discussed in detail in the following Chapters)

### **6.8.3 Importance of Marketing Mix**

Marketing managers use the concept of marketing mix to generate a positive response from the market place by blending the marketing mix elements in an optimum way. All the elements of marketing mix are controllable variables. These elements can be adjusted as and when required to meet the needs of the target market and the environment. The importance of the marketing mix can be discussed as under:

- 1. Attracting customers**-marketing mix acts as a tool in the hands of the marketing manager to attract the customers .A correct combination of the elements of marketing mix draws the attention of the target market as it is designed keeping the needs and aspiration of the target market in view.

2. **Better use of resources-** Marketing mix is always customer focussed. When a marketer designs his strategy, he does it after making a detailed study of the target market. This helps in planning the marketing mix as per the requirement. Thus saves a lot of cost, time and efforts.
3. **Balanced Approach-** One has to be careful and sincere in choosing the right blend of the marketing mix. It integrates the individual elements and the marketing environment in order to bring a cohesive approach.



#### 6.8.4 Facts considered fo Designing an effective Marketing Mix.

- 1 It should match the customers 'needs.
- 2 It should highlight the true source of competitive advantage over its competitors
- 3 It should have a consistent theme or message.
- 4 It should match the company's resources

### 6.8.5 Factors affecting the Marketing Mix Decision of a Company

1. **Target market-** The Company selects a particular segment to focus upon and concentrate all its effort on it. The target market consists of the people who are selected on the basis of their demographic, psychographic, geographic and other consideration. This becomes the starting point of designing the marketing mix.
2. **Marketing environment-** The marketing environment is divided into two types. Macro and micro marketing environment. Political, social, cultural, technology, economic condition, legal infrastructure etc. are the elements of macro marketing environment. The micro marketing environment includes suppliers, customers, competition, employees the surrounding public and such other factors which have an immediate impact on the functioning of the company or firm. Macro marketing environment has a general overall impact whereas micro marketing environment has a specific or direct impact on the designing of the marketing mix of a firm.
3. **Company resources-** Company resources determine the dimension of marketing mix strategies. Resources include financial resource, technological resource, manpower resource, research and development capability etc.
4. **Marketing objectives-** The long run and short run objectives of a firm or company influence the marketing mix decision. The objective may be increase in sales volume and getting quick return in the short run or expanding its market share establishing its market leadership position in the long run.
5. **Company objectives-** A company's objectives are derived from its vision and mission. The long term vision and mission for which the company is created influence all most all the policies of the company on a sustained and consistent basis.

**6.9 MODEL QUESTIONS****SHORT AND OBJECTIVE TYPE QUESTIONS:****1-Choose the correct alternative**

- (A) 'The sum total of the existing and potential customers' is the definition of
- a) The place concept of marketing
  - b) The activity concept of marketing
  - c) The demand concept of marketing
  - d) The place and activity concept of marketing
- (B) A Local market, is a classification of market, on the basis of,
- a) Area
  - b) Position of sellers
  - c) Nature of goods
  - d) Volume of business transaction
- (C) Mass production and mass distribution is the central theme in the
- a) Product concept
  - b) Societal concept
  - c) Production concept
  - d) Selling concept
- (D) A marketing thought with a nonprofit orientation is known as known as
- a) Product concept
  - b) Societal concept
  - c) Selling concept
  - d) Social Marketing concept

- (E) A market which sells to the final consumers is called
- a) Forward market
  - b) Spot market
  - c) Retail market
  - d) Wholesale market
- (F) A combination of 4Ps of marketing is called
- a) Product mix
  - b) Promotion mix
  - c) Marketing mix
  - d) Media mix
- (G) The only element of marketing mix which earns revenue for the firm is called
- a) Product
  - b) Price
  - c) Placement
  - d) Promotion
- (H) An element of marketing mix which creates awareness about the product or service among the customers and intends to increase the sales is known as
- a) Price
  - b) Promotion
  - c) Channel of distribution
  - d) Product
- (I) Which of the following word is associated with 'placement' element of marketing mix?
- a) Advertising
  - b) FMCG
  - c) Channel of distribution
  - d) Cost plus pricing

- J Advertising and Personal selling come under the
- a) Product element
  - b) Price element
  - c) Promotion element
  - d) Placement element

**Q.2-Correct the underlined portion of the sentence**

- a) Marketing concept puts emphasis on aggressive selling.
- b) A market where transactions are finalized pending delivery of goods and payment of money to take place at a later date is known as Spot market.
- c) A market which covers the entire length and breadth of the country is known as Global market.
- d) Under selling concept, the marketer displays a concern for society's well being while earning profit.
- e) Product innovation and product excellence is the hall mark of production concept of marketing.
- f) When a producer sells to the ultimate consumer, it is called indirect channel of distribution.
- g) Transportation, warehousing and inventory management are the components of promotion element of marketing mix.
- h) Placement is the only element of marketing mix which earns revenue for the firm.
- i) Personal selling and advertising are the components of product element of marketing mix

**Q.3-Express in one word or phrase**

- a) A market where both the buying and selling or delivery of the goods and payment of price takes place simultaneously.
- b) A marketing concept which propagates a social cause
- c) A market where producers of agricultural commodities sell their products to the wholesalers and agents.

- d) A place where buyers and sellers congregate for an exchange process.
- e) A path which a product travels on its way to the ultimate consumer
- f) An element of marketing mix which earns revenue for the firm
- g) A paid form of non-personal communication
- h) A type of channel structure in which the producer directly sells to the ultimate consumer

**Q.4. Fill in the gaps**

- a) 4Ps of marketing is otherwise called \_\_\_\_\_.
- b) Personal selling is a component of \_\_\_\_\_ element of marketing mix.
- c) Wholesaler is associated with the \_\_\_\_\_ element of marketing mix.
- d) \_\_\_\_\_ is the only element of marketing mix which earns revenue for the firm.
- e) The route or path which a product travels from the producer to the ultimate consumer is called\_\_\_\_\_.

**Q.5 Answer the following questions (within 30 words)**

- a) What do you mean by market?
- b) Define marketing.
- c) What do you mean by Spot market?
- d) What is production concept in marketing?
- e) What is societal marketing concept?
- f) What do you mean by marketing mix?
- g) What do you mean by physical distribution?
- h) Explain the meaning of product.
- i) What is personal selling?
- j) Who are called channel members?

**6. Answer the following questions (Within 50 words)**

- a) What do you mean by indirect channel of distribution?
- b) Explain the concept of marketing mix.
- c) What do you mean by 'promotion' in marketing mix?

- d) Name two importance of marketing mix.
- e) Explain any two factors that influence marketing mix of a firm.

### LONG ANSWER TYPE QUESTIONS

- Q5. Explain the concept of market. Draw out a classification of market.
- Q6. Define marketing. Explain its essential features and discuss various objectives of marketing.
- Q7. What do you mean by marketing? Discuss the evolution of marketing concepts over different period of time.
- Q8. What are the component of marketing process? Explain them and outline the functions of marketing.
- Q9. Explain the concept of marketing mix in detail.
- Q10. What do you mean by 4Ps of marketing? Explain them.
- Q11. Define marketing mix. Explain the importance of marketing mix for an organization.
- Q12. What is marketing mix? Explain the factors that influence the marketing mix decision of a firm.

### ANSWERS

- 1. A- ( c), B-(a), C- (c), D-(d), E- (c), F-(c), G-(b), H-(b), I-(c), J-(c)
- 2. (a) Selling, (b) Future Market, (c) National Market,  
(d) Societal (e) Product (f) direct (g) Placement (h) Price, (i) Promotion
- 3. (a) Spot Market, (b) Social Marketing, (c) Commodities Market, (d) Market (e) Channel (f) Price (g) Advertising (h) Direct chanel
- 4. (a) Marketing Mix (b) Promotion (c) Placement (d) Price (e) Channel & distribution.

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# CHAPTER-7

## ELEMENTS OF MARKETING MIX

(A) PRODUCT (B) PRICE (C) PLACEMENT (D) PROMOTION

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### STRUCTURE

#### 7.0 INTRODUCTION

#### 7.1 (A) PRODUCTS

7.1.0 CONCEPT, DEFINATION, LEVELS

7.1.1 CLASSIFICATION OF PRODUCTS

7.1.2 PRODUCT MIX

7.1.3 BRANDING

7.1.4 LABELLING

7.1.5 PACKAGING

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7.2.2 OBJECTIVES OF PRICING

7.2.3 FACTORS INFLUENCING PRICING DECISION

7.2.4 PRICING STRATEGIES/METHODS

#### 7.3 (C) PLACE

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7.3.2 MEANING AND TYPES OF CHANNEL OF DISTRIBUTION

7.3.3 FCTORS INFLUENCING THE DESIGNING OF THE  
CHANNEL OF DISTRIBUTION

7.3.4 FUNCTION OF DISTRIBUTION CHANNELS

7.3.5 PHYSICAL DISTRIBUTION

#### 7.4 (D) PROMOTION

7.4.0 INTRODUCTION

7.4.1 OBJECTIVES OF PROMOTION

7.4.2 ELEMENTS OF PROMOTION MIX

#### 7.5 MODEL QUESTIONS

## 7.0 INTRODUCTION

While explaining the concept of 'Marketing Mix' in the previous chapter (Ch-6), a brief idea about the different elements or components of 'Marketing Mix' has been given. All Marketing Managers are constantly called upon to take crucial decisions for a given period of time on varieties of issues related to the Product, Pricing of the Products, Placement of Products and Promotion of Products. When specific decision on all these matters are taken, they constitute the package of or a combination of or a mixture of marketing plans and strategies and is called as the Marketing Mix.

All marketing related decisions, therefore, revolve round four basic matters, namely product, pricing, placements and promotion, known as elements or components of Marketing Mix. Each of these elements has been discussed in greater details in the following pages.

## 7.1 PRODUCT

### 7.1.0 THE CONCEPT OF PRODUCT:

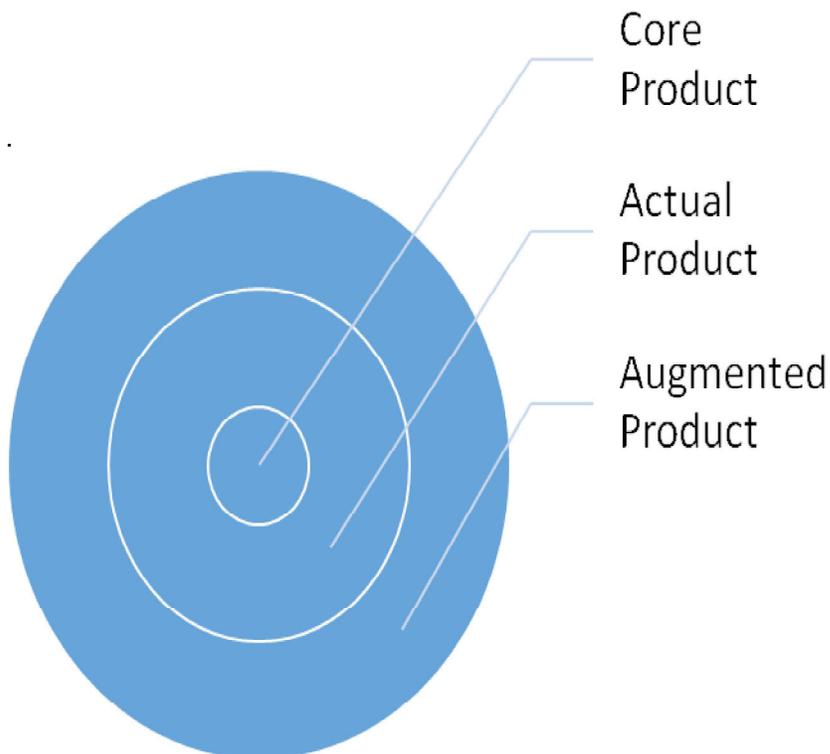
A product is often thought of as a physical object, manufactured or traded by any business organisation. But the meaning of product has a wider connotation in the context of marketing. From the marketing point of view a product can be more than a physical thing, it may be a service, a feeling, a pleasure, a reputation, an experience. A product can also be a person, an organisation, a place, an event and an idea or concept. Whenever a buyer buys a product, he is interested much more than the physical form of the product. A product is nothing but a bundle of satisfaction or utilities consisting of various product features and accompanying services.

#### Definition of Product

- Product is a cluster of psychological satisfaction.—George Fisk
- A product is a bundle of physical services and symbolic particulars expected to yield satisfaction or benefits to the buyer.—Philip Kotler
- A product is a complex of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige, manufacturer's and retailer's services, which a buyer may accept as offering satisfaction of wants or needs.—Stanton
- A product may be regarded from the marketing view point as a bundle of benefits which are being offered to the consumers.—RustamS.Daver

**Levels or Layers of Product:**

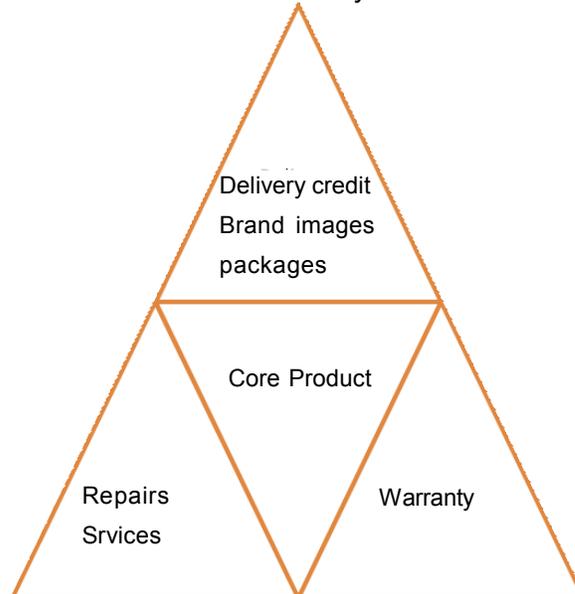
In planning as market offerings, the marketer needs to think through three levels of the product. Each level adds more customer value and the three constitute a customer value hierarchy. They are:



**Core product**—The most fundamental or basic form of the product is called the core product. It is the centre piece of any product offered in the market. Product is sometimes described as a solution for a particular need of the consumer. So, that stage of the product which satisfies or provides a solution for a specific need of the customer in its basic form is called the core product. A hotel guest buys 'rest and sleep'. The purchaser of a drill buys a hole. A television provides audio-visual entertainment. In all the above cases the rest and sleep, the hole and the audio-visual entertainment are the core benefit or the basic purpose for which the respective products are created.

**Actual or Formal product**—It may be considered as a layer on the core product. If the formal product is associated or seen as physical object, then it will have five characteristics namely, quality, features, style, brand, packaging. In case of a television the size, colour, technology, sound system, the screen size etc. form the actual or formal components of the product.

· **Augmented product**—Augmented product—it includes the additional benefits and services. Augmented product consists of values added to a product by packaging, advertising, the reputation of the producer, financing and delivery arrangement, service and maintenance offered to the consumer by the seller.



**(Augmented product)**

### 7.1.1 CLASSIFICATION OF PRODUCT

Broadly products can be classified into the following categories.

1. **Consumer Products:** Consumer products are goods and services meant for the final consumer for personal, family and household consumption. These products are used by the consumers for their own consumption but not for the processing and further transformation. Consumer products are classified as under.

- a) Convenience goods**—These are products which a consumer needs but isn't willing to spend much time and effort to buy them. The consumer doesn't need additional information about the product. This is a habitual buying on the part of the consumers. Many food products, soft drinks, newspapers, grocery items and the like fall into the category of convenience goods. Convenience goods can be subdivided into three categories. They are:
- I. Staple goods**—These are the items which are purchased routinely with little planning. The staple goods form the major part of the convenience goods purchasing. Bread, , meat etc. are examples of staple goods. The consumer is not going to take extra effort for the acquisition of these products. These items must be close to where the consumer lives, works or passes by.
  - II. Impulse goods**—These are items which are bought by the consumers without any prior planning. Here the exposure to the product inside a store create an urge in the consumer to buy it. The buying decision is impulsive and decision to buy such items are taken then and there. The desire to buy staple goods may cause to go for shopping but the desire to buy the impulse goods is a result of shopping.
  - III. Emergency goods**—These purchases are made due to the urgency of the situation. Umbrella when raining, repair when something is out of order, etc. are examples of emergency goods.
- b) Shopping goods**—These goods are more expensive than convenience goods. Consumers usually buy these items after comparing the styles, price, and design. While purchasing such goods, the consumers display willingness to spend more time and effort and become more selective and rational. Refrigerators, washing machines, furniture, dress etc are examples of shopping goods.
- c) Speciality goods**- These are goods which have unique features and consumers make special effort to purchase them. Consumers search extensively for such

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items and are usually reluctant to accept substitutes for such goods. They also express willingness to pay premium price for speciality goods.

- d) Unsought goods**—These are goods which the consumers either are not aware of or are not thinking of buying them. Consumers purchase such products when pressurised or persuaded, or on the happening of some events. Examples of such products are life insurance, medical check-up, buying a dictionary or encyclopaedia etc.

**2. Industrial Products**—Industrial products are usually purchased by the buyers not for their direct consumption. They primarily buy them for use in producing other goods. Industrial goods are classified into six categories. They are:

- a) Installations**—These are large expensive capital items. They are generally non-portable goods involving a high degree of consumer decision making. The major marketing tasks are direct selling from the manufacturer to the purchaser, lengthy negotiations about features, terms of payment, after sales service etc. Examples are buildings, assembly lines, major equipment, large machine tools etc.

- b) Accessories**—They are less expensive as compared to the installations. They are also capital goods like the installations and are more standardised. They are portable and require somewhat moderate level of purchase involvement and decision making. Technical and maintenance support are usually provided by the seller to the purchaser.

- c) Component parts and materials**—Unlike the above types, these category of goods become part of the final product. Tubes of television sets, flour for a bakery etc. are examples of such category.

- d) Raw materials**—They also become part of the final product. They are typically divided into natural and agricultural products. Examples of raw materials are wheat, rice, sugar cane cotton, iron ore, bauxite etc.

**e) Industrial supplies**—Supplies are the products which are not directly related to the production. They provide support service for the day to day running of the office. Supplies include papers, pens, and other such stationery items which provide a support service for the smooth running of the organisation.

**f) Services**—services are used to plan, facilitate or support a company's operation. They range from routine service to high skilled services. Example are consultancy services advertising services, third party logistics etc.

### 3 Services

According to Philip Kotler “a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Generally services have four characteristics that distinguish them from goods. They are as follows:

- a) Intangibility**- Services are intangible. Unlike physical products they cannot be seen, tested, felt, heard or smelled before they are bought.
- b) Inseparability**—Inseparability is another important point of distinction between goods and services. Services are typically produced and consumed simultaneously. But the tangible physical goods are manufactured, put into inventory, distributed through multiple resellers and consumed later. The consumer of a pen is not required to be present at the time of the production of the pen which is a tangible product but when you are ill and buying the medical service, you are required to be present along with the doctor for an effective service delivery. Therefore in case of service both the service provider and the buyer or client need to be present simultaneously for the service production and consumption.
- c) Variability or heterogeneity**—Services are highly people intensive. Individual performances cannot be standardised with perfection. The provider of the service being inseparable from the service, his ability, skill set, and psychological state of

mind at the time of service delivery influence the quality of service. The same thing also happens in case of the recipient or client of the service. Therefore in service the effect varies depending on who, when and where the service is provided.

- d) **Perishability**—Services cannot be stored. In case of physical goods, the unsold goods can be stored for sale at another time but in services the unconsumed service becomes a lost service for ever.

**4 On the basis of the durability of the product, they can be subdivided into the following type.**

- a) **Durable product**—These are products which are put to use repeatedly. The durable products usually have a longer life. They have comparatively high unit price and buyers take a rational approach while purchasing the durable products. Washing machine, Television, computers, and such others are examples of durable products.
- b) **FMCG or Non-Durable products**- The rate of consumption of such products are usually high in number. That is why they are called 'fast moving'. The speed of their turn over in retail counters is comparatively high as compared to the durable products.

#### **7.1.2 PRODUCT MIX:**

“A product mix (also called product assortment) is the set of all product lines and items that a particular seller offers for sale to buyers.” An organisation with several product lines has a product mix. In other words product mix is the composite of products offered for sale by a firm or business unit. For example, if an enterprise manufactures or deals with different varieties of soap, oil, toothpaste, perfumes etc. the group of all these products is called the product mix or the product assortment of the enterprise. The product mix strategy differs from organisation to organisation. It depends on the objectives of the individual organisation.

**Dimensions of product mix:** The concept of product mix has the following characteristic features or dimensions.

**a) Product mix length**—The length of a product mix refers to the total number of items in the mix. The product line is defined as a group of closely related products. They have same characteristics, customers and/or users. They may share technologies, distribution channels, related services etc. Suppose a company has two product lines. Each product line has five brands within it. The total comes to 10. So the length of the product line is 10. The average length of the product mix is 5 ( $10/2$ ).

**b) Product mix width (breadth)**- It refers to the number of product lines an organisation offers.

**c) Product mix depth**—The depth of the product mix refers to how many variants are offered of each product in the line. The variants may be in the form of colours, sizes, designs etc.

**d) Product mix consistency**—It refers to the extent of commonality among different product lines in the product mix. The commonality or consistency may be in the form of same raw materials, production facilities and requirements, distribution channel.

### **7.1.3 BRANDING:**

The success of any product or service in business depends in part on the target market's ability to distinguish its product from its competitors' product. Branding is the main tool marketers use to distinguish their product from their competitors. **A brand is a name, term, symbol, design, or combination thereof that identifies a seller's products and differentiates them from competitors' products.** The term branding refers to the entire process involved in creating a unique name and image for a product in the consumers' mind through advertising with a consistent theme. According to Jared Spool, "Branding means creating an emotional association such as the feeling of success, happiness or relief that customers form with the product, service or company". In the present era of competition and consistent efforts on the part of the companies to establish a positive and separate identity for their products in the market, they use branding as a powerful and essential tool for this differentiation strategy and hardly anything goes unbranded today. Even product like fruits, salt, oil, milk etc. are branded.

**Branding strategies/types of brands:****1-According to ownership- The brand may be of two types**

**a) Manufacturer's brand**—When brand is named after the names of the manufacturer of the product, it is known as manufacturer's brand. Philips, Godrej etc. are the examples of such brand.

**b) Middlemen/private brand**—When intermediaries or middlemen like wholesalers and retailers etc. sell the product under their own brand. This is also known as private level branding.

**2-According to the market area**—The brands may be of the following types.

**a) Local Brand**- Brands which are used for local market.

**b) Provincial Brand**—When one brand is used for a particular province or state it is called provincial brand.

**c) Regional Brand**- Under such type of branding manufacturer uses his brand name only for a particular region. The regions may be western, eastern, southern, and northern.

**d) National Brand**—When the same brand name is used to sell the producer's product throughout the country irrespective of the regions, this is called national brand.

**e) International Brand**—When a brand name is used by the company to sell its products across the globe, i.e. in different other countries, such brand is called international brand.

**3- According to the number of products**-A brand may be of the following types on the basis of the number of products.

**a) Family Brand**—When the manufacturer uses a single brand for all his products, it is known as family brand. Here a brand name is extended over a number of products produced or dealt by the company. For example, the brand name Amul is extended over a varieties of products like Amul ice cream, Amul ghee, Amul milk powder etc. OMFED is another example of family branding.

**b) Individual Brand**—In such type of branding companies use different brand names for different products. These brands have distinct images and appeals and are marketed differently. For example, HUL has Close Up and Pepsodent as two brands of toothpaste. Again toilet soaps produced by the Hindustan Unilever Limited (HUL) bear different brands like Lifebuoy, Lux, Rexona etc.

**Qualities of a good brand:** A good brand or brand name should have the following qualities.

- a) It should be short, simple and easy to remember.
- b) It should be easy to pronounce and spell.
- c) It should not be offensive, obscene or negative.
- d) It should be capable of being registered and legally protected.
- e) The brand name should suggest something of the product's characteristics, its benefits, use or action.

**Advantages of Branding:**

- a) Brand gives a separate identity to the product and helps in process of building its personality.
- b) It conveys the core benefit that the product is supposed to deliver to its consumers.
- c) It helps in creating and sustaining a long term bonding with the customers.
- d) When the brand name is registered, it gives a legal protection to the product.
- e) Branding can be used as a differentiation strategy when the product cannot be easily distinguished in terms of tangible features.

**7.1.4 LABELLING**

Labelling is the process of attaching labels either on the body of the products or on their wrappers or containers. A label is a slip or paper or other materials affixed to something and contains important information about it. According to William.J.Stanton "The label is that part of the product which carries verbal information about the product or the sellers (manufacturer or middlemen). A label may be part of the package or it may be

a tag attached directly to the product.” Labels may range from simple tags attached to products to complex graphics that are part of the package. The label indicates:

- I. The product’s brand name
- II. Ingredients
- III. Weights and measures
- IV. Promotional measures
- V. Place of manufacture
- VI. Instructions for use
- VII. Grade
- VIII. Name of the manufacturer
- IX. Dates of manufacture and period of safe use and expiry date.

**Objectives of labelling:**

- a) Brand identification—labelling helps in the identification of the brand. The informational content of the label of a product establish the brand identity in the market.
- b) Description—Labelling provides a description about the nature of the product, its quality, its utility, cost of the product, usage method etc.
- c) Promotion—Labelling plays an important role in persuading the consumers to buy the product. The attractiveness and bright graphics along with trustworthy information provided by labels influence people to purchase the products.
- d) Sales tool—As label is a part of packaging, it influences the prospect and his purchase decision process.

**Types of Labels**

**Labels can be classified into three types. They are as follows:**

- a) **Brand label**— This type of label simply mentions the name of the brand of the product. They are meant for popularising the brand name. This type of label is the part of the package and does not provide any information about the product.
- b) **Grade label**—This type of label describes the quality level of the product. The consumers and the middlemen identify the type and standard of the product from the grade label. Leaf tea, Dust tea, Prima fan etc are examples of such type of labels.

c) **Descriptive label**—These labels are descriptive in nature. They provide full information about the product to the consumers. This type of label gives information about the date of manufacture, date of expiry, ingredients, grade and quality of the product etc.

### 7.1.5 PACKAGING

Packaging refers to the container/wrapper in which the products are kept and moved from the producer to the ultimate consumers. Packaging should be distinguished from packing. Packing is wrapping a commodity in a way suitable for transporting, storing and handling but packaging is a wider term. A package has a functional purpose as a container of a product and do the protection function. The container acts as a silent salesman and an effective medium of advertisement. Packaging involves promoting and protecting the product. Packaging can make a product more convenient to use or store. It can prevent spoiling or damage. Good packaging helps in identifying the product and promoting the brand at the point of purchase.

#### Objectives of packaging

- a) **Product identification**- The colour, style and design of a package gives a distinct identity to a product. The customer can identify the product in a retail store by just having a glance at the package.
- b) **Product protection**-The main objective of packaging is protection of products or contents. The package preserves the quality and quantity of the content.
- c) **Product convenience**- An innovative packaging enhances the effectiveness of the product's function. An appropriately designed package helps in storing, shipping, handling and displaying the product.
- d) **Product promotion**- An attractive and flashy packaging draws the attention of the prospective consumers. It acts as a silent salesman.

#### Requirements of good packaging:

- a) **Package design**- The design should be attractive. It should be designed in such a way that the colour, shape and the materials used in the packaging should influence the customers.

- b) **Convenience of usages-** The design and materials used for the packages should be customer-friendly. The design should be capable of augmenting the utility of the product. The package design should be handy.
- c) **Guarantee of economy-** customers want protection, aesthetics and convenient packaging. But it should be done within an affordable limit. The cost incurred should not exceed the benefit it provides.
- d) **Environment-friendly-** The material used for packaging should be bio degradable. It should not cause damage to the environment.
- e) **Informative-** The package must contain all relevant information regarding the product, its components usage methods etc.

## 7.2 (B) PRICE

### 7.2.1 PRICE AN INTRODUCTION

Price represents the value of a good or service for both the seller and the buyer. Price is the only element of the marketing mix which generates revenue otherwise all other elements involve cost. Price may be defined as the exchange of goods or services in terms of money. Price for different products or services are expressed in different names or terms. It may be called fees for admission and membership in a club, service-charge for providing different types of services, rent for hiring a house, interest for deposit or loan etc. While price represents an expectation and an assurance of quality to a buyer, it represents a guarantee of return on the efforts and investment to the seller. But for both of them price assumes a lot of significance.

### 7.2.1 OBJECTIVES OF PRICING

Pricing objectives are overall goals that describe what the firm wants to achieve through its pricing efforts. The pricing objectives must be consistent with the organisation's overall mission and purpose. The common pricing objectives usually adopted by firms are as follows:

1. **Ensuring Survival-** A basic pricing objective is survival when the going is tough, firms concentrate on survival strategy. Through judicious pricing, firms try to retain the customers. They even fix prices below the market trend in order to keep the customers in good humour. The rationale of such objective is to survive the lean period with little profit or even short term loss in the hope of a better future prospect.
2. **Current profit maximisation—** Firms sometimes set the prices after analysing the current market situation. When they find a favourable trend and opportunity they set their prices with an objective to maximise the current profit resulting in a good cash flow.
3. **Enhancing Market share—** Here firms set the price with a long term perspective. They try to achieve a larger market share and maintain their dominant leadership position in the market. Market share is a firm's product sales as a percentage of total sales for that industry.
4. **Striving for targeted rate of return—** Many firms strive for a specific level of profit, generally known as the target rate of return on investment. This acts as a guideline for setting the price especially in case of a new product. The actual market conditions in each industry dictate the target rate.
5. **Maintaining Product-Quality leadership—** Firms sometimes intend to maintain product quality leadership. In such situations they emphasise on maintaining the quality and status value of the product and create a differentiation as compared with their competitors. They set high prices and spend on Research and Development to maintain the quality image in the market.
6. **Strengthening Competitive strength—** Modern industrial set up is confronted with cut throat competition. Pricing can be used as one of the effective means to fight against the competition and business rivalries. Lesser prices are charged by some firms to keep their competitors out of the market. But a firm cannot afford to charge fewer prices over a long period of time.
7. **Countering competition—** Pricing is primarily concerned with facing competition. Today's market is characterised by the severe competition. Company sets and

modifies its pricing policies so as to respond the competitors strongly. Many companies use price as a powerful tool to effectively counter the competitors.

8. **Social and ethical pricing objective**—Firms sometimes determine price being guided by a social commitment. Such products which have a direct bearing on the general health, sanitation or any other issue of national relevance are priced at somewhat affordable rate so as to enable the common masses to get the benefit of such products. Few years back a leading Pharmaceutical company reduced the price of its cancer drugs substantially and set a trend for price reduction in such socially relevant areas by others.
9. **Opting for a status quo**- It means sticking to the existing pricing policy. When a company follows a stability strategy, it prefers to continue with the existing price level to ensure customer retention while building goodwill for the company.

### 7.2.3 FACTORS INFLUENCING THE PRICING DECISION OF THE FIRM/ DETERMINANTS OF PRICE

Pricing is an important decision area. We have discussed earlier that price is unique and different from other Ps of marketing mix. This is because price is the most flexible element of marketing mix and it is the only element which generates revenue for the firm. In view of such importance a pricing decision is a challenging decision for a manager and it cannot be taken in a vacuum. Therefore a firm decides on its pricing policy after taking many factors into consideration. Let us discuss the various factors which influence the pricing decision of a firm. The factors which influence pricing are divided into two categories. They are: (a) Internal factors (b) External factors.

**INTERNAL FACTORS**—Internal factors are generally well within the control of the organization. The factors are discussed below:

- a) **Costs**—The most decisive factor in the pricing decision is cost. Cost and price of a Cproduct are closely related. Costs form the floor or the base level of the price. Normally price is fixed' above the base level i.e. over the cost of production with a desired rate of return. Selling below the cost means loss to the firm.

- b) **Top management policy**—The pricing policy of a firm is determined at the top management level. The top management determines the pricing strategy after taking into consideration the business and competitive scenario and the ethical as well as the social values of the firm.
- c) **Marketing objectives**—The marketing objectives of a firm are reflected in its pricing policy. The marketing objectives may be market leadership, current profit maximisation, increase in sales volume, survival during a bad phase or product quality leadership.
- d) **Marketing mix**—Price is one of the elements of marketing mix. It reflects the value and importance of other Ps of marketing mix. Any decision made for any of the marketing mix affects the overall price both in terms of the amount and image of the product.
- e) **Product differentiation**—The quality, size, technology used for its production, attractive package, and other such attributes which differentiate the product from its competitors have a great bearing on the price fixation process of such product. More differentiated the product, more is the price.

**EXTERNAL FACTORS:**

- a) **Demand**—Demand for the product is the total volume that is bought by a customer groups in a definite time period, in a definite geographical area, in a particular marketing environment and with the defined marketing mix. The marketer must understand and estimate the market factors like demand position and the rate of growth of the market demand for the product or service. Since demand is affected by factors like, number and size of competitors, the prospective buyers, their capacity and willingness to pay etc. they are taken into consideration while fixing the price for a product.
- b) **Competition**—It is a crucial factor in pricing decision. The degree of existing as well as anticipated competition has a lot of impact on price determination. High degree of competition does not give freedom to the firm for price determination as per their wish. The firm sets the price as per the market trend. This is called competitive pricing.

- c) **Economic condition**—The inflationary or deflationary conditions have a direct impact on the pricing decision of a firm. In recession period the prices are reduced to maintain the demand level or to generate new demand. During boom time prices are increased to get the advantages of increased market demand.
- d) **Buyers' characteristics**—The firms decide the pricing strategy keeping in view the characteristics of their target market. i.e. the buyers of that segment. The affordability, exposure, willingness to purchase etc affect the overall pricing effort of the firm.
- e) **Government Regulation**—Government comes out with different rules and regulation from time to time. These rules and regulations are taken into consideration while determining the prices.

#### 7.2.4 PRICING STRATEGIES/ METHODS OF PRICING :

1. **Cost based pricing**- Cost of production of a product is the most important variable and determinant of its price. There are many types of costs like fixed cost, variable cost, total cost, average cost and marginal cost. These costs form the basis for determining the price of a product as per the requirements. The followings are the different types of cost based pricing methods.
  - a) **Cost plus pricing**- in this method, the marketer estimates the total cost of producing or manufacturing the product and then adds a mark-up or margin that the firm wants to arrive at the desired price for the product. This is one of the most basic pricing methods usually followed by the firms.
  - b) **Full cost or absorption pricing**- This method uses all relevant variable costs in setting a product's price. In addition, it considers an allocation of the fixed costs that cannot be directly attributed to the specific product being priced.
  - c) **Marginal or incremental cost pricing**- The additional or incremental cost is taken into consideration in this type of pricing. The pricing is done under the assumption of recovering its marginal cost and getting a contribution towards its overheads. It attempts to use only those costs directly attributable to a specific output in setting prices.

- d) Break-Even point-** Breakeven point is the volume of sales at which the total sales revenue of the product is equal to its total costs. In other words, it can be said that breakeven point is the volume of sales at which there is no profit and no loss. This method is very useful for determining the price of a competitive product.
- e) Rate of Return or Target Pricing Method-** Under this method, a desired rate of return is determined beforehand on the basis of the capital invested. The amount of profit desired by the marketer is calculated on the basis of this rate of return. This amount of profit is added to the cost of production of the product and thus, the price per unit of the product is determined.
- 2. Customer Demand based Pricing-** The basic feature of demand based pricing is that profits can be expected not on the basis of costs as in the previous method, but on the basis of the consumer demand. The followings are the different types of demand based pricing methods.
- a) 'What the Traffic Can Bear' pricing-** This is not a very scientific method. There is no consistency in this type of method. This is a pricing method which depends on the current affordability capacity of the consumers. It involves trial and error. It is generally used where monopoly/oligopoly conditions exist and the demand is relatively inelastic.
- b) Price skimming—**Under this method the firm aims to skim the market by selling the product at a premium or high price. When the buyers of the firm's target market prefer to purchase a quality product associated with status value the firm can sell the product at a premium price. Skimming pricing is also adopted in a situation of low competition and innovative product offerings by the firm. Firm introduces
- c) Penetration pricing-** In contrast to the skimming pricing, the objective of penetration pricing is to gain a foothold in a highly competitive market. The firm sets prices at a lower rate than its competitors to draw the attention of the buyers and encourage brand switching. Those buyers who are price sensitive, they switch over to the firm's product because of the low price offers. In a market situation, which is characterised by intense competition, low customer loyalty towards a particular brand, a large and growing market penetration pricing works well. This is also used in case of introduction of new products by the firm.

**3. Market/Competitor based Pricing-** The competitors pricing approaches are taken into consideration while fixing prices under this method. The following strategies are discussed under this method:

**a) Parity pricing or At par pricing-** The price of the product is determined on the basis of the price of the competitors' products. This is used when the firm is new in the market or the existing firm introduces a new product in the market.

**b) Pricing below the competitors –** The price is fixed below the level of the competitors' price or competitive prices.

**c) Premium pricing-** Under this method the price is fixed above the level of the competitive pricing or competitors' prices. This is used when the firm sells products which are innovative, have status value, and of higher quality than enhances the image of the buyers.

**d) Competitive bidding/sealed bid/Tender pricing-** This is a pricing method which is usually used in case of government sector, projects, industrial marketing etc. The bidders of such projects quote the prices on the basis of the expected cost and their desired return. The price quoted reflects the firm's cost and its understanding of competition.

## 7.3 (C) PLACE

### 7.3.1 PLACE : DISTRIBUTION MANAGEMENT- AN INTRODUCTION

All goods produced or manufactured are obviously meant to be used or consumed by the ultimate consumer or buyers. Hence placing goods and services where they are needed and when they are wanted is the most crucial decision area in marketing. This is known as the distribution function of marketing. Distribution is the systematic decision making regarding the physical movement of goods and services from producer to consumer as well as the related transfer of ownership of them. So the distribution function in marketing consists of two important decision areas. They are:

- 1) The designing of a suitable channel of distribution or channel structure.
- 2) Physical distribution.

After having decided the product strategy, the marketing manager is faced with the important task of deciding the channels or routes through which his products will flow from the factory to his potential customers. The marketing manager has a number of alternatives available to him. He may reach directly to the customers with his product and services without any middlemen or he may prefer to distribute the products with the help of one or more intermediaries. Channels are routes, avenues or pathways suggesting movement or flow. Distribution means to distribute, disseminate or spread about. Hence when related to marketing, channels of distribution refer to the routes, avenues or pathways through which goods and services flow from producers to consumers. This route or path begins with the producer and ends with the ultimate consumer. Anyone in between is called a middleman, an intermediary, or a marketing institution. Let us discuss some definitions of channel of distribution:

- i. **William.J.Stanton-**“A channel of distribution for a product is the route taken by the title to the goods as they move from the producer to the ultimate consumer or industrial users.”
- ii. **John A Haward-** “Marketing channels are the combinations of agencies through which the seller, who is often, though not necessarily the manufacturer, markets his product to the ultimate users.”
- iii. **McCarthy-** “Any sequence of institutions from the producer to consumer, including one or any number of middlemen, is called a channel of distribution.

### **7.3.2 CLASSIFICATION OF CHANNELS**

Several channels are available for the distribution of consumer and industrial products. As discussed above the channels may be of two types

- 1) **The Direct channel-** This is a channel without any intermediary or middlemen. When the producer sells directly to the ultimate consumers without any middlemen, such type of channel is called a direct channel. This is also called **zero level channel**.

**PRODUCER ————— CONSUMER**

**2) The Indirect Channel-** In such type of channel, the producer takes the help of intermediaries. Goods move from producer to the different middlemen like wholesaler, retailer, agent, and distributor and finally reach the ultimate consumers. Depending on the number of intermediaries

The indirect channels are of the following types.

**a) One level channel-** This is a channel structure which consists of one intermediary between the producer and the ultimate consumer.

**(PRODUCER————RETAILER————CONSUMER)**

**b) Two level channel-** This channel structure consists of two intermediaries between the producer and the final consumer.

**(PRODUCER———WHOLESALE———RETAILER———CONSUMER)**

**c) Three level channel—**Three intermediaries function between the producer and final consumer.

**PRODUCER——AGENT——WHOLESALE——RETAILER——CONSUMER**

**Channel structure for industrial products—**Industrial products are different from consumer products. They differ in terms of their usage, buying motive, unit value, buying decision process etc. The channel structure for such products are:

**a. Zero level channel—** It contains no middlemen between the manufacturer and industrial consumers.

**b. One level channel—**one intermediary i.e. the industrial distributor, exists between the manufacturer and the industrial consumer.

**c. Two level channel—**It consists of two intermediaries namely manufacturer's representatives and industrial distributor

### **7.3.3 FACTORS INFLUENCING THE DESIGNING THE CHANNEL OF DISTRIBUTION**

Sometimes the marketing manager is confronted with the question regarding the suitability of a particular channel structure for his product. This is not a simple question to answer. The type of channel employed and the number of intermediaries in it depend on

a host of considerations. The following factors are usually taken into consideration while designing a suitable channel structure.

**I. Consumer or market characteristics—**

**Number of customers and frequency of purchase—**The number of customers and their frequency of purchase is an important guiding factor for selecting a particular channel structure. With the increase in the size of the customer and increase in their frequency of purchase lead to the addition of more levels in the channel.

**Geographic concentration of customers—**The concentration as well as the dispersal of consumers over a geographic area greatly influence the channel decision. Direct channel is preferred for a high geographic concentration of customers and indirect channel for a widely dispersed market or customers.

**Customers' buying habit—**The buying habit of the customers influences the channel design.

**Size of the purchase orders—**In case of large orders, direct channels may be considered suitable. But in case small orders, the producer finds it difficult and too expensive. Hence indirect channel is used under such situations.

**Size of the market—**The size of the market, large or small. Usually for small market direct channel and for large market indirect channel is preferred.

**II. Product characteristics—**

**Price of the product—**The low priced products need longer channel. They need intensive distribution which means the products should be available in as much outlets as possible.

**Weight of the products—**Heavy and bulky products are distributed directly to the customers to save the transport cost. But less bulky products with high value are sold through indirect channel.

**Complexity of the product—**Direct channel of distribution is suitable for the complex product as customers need various information and better service. In these cases the customer needs frequent assistance and help because of the technical complexities of the product.

**Perishability of the products**—Some products are perishable by nature. They are required to be consumed within a short period of their production as they have a shorter life. Such type of products are sold through short channels.

**III. Company characteristics—**

**Degree of channel control desired**— Some manufacturers set up short channels because they want to exercise full control over the channel. They don't want to dilute the control. Because as the channel becomes longer its management and control becomes weaker. Apart from the the control issue they also want to show a high degree of uniformity in their products' display price, after sales etc. by having a better control over the channel operation.

**Financial resources**—Financial resources play a crucial role in channel selection. Companies who prefer to set up more direct channels have to spend more as they have to recruit more sales persons and open more company outlets. This involves a great deal of spending. Companies having less financial capability go for indirect channels with comparatively less financial implications.

**Product mix** – The product mix of the company influences the channel choice. The channel design is done keeping in view whether the company is a single product or multi product company. The length, depth, width, consistency, and standardisation of the products are important variables in a channel choice decision process.

**Marketing policies of the company**—The company formulates its marketing strategy with a short, medium and long term orientation in line with the its overall organisational vision and mission. Marketing policies are framed with the objectives of increasing the volume of sales in a specific time period and increasing the market share of the company over a period of years. These policies require a well-planned channel structure from time to time to achieve the objectives.

**Ability of management**—Choice of channel is affected by the marketing experience and ability of the company's management. Many companies who do not have sufficient trained and efficient marketing personnel depend upon middlemen for their distribution function.

**IV. Middlemen characteristics-**

**Service provided by the middlemen**—Each marketer wants to select those middlemen who would provide the right kind of services to the customers. The services may be pre-sales service and post-sales service. The ability and willingness along with the available resources with the middlemen are considered before their selection.

**Availability of suitable middlemen**—Sometimes companies face the problem of finding suitable middlemen. Non-availability of suitable middlemen forces the company to set up their company-owned channel. This is because inexperienced and unsuitable middlemen will have an adverse impact on the image of the company.

**Cost of middlemen**—The cost of the engagement and management of middlemen is an important consideration in designing the channel of distribution.

**V. Environmental characteristics**—The overall business environment has an impact on the channel choice. The political, economic, cultural, social, legal and competitive aspects of the business and marketing environment have a great deal of impact on the channel choice decision.

**7.3.4 FUNCTIONS OF THE DISTRIBUTION CHANNELS:**

- **Breaking the bulk**—The intermediaries or channel members usually purchase in large quantities. But they sell as per the smaller requirements of the customers. The process of dividing the large quantity into smaller one is called breaking the bulk.
- **Provide market information**—The members of the distribution channel remain in direct contact with the customers. Because of this they are in a vantage position to get a first-hand knowledge about the product's acceptability in the market and consumers' behaviour, competition and other related information. They provide this information to the manufacturers.
- **Assortment**—Assortment means a combination of related and wide variety of products. The channel members like the wholesalers and retailers keep a deep assortment of the products as per the requirements of their target market. So that a consumer gets all the products of his shopping list from the channel member's shop and need not run to different shops for those products.

- **Physical distribution**—Some channel members undertake the activities pertaining to physical distribution like transportation, warehousing and inventory management.
- **Financing**—The channel members provide credit facilities to their customers. The wholesaler provides credit facility to the retailers and the retailer extends credit to the final consumers. This helps in the flow of the business and does not affect the business due to shortage of funds. Each party stands to gain from this practice if done with little precaution and ethics.
- **Risk taking**—Risk is inherent in each business. So also is the case in case of the members of the distribution channel. They assume a great deal of risk while carrying on their business. The failure to effect the required sales, changes in the customers' tastes and preferences, damage in transit, competition pressure, product obsolescence are some major risk profiles which the channel members face in the course of their business.
- **Matching**—The channel members anticipate the needs of their consumers and procure right kind of goods to meet their needs. This is called matching the consumers' needs with the right kind product availability.

### 7.3.5 PHYSICAL DISTRIBUTION-

Physical distribution includes all the activities associated with the supply of finished product at every step, from the production line to the consumers. Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products. Physical distribution starts at the factory. Managers choose a set of warehouses and transport carriers that will deliver the goods the goods to final destinations in the desired time or at the lowest total cost.

- “Physical distribution involves the management of the physical flow of products and the establishment and operation of the flow system” **William.J.Stanton**.
- “Physical distribution means moving of finished products from one end of a production line to customers.” **American Marketing Association**.

#### **IMPORTANCE/OBJECTIVES OF PHYSICAL DISTRIBUTION:**

Like any other marketing mix component, physical distribution has two broad objectives namely consumer satisfaction and profit maximisation. Physical distribution is concerned with getting the product to the right place at the right time at the lowest cost. It is a fact that enhanced consumer satisfaction depends on prompt and dependable distribution. The profit margin for the producers can be increased by making the physical distribution system more effective and efficient. Effectiveness and efficiency in the system bring economy and reduce the cost of delivery. The average cost of delivery involving the physical distribution system works out to 20 to 25 percent of the price paid. It means by lowering the physical distribution costs, profit margin can be improved besides giving the advantages of low price and prompt delivery to the customers. Therefore the broad objectives of physical distribution system revolves around minimisation of distribution costs and better customer service. They are discussed in more detail below.

- **Minimisation of distribution costs**—A detailed plan is drawn after making a proper analysis of the requirements of transportation and warehousing or storage costs. This helps in choosing the right mode of transport and timely requirement of the stock position. This results in the minimisation of the stock position.
- **Better customer service**—It provides an improved customer service. Time utilities and place utilities to the customers are ensured in a system of efficient physical distribution.
- **Price stabilisation**—It helps in stabilising the prices of the products in the market by coordinating demand and supply. The stocking of the goods at different warehouses and the efficient logistics back up can make the products available in the areas of need thereby ensuring price stabilisation.

- **Size of inventory**—The size of inventory can be kept small, if efficient transport facilities exist. In the absence of efficient transport and warehousing system, the companies may store products in large scale to meet the demand in the market. This results in high maintenance cost, capital blocked in idle inventory, loss of inventory due to theft, pilferage etc.
- **Provides place and time utilities**—It provides place and time utilities to the customers by ensuring a timely supply of goods and at right places as per the convenience of the buyers.
- **Bridges the spatial distance**—The location of the company and the production facilities determines the importance of the physical distribution. When the place of production and the place of consumption are far and wide, the effective physical distribution system plays an important role in bridging the spatial gap and maintains a steady supply to the market places.

**Elements of physical distribution system:** The various elements of physical distribution system are discussed below.

- a. **Transportation-** It involves the activities that move the products from one place to another. There are different modes of transport available to a marketer. They are road, rail, air, water and pipelines. While choosing a particular mode of transport or a combination of different modes of transport, the marketer takes into consideration the factors like cost, speed, availability, nature of the product etc.
- b. **Inventory management-** Inventory generally consists of raw materials, semi-finished goods, finished goods etc. The inventory control and management is an important element of the physical distribution system. It is always ideal to maintain a right level of the inventory. Both overstocking and under stocking of inventory results in creating a difficult situation for the organisation. Excess inventory accumulation implies blocking of capital, maintenance costs, abnormal loss and pilferage etc. Low level of inventory can cause interruption in the flow of production. Therefore a good physical distribution system must ensure proper inventory management system.

- c. Warehousing**—Firms can choose between having their own warehouses or share space with others in third party operated warehouses. Own warehouses ensure greater flexibility and control. But it also requires high investment. On the other hand third party warehouses require no fixed investment. Warehousing involves more than storage. Warehouses perform several middlemen functions like breaking bulk, despatch of consignments to the intermediaries, holding stocks for the retailers, providing market intelligence etc.
- d. Order processing**—Physical distribution begins with the customer orders. It is the receipt and transmission of sales order information. Efficient order processing reduces confusion and ensures timely order compliance and delivery. Order entry, order handling and order delivery are the three components of the order processing function.

## **7.4 (D) PROMOTION**

### **7.4.0 AN INTRODUCTION**

The concept of marketing mix consists of 4Ps. They are Product, Price, Place and Promotion. Out of the four elements or components of marketing mix, promotion is an important element because it helps in creating awareness about the product of the company and generates demand by persuading people to buy the company's product. The concept of promotion is comprised of four components. They are personal selling, advertising, sales promotion and public relation or publicity. These four elements constitute the promotion mix of a company. Promotion is defined as "the coordination of all seller-initiated efforts to set up channels of information and persuasion to facilitate the sale of a product, or service or acceptance of an idea". Thus, promotion is a marketing activity which includes all those activities which are aimed at creating or stimulating demand.

### **7.4.1 OBJECTIVES OF PROMOTION**

The basic objectives of promotion strategy of a company are—

- (a) **Informing**—Creating awareness and interest in the company's existing as well as new products

- (b) **Persuading** – Influencing the purchase decision process of the consumer with an objective to elicit a positive response towards the company's product.
- (c) **Reminding**—It aims to retain the existing customers and remind them about their continuing presence in the market.

Apart from these basic objectives, other promotional objectives are—

- Increasing the Sales Volume: All promotional tools are used to increase the volume of sales.
- Building Brand Loyalty: Brand loyalty refers to the tendency of a consumer to keep buying particular brand. An effective promotion strategy persuades the buyers to make repeat purchase of the same brand over a long period of time.
- Stimulating the Dealer Action: Promotion strategy activities the dealers and stimulates the dealer actions in favour of the products and services of the company.
- Stimulating the Customer: An important objective of promotion is to increase the interest of the consumers in the company's product and to motivate a potential customer to turn into an actual customer by purchasing the company's product.

**7.4.2 ELEMENTS OF PROMOTION MIX-** Promotion mix as explained above represents a combination of methods and drives which all aim at promoting the sales. These methods or drives are called components or elements of marketing mix. The elements of promotion mix are

- a. Personal selling
- b. Advertising
- c. Sales Promotion
- d. Public Relation

All the above elements of promotion mix are discussed in detail

**(a) PERSONAL SELLING-** As the name suggest in such type of promotional strategy sales are promoted by sale persons directly meeting customers and selling this products the buyers and sellers come together and are engaged in a face to face communication and exchange of views. The seller persuades the buyers by personally informing the buyers about the product and its benefits and other relevant information. The buyer can

put queries about the product before the seller and get instant answers which help him to take a purchase decision. The personal selling involves a six step process. They are,

- **Prospecting-** Collecting information about the eligible buyers.
- **Pre-approach-** Collecting information about the consumers, their capacity to buy, fixing prior appointment to meet the likely customers.
- **Approach-** This is a crucial step in the process. Here the seller has a direct face to face interaction with the likely consumer. The sales person utilises all his selling skills to persuade the would be consumer.
- **Demonstration and presentation-** In this step the sales person gives a detailed information about the product and demonstrates the working and mode of use of the product to the consumers to establish the superiority and suitability of the product.
- **Overcoming the objections-** The consumers may raise several objections. The objections may be related to price, availability, and technical competence of the product and so on. A good sales man must be ready with the product knowledge, and up to date information about the product to satisfy the consumers. He should meet the objections with a cool mind and in a convincing manner.
- **Closing the sale-** This is the last step in the personal selling process. Here the sales person tries to win over the consumer and completes the formalities.

### **QUALITIES OF A GOOD SALESMAN**

It is said that the sales man is the spearhead of all business. It means that the success or failure of any business depends on the personality and qualities of the salesman. A salesman may have innate qualities and acquired qualities. Innate qualities are born or inherited qualities whereas acquired qualities are those qualities which a sales man masters with own his efforts and training. The qualities of a salesman may be divided as follows:

1. Physical qualities-
2. Psychological qualities
3. Social qualities
4. Character qualities

Let us discuss the above qualities in greater detail.

**1-Physical qualities-** The physical qualities of a salesman is a very important component of his personality. It holds the key to the success of the salesman. A salesman's job is to move around and explore business opportunities for his company and converting them into sales. He should have strong physique and ability to work hard in different working conditions. Apart from the stamina, a good looking and handsome figure adds to his personality which helps him to impress his target customers. The physical qualities of a salesman includes sound health, a correct body posture, good breath, a pleasant and clear voice and a good appearance.

**2-Psychological qualities-** These qualities relate to the different dimensions of the mental strength of the salesman. A strong psychological framework of a salesman is highly essential for his success. This is because a salesman's job involves both a positive side as well as a negative side. When he approaches a prospect or would be customer he faces the possibility of both acceptance and rejection. He should be mentally strong to take both the situations in his stride. Rejections are a part of salesman's profession. He should have the power of imagination comprehension and ability to anticipate the future circumstances. His ears and eyes must always remain open to make accurate forecasting of the micro and macro business opportunity. He should be cheerful and should have a good memory. Observation, initiative, good listening skill and a high degree of self-confidence are some of the important aspect of a salesman's psychological qualities.

**3- Social qualities-** The ability to make friends and to get along with people is one of the most valuable assets of a salesperson. His job requires him to move towards the people and to understand their needs and persuade them to purchase his products. He should

have good communication skill. His mannerisms, tactful handling, courtesy and ability to win the confidence of the customers and empathy are very important social qualities.

**4- Character qualities-** Character or moral qualities are as important as the physical and psychological qualities. Character qualities differentiate a person from another. A person of strong character is always accepted and respected by others. Honesty and integrity of a salesman increase his credibility and trustworthiness among the customers. He should display maturity and courage while discharging his professional job. Sincerity, determination, reliability are important dimensions of character qualities which a salesman should possess.

## **(B) ADVERTISING**

Advertising is another important element of marketing programs for successful implementation of marketing efforts. The product or service itself, naming, packaging, pricing, distribution and above all product features, style and attributes are all reflected in advertising. There is a saying 'advertising is telling and selling. 'A successful national economy depends on advertising activity promoting sales so that factory production is maintained, people are employed, and people buy quality goods due to advertisement. Good products do not sell by themselves. Prospective customers should know about such product or services. Advertisement creates awareness about the product. In Hindi there is a saying 'jodikhta he, wo biktahe'. It implies that a marketer has to take steps to create product awareness. **Advertising** is a form of marketing communication used to promote or sell something, usually a business's product or service. Commercial advertisements seek to generate increased consumption of their products or services through "branding," which associates a product name or image with certain qualities in the minds of consumers. Non-commercial advertisers who spend money to advertise items other than a consumer product or service include political parties, interest groups, religious organizations and governmental agencies. Non-profit organizations may use free modes of persuasion, such as a public service announcement etc.

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American Marketing Association (AMA) defines advertising as 'any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. We can see the characteristic features of advertising as follows

- a) **It is a paid form of communication**
- b) **It is a non-personal communication**
- c) **It promotes goods, services and ideas**
- d) **It aims at a target market**
- e) **It is done through an identified sponsor**

**The advertising process consists of 5Ms.They are:**

- a) **Mission-** The objective or purpose of advertising. They are sales objective and communication objective.
- b) **Money-** The money required for meeting advertising expenses.This is also called advertising budget.
- c) **Message-** This is the heart of advertising. It involves creation of advertising message, copy, layout, appeal and execution of advertising in a creative and attractive manner.
- d) **Media-** The advertising message reaches the target market through a carefully planned media mix. The various types of media are print media, electronic media, outdoor media, transit media, and internet.
- e) **Measurement-** It is the evaluation of the effectiveness of the advertising and measuring its success in terms of increase in sales and spreading of the advertising message.

**Role of Advertising:**

Advertising is a non-personal way of communication. It has a major role to play in a company or firm's marketing strategy. Through its creative execution of message it draws the attention of the prospective customers. The scope of spreading the message far and wide is more in advertising as compared to personal selling. Advertising has also a social dimension. We can see several social advertising which aim to change the attitude of the people towards a social cause. That is why such advertisements are called social or cause related advertising. When we see an ad. where a celebrity endorses a product and persuades a buyer to buy it, we can term it as commercial advertising. On the other hand when we see an ad. which propagates a message for saving trees, save water, pulse polio to babies, aids awareness etc. such advertisements are called social advertising which are non-profit or non-commercial by nature. Thus the role of advertising is manifold. It has economic as well as social significance.

**Economic aspects of advertising:**

- a) It helps in enhancing the business of a firm
- b) The emergence of independent advertising agencies opens opportunities for employment.
- c) It builds the firm's image among the customers.
- d) The related industries like media and creativity linked activities also get a boost.
- e) It helps in providing tempo to the macro level business environment.
- f) Cost-effective reach to a large number at a low cost per person with a repetition of the message is possible in advertising.

**Social aspects of advertising:**

- a) It educates the buyers about the product and services.
- b) The customers know the arrival of different new products through advertising which may help them in living a qualitative life.

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- c) An honest advertising provides correct information which helps the customers in taking right purchase decision.
  - d) Social or non-profit oriented advertising helps to change the attitude of the people towards a better and socially relevant cause.

**Limitations of advertising:**

- a) It is less persuasive than personal selling
- b) It results in relatively high levels of wastage as the coverage audience of advertising may not be interested in the products or services being advertised.
- c) It is very difficult to evaluate the impact of advertising as so many other factors affect the process of evaluation.
- d) Since it is impersonal by nature, the interaction element between the buyers and the sellers is absent here.
- e) Puffery and misleading advertising by unethical businessmen results in the exploitation of innocent customers.
- f) The money spent on advertising is recovered from the customers by inflating the price.
- g) It expedites consumerism and entices the buyers to buy products which may not be very useful to them.

**(C) SALES PROMOTION**-sales promotion covers those marketing activities that provide short term incentives to increase sale or to encourage purchase of a product or service. Its objective is to increase the volume of sales within a stipulated time.

**DEFINITIONS:**

- Sales promotion means any steps that are taken for purpose of obtaining or increasing sales.- A.H.Delens

- Those marketing activities, other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as display shows and exhibitions, demonstrations and various non-recurrent selling efforts not in the ordinary routine.- American Marketing Association
- Those activities that supplement both personal selling and advertising coordinate them and help to make them more effective.-American Marketing Association.

#### **OBJECTIVES OF SALES PROMOTION:**

The different objectives attempted to be achieved through sales promotions are

1. **To introduce new products-** Buyers are induced to purchase new products by giving free samples. Dealers and other middlemen are offered money and merchandise allowance to stock and sell the new product.
2. **To identify and attract new customers-** New customers may be attracted through issue of free samples, premiums, contests and similar devices.
3. **To induce present customers to buy more-** Present customers are induced to buy more often the product. They may be given patronage points or a reward for frequency of purchase of the product which will motivate them to purchase more.
4. **To help firm remain competitive-** The firm tries to retain its market share by providing various short-term incentives. Through effective sales promotion the firm lures the customers and persuades them for brand-switching.
5. **To increase sales in off-season-** Buyers may be encouraged to use the product in off seasons by giving various benefits and price-offs.
6. **To encourage inventory building-**No firm wants a situation of stock-out of their products.To ensure that their intermediaries or middlemen maintain sufficient stock,the firm provides them suitable incentives and induce them to stock more units of its products.

7. **To encourage more footfalls**-The firm may organize various special events like week-end sales discount, coupons etc.to attract more buyers thereby increasing more footfalls in the retail store for the firm's products.
8. **To encourage trial purchase**- Consumers may be induced to buy a new brand because of extra benefits like price-offs or free gifts associated with its buying. If the buyers like the brand the long term effect of the promotion will be positive.

### KINDS OF SALES PROMOTION

Sales promotion activities fall under three categories:

- I. **Consumer sales promotion**-This is targeted to the ultimate consumer market. The different incentives or tools of promotion used under this type aim at increasing the volume of sales.
- II. **Trade sales promotion**-It is directed to members of the marketing channel such as wholesalers and retailers. The purpose of offering incentives under such type of sales promotion is to get channel support for firm's product.
- III. **Sales force promotion**-This type emphasizes to increase and boost up the morale of the sales people. They are being offered commissions, bonus and other incentives so that they work with sincerity and dedication.

**I. CONSUMER SALES PROMOTION:** Consumer promotions are the offers that are given to the end consumers. These may be price based offers, such as money offs, or non –price based offers such as gifts, samples, coupons etc.Marketing managers must decide which consumer sales promotion devices to be used in a specific campaign. Some of the popular tools or measures of consumer sales promotion are mentioned below:

Tools or methods used

- **Coupon**-A coupon is a certificate that entitles consumers to an immediate price reduction when they buy the product. They are generally supplied along with the product which entitles the holder to either a specified savings on a product or a

cash refund. Most coupons are designed to (a) introduce a new product (b) increase the sale of an established product (c) sell new and larger sizes of a product (d) induce customers to switch brands (e) encourage repeat sales. Coupons are used for consumer convenience goods. They may be distributed by mail or door inserted in packages or part of magazine or news paper advertisements. When coupons are used to promote product, caution must be exercised to prevent fraud.

- **Rebates**- Rebates are similar to coupons in that they offer the purchasers a price reduction, but because the purchaser must mail in a rebate form and usually he has to give some proof of purchase, the reward is not as immediate as that of a coupon. Since buyers fill in the rebate form with their names, addresses, and other data manufacturers use rebate programs to build customer data base.
- **Premiums**-Premiums are items offered free with purchase of another item or are offered at a greatly reduced price. For example soap cake attached to the purchase of shampoo or tooth brush attached to toothpaste. Premiums stimulate the consumers to buy, increase consumption and persuade non users to switch brands. The cost of offering premiums must be weighed against potential benefits. For premiums to be effective, they must be easily recognizable and desirable.
- **Free samples**-Free samples are distributed to consumers to try the product or service and then purchase it. This form of promotion is good for introductory products or to get new users for established products. The disadvantage of this method is that sometimes, manufacturing and distributing samples of the products may be expensive, especially when they are to be distributed on a large scale to different channels such as mail delivery, door-to-door etc. To be effective, target markets should be carefully selected. Samples may not be appropriate for matured products or slow-moving products.
- **Price-off offers**-Buyers receive a certain amount off on the regular price shown on the package. Sometimes, price pack deals are offered where consumers get

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extra benefit in the form of additional quantity of the same product without increase in price. (Bisleri offers a bigger bottle with 20 percent extra mineral water). Such deals provide strong incentives for trying a new product and encourage immediate sales. Frequent use of price-off offers may cheapen the image of the product.

- **Demonstration-** The advantage of demonstration is that they attract the attention of prospective buyers and encourage trial use. They are useful to convince customers, motivate dealers and build store traffic. They are highly effective in consumer durable products like washing machine and home appliances. Sales personnel should be well trained to show how the product works.
- **Point-of-Purchase displays-** A point of purchase (P-O-P) display includes any promotional display set up at the retailer's location to build traffic, advertise the product, or induce impulse buying. P-O-P displays include shelf 'talkers' (signs attached to store shelves) shelf extenders (attachment that extend shelves so products stand out), advertisements on grocery carts and bags, end-aisle and floor-stand displays, in-store audio messages and audio-visual displays. The advantage is that it offers the manufacturer a captive audience in retail stores. P-O-P displays essentially aid the customers' recall of a brand that is advertised in mass media. Point-of-purchase displays help in providing information, motivating the customers and inducing them for product buying.
- **Frequent user Incentives-** These provide rewards to customers who make frequent repeat purchases. This is also known as loyalty marketing program. The objective of loyalty marketing program is to build long-term, mutually beneficial relationships between a company and its key customers. Major airlines for example, offer frequent flyer program where the customers are given additional free tickets on the basis of the total mileage travelled by them. Hotels, credit card companies and auto rental agencies also offer similar incentives to those who frequently avail their services.
- **Exchange offers-** In exchange offer an old product is exchanged for a new one with reduced price. For television and home appliances, manufacturers very often

make announcements persuading consumers to change their old products with new models at a lesser price.

- **Contests and Sweepstakes**-These are generally designed to create interest in a good or service. Consumers compete in these on the basis of their creative skills and knowledge. Contests are promotions in which participants use some skill or ability to compete for prizes. A consumer contest usually requires entrants to answer questions, complete sentences or write a paragraph about the product and submit proof of purchase. Sweepstakes involve random draw of lots. Winning a sweepstakes depends on chance and participation is free.
- **Referral gifts**-Existing customers are given gifts for referring their friends to the company.
- **Special events**-Manufacturers or retailers sponsor celebrity appearances, fashion shows and other such activities as measures to increase sales and creating awareness about product.
- **Trading stamps**- Consumers are given free stamps based on rupee purchases. Stamps are accumulated by the customer and exchanged for gifts or money.

## II. TRADE SALES PROMOTION:

Consumer sales promotions pull a product through the channel by creating demand, whereas trade promotions push a product through the distribution channel. The various sales trade promotion tools are as follows:

Tools or Methods used

- **Trade allowance**-A trade allowance is a price reduction offered by manufacturers to intermediaries such as wholesalers and retailers. The price reduction or rebate is given in exchange for doing something specific such as allocating space for a new product or buying something during special periods.
- **Push money**-The channel members receive push money as a bonus for pushing the manufacturer's brand through the distribution channel. The push money is directed towards a retailer's sales people.,

- **Off-Invoice allowance**-This involves a cut in invoice price or a discount.
- **Free merchandise**- A manufacturer offers the retailer free merchandise in lieu of quantity discount. Sometimes free merchandise is used as payment for trade allowances, normally provided through other sales promotions. Instead of giving a retailer a price reduction for buying a certain quantity of merchandise, the manufacturer may give extra merchandise free i.e. at a cost that would equal the price reduction.
- **Store demonstrations**-Manufacturers sometimes arrange with retailers to perform an in-store demonstration.
- **Trade shows and exhibitions**-These are organized by manufacturers to exhibit their products which ultimately help the dealers to get immediate sales from the customers.
- **Business meetings, conventions**-Trade association meetings, conferences and conventions are an important aspect of trade promotion. At these shows manufacturers, distributors and other vendors have the chance to display their goods or describe their services to potential customers.
- **Sales contests**-Retailers are encouraged to compete with each other and the best ones are given rewards and prizes along with public recognition.

**III. SALES FORCE PROMOTION**- This is used to motivate the sales people. The sales personnel are given targets. The following incentives are given to increase the efficiency and dedication of the sales people.

- **Bonus to sales force**—Bonus is the extra incentive given to the sales force for their achieving the target sales within a specified period.
- **Sales contest**- Sales contests are organized to stimulate the sales force and develop competitiveness among the retailers.

- **Sales meetings, conventions and conferences.**—These are conducted with a view to educate, train, inspire and reward the sales personnel..

**ADVANTAGES OF SALES PROMOTION:** Sales promotion as a promotion tool offers many advantages to the manufactures; middlemen and the customers. They are as follows:

- **It creates new customers-**The incentives provided under various schemes in sales promotion programme, attracts new customers. They make trial purchases and then become regular customers if they find the goods are worth the price and promised performance.
- **It retains the existing customers-** It provides various incentives and loyalty programme. The existing customers, remain loyal to the organization and become frequent buyers of the company's product.
- **It combats competition-** The manufacturers get a competitive advantages over their competitors by implementing more attractive and innovative incentive policy.
- **Attracts middlemen-**A manufacturer gives various offers to the middlemen. These offers attracts middlemen to hold the inventory of the manufacturer and help in increasing the sales of the manufacturer's products.
- **Reduces strain-** sales promotion draws customers to the store. They get attracted by various offers. The wholesalers and retailers get a stream of customers without much persuasive effort. This reduces their strain.
- **Builds store image-** sales promotion covers a wide range of techniques such as demonstration, exhibition, contests; displays etc. The retail store gets a face lift and publicity which builds the store's personality.
- **Supplies information-** The consumers get information about the product, its manufacturer and the various benefits associated with the purchase of the product. These information help the consumers in taking purchase decision..

- **Useful in new product launch-** The tools of sales promotion like discount, free gift offer etc. are very useful in launching new products. It convinces them to use new products in place of the products which they may have been using regularly.
- **Builds loyalty-** Sales promotion incentives build brand loyalty and store loyalty.

### LIMITATIONS OF SALES PROMOTION

1. **Short-term impact-** Sales promotion has a short run impact. The consumers get addicted to the offers and purchase as long as the offers are valid. The sales drop when the offer is withdrawn. They prefer to wait till the next round of offer and incentives.
2. **It damages the brand image-** Advertising builds the brand image over a period of time. But frequent offer schemes and incentives sometimes create suspicion in the minds of the customers regarding the quality of the product and motive of the producers.
3. **Merchandising support from dealers is doubtful-** One of the trade promotions tool is to offer promotional allowances to trade people to motivate them to provide merchandising support and to pass on some benefit to consumers. This generally is the condition attached with such promotional allowances. In many cases, the dealers do not cooperate in providing the merchandising support nor do they pass on any benefit to consumers. The retailer might not be willing to give support because he does not have the place, or the product does not sell much in his shop, or maybe he thinks the effort required is more than the commission/benefit derived.
4. **Expensive-** It is expensive and leads to a rise in the price of products.

**(d) PUBLIC RELATION** It is an image building exercise on the part of the company. A company by its good act and favourable publicity campaign builds a good corporate citizen image. This helps him in getting customer support which ultimately results in increasing the sales of the company. Public relation activities as an element in the promotion mix

evaluate public attitudes, identify issues that may elicit public concern and execute programs to gain public understanding and acceptance. Public relation is a vital link in a progressive company's marketing communication mix. Public relation department may perform any or all of the following functions.

- **Press relation-** Placing positive newsworthy information in the media to attract attention to a company's products or services.
- **Product publicity-** Publicizing a company's products or services.
- **Corporate communication-** Creating internal and external messages to promote a positive image of the firm or institution.
- **Public affairs-** Building and maintaining national or local community relations.
- **Lobbying-** Influencing legislators and government officials to promote or defeat legislation or regulation as per the requirements of the company.
- **Employee and investor relations-** Maintaining positive relationship with employees, shareholders and others in the financial community.
- **Crisis management-** Responding to an unfavorable publicity or a negative event. This helps in restoring the image of the company and builds confidence in the minds of the existing and potential customers.

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## 7.5 MODEL QUESTIONS

### OBJECTIVE AND SHORT TYPE QUESTIONS:

#### Q.1. Choose the correct alternatives

- I. The most fundamental and basic form of product is called
  - a) Augmented product
  - b) Formal product
  - c) Core product
  - d) Potential product
  
- II. A level of product which includes warranties, aftersales and such other value added additional benefits is known as
  - a) Core product
  - b) Augmented product
  - c) Actual product
  - d) Product mix
  
- III. A type of consumer product which a consumer buys routinely with little planning is called
  - a) Staple product
  - b) Unsought product
  - c) Shopping product
  - d) Status product
  
- IV. Which of the following does not come under consumer goods?
  - a) Convenience goods
  - b) Staple goods
  - c) Shopping goods
  - d) Raw materials

- V. The extent of commonality among different product lines in the product mix is called
- a) Length
  - b) Width
  - c) Depth
  - d) Consistency
- VI. Furniture is an example of
- a) Speciality goods
  - b) Unsought goods
  - c) Shopping goods
  - d) Convenience goods
- VII. Raw material is an example of
- a) Services
  - b) Industrial goods
  - c) Consumer durable product
  - d) FMCG product
- VIII. Inseparability is a characteristic feature of
- a) Industrial product
  - b) Consumer durable product
  - c) Services
  - d) FMCG product
- IX. A branding strategy where a manufacturer uses a single brand name for all his products is known as
- a) Individual branding
  - b) Family branding

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- c) Middlemen branding
  - d) Local branding
- X. Which of the following pricing objective forms the basis of a firm 'pricing strategy during a period of tough times?
- a) Current profit maximisation
  - b) Survival
  - c) Target rate of return
  - d) Market share
- XI. A pricing strategy, where the new product is sold at a high or premium price, is called
- a) Going rate pricing
  - b) What the traffic can bear
  - c) Price skimming
  - d) Price penetration
- XII. In which of the following pricing strategy a firm sets prices at a lower rate than its competitors to encourage brand switching?
- a) Price skimming
  - b) What the traffic can bear
  - c) Price penetration
  - d) Sealed bid pricing
- XIII. 'Going rate pricing' is a method, in which price is fixed—
- a) Above the competitors' price
  - b) Below the competitors' price
  - c) At par with the competitors' price
  - d) Below the cost

- XIV. Which of the following determinants of price, forms the floor or base level of price?
- a) Demand
  - b) Competition
  - c) Government policies
  - d) Cost
- XV. Perishable products require
- a) A longer channel
  - b) A shorter and direct channel
  - c) A medium level channel
  - d) No channel
- XVI. A distribution channel is a path on which the product travels
- a) From producers to consumer
  - b) From agents to producers
  - c) From retailers to producers
  - d) From wholesalers to the agent
- XVII. The function of a distribution channel, in which the channel members divide the product as per the requirements of the customers is known as
- a) Assortment
  - b) Breaking the bulk
  - c) Physical distribution
  - d) Matching
- XVIII. An element of promotion mix which involves a face to face two way communication is known as
- a) Advertising
  - b) Sales promotion

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- c) Personal selling
  - d) Public relation
- XIX. The act of collecting and gathering data regarding eligible buyers by a sales person is called
- a) Approach
  - b) Pre-approach
  - c) Prospecting
  - d) Closing the sale
- XX. An element of promotion mix which intends to increase the volume of sales in short term is called
- a) Advertising
  - b) Personal selling
  - c) Sales promotion
  - d) Public relation
- XXI. A certificate which is supplied with the product and entitles the consumer a saving on purchase of a specified product is called
- a) Rebates
  - b) Premiums
  - c) Coupon
  - d) POP

**2- Fill in the gaps**

- a) A—— product usually has a long life and can be put into repeated uses.
- b) A—— is a name, term, sign symbol or a combination of all and differentiates a which manufacturer's product from its competitors.
- c) A—— is the set of all product lines that a particular seller offers for sale to the buyers. Of each in the line.

- d) The \_\_\_\_\_ of the product mix refers to how many variants are offered of each product in a particular product line.
- e) \_\_\_\_\_ refers to the container/wrappers in the products are kept and moved from the producer to the ultimate consumers.
- f) In \_\_\_\_\_ pricing method the marketer estimates the total cost of production and then adds a mark-up or margin to arrive at a desired rate of return.
- g) The situation where the total sales revenue of a product is equal to its total costs is called \_\_\_\_\_.
- h) In \_\_\_\_\_ pricing method the marketer estimates the total cost of production and then adds a mark-up or margin to arrive at a desired rate of return.
- i) When a producer of goods sells directly to the consumer, such type of channel is called \_\_\_\_\_ channel.
- j) Personal selling is a \_\_\_\_\_ way traffic.
- k) \_\_\_\_\_ are items offered free with purchase of another item or are offered at a greatly reduced price.
- l) A sales promotion tool which involves random draw of lots is called \_\_\_\_\_.

**3- Express in one words/phrase**

- a) A most fundamental and basic level of a product.
- b) The goods which are purchased regularly and routinely without any prior planning and form a major part of the convenience goods purchasing.
- c) Goods which are purchased due to the urgency of the situation.
- d) Goods which are purchased by the buyer not for direct consumption but are used for producing other consumer goods.
- e) Any act or performance which one party offers to another party for sale, which is essentially intangible by nature.
- f) A branding strategy in which the manufacturer uses a single brand for all his products

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- g) A type of branding in which companies use different brand names for different products.
  - h) Only element in marketing mix which generates revenue.
  - i) A pricing method which is at par with the competitor's price.
  - j) A paid form of non-personal communication

**4-Correct the underlined portion of the following sentences.**

- a) Packaging gives a separate identity to a product and helps in building its personality.
- b) A brand is a separate slip or paper or other material affixed to a product and contains important information about it.
- c) A type of label which informs only the name of the product and meant to popularise it in the market is called grade label.
- d) When a brand name is used by the producer to sell its products throughout the country irrespective of any region, such type of brand is called international brand.
- e) Product mix depth refers to the number of product lines which a firm offers to the market for sale.
- f) Indirect channel is otherwise called zero level channel.
- g) Price skimming is a strategy where the marketer sells the product at a lower rate than its competitors.
- h) A step in the personal selling process which involves a direct face to face interaction between the sales person and the would be customer is called prospecting

**5- Answer the following questions. (30 words)**

- a) What is core product?
- b) What do you mean by actual product?

- c) What individual branding?
- d) What do you mean by grade label?
- e) What is product mix?
- f) What is break-even point?
- g) What is skimming pricing?
- h) What do you mean by tender pricing?
- i) What is direct channel?
- j) What do you mean by POP?
- k) What is prospecting?
- l) What is meant by pre-approach in personal selling process?

**6- Answer the following questions (50 words)**

- a) Define the concept of service
- b) Name two characteristic features of service
- c) What do you mean by unsought product?
- d) Explain any two advantages of packaging.
- e) What is labelling?
- f) What do you mean by family branding?
- g) What is affordability pricing?
- h) What do you mean by advertising?
- i) What is physical distribution?
- j) Distinguish between advertising and sales promotion.

**LONG ANSWER TYPE QUESTIONS**

- 7. Explain the concept of product. Draw out a classification of product.
- 8. Distinguish between industrial goods and consumer goods. Explain various types of consumer goods.

9. What is a brand? What are the essentials of a good brand name? Discuss different types of branding strategies.
10. Discuss the objectives of pricing. Explain the factors that influence the pricing decision of a firm.
11. Discuss various pricing strategies.
12. Distinguish between personal selling and advertising. Outline the steps involved in the personal selling process.
13. What do you mean by channel of distribution? Discuss the factors which influence the choice of a distribution channel structure.
- 14- What is sales promotion? Explain various techniques of consumer sales promotion.
- 15- Explain the meaning of advertising. Discuss the 5Ms of advertising.

**Answers**

- Q.1- I-(c),II-(b),III-(a),IV-(d),V-(d),VI-(c),VII-(b),VIII-(c),IX-(b),X-(b),XI-(c),XII-(c),XIII-(c),XIV-(d),XV-(b),XVI-(a),XVII-(b),XVIII-(c),XIX-(c),XX-(c),XXI-(c)
- Q.2- (a)-durable, (b)-brand,(c)-Product mix,(d)-depth,(e)-package,(-f)-cost plus pricing,(g)-break even point,(h)-target-return,(i)-direct,(j)-two,(k)-premiums,(l)-Sweepstakes
- Q.3- (a)- Core product,(b)-Staple,(c)- emergency,(d)-Industrial goods,(e)-Services.(f)-family,(g)-Individual branding,(h)-Price,(i) Going rate,(j)- Advertising
- Q.4- (a)-branding,(b)-label,(c)-Brand label,(d)- National brand,(e)- Width,,(f)-indirect,(g) penetration pricing,(h)-Approach

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# CHAPTER-7

## ELEMENTS OF MARKETING MIX

(A) PRODUCT (B) PRICE (C) PLACEMENT (D) PROMOTION

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### STRUCTURE

#### 7.0 INTRODUCTION

#### 7.1 (A) PRODUCTS

7.1.0 CONCEPT, DEFINATION, LEVELS

7.1.1 CLASSIFICATION OF PRODUCTS

7.1.2 PRODUCT MIX

7.1.3 BRANDING

7.1.4 LABELLING

7.1.5 PACKAGING

#### 7.2 (B) PRICE

7.2.1 PRICE - AN INTRODUCTION

7.2.2 OBJECTIVES OF PRICING

7.2.3 FACTORS INFLUENCING PRICING DECISION

7.2.4 PRICING STRATEGIES/METHODS

#### 7.3 (C) PLACE

7.3.1 INTRODUCTION

7.3.2 MEANING AND TYPES OF CHANNEL OF DISTRIBUTION

7.3.3 FCTORS INFLUENCING THE DESIGNING OF THE  
CHANNEL OF DISTRIBUTION

7.3.4 FUNCTION OF DISTRIBUTION CHANNELS

7.3.5 PHYSICAL DISTRIBUTION

#### 7.4 (D) PROMOTION

7.4.0 INTRODUCTION

7.4.1 OBJECTIVES OF PROMOTION

7.4.2 ELEMENTS OF PROMOTION MIX

#### 7.5 MODEL QUESTIONS

## 7.0 INTRODUCTION

While explaining the concept of 'Marketing Mix' in the previous chapter (Ch-6), a brief idea about the different elements or components of 'Marketing Mix' has been given. All Marketing Managers are constantly called upon to take crucial decisions for a given period of time on varieties of issues related to the Product, Pricing of the Products, Placement of Products and Promotion of Products. When specific decision on all these matters are taken, they constitute the package of or a combination of or a mixture of marketing plans and strategies and is called as the Marketing Mix.

All marketing related decisions, therefore, revolve round four basic matters, namely product, pricing, placements and promotion, known as elements or components of Marketing Mix. Each of these elements has been discussed in greater details in the following pages.

## 7.1 PRODUCT

### 7.1.0 THE CONCEPT OF PRODUCT:

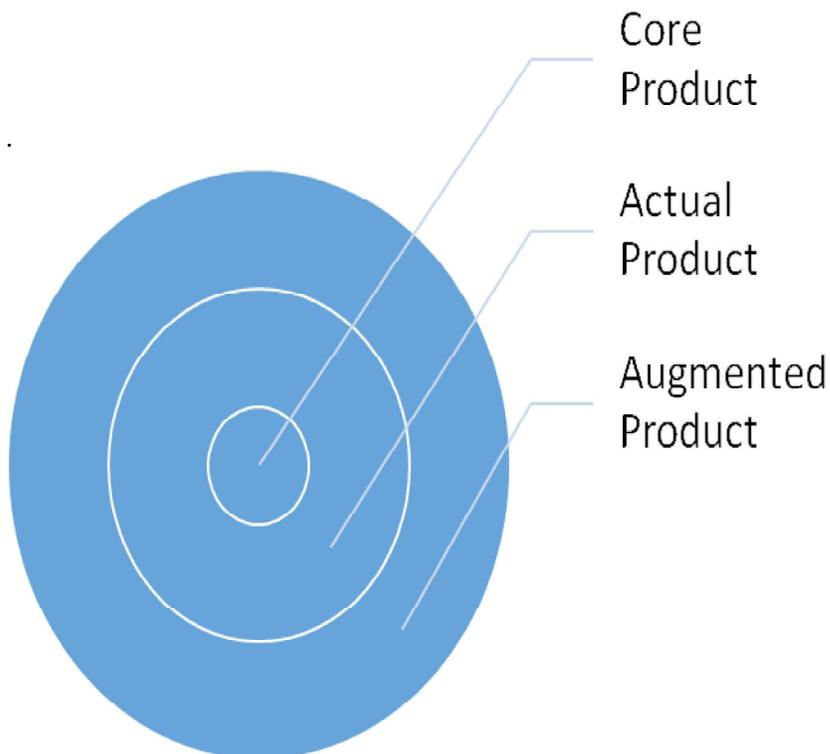
A product is often thought of as a physical object, manufactured or traded by any business organisation. But the meaning of product has a wider connotation in the context of marketing. From the marketing point of view a product can be more than a physical thing, it may be a service, a feeling, a pleasure, a reputation, an experience. A product can also be a person, an organisation, a place, an event and an idea or concept. Whenever a buyer buys a product, he is interested much more than the physical form of the product. A product is nothing but a bundle of satisfaction or utilities consisting of various product features and accompanying services.

#### Definition of Product

- Product is a cluster of psychological satisfaction.—George Fisk
- A product is a bundle of physical services and symbolic particulars expected to yield satisfaction or benefits to the buyer.—Philip Kotler
- A product is a complex of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige, manufacturer's and retailer's services, which a buyer may accept as offering satisfaction of wants or needs.—Stanton
- A product may be regarded from the marketing view point as a bundle of benefits which are being offered to the consumers.—RustamS.Daver

**Levels or Layers of Product:**

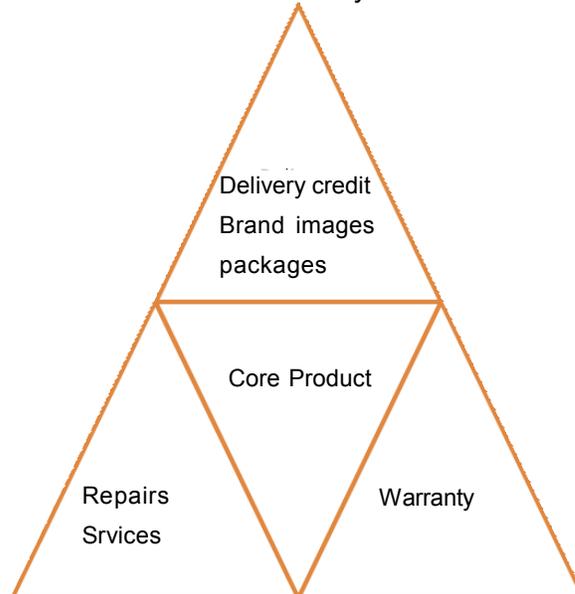
In planning as market offerings, the marketer needs to think through three levels of the product. Each level adds more customer value and the three constitute a customer value hierarchy. They are:



**Core product**—The most fundamental or basic form of the product is called the core product. It is the centre piece of any product offered in the market. Product is sometimes described as a solution for a particular need of the consumer. So, that stage of the product which satisfies or provides a solution for a specific need of the customer in its basic form is called the core product. A hotel guest buys 'rest and sleep'. The purchaser of a drill buys a hole. A television provides audio-visual entertainment. In all the above cases the rest and sleep, the hole and the audio-visual entertainment are the core benefit or the basic purpose for which the respective products are created.

**Actual or Formal product**—It may be considered as a layer on the core product. If the formal product is associated or seen as physical object, then it will have five characteristics namely, quality, features, style, brand, packaging. In case of a television the size, colour, technology, sound system, the screen size etc. form the actual or formal components of the product.

· **Augmented product**—Augmented product—it includes the additional benefits and services. Augmented product consists of values added to a product by packaging, advertising, the reputation of the producer, financing and delivery arrangement, service and maintenance offered to the consumer by the seller.



**(Augmented product)**

### 7.1.1 CLASSIFICATION OF PRODUCT

Broadly products can be classified into the following categories.

1. **Consumer Products:** Consumer products are goods and services meant for the final consumer for personal, family and household consumption. These products are used by the consumers for their own consumption but not for the processing and further transformation. Consumer products are classified as under.

- a) Convenience goods**—These are products which a consumer needs but isn't willing to spend much time and effort to buy them. The consumer doesn't need additional information about the product. This is a habitual buying on the part of the consumers. Many food products, soft drinks, newspapers, grocery items and the like fall into the category of convenience goods. Convenience goods can be subdivided into three categories. They are:
- I. Staple goods**—These are the items which are purchased routinely with little planning. The staple goods form the major part of the convenience goods purchasing. Bread, , meat etc. are examples of staple goods. The consumer is not going to take extra effort for the acquisition of these products. These items must be close to where the consumer lives, works or passes by.
  - II. Impulse goods**—These are items which are bought by the consumers without any prior planning. Here the exposure to the product inside a store create an urge in the consumer to buy it. The buying decision is impulsive and decision to buy such items are taken then and there. The desire to buy staple goods may cause to go for shopping but the desire to buy the impulse goods is a result of shopping.
  - III. Emergency goods**—These purchases are made due to the urgency of the situation. Umbrella when raining, repair when something is out of order, etc. are examples of emergency goods.
- b) Shopping goods**—These goods are more expensive than convenience goods. Consumers usually buy these items after comparing the styles, price, and design. While purchasing such goods, the consumers display willingness to spend more time and effort and become more selective and rational. Refrigerators, washing machines, furniture, dress etc are examples of shopping goods.
- c) Speciality goods**- These are goods which have unique features and consumers make special effort to purchase them. Consumers search extensively for such

items and are usually reluctant to accept substitutes for such goods. They also express willingness to pay premium price for speciality goods.

- d) **Unsought goods**—These are goods which the consumers either are not aware of or are not thinking of buying them. Consumers purchase such products when pressurised or persuaded, or on the happening of some events. Examples of such products are life insurance, medical check-up, buying a dictionary or encyclopaedia etc.

2. **Industrial Products**—Industrial products are usually purchased by the buyers not for their direct consumption. They primarily buy them for use in producing other goods. Industrial goods are classified into six categories. They are:

- a) **Installations**—These are large expensive capital items. They are generally non-portable goods involving a high degree of consumer decision making. The major marketing tasks are direct selling from the manufacturer to the purchaser, lengthy negotiations about features, terms of payment, after sales service etc. Examples are buildings, assembly lines, major equipment, large machine tools etc.

- b) **Accessories**—They are less expensive as compared to the installations. They are also capital goods like the installations and are more standardised. They are portable and require somewhat moderate level of purchase involvement and decision making. Technical and maintenance support are usually provided by the seller to the purchaser.

- c) **Component parts and materials**—Unlike the above types, these category of goods become part of the final product. Tubes of television sets, flour for a bakery etc. are examples of such category.

- d) **Raw materials**—They also become part of the final product. They are typically divided into natural and agricultural products. Examples of raw materials are wheat, rice, sugar cane cotton, iron ore, bauxite etc.

**e) Industrial supplies**—Supplies are the products which are not directly related to the production. They provide support service for the day to day running of the office. Supplies include papers, pens, and other such stationery items which provide a support service for the smooth running of the organisation.

**f) Services**—services are used to plan, facilitate or support a company's operation. They range from routine service to high skilled services. Example are consultancy services advertising services, third party logistics etc.

### 3 Services

According to Philip Kotler “a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Generally services have four characteristics that distinguish them from goods. They are as follows:

- a) Intangibility**- Services are intangible. Unlike physical products they cannot be seen, tested, felt, heard or smelled before they are bought.
- b) Inseparability**—Inseparability is another important point of distinction between goods and services. Services are typically produced and consumed simultaneously. But the tangible physical goods are manufactured, put into inventory, distributed through multiple resellers and consumed later. The consumer of a pen is not required to be present at the time of the production of the pen which is a tangible product but when you are ill and buying the medical service, you are required to be present along with the doctor for an effective service delivery. Therefore in case of service both the service provider and the buyer or client need to be present simultaneously for the service production and consumption.
- c) Variability or heterogeneity**—Services are highly people intensive. Individual performances cannot be standardised with perfection. The provider of the service being inseparable from the service, his ability, skill set, and psychological state of

mind at the time of service delivery influence the quality of service. The same thing also happens in case of the recipient or client of the service. Therefore in service the effect varies depending on who, when and where the service is provided.

- d) **Perishability**—Services cannot be stored. In case of physical goods, the unsold goods can be stored for sale at another time but in services the unconsumed service becomes a lost service for ever.

**4 On the basis of the durability of the product, they can be subdivided into the following type.**

- a) **Durable product**—These are products which are put to use repeatedly. The durable products usually have a longer life. They have comparatively high unit price and buyers take a rational approach while purchasing the durable products. Washing machine, Television, computers, and such others are examples of durable products.
- b) **FMCG or Non-Durable products**- The rate of consumption of such products are usually high in number. That is why they are called 'fast moving'. The speed of their turn over in retail counters is comparatively high as compared to the durable products.

### **7.1.2 PRODUCT MIX:**

“A product mix (also called product assortment) is the set of all product lines and items that a particular seller offers for sale to buyers.” An organisation with several product lines has a product mix. In other words product mix is the composite of products offered for sale by a firm or business unit. For example, if an enterprise manufactures or deals with different varieties of soap, oil, toothpaste, perfumes etc. the group of all these products is called the product mix or the product assortment of the enterprise. The product mix strategy differs from organisation to organisation. It depends on the objectives of the individual organisation.

**Dimensions of product mix:** The concept of product mix has the following characteristic features or dimensions.

**a) Product mix length**—The length of a product mix refers to the total number of items in the mix. The product line is defined as a group of closely related products. They have same characteristics, customers and/or users. They may share technologies, distribution channels, related services etc. Suppose a company has two product lines. Each product line has five brands within it. The total comes to 10. So the length of the product line is 10. The average length of the product mix is 5 ( $10/2$ ).

**b) Product mix width (breadth)**- It refers to the number of product lines an organisation offers.

**c) Product mix depth**—The depth of the product mix refers to how many variants are offered of each product in the line. The variants may be in the form of colours, sizes, designs etc.

**d) Product mix consistency**—It refers to the extent of commonality among different product lines in the product mix. The commonality or consistency may be in the form of same raw materials, production facilities and requirements, distribution channel.

### **7.1.3 BRANDING:**

The success of any product or service in business depends in part on the target market's ability to distinguish its product from its competitors' product. Branding is the main tool marketers use to distinguish their product from their competitors. **A brand is a name, term, symbol, design, or combination thereof that identifies a seller's products and differentiates them from competitors' products.** The term branding refers to the entire process involved in creating a unique name and image for a product in the consumers' mind through advertising with a consistent theme. According to Jared Spool, "Branding means creating an emotional association such as the feeling of success, happiness or relief that customers form with the product, service or company". In the present era of competition and consistent efforts on the part of the companies to establish a positive and separate identity for their products in the market, they use branding as a powerful and essential tool for this differentiation strategy and hardly anything goes unbranded today. Even product like fruits, salt, oil, milk etc. are branded.

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**Branding strategies/types of brands:****1-According to ownership- The brand may be of two types**

**a) Manufacturer's brand**—When brand is named after the names of the manufacturer of the product, it is known as manufacturer's brand. Philips, Godrej etc. are the examples of such brand.

**b) Middlemen/private brand**—When intermediaries or middlemen like wholesalers and retailers etc. sell the product under their own brand. This is also known as private level branding.

**2-According to the market area**—The brands may be of the following types.

**a) Local Brand**- Brands which are used for local market.

**b) Provincial Brand**—When one brand is used for a particular province or state it is called provincial brand.

**c) Regional Brand**- Under such type of branding manufacturer uses his brand name only for a particular region. The regions may be western, eastern, southern, and northern.

**d) National Brand**—When the same brand name is used to sell the producer's product throughout the country irrespective of the regions, this is called national brand.

**e) International Brand**—When a brand name is used by the company to sell its products across the globe, i.e. in different other countries, such brand is called international brand.

**3- According to the number of products**-A brand may be of the following types on the basis of the number of products.

**a) Family Brand**—When the manufacturer uses a single brand for all his products, it is known as family brand. Here a brand name is extended over a number of products produced or dealt by the company. For example, the brand name Amul is extended over a varieties of products like Amul ice cream, Amul ghee, Amul milk powder etc. OMFED is another example of family branding.

**b) Individual Brand**—In such type of branding companies use different brand names for different products. These brands have distinct images and appeals and are marketed differently. For example, HUL has Close Up and Pepsodent as two brands of toothpaste. Again toilet soaps produced by the Hindustan Unilever Limited (HUL) bear different brands like Lifebuoy, Lux, Rexona etc.

**Qualities of a good brand:** A good brand or brand name should have the following qualities.

- a) It should be short, simple and easy to remember.
- b) It should be easy to pronounce and spell.
- c) It should not be offensive, obscene or negative.
- d) It should be capable of being registered and legally protected.
- e) The brand name should suggest something of the product's characteristics, its benefits, use or action.

**Advantages of Branding:**

- a) Brand gives a separate identity to the product and helps in process of building its personality.
- b) It conveys the core benefit that the product is supposed to deliver to its consumers.
- c) It helps in creating and sustaining a long term bonding with the customers.
- d) When the brand name is registered, it gives a legal protection to the product.
- e) Branding can be used as a differentiation strategy when the product cannot be easily distinguished in terms of tangible features.

**7.1.4 LABELLING**

Labelling is the process of attaching labels either on the body of the products or on their wrappers or containers. A label is a slip or paper or other materials affixed to something and contains important information about it. According to William J. Stanton "The label is that part of the product which carries verbal information about the product or the sellers (manufacturer or middlemen). A label may be part of the package or it may be

a tag attached directly to the product.” Labels may range from simple tags attached to products to complex graphics that are part of the package. The label indicates:

- I. The product’s brand name
- II. Ingredients
- III. Weights and measures
- IV. Promotional measures
- V. Place of manufacture
- VI. Instructions for use
- VII. Grade
- VIII. Name of the manufacturer
- IX. Dates of manufacture and period of safe use and expiry date.

**Objectives of labelling:**

- a) Brand identification—labelling helps in the identification of the brand. The informational content of the label of a product establish the brand identity in the market.
- b) Description—Labelling provides a description about the nature of the product, its quality, its utility, cost of the product, usage method etc.
- c) Promotion—Labelling plays an important role in persuading the consumers to buy the product. The attractiveness and bright graphics along with trustworthy information provided by labels influence people to purchase the products.
- d) Sales tool—As label is a part of packaging, it influences the prospect and his purchase decision process.

**Types of Labels**

**Labels can be classified into three types. They are as follows:**

- a) **Brand label**— This type of label simply mentions the name of the brand of the product. They are meant for popularising the brand name. This type of label is the part of the package and does not provide any information about the product.
- b) **Grade label**—This type of label describes the quality level of the product. The consumers and the middlemen identify the type and standard of the product from the grade label. Leaf tea, Dust tea, Prima fan etc are examples of such type of labels.

c) **Descriptive label**—These labels are descriptive in nature. They provide full information about the product to the consumers. This type of label gives information about the date of manufacture, date of expiry, ingredients, grade and quality of the product etc.

### 7.1.5 PACKAGING

Packaging refers to the container/wrapper in which the products are kept and moved from the producer to the ultimate consumers. Packaging should be distinguished from packing. Packing is wrapping a commodity in a way suitable for transporting, storing and handling but packaging is a wider term. A package has a functional purpose as a container of a product and do the protection function. The container acts as a silent salesman and an effective medium of advertisement. Packaging involves promoting and protecting the product. Packaging can make a product more convenient to use or store. It can prevent spoiling or damage. Good packaging helps in identifying the product and promoting the brand at the point of purchase.

#### Objectives of packaging

- a) **Product identification**- The colour, style and design of a package gives a distinct identity to a product. The customer can identify the product in a retail store by just having a glance at the package.
- b) **Product protection**-The main objective of packaging is protection of products or contents. The package preserves the quality and quantity of the content.
- c) **Product convenience**- An innovative packaging enhances the effectiveness of the product's function. An appropriately designed package helps in storing, shipping, handling and displaying the product.
- d) **Product promotion**- An attractive and flashy packaging draws the attention of the prospective consumers. It acts as a silent salesman.

#### Requirements of good packaging:

- a) **Package design**- The design should be attractive. It should be designed in such a way that the colour, shape and the materials used in the packaging should influence the customers.

- b) **Convenience of usages-** The design and materials used for the packages should be customer-friendly. The design should be capable of augmenting the utility of the product. The package design should be handy.
- c) **Guarantee of economy-** customers want protection, aesthetics and convenient packaging. But it should be done within an affordable limit. The cost incurred should not exceed the benefit it provides.
- d) **Environment-friendly-** The material used for packaging should be bio degradable. It should not cause damage to the environment.
- e) **Informative-** The package must contain all relevant information regarding the product, its components usage methods etc.

## 7.2 (B) PRICE

### 7.2.1 PRICE AN INTRODUCTION

Price represents the value of a good or service for both the seller and the buyer. Price is the only element of the marketing mix which generates revenue otherwise all other elements involve cost. Price may be defined as the exchange of goods or services in terms of money. Price for different products or services are expressed in different names or terms. It may be called fees for admission and membership in a club, service-charge for providing different types of services, rent for hiring a house, interest for deposit or loan etc. While price represents an expectation and an assurance of quality to a buyer, it represents a guarantee of return on the efforts and investment to the seller. But for both of them price assumes a lot of significance.

### 7.2.1 OBJECTIVES OF PRICING

Pricing objectives are overall goals that describe what the firm wants to achieve through its pricing efforts. The pricing objectives must be consistent with the organisation's overall mission and purpose. The common pricing objectives usually adopted by firms are as follows:

1. **Ensuring Survival-** A basic pricing objective is survival when the going is tough, firms concentrate on survival strategy. Through judicious pricing, firms try to retain the customers. They even fix prices below the market trend in order to keep the customers in good humour. The rationale of such objective is to survive the lean period with little profit or even short term loss in the hope of a better future prospect.
2. **Current profit maximisation—** Firms sometimes set the prices after analysing the current market situation. When they find a favourable trend and opportunity they set their prices with an objective to maximise the current profit resulting in a good cash flow.
3. **Enhancing Market share—** Here firms set the price with a long term perspective. They try to achieve a larger market share and maintain their dominant leadership position in the market. Market share is a firm's product sales as a percentage of total sales for that industry.
4. **Striving for targeted rate of return—** Many firms strive for a specific level of profit, generally known as the target rate of return on investment. This acts as a guideline for setting the price especially in case of a new product. The actual market conditions in each industry dictate the target rate.
5. **Maintaining Product-Quality leadership—** Firms sometimes intend to maintain product quality leadership. In such situations they emphasise on maintaining the quality and status value of the product and create a differentiation as compared with their competitors. They set high prices and spend on Research and Development to maintain the quality image in the market.
6. **Strengthening Competitive strength—** Modern industrial set up is confronted with cut throat competition. Pricing can be used as one of the effective means to fight against the competition and business rivalries. Lesser prices are charged by some firms to keep their competitors out of the market. But a firm cannot afford to charge fewer prices over a long period of time.
7. **Countering competition—** Pricing is primarily concerned with facing competition. Today's market is characterised by the severe competition. Company sets and

modifies its pricing policies so as to respond the competitors strongly. Many companies use price as a powerful tool to effectively counter the competitors.

8. **Social and ethical pricing objective**—Firms sometimes determine price being guided by a social commitment. Such products which have a direct bearing on the general health, sanitation or any other issue of national relevance are priced at somewhat affordable rate so as to enable the common masses to get the benefit of such products. Few years back a leading Pharmaceutical company reduced the price of its cancer drugs substantially and set a trend for price reduction in such socially relevant areas by others.
9. **Opting for a status quo**- It means sticking to the existing pricing policy. When a company follows a stability strategy, it prefers to continue with the existing price level to ensure customer retention while building goodwill for the company.

### 7.2.3 FACTORS INFLUENCING THE PRICING DECISION OF THE FIRM/ DETERMINANTS OF PRICE

Pricing is an important decision area. We have discussed earlier that price is unique and different from other Ps of marketing mix. This is because price is the most flexible element of marketing mix and it is the only element which generates revenue for the firm. In view of such importance a pricing decision is a challenging decision for a manager and it cannot be taken in a vacuum. Therefore a firm decides on its pricing policy after taking many factors into consideration. Let us discuss the various factors which influence the pricing decision of a firm. The factors which influence pricing are divided into two categories. They are: (a) Internal factors (b) External factors.

**INTERNAL FACTORS**—Internal factors are generally well within the control of the organization. The factors are discussed below:

- a) **Costs**—The most decisive factor in the pricing decision is cost. Cost and price of a Cproduct are closely related. Costs form the floor or the base level of the price. Normally price is fixed' above the base level i.e. over the cost of production with a desired rate of return. Selling below the cost means loss to the firm.

- b) **Top management policy**—The pricing policy of a firm is determined at the top management level. The top management determines the pricing strategy after taking into consideration the business and competitive scenario and the ethical as well as the social values of the firm.
- c) **Marketing objectives**—The marketing objectives of a firm are reflected in its pricing policy. The marketing objectives may be market leadership, current profit maximisation, increase in sales volume, survival during a bad phase or product quality leadership.
- d) **Marketing mix**—Price is one of the elements of marketing mix. It reflects the value and importance of other Ps of marketing mix. Any decision made for any of the marketing mix affects the overall price both in terms of the amount and image of the product.
- e) **Product differentiation**—The quality, size, technology used for its production, attractive package, and other such attributes which differentiate the product from its competitors have a great bearing on the price fixation process of such product. More differentiated the product, more is the price.

**EXTERNAL FACTORS:**

- a) **Demand**—Demand for the product is the total volume that is bought by a customer groups in a definite time period, in a definite geographical area, in a particular marketing environment and with the defined marketing mix. The marketer must understand and estimate the market factors like demand position and the rate of growth of the market demand for the product or service. Since demand is affected by factors like, number and size of competitors, the prospective buyers, their capacity and willingness to pay etc. they are taken into consideration while fixing the price for a product.
- b) **Competition**—It is a crucial factor in pricing decision. The degree of existing as well as anticipated competition has a lot of impact on price determination. High degree of competition does not give freedom to the firm for price determination as per their wish. The firm sets the price as per the market trend. This is called competitive pricing.

- c) **Economic condition**—The inflationary or deflationary conditions have a direct impact on the pricing decision of a firm. In recession period the prices are reduced to maintain the demand level or to generate new demand. During boom time prices are increased to get the advantages of increased market demand.
- d) **Buyers' characteristics**—The firms decide the pricing strategy keeping in view the characteristics of their target market. i.e. the buyers of that segment. The affordability, exposure, willingness to purchase etc affect the overall pricing effort of the firm.
- e) **Government Regulation**—Government comes out with different rules and regulation from time to time. These rules and regulations are taken into consideration while determining the prices.

#### 7.2.4 PRICING STRATEGIES/ METHODS OF PRICING :

1. **Cost based pricing**- Cost of production of a product is the most important variable and determinant of its price. There are many types of costs like fixed cost, variable cost, total cost, average cost and marginal cost. These costs form the basis for determining the price of a product as per the requirements. The followings are the different types of cost based pricing methods.
  - a) **Cost plus pricing**- in this method, the marketer estimates the total cost of producing or manufacturing the product and then adds a mark-up or margin that the firm wants to arrive at the desired price for the product. This is one of the most basic pricing methods usually followed by the firms.
  - b) **Full cost or absorption pricing**- This method uses all relevant variable costs in setting a product's price. In addition, it considers an allocation of the fixed costs that cannot be directly attributed to the specific product being priced.
  - c) **Marginal or incremental cost pricing**- The additional or incremental cost is taken into consideration in this type of pricing. The pricing is done under the assumption of recovering its marginal cost and getting a contribution towards its overheads. It attempts to use only those costs directly attributable to a specific output in setting prices.

- d) Break-Even point-** Breakeven point is the volume of sales at which the total sales revenue of the product is equal to its total costs. In other words, it can be said that breakeven point is the volume of sales at which there is no profit and no loss. This method is very useful for determining the price of a competitive product.
- e) Rate of Return or Target Pricing Method-** Under this method, a desired rate of return is determined beforehand on the basis of the capital invested. The amount of profit desired by the marketer is calculated on the basis of this rate of return. This amount of profit is added to the cost of production of the product and thus, the price per unit of the product is determined.
- 2. Customer Demand based Pricing-** The basic feature of demand based pricing is that profits can be expected not on the basis of costs as in the previous method, but on the basis of the consumer demand. The followings are the different types of demand based pricing methods.
- a) 'What the Traffic Can Bear' pricing-** This is not a very scientific method. There is no consistency in this type of method. This is a pricing method which depends on the current affordability capacity of the consumers. It involves trial and error. It is generally used where monopoly/oligopoly conditions exist and the demand is relatively inelastic.
- b) Price skimming—**Under this method the firm aims to skim the market by selling the product at a premium or high price. When the buyers of the firm's target market prefer to purchase a quality product associated with status value the firm can sell the product at a premium price. Skimming pricing is also adopted in a situation of low competition and innovative product offerings by the firm. Firm introduces
- c) Penetration pricing-** In contrast to the skimming pricing, the objective of penetration pricing is to gain a foothold in a highly competitive market. The firm sets prices at a lower rate than its competitors to draw the attention of the buyers and encourage brand switching. Those buyers who are price sensitive, they switch over to the firm's product because of the low price offers. In a market situation, which is characterised by intense competition, low customer loyalty towards a particular brand, a large and growing market penetration pricing works well. This is also used in case of introduction of new products by the firm.

**3. Market/Competitor based Pricing-** The competitors pricing approaches are taken into consideration while fixing prices under this method. The following strategies are discussed under this method:

**a) Parity pricing or At par pricing-** The price of the product is determined on the basis of the price of the competitors' products. This is used when the firm is new in the market or the existing firm introduces a new product in the market.

**b) Pricing below the competitors –** The price is fixed below the level of the competitors' price or competitive prices.

**c) Premium pricing-** Under this method the price is fixed above the level of the competitive pricing or competitors' prices. This is used when the firm sells products which are innovative, have status value, and of higher quality than enhances the image of the buyers.

**d) Competitive bidding/sealed bid/Tender pricing-** This is a pricing method which is usually used in case of government sector, projects, industrial marketing etc. The bidders of such projects quote the prices on the basis of the expected cost and their desired return. The price quoted reflects the firm's cost and its understanding of competition.

## 7.3 (C) PLACE

### 7.3.1 PLACE : DISTRIBUTION MANAGEMENT- AN INTRODUCTION

All goods produced or manufactured are obviously meant to be used or consumed by the ultimate consumer or buyers. Hence placing goods and services where they are needed and when they are wanted is the most crucial decision area in marketing. This is known as the distribution function of marketing. Distribution is the systematic decision making regarding the physical movement of goods and services from producer to consumer as well as the related transfer of ownership of them. So the distribution function in marketing consists of two important decision areas. They are:

- 1) The designing of a suitable channel of distribution or channel structure.
- 2) Physical distribution.

After having decided the product strategy, the marketing manager is faced with the important task of deciding the channels or routes through which his products will flow from the factory to his potential customers. The marketing manager has a number of alternatives available to him. He may reach directly to the customers with his product and services without any middlemen or he may prefer to distribute the products with the help of one or more intermediaries. Channels are routes, avenues or pathways suggesting movement or flow. Distribution means to distribute, disseminate or spread about. Hence when related to marketing, channels of distribution refer to the routes, avenues or pathways through which goods and services flow from producers to consumers. This route or path begins with the producer and ends with the ultimate consumer. Anyone in between is called a middleman, an intermediary, or a marketing institution. Let us discuss some definitions of channel of distribution:

- i. **William.J.Stanton-** "A channel of distribution for a product is the route taken by the title to the goods as they move from the producer to the ultimate consumer or industrial users."
- ii. **John A Haward-** "Marketing channels are the combinations of agencies through which the seller, who is often, though not necessarily the manufacturer, markets his product to the ultimate users."
- iii. **McCarthy-** "Any sequence of institutions from the producer to consumer, including one or any number of middlemen, is called a channel of distribution."

### 7.3.2 CLASSIFICATION OF CHANNELS

Several channels are available for the distribution of consumer and industrial products. As discussed above the channels may be of two types

- 1) **The Direct channel-** This is a channel without any intermediary or middlemen. When the producer sells directly to the ultimate consumers without any middlemen, such type of channel is called a direct channel. This is also called **zero level channel**.

**PRODUCER ————— CONSUMER**

**2) The Indirect Channel-** In such type of channel, the producer takes the help of intermediaries. Goods move from producer to the different middlemen like wholesaler, retailer, agent, and distributor and finally reach the ultimate consumers. Depending on the number of intermediaries

The indirect channels are of the following types.

**a) One level channel-** This is a channel structure which consists of one intermediary between the producer and the ultimate consumer.

**(PRODUCER————RETAILER————CONSUMER)**

**b) Two level channel-** This channel structure consists of two intermediaries between the producer and the final consumer.

**(PRODUCER———WHOLESALE———RETAILER———CONSUMER)**

**c) Three level channel—**Three intermediaries function between the producer and final consumer.

**PRODUCER——AGENT——WHOLESALE——RETAILER——CONSUMER**

**Channel structure for industrial products—**Industrial products are different from consumer products. They differ in terms of their usage, buying motive, unit value, buying decision process etc. The channel structure for such products are:

**a. Zero level channel—** It contains no middlemen between the manufacturer and industrial consumers.

**b. One level channel—**one intermediary i.e. the industrial distributor, exists between the manufacturer and the industrial consumer.

**c. Two level channel—**It consists of two intermediaries namely manufacturer's representatives and industrial distributor

### **7.3.3 FACTORS INFLUENCING THE DESIGNING THE CHANNEL OF DISTRIBUTION**

Sometimes the marketing manager is confronted with the question regarding the suitability of a particular channel structure for his product. This is not a simple question to answer. The type of channel employed and the number of intermediaries in it depend on

a host of considerations. The following factors are usually taken into consideration while designing a suitable channel structure.

**I. Consumer or market characteristics—**

**Number of customers and frequency of purchase—**The number of customers and their frequency of purchase is an important guiding factor for selecting a particular channel structure. With the increase in the size of the customer and increase in their frequency of purchase lead to the addition of more levels in the channel.

**Geographic concentration of customers—**The concentration as well as the dispersal of consumers over a geographic area greatly influence the channel decision. Direct channel is preferred for a high geographic concentration of customers and indirect channel for a widely dispersed market or customers.

**Customers' buying habit—**The buying habit of the customers influences the channel design.

**Size of the purchase orders—**In case of large orders, direct channels may be considered suitable. But in case small orders, the producer finds it difficult and too expensive. Hence indirect channel is used under such situations.

**Size of the market—**The size of the market, large or small. Usually for small market direct channel and for large market indirect channel is preferred.

**II. Product characteristics—**

**Price of the product—**The low priced products need longer channel. They need intensive distribution which means the products should be available in as much outlets as possible.

**Weight of the products—**Heavy and bulky products are distributed directly to the customers to save the transport cost. But less bulky products with high value are sold through indirect channel.

**Complexity of the product—**Direct channel of distribution is suitable for the complex product as customers need various information and better service. In these cases the customer needs frequent assistance and help because of the technical complexities of the product.

**Perishability of the products**—Some products are perishable by nature. They are required to be consumed within a short period of their production as they have a shorter life. Such type of products are sold through short channels.

**III. Company characteristics—**

**Degree of channel control desired**— Some manufacturers set up short channels because they want to exercise full control over the channel. They don't want to dilute the control. Because as the channel becomes longer its management and control becomes weaker. Apart from the the control issue they also want to show a high degree of uniformity in their products' display price, after sales etc. by having a better control over the channel operation.

**Financial resources**—Financial resources play a crucial role in channel selection. Companies who prefer to set up more direct channels have to spend more as they have to recruit more sales persons and open more company outlets. This involves a great deal of spending. Companies having less financial capability go for indirect channels with comparatively less financial implications.

**Product mix** – The product mix of the company influences the channel choice. The channel design is done keeping in view whether the company is a single product or multi product company. The length, depth, width, consistency, and standardisation of the products are important variables in a channel choice decision process.

**Marketing policies of the company**—The company formulates its marketing strategy with a short, medium and long term orientation in line with the its overall organisational vision and mission. Marketing policies are framed with the objectives of increasing the volume of sales in a specific time period and increasing the market share of the company over a period of years. These policies require a well-planned channel structure from time to time to achieve the objectives.

**Ability of management**—Choice of channel is affected by the marketing experience and ability of the company's management. Many companies who do not have sufficient trained and efficient marketing personnel depend upon middlemen for their distribution function.

**IV. Middlemen characteristics-**

**Service provided by the middlemen**—Each marketer wants to select those middlemen who would provide the right kind of services to the customers. The services may be pre-sales service and post-sales service. The ability and willingness along with the available resources with the middlemen are considered before their selection.

**Availability of suitable middlemen**—Sometimes companies face the problem of finding suitable middlemen. Non-availability of suitable middlemen forces the company to set up their company-owned channel. This is because inexperienced and unsuitable middlemen will have an adverse impact on the image of the company.

**Cost of middlemen**—The cost of the engagement and management of middlemen is an important consideration in designing the channel of distribution.

**V. Environmental characteristics**—The overall business environment has an impact on the channel choice. The political, economic, cultural, social, legal and competitive aspects of the business and marketing environment have a great deal of impact on the channel choice decision.

**7.3.4 FUNCTIONS OF THE DISTRIBUTION CHANNELS:**

- **Breaking the bulk**—The intermediaries or channel members usually purchase in large quantities. But they sell as per the smaller requirements of the customers. The process of dividing the large quantity into smaller one is called breaking the bulk.
- **Provide market information**—The members of the distribution channel remain in direct contact with the customers. Because of this they are in a vantage position to get a first-hand knowledge about the product's acceptability in the market and consumers' behaviour, competition and other related information. They provide this information to the manufacturers.
- **Assortment**—Assortment means a combination of related and wide variety of products. The channel members like the wholesalers and retailers keep a deep assortment of the products as per the requirements of their target market. So that a consumer gets all the products of his shopping list from the channel member's shop and need not run to different shops for those products.

- **Physical distribution**—Some channel members undertake the activities pertaining to physical distribution like transportation, warehousing and inventory management.
- **Financing**—The channel members provide credit facilities to their customers. The wholesaler provides credit facility to the retailers and the retailer extends credit to the final consumers. This helps in the flow of the business and does not affect the business due to shortage of funds. Each party stands to gain from this practice if done with little precaution and ethics.
- **Risk taking**—Risk is inherent in each business. So also is the case in case of the members of the distribution channel. They assume a great deal of risk while carrying on their business. The failure to effect the required sales, changes in the customers' tastes and preferences, damage in transit, competition pressure, product obsolescence are some major risk profiles which the channel members face in the course of their business.
- **Matching**—The channel members anticipate the needs of their consumers and procure right kind of goods to meet their needs. This is called matching the consumers' needs with the right kind product availability.

### 7.3.5 PHYSICAL DISTRIBUTION-

Physical distribution includes all the activities associated with the supply of finished product at every step, from the production line to the consumers. Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products. Physical distribution starts at the factory. Managers choose a set of warehouses and transport carriers that will deliver the goods the goods to final destinations in the desired time or at the lowest total cost.

- “Physical distribution involves the management of the physical flow of products and the establishment and operation of the flow system” **William.J.Stanton**.
- “Physical distribution means moving of finished products from one end of a production line to customers.” **American Marketing Association**.

#### **IMPORTANCE/OBJECTIVES OF PHYSICAL DISTRIBUTION:**

Like any other marketing mix component, physical distribution has two broad objectives namely consumer satisfaction and profit maximisation. Physical distribution is concerned with getting the product to the right place at the right time at the lowest cost. It is a fact that enhanced consumer satisfaction depends on prompt and dependable distribution. The profit margin for the producers can be increased by making the physical distribution system more effective and efficient. Effectiveness and efficiency in the system bring economy and reduce the cost of delivery. The average cost of delivery involving the physical distribution system works out to 20 to 25 percent of the price paid. It means by lowering the physical distribution costs, profit margin can be improved besides giving the advantages of low price and prompt delivery to the customers. Therefore the broad objectives of physical distribution system revolves around minimisation of distribution costs and better customer service. They are discussed in more detail below.

- **Minimisation of distribution costs**—A detailed plan is drawn after making a proper analysis of the requirements of transportation and warehousing or storage costs. This helps in choosing the right mode of transport and timely requirement of the stock position. This results in the minimisation of the stock position.
- **Better customer service**—It provides an improved customer service. Time utilities and place utilities to the customers are ensured in a system of efficient physical distribution.
- **Price stabilisation**—It helps in stabilising the prices of the products in the market by coordinating demand and supply. The stocking of the goods at different warehouses and the efficient logistics back up can make the products available in the areas of need thereby ensuring price stabilisation.

- **Size of inventory**—The size of inventory can be kept small, if efficient transport facilities exist. In the absence of efficient transport and warehousing system, the companies may store products in large scale to meet the demand in the market. This results in high maintenance cost, capital blocked in idle inventory, loss of inventory due to theft, pilferage etc.
- **Provides place and time utilities**—It provides place and time utilities to the customers by ensuring a timely supply of goods and at right places as per the convenience of the buyers.
- **Bridges the spatial distance**—The location of the company and the production facilities determines the importance of the physical distribution. When the place of production and the place of consumption are far and wide, the effective physical distribution system plays an important role in bridging the spatial gap and maintains a steady supply to the market places.

**Elements of physical distribution system:** The various elements of physical distribution system are discussed below.

- a. **Transportation-** It involves the activities that move the products from one place to another. There are different modes of transport available to a marketer. They are road, rail, air, water and pipelines. While choosing a particular mode of transport or a combination of different modes of transport, the marketer takes into consideration the factors like cost, speed, availability, nature of the product etc.
- b. **Inventory management-** Inventory generally consists of raw materials, semi-finished goods, finished goods etc. The inventory control and management is an important element of the physical distribution system. It is always ideal to maintain a right level of the inventory. Both overstocking and under stocking of inventory results in creating a difficult situation for the organisation. Excess inventory accumulation implies blocking of capital, maintenance costs, abnormal loss and pilferage etc. Low level of inventory can cause interruption in the flow of production. Therefore a good physical distribution system must ensure proper inventory management system.

- c. Warehousing**—Firms can choose between having their own warehouses or share space with others in third party operated warehouses. Own warehouses ensure greater flexibility and control. But it also requires high investment. On the other hand third party warehouses require no fixed investment. Warehousing involves more than storage. Warehouses perform several middlemen functions like breaking bulk, despatch of consignments to the intermediaries, holding stocks for the retailers, providing market intelligence etc.
- d. Order processing**—Physical distribution begins with the customer orders. It is the receipt and transmission of sales order information. Efficient order processing reduces confusion and ensures timely order compliance and delivery. Order entry, order handling and order delivery are the three components of the order processing function.

## **7.4 (D) PROMOTION**

### **7.4.0 AN INTRODUCTION**

The concept of marketing mix consists of 4Ps. They are Product, Price, Place and Promotion. Out of the four elements or components of marketing mix, promotion is an important element because it helps in creating awareness about the product of the company and generates demand by persuading people to buy the company's product. The concept of promotion is comprised of four components. They are personal selling, advertising, sales promotion and public relation or publicity. These four elements constitute the promotion mix of a company. Promotion is defined as "the coordination of all seller-initiated efforts to set up channels of information and persuasion to facilitate the sale of a product, or service or acceptance of an idea". Thus, promotion is a marketing activity which includes all those activities which are aimed at creating or stimulating demand.

### **7.4.1 OBJECTIVES OF PROMOTION**

The basic objectives of promotion strategy of a company are—

- (a) **Informing**—Creating awareness and interest in the company's existing as well as new products

- (b) **Persuading** – Influencing the purchase decision process of the consumer with an objective to elicit a positive response towards the company’s product.
- (c) **Reminding**—It aims to retain the existing customers and remind them about their continuing presence in the market.

Apart from these basic objectives, other promotional objectives are—

- Increasing the Sales Volume: All promotional tools are used to increase the volume of sales.
- Building Brand Loyalty: Brand loyalty refers to the tendency of a consumer to keep buying particular brand. An effective promotion strategy persuades the buyers to make repeat purchase of the same brand over a long period of time.
- Stimulating the Dealer Action: Promotion strategy activities the dealers and stimulates the dealer actions in favour of the products and services of the company.
- Stimulating the Customer: An important objective of promotion is to increase the interest of the consumers in the company’s product and to motivate a potential customer to turn into an actual customer by purchasing the company’s product.

**7.4.2 ELEMENTS OF PROMOTION MIX-** Promotion mix as explained above represents a combination of methods and drives which all aim at promoting the sales. These methods or drives are called components or elements of marketing mix. The elements of promotion mix are

- a. Personal selling
- b. Advertising
- c. Sales Promotion
- d. Public Relation

All the above elements of promotion mix are discussed in detail

**(a) PERSONAL SELLING-** As the name suggest in such type of promotional strategy sales are promoted by sale persons directly meeting customers and selling this products the buyers and sellers come together and are engaged in a face to face communication and exchange of views. The seller persuades the buyers by personally informing the buyers about the product and its benefits and other relevant information. The buyer can

put queries about the product before the seller and get instant answers which help him to take a purchase decision. The personal selling involves a six step process. They are,

- **Prospecting-** Collecting information about the eligible buyers.
- **Pre-approach-** Collecting information about the consumers, their capacity to buy, fixing prior appointment to meet the likely customers.
- **Approach-** This is a crucial step in the process. Here the seller has a direct face to face interaction with the likely consumer. The sales person utilises all his selling skills to persuade the would be consumer.
- **Demonstration and presentation-** In this step the sales person gives a detailed information about the product and demonstrates the working and mode of use of the product to the consumers to establish the superiority and suitability of the product.
- **Overcoming the objections-** The consumers may raise several objections. The objections may be related to price, availability, and technical competence of the product and so on. A good sales man must be ready with the product knowledge, and up to date information about the product to satisfy the consumers. He should meet the objections with a cool mind and in a convincing manner.
- **Closing the sale-** This is the last step in the personal selling process. Here the sales person tries to win over the consumer and completes the formalities.

### **QUALITIES OF A GOOD SALESMAN**

It is said that the sales man is the spearhead of all business. It means that the success or failure of any business depends on the personality and qualities of the salesman. A salesman may have innate qualities and acquired qualities. Innate qualities are born or inherited qualities whereas acquired qualities are those qualities which a sales man masters with own his efforts and training. The qualities of a salesman may be divided as follows:

1. Physical qualities-
2. Psychological qualities
3. Social qualities
4. Character qualities

Let us discuss the above qualities in greater detail.

**1-Physical qualities-** The physical qualities of a salesman is a very important component of his personality. It holds the key to the success of the salesman. A salesman's job is to move around and explore business opportunities for his company and converting them into sales. He should have strong physique and ability to work hard in different working conditions. Apart from the stamina, a good looking and handsome figure adds to his personality which helps him to impress his target customers. The physical qualities of a salesman includes sound health, a correct body posture, good breath, a pleasant and clear voice and a good appearance.

**2-Psychological qualities-** These qualities relate to the different dimensions of the mental strength of the salesman. A strong psychological framework of a salesman is highly essential for his success. This is because a salesman's job involves both a positive side as well as a negative side. When he approaches a prospect or would be customer he faces the possibility of both acceptance and rejection. He should be mentally strong to take both the situations in his stride. Rejections are a part of salesman's profession. He should have the power of imagination comprehension and ability to anticipate the future circumstances. His ears and eyes must always remain open to make accurate forecasting of the micro and macro business opportunity. He should be cheerful and should have a good memory. Observation, initiative, good listening skill and a high degree of self-confidence are some of the important aspect of a salesman's psychological qualities.

**3- Social qualities-** The ability to make friends and to get along with people is one of the most valuable assets of a salesperson. His job requires him to move towards the people and to understand their needs and persuade them to purchase his products. He should

have good communication skill. His mannerisms, tactful handling, courtesy and ability to win the confidence of the customers and empathy are very important social qualities.

**4- Character qualities-** Character or moral qualities are as important as the physical and psychological qualities. Character qualities differentiate a person from another. A person of strong character is always accepted and respected by others. Honesty and integrity of a salesman increase his credibility and trustworthiness among the customers. He should display maturity and courage while discharging his professional job. Sincerity, determination, reliability are important dimensions of character qualities which a salesman should possess.

## **(B) ADVERTISING**

Advertising is another important element of marketing programs for successful implementation of marketing efforts. The product or service itself, naming, packaging, pricing, distribution and above all product features, style and attributes are all reflected in advertising. There is a saying 'advertising is telling and selling. 'A successful national economy depends on advertising activity promoting sales so that factory production is maintained, people are employed, and people buy quality goods due to advertisement. Good products do not sell by themselves. Prospective customers should know about such product or services. Advertisement creates awareness about the product. In Hindi there is a saying 'jodikhta he, wo biktahe'. It implies that a marketer has to take steps to create product awareness. **Advertising** is a form of marketing communication used to promote or sell something, usually a business's product or service. Commercial advertisements seek to generate increased consumption of their products or services through "branding," which associates a product name or image with certain qualities in the minds of consumers. Non-commercial advertisers who spend money to advertise items other than a consumer product or service include political parties, interest groups, religious organizations and governmental agencies. Non-profit organizations may use free modes of persuasion, such as a public service announcement etc.

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American Marketing Association (AMA) defines advertising as 'any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. We can see the characteristic features of advertising as follows

- a) **It is a paid form of communication**
- b) **It is a non-personal communication**
- c) **It promotes goods, services and ideas**
- d) **It aims at a target market**
- e) **It is done through an identified sponsor**

**The advertising process consists of 5Ms.They are:**

- a) **Mission-** The objective or purpose of advertising. They are sales objective and communication objective.
- b) **Money-** The money required for meeting advertising expenses.This is also called advertising budget.
- c) **Message-** This is the heart of advertising. It involves creation of advertising message, copy, layout, appeal and execution of advertising in a creative and attractive manner.
- d) **Media-** The advertising message reaches the target market through a carefully planned media mix. The various types of media are print media, electronic media, outdoor media, transit media, and internet.
- e) **Measurement-** It is the evaluation of the effectiveness of the advertising and measuring its success in terms of increase in sales and spreading of the advertising message.

**Role of Advertising:**

Advertising is a non-personal way of communication. It has a major role to play in a company or firm's marketing strategy. Through its creative execution of message it draws the attention of the prospective customers. The scope of spreading the message far and wide is more in advertising as compared to personal selling. Advertising has also a social dimension. We can see several social advertising which aim to change the attitude of the people towards a social cause. That is why such advertisements are called social or cause related advertising. When we see an ad. where a celebrity endorses a product and persuades a buyer to buy it, we can term it as commercial advertising. On the other hand when we see an ad. which propagates a message for saving trees, save water, pulse polio to babies, aids awareness etc. such advertisements are called social advertising which are non-profit or non-commercial by nature. Thus the role of advertising is manifold. It has economic as well as social significance.

**Economic aspects of advertising:**

- a) It helps in enhancing the business of a firm
- b) The emergence of independent advertising agencies opens opportunities for employment.
- c) It builds the firm's image among the customers.
- d) The related industries like media and creativity linked activities also get a boost.
- e) It helps in providing tempo to the macro level business environment.
- f) Cost-effective reach to a large number at a low cost per person with a repetition of the message is possible in advertising.

**Social aspects of advertising:**

- a) It educates the buyers about the product and services.
- b) The customers know the arrival of different new products through advertising which may help them in living a qualitative life.

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- c) An honest advertising provides correct information which helps the customers in taking right purchase decision.
  - d) Social or non-profit oriented advertising helps to change the attitude of the people towards a better and socially relevant cause.

**Limitations of advertising:**

- a) It is less persuasive than personal selling
- b) It results in relatively high levels of wastage as the coverage audience of advertising may not be interested in the products or services being advertised.
- c) It is very difficult to evaluate the impact of advertising as so many other factors affect the process of evaluation.
- d) Since it is impersonal by nature, the interaction element between the buyers and the sellers is absent here.
- e) Puffery and misleading advertising by unethical businessmen results in the exploitation of innocent customers.
- f) The money spent on advertising is recovered from the customers by inflating the price.
- g) It expedites consumerism and entices the buyers to buy products which may not be very useful to them.

**(C) SALES PROMOTION**-sales promotion covers those marketing activities that provide short term incentives to increase sale or to encourage purchase of a product or service. Its objective is to increase the volume of sales within a stipulated time.

**DEFINITIONS:**

- Sales promotion means any steps that are taken for purpose of obtaining or increasing sales.- A.H.Delens

- Those marketing activities, other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as display shows and exhibitions, demonstrations and various non-recurrent selling efforts not in the ordinary routine.- American Marketing Association
- Those activities that supplement both personal selling and advertising coordinate them and help to make them more effective.-American Marketing Association.

#### **OBJECTIVES OF SALES PROMOTION:**

The different objectives attempted to be achieved through sales promotions are

1. **To introduce new products-** Buyers are induced to purchase new products by giving free samples. Dealers and other middlemen are offered money and merchandise allowance to stock and sell the new product.
2. **To identify and attract new customers-** New customers may be attracted through issue of free samples, premiums, contests and similar devices.
3. **To induce present customers to buy more-** Present customers are induced to buy more often the product. They may be given patronage points or a reward for frequency of purchase of the product which will motivate them to purchase more.
4. **To help firm remain competitive-** The firm tries to retain its market share by providing various short-term incentives. Through effective sales promotion the firm lures the customers and persuades them for brand-switching.
5. **To increase sales in off-season-** Buyers may be encouraged to use the product in off seasons by giving various benefits and price-offs.
6. **To encourage inventory building-**No firm wants a situation of stock-out of their products.To ensure that their intermediaries or middlemen maintain sufficient stock,the firm provides them suitable incentives and induce them to stock more units of its products.

7. **To encourage more footfalls**-The firm may organize various special events like week-end sales discount, coupons etc.to attract more buyers thereby increasing more footfalls in the retail store for the firm's products.
8. **To encourage trial purchase**- Consumers may be induced to buy a new brand because of extra benefits like price-offs or free gifts associated with its buying. If the buyers like the brand the long term effect of the promotion will be positive.

### KINDS OF SALES PROMOTION

Sales promotion activities fall under three categories:

- I. **Consumer sales promotion**-This is targeted to the ultimate consumer market. The different incentives or tools of promotion used under this type aim at increasing the volume of sales.
- II. **Trade sales promotion**-It is directed to members of the marketing channel such as wholesalers and retailers. The purpose of offering incentives under such type of sales promotion is to get channel support for firm's product.
- III. **Sales force promotion**-This type emphasizes to increase and boost up the morale of the sales people. They are being offered commissions, bonus and other incentives so that they work with sincerity and dedication.

**I. CONSUMER SALES PROMOTION:** Consumer promotions are the offers that are given to the end consumers. These may be price based offers, such as money offs, or non –price based offers such as gifts, samples, coupons etc.Marketing managers must decide which consumer sales promotion devices to be used in a specific campaign. Some of the popular tools or measures of consumer sales promotion are mentioned below:

Tools or methods used

- **Coupon**-A coupon is a certificate that entitles consumers to an immediate price reduction when they buy the product. They are generally supplied along with the product which entitles the holder to either a specified savings on a product or a

cash refund. Most coupons are designed to (a) introduce a new product (b) increase the sale of an established product (c) sell new and larger sizes of a product (d) induce customers to switch brands (e) encourage repeat sales. Coupons are used for consumer convenience goods. They may be distributed by mail or door inserted in packages or part of magazine or news paper advertisements. When coupons are used to promote product, caution must be exercised to prevent fraud.

- **Rebates**- Rebates are similar to coupons in that they offer the purchasers a price reduction, but because the purchaser must mail in a rebate form and usually he has to give some proof of purchase, the reward is not as immediate as that of a coupon. Since buyers fill in the rebate form with their names, addresses, and other data manufacturers use rebate programs to build customer data base.
- **Premiums**-Premiums are items offered free with purchase of another item or are offered at a greatly reduced price. For example soap cake attached to the purchase of shampoo or tooth brush attached to toothpaste. Premiums stimulate the consumers to buy, increase consumption and persuade non users to switch brands. The cost of offering premiums must be weighed against potential benefits. For premiums to be effective, they must be easily recognizable and desirable.
- **Free samples**-Free samples are distributed to consumers to try the product or service and then purchase it. This form of promotion is good for introductory products or to get new users for established products. The disadvantage of this method is that sometimes, manufacturing and distributing samples of the products may be expensive, especially when they are to be distributed on a large scale to different channels such as mail delivery, door-to-door etc. To be effective, target markets should be carefully selected. Samples may not be appropriate for matured products or slow-moving products.
- **Price-off offers**-Buyers receive a certain amount off on the regular price shown on the package. Sometimes, price pack deals are offered where consumers get

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extra benefit in the form of additional quantity of the same product without increase in price. (Bisleri offers a bigger bottle with 20 percent extra mineral water). Such deals provide strong incentives for trying a new product and encourage immediate sales. Frequent use of price-off offers may cheapen the image of the product.

- **Demonstration-** The advantage of demonstration is that they attract the attention of prospective buyers and encourage trial use. They are useful to convince customers, motivate dealers and build store traffic. They are highly effective in consumer durable products like washing machine and home appliances. Sales personnel should be well trained to show how the product works.
- **Point-of-Purchase displays-** A point of purchase (P-O-P) display includes any promotional display set up at the retailer's location to build traffic, advertise the product, or induce impulse buying. P-O-P displays include shelf 'talkers' (signs attached to store shelves) shelf extenders (attachment that extend shelves so products stand out), advertisements on grocery carts and bags, end-aisle and floor-stand displays, in-store audio messages and audio-visual displays. The advantage is that it offers the manufacturer a captive audience in retail stores. P-O-P displays essentially aid the customers' recall of a brand that is advertised in mass media. Point-of-purchase displays help in providing information, motivating the customers and inducing them for product buying.
- **Frequent user Incentives-** These provide rewards to customers who make frequent repeat purchases. This is also known as loyalty marketing program. The objective of loyalty marketing program is to build long-term, mutually beneficial relationships between a company and its key customers. Major airlines for example, offer frequent flyer program where the customers are given additional free tickets on the basis of the total mileage travelled by them. Hotels, credit card companies and auto rental agencies also offer similar incentives to those who frequently avail their services.
- **Exchange offers-** In exchange offer an old product is exchanged for a new one with reduced price. For television and home appliances, manufacturers very often

make announcements persuading consumers to change their old products with new models at a lesser price.

- **Contests and Sweepstakes**-These are generally designed to create interest in a good or service. Consumers compete in these on the basis of their creative skills and knowledge. Contests are promotions in which participants use some skill or ability to compete for prizes. A consumer contest usually requires entrants to answer questions, complete sentences or write a paragraph about the product and submit proof of purchase. Sweepstakes involve random draw of lots. Winning a sweepstakes depends on chance and participation is free.
- **Referral gifts**-Existing customers are given gifts for referring their friends to the company.
- **Special events**-Manufacturers or retailers sponsor celebrity appearances, fashion shows and other such activities as measures to increase sales and creating awareness about product.
- **Trading stamps**- Consumers are given free stamps based on rupee purchases. Stamps are accumulated by the customer and exchanged for gifts or money.

## II. TRADE SALES PROMOTION:

Consumer sales promotions pull a product through the channel by creating demand, whereas trade promotions push a product through the distribution channel. The various sales trade promotion tools are as follows:

Tools or Methods used

- **Trade allowance**-A trade allowance is a price reduction offered by manufacturers to intermediaries such as wholesalers and retailers. The price reduction or rebate is given in exchange for doing something specific such as allocating space for a new product or buying something during special periods.
- **Push money**-The channel members receive push money as a bonus for pushing the manufacturer's brand through the distribution channel. The push money is directed towards a retailer's sales people.,

- **Off-Invoice allowance**-This involves a cut in invoice price or a discount.
- **Free merchandise**- A manufacturer offers the retailer free merchandise in lieu of quantity discount. Sometimes free merchandise is used as payment for trade allowances, normally provided through other sales promotions. Instead of giving a retailer a price reduction for buying a certain quantity of merchandise, the manufacturer may give extra merchandise free i.e. at a cost that would equal the price reduction.
- **Store demonstrations**-Manufacturers sometimes arrange with retailers to perform an in-store demonstration.
- **Trade shows and exhibitions**-These are organized by manufacturers to exhibit their products which ultimately help the dealers to get immediate sales from the customers.
- **Business meetings, conventions**-Trade association meetings, conferences and conventions are an important aspect of trade promotion. At these shows manufacturers, distributors and other vendors have the chance to display their goods or describe their services to potential customers.
- **Sales contests**-Retailers are encouraged to compete with each other and the best ones are given rewards and prizes along with public recognition.

**III. SALES FORCE PROMOTION**- This is used to motivate the sales people. The sales personnel are given targets. The following incentives are given to increase the efficiency and dedication of the sales people.

- **Bonus to sales force**—Bonus is the extra incentive given to the sales force for their achieving the target sales within a specified period.
- **Sales contest**- Sales contests are organized to stimulate the sales force and develop competitiveness among the retailers.

- **Sales meetings, conventions and conferences.**—These are conducted with a view to educate, train, inspire and reward the sales personnel..

**ADVANTAGES OF SALES PROMOTION:** Sales promotion as a promotion tool offers many advantages to the manufactures; middlemen and the customers. They are as follows:

- **It creates new customers-**The incentives provided under various schemes in sales promotion programme, attracts new customers. They make trial purchases and then become regular customers if they find the goods are worth the price and promised performance.
- **It retains the existing customers-** It provides various incentives and loyalty programme. The existing customers, remain loyal to the organization and become frequent buyers of the company's product.
- **It combats competition-** The manufacturers get a competitive advantages over their competitors by implementing more attractive and innovative incentive policy.
- **Attracts middlemen-**A manufacturer gives various offers to the middlemen. These offers attracts middlemen to hold the inventory of the manufacturer and help in increasing the sales of the manufacturer's products.
- **Reduces strain-** sales promotion draws customers to the store. They get attracted by various offers. The wholesalers and retailers get a stream of customers without much persuasive effort. This reduces their strain.
- **Builds store image-** sales promotion covers a wide range of techniques such as demonstration, exhibition, contests; displays etc. The retail store gets a face lift and publicity which builds the store's personality.
- **Supplies information-** The consumers get information about the product, its manufacturer and the various benefits associated with the purchase of the product. These information help the consumers in taking purchase decision..

- **Useful in new product launch-** The tools of sales promotion like discount, free gift offer etc. are very useful in launching new products. It convinces them to use new products in place of the products which they may have been using regularly.
- **Builds loyalty-** Sales promotion incentives build brand loyalty and store loyalty.

### LIMITATIONS OF SALES PROMOTION

1. **Short-term impact-** Sales promotion has a short run impact. The consumers get addicted to the offers and purchase as long as the offers are valid. The sales drop when the offer is withdrawn. They prefer to wait till the next round of offer and incentives.
2. **It damages the brand image-** Advertising builds the brand image over a period of time. But frequent offer schemes and incentives sometimes create suspicion in the minds of the customers regarding the quality of the product and motive of the producers.
3. **Merchandising support from dealers is doubtful-** One of the trade promotions tool is to offer promotional allowances to trade people to motivate them to provide merchandising support and to pass on some benefit to consumers. This generally is the condition attached with such promotional allowances. In many cases, the dealers do not cooperate in providing the merchandising support nor do they pass on any benefit to consumers. The retailer might not be willing to give support because he does not have the place, or the product does not sell much in his shop, or maybe he thinks the effort required is more than the commission/benefit derived.
4. **Expensive-** It is expensive and leads to a rise in the price of products.

**(d) PUBLIC RELATION** It is an image building exercise on the part of the company. A company by its good act and favourable publicity campaign builds a good corporate citizen image. This helps him in getting customer support which ultimately results in increasing the sales of the company. Public relation activities as an element in the promotion mix

evaluate public attitudes, identify issues that may elicit public concern and execute programs to gain public understanding and acceptance. Public relation is a vital link in a progressive company's marketing communication mix. Public relation department may perform any or all of the following functions.

- **Press relation-** Placing positive newsworthy information in the media to attract attention to a company's products or services.
- **Product publicity-** Publicizing a company's products or services.
- **Corporate communication-** Creating internal and external messages to promote a positive image of the firm or institution.
- **Public affairs-** Building and maintaining national or local community relations.
- **Lobbying-** Influencing legislators and government officials to promote or defeat legislation or regulation as per the requirements of the company.
- **Employee and investor relations-** Maintaining positive relationship with employees, shareholders and others in the financial community.
- **Crisis management-** Responding to an unfavorable publicity or a negative event. This helps in restoring the image of the company and builds confidence in the minds of the existing and potential customers.

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## 7.5 MODEL QUESTIONS

### OBJECTIVE AND SHORT TYPE QUESTIONS:

#### Q.1. Choose the correct alternatives

- I. The most fundamental and basic form of product is called
  - a) Augmented product
  - b) Formal product
  - c) Core product
  - d) Potential product
  
- II. A level of product which includes warranties, aftersales and such other value added additional benefits is known as
  - a) Core product
  - b) Augmented product
  - c) Actual product
  - d) Product mix
  
- III. A type of consumer product which a consumer buys routinely with little planning is called
  - a) Staple product
  - b) Unsought product
  - c) Shopping product
  - d) Status product
  
- IV. Which of the following does not come under consumer goods?
  - a) Convenience goods
  - b) Staple goods
  - c) Shopping goods
  - d) Raw materials

- V. The extent of commonality among different product lines in the product mix is called
- a) Length
  - b) Width
  - c) Depth
  - d) Consistency
- VI. Furniture is an example of
- a) Speciality goods
  - b) Unsought goods
  - c) Shopping goods
  - d) Convenience goods
- VII. Raw material is an example of
- a) Services
  - b) Industrial goods
  - c) Consumer durable product
  - d) FMCG product
- VIII. Inseparability is a characteristic feature of
- a) Industrial product
  - b) Consumer durable product
  - c) Services
  - d) FMCG product
- IX. A branding strategy where a manufacturer uses a single brand name for all his products is known as
- a) Individual branding
  - b) Family branding

- 
- c) Middlemen branding
  - d) Local branding
- X. Which of the following pricing objective forms the basis of a firm 'pricing strategy during a period of tough times?
- a) Current profit maximisation
  - b) Survival
  - c) Target rate of return
  - d) Market share
- XI. A pricing strategy, where the new product is sold at a high or premium price, is called
- a) Going rate pricing
  - b) What the traffic can bear
  - c) Price skimming
  - d) Price penetration
- XII. In which of the following pricing strategy a firm sets prices at a lower rate than its competitors to encourage brand switching?
- a) Price skimming
  - b) What the traffic can bear
  - c) Price penetration
  - d) Sealed bid pricing
- XIII. 'Going rate pricing' is a method, in which price is fixed—
- a) Above the competitors' price
  - b) Below the competitors' price
  - c) At par with the competitors' price
  - d) Below the cost

- XIV. Which of the following determinants of price, forms the floor or base level of price?
- a) Demand
  - b) Competition
  - c) Government policies
  - d) Cost
- XV. Perishable products require
- a) A longer channel
  - b) A shorter and direct channel
  - c) A medium level channel
  - d) No channel
- XVI. A distribution channel is a path on which the product travels
- a) From producers to consumer
  - b) From agents to producers
  - c) From retailers to producers
  - d) From wholesalers to the agent
- XVII. The function of a distribution channel, in which the channel members divide the product as per the requirements of the customers is known as
- a) Assortment
  - b) Breaking the bulk
  - c) Physical distribution
  - d) Matching
- XVIII. An element of promotion mix which involves a face to face two way communication is known as
- a) Advertising
  - b) Sales promotion

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- c) Personal selling
  - d) Public relation
- XIX. The act of collecting and gathering data regarding eligible buyers by a sales person is called
- a) Approach
  - b) Pre-approach
  - c) Prospecting
  - d) Closing the sale
- XX. An element of promotion mix which intends to increase the volume of sales in short term is called
- a) Advertising
  - b) Personal selling
  - c) Sales promotion
  - d) Public relation
- XXI. A certificate which is supplied with the product and entitles the consumer a saving on purchase of a specified product is called
- a) Rebates
  - b) Premiums
  - c) Coupon
  - d) POP

**2- Fill in the gaps**

- a) A—— product usually has a long life and can be put into repeated uses.
- b) A—— is a name, term, sign symbol or a combination of all and differentiates a which manufacturer's product from its competitors.
- c) A—— is the set of all product lines that a particular seller offers for sale to the buyers. Of each in the line.

- d) The \_\_\_\_\_ of the product mix refers to how many variants are offered of each product in a particular product line.
- e) \_\_\_\_\_ refers to the container/wrappers in the products are kept and moved from the producer to the ultimate consumers.
- f) In \_\_\_\_\_ pricing method the marketer estimates the total cost of production and then adds a mark-up or margin to arrive at a desired rate of return.
- g) The situation where the total sales revenue of a product is equal to its total costs is called \_\_\_\_\_.
- h) In \_\_\_\_\_ pricing method the marketer estimates the total cost of production and then adds a mark-up or margin to arrive at a desired rate of return.
- i) When a producer of goods sells directly to the consumer, such type of channel is called \_\_\_\_\_ channel.
- j) Personal selling is a \_\_\_\_\_ way traffic.
- k) \_\_\_\_\_ are items offered free with purchase of another item or are offered at a greatly reduced price.
- l) A sales promotion tool which involves random draw of lots is called \_\_\_\_\_.

**3- Express in one words/phrase**

- a) A most fundamental and basic level of a product.
- b) The goods which are purchased regularly and routinely without any prior planning and form a major part of the convenience goods purchasing.
- c) Goods which are purchased due to the urgency of the situation.
- d) Goods which are purchased by the buyer not for direct consumption but are used for producing other consumer goods.
- e) Any act or performance which one party offers to another party for sale, which is essentially intangible by nature.
- f) A branding strategy in which the manufacturer uses a single brand for all his products

- 
- g) A type of branding in which companies use different brand names for different products.
  - h) Only element in marketing mix which generates revenue.
  - i) A pricing method which is at par with the competitor's price.
  - j) A paid form of non-personal communication

**4-Correct the underlined portion of the following sentences.**

- a) Packaging gives a separate identity to a product and helps in building its personality.
- b) A brand is a separate slip or paper or other material affixed to a product and contains important information about it.
- c) A type of label which informs only the name of the product and meant to popularise it in the market is called grade label.
- d) When a brand name is used by the producer to sell its products throughout the country irrespective of any region, such type of brand is called international brand.
- e) Product mix depth refers to the number of product lines which a firm offers to the market for sale.
- f) Indirect channel is otherwise called zero level channel.
- g) Price skimming is a strategy where the marketer sells the product at a lower rate than its competitors.
- h) A step in the personal selling process which involves a direct face to face interaction between the sales person and the would be customer is called prospecting

**5- Answer the following questions. (30 words)**

- a) What is core product?
- b) What do you mean by actual product?

- c) What individual branding?
- d) What do you mean by grade label?
- e) What is product mix?
- f) What is break-even point?
- g) What is skimming pricing?
- h) What do you mean by tender pricing?
- i) What is direct channel?
- j) What do you mean by POP?
- k) What is prospecting?
- l) What is meant by pre-approach in personal selling process?

**6- Answer the following questions (50 words)**

- a) Define the concept of service
- b) Name two characteristic features of service
- c) What do you mean by unsought product?
- d) Explain any two advantages of packaging.
- e) What is labelling?
- f) What do you mean by family branding?
- g) What is affordability pricing?
- h) What do you mean by advertising?
- i) What is physical distribution?
- j) Distinguish between advertising and sales promotion.

**LONG ANSWER TYPE QUESTIONS**

- 7. Explain the concept of product. Draw out a classification of product.
- 8. Distinguish between industrial goods and consumer goods. Explain various types of consumer goods.

9. What is a brand? What are the essentials of a good brand name? Discuss different types of branding strategies.
10. Discuss the objectives of pricing. Explain the factors that influence the pricing decision of a firm.
11. Discuss various pricing strategies.
12. Distinguish between personal selling and advertising. Outline the steps involved in the personal selling process.
13. What do you mean by channel of distribution? Discuss the factors which influence the choice of a distribution channel structure.
- 14- What is sales promotion? Explain various techniques of consumer sales promotion.
- 15- Explain the meaning of advertising. Discuss the 5Ms of advertising.

**Answers**

- Q.1- I-(c),II-(b),III-(a),IV-(d),V-(d),VI-(c),VII-(b),VIII-(c),IX-(b),X-(b),XI-(c),XII-(c),XIII-(c),XIV-(d),XV-(b),XVI-(a),XVII-(b),XVIII-(c),XIX-(c),XX-(c),XXI-(c)
- Q.2- (a)-durable, (b)-brand,(c)-Product mix,(d)-depth,(e)-package,(-f)-cost plus pricing,(g)-break even point,(h)-target-return,(i)-direct,(j)-two,(k)-premiums,(l)-Sweepstakes
- Q.3- (a)- Core product,(b)-Staple,(c)- emergency,(d)-Industrial goods,(e)-Services.(f)-family,(g)-Individual branding,(h)-Price,(i) Going rate,(j)- Advertising
- Q.4- (a)-branding,(b)-label,(c)-Brand label,(d)- National brand,(e)- Width,,(f)-indirect,(g) penetration pricing,(h)-Approach

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# CHAPTER- 8

## CONSUMER PROTECTION : CONCEPT AND IMPORTANCE

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### **STRUCTURE**

- 8.1 Introduction
- 8.2. Consumer Protection- A conceptual Analysis
  - 8.2.1 What interests need to be protected?
  - 8.2.2 Why protection needed ?
  - 8.2.3 Evolution of Consumer Protection Movement
- 8.3 Essential Features of Consumer Protection Act
- 8.4 Objectives of the Act
- 8.5 Consumer
  - 8.5.1 Definition
  - 8.5.2 Rights of Consumers
  - 8.5.3 Responsibilities of Consumers
- 8.6 Process of filing Complain
  - 8.6.1 Complain
  - 8.6.2 Complainant
  - 8.6.3 Contents of a complaint
  - 8.6.4 Where to file Complaint
  - 8.6.5 Time frame of Complaint
  - 8.6.6 Disallowing a Complaint
  - 8.6.7 Frivolous and vexatious Complaints.
- 8.7 Questions

### **8.1 INTRODUCTION**

As individuals we may have different identities depending upon our nationality , caste, religion, economic and social status etc. But in our role as buyers of goods and

services which we all do as a routine activity, all of us have a common and single identity as CONSUMERS, an identity which is universally recognized and accepted. As consumers, therefore, we all come under a single umbrella and also share a common platform in respect of our purchase related interests and expectations. We desire that the goods and services we purchase or pay for, are pure, defect free, supplied in right quantity & measurements. The price charged is fair & reasonable. We are not duped, deceived by misleading advertisements and publicities and we are not victimized by any kind of other unfair trade practices. But in reality, more often our interests and expectations are belied and we get duped, cheated and exploited.

To ensure protection to consumers against all such exploitations, continuous efforts and initiatives have been undertaken by different individuals and agencies at different points of time. Under the leadership of consumer activist Mr Ralf Nadar in USA, claimed to be a pioneer in consumerism movement, efforts have been made to unite consumers and generate pressure for appropriate action for consumer protections. At Government levels, measures have also been initiated through inserting many punitive and preventive provisions in different Acts for curbing manipulative business practices and remedial measures for aggrieved parties. In India, The Indian Contract Act, the Sales of Goods Act, The Dangerous Drugs Act, the Food Adulteration Act, etc, are a few examples wherein such provisions have been inserted.

These scattered provisions in different Acts did not help much the consumers as the legal remedies available under such Acts, were complicated, time consuming, expensive and required long waitings for redressal and relief. A pressing need was, therefore, felt for the enactment of an independent Act exclusively dealing with all possible consumer related problems with comprehensive provisions for appropriate mechanisms & effective authorities for delivering quick relief to consumers with least cost. Responding to the mounting pressure from consumer activists and also influenced by the resolution adopted in the General Assembly of United Nations in April 1985 outlining a policy framework on consumer protections, the Government took the historic decision in the year 1986 to

enact the much needed Act for consumers known as Consumers' Protection Act 1986, shortly called COPRA. This act came into force in April 1987.

## **8.2 CONSUMER PROTECTION –A CONCEPTUAL ANALYSIS**

Protection is generally talked of when there is a threat perception either to person or property. It obviously involves measures to save or shield the person or property from apprehended threats. When the term protection is used in the context of consumers, it implies measures needed for protecting the consumers from different types of exploitations and protecting their various interest and expectations.

### **8.2.1 What interests need to be protected?**

When consumers purchase goods or pay for services, they always and quite legitimately also, expect that the goods they have purchased or services paid for are:

- Of good quality, pure and defect free
- Supplied at right & reasonable prices
- Given in right quantity & rightly measured
- All information considered essential for their use are provided.
- No misleading information have been given to them with the intention of cheating or deceiving them etc.

These expectations constitute their legitimate interests and they desire that these interests are always protected.

### **8.2.2 Why Protection needed?**

Ground realities from the marketing fields reveal that the legitimate interests of consumers are hardly taken care of by the sellers. Consumers, by and large, have always been considered as soft targets by sellers for all kinds of exploitations as their ultimate interests lie in profit maximization through all possible easy and quick earning methods. Consumers

cannot fight against such mighty profit mongers and menace creators. Therefore, the need for protection arises due to following reasons.

- They are generally simple, innocent and indifferent in matters of buying activities.
- They do not have time, patience nor also interest required for intelligent buying.
- They are highly un-organised with each one left to his own fate and showing no or little interest to promote collective effort and pressure.
- They do not have the required exposure to consumer education and therefore, not aware of their rights & remedies as consumers.
- Absence of consumer friendly, easily accessible and affordable legal systems and framework for quick redressal of problems of consumers.
- Non-recognition of consumer exploitation as a great social menace at national level.

These reasons necessitate the need for protection of consumers.

### **8.2.3 Evolution of Consumer Protection Movement.**

Consumer exploitation, as a problem, has not just emerged in recent years. Even in good old days traders used to cheat the consumers and in consequence were subjected to warning and punishment by the elders and in extreme cases by the rulers. But such cases were rarely happening and were of mild nature. With unprecedented growth of industrial, trading & commercial activities and more specifically after competition among producers becoming stiffer and fierce powered by aggressive sales drives, exploitation started taking very ugly shapes bringing under its fold more & more consumers. In consequence, it became a matter of great concern for social activists who initiated massive movements demanding for the protection of interests of consumers. Governments in different countries became concerned and enacted laws having provisions for relief to consumers and punishment for unscrupulous business people. The Contract Act, Sales of Goods Act, Food Adulteration Act, Dangerous Drugs Act in India, are only a

few examples. These Acts with preventive & punitive provisions did provide some protection but were grossly inadequate. Further, the procedure prescribed under these Acts for seeking relief or redressal were quite expensive, complicated and time consuming. Hence, pressures mounted for the establishment of some type of justice system and mechanism which should be consumer specific & consumer friendly and capable of ensuring relief to consumers at the minimum cost & efforts.

Simultaneously, pressure was also mounting up at international level for recognizing consumer exploitation as a social problem and their protection as a pressing need of the time. Consequently, the General Assembly in UNO adopted a historic resolution in April 1985 outlining guidelines for the member nations to follow for promoting appropriate consumer protection systems & mechanisms. Under these guidelines, seven areas were identified where protection was needed to be provided:

- Physical safety
- Protection and promotion of the economic interests of consumers
- Standards for the safety & quality of goods and services
- Distribution facilities for goods and services
- Measures enabling consumers to obtain redressal
- Measures relating to specific areas (food, water & pharmaceuticals )
- Consumer education & information programme.

Thus, yielding to public pressure in India and keeping the broad guidelines of UNO on consumer protection, the Government took a momentous decision to enact the Consumer Protection Act in 1986 which came into force from the year 1987. By this, India became a pioneering nation in demonstrating its commitment for the protection of consumer interests. In the International Conference on consumer protection held at Malaysia (1986) this Act was described “as one which has set in motion a revolution in the field of consumer rights, the parallel of which has not been seen any where in the world”.

### 8.3 ESSENTIAL FEATURES OF THE ACT

The Consumer Protection Act has the following essential features:

- It is a comprehensive consumer related legislation.
- It is a unique & highly progressive piece of social welfare legislation.
- It extends to whole of India except the state of Jammu & Kashmir
- It covers all goods & services unless specifically exempted by a notification of the Central Govt.
- Unlike all other Acts which contain provisions of punitive & preventive nature, this Act contains provisions which are all compensatory in nature.
- It prescribes simple and easily accessible procedures for lodging complaints and time bound redressal mechanisms.
- It provides for the establishment of Consumer Dispute Adjudicatory Authority at various levels for speedy settlement of consumer related disputes.
- It provides for the establishment of Consumer Protection Councils at District, State & National Levels for the promotions and protections of rights of customers.
- It provides for redressal of consumer grievances without engagement of advocates
- It enshrines different clearly defined rights to the consumers.
- It has emerged as a handy weapon for consumers to ensure accountability of producers of goods and providers of services.

### 8.4. OBJECTIVES OF THE ACT

The consumer protection act has been enacted to achieve the following objectives:

- (i) To protect the consumers from exploitation.
- (ii) To save the consumers from being duped by the supply of sub-standard & hazardous goods & services

- (iii) To safeguard the interest of consumers
- (iv) To recognize that consumers have certain rights against the sellers.
- (v) To make the remedial measures under the Act easily accessible.
- (vi) To deliver speedy justice to consumers with minimum cost
- (vii) To enable the consumer to fight without the help of lawyer.
- (viii) To get the dispute redressed in a hassle free manner
- (ix) To confer rights of appeal against decisions of the authority in the next higher level up to even at the supreme court.
- (x) To confer on consumer, right to information and also education.

## **8.5 CONSUMER**

**8.5.1 Definition :** To seek redressal under the Act, it is necessary to first prove that one is a consumer as defined under the Act. Since sales transactions revolve round goods as well as services and one may consume any one or both and pay for them, the term consumer, therefore, has been defined separately.

1. In relation to purchase of goods
2. In relation to payment for services

**1. In relation to purchase of goods:** The following provisions are to be satisfied so that a person may claim himself as a consumer of good:

**(a) Transaction for consideration:** A consumer is a person who buys goods for a consideration. It covers all kinds of transfer of goods in terms of money, barter or exchange. To be a consumer, it is not necessary that the consideration should be paid at once. It may be partly paid or partly promised to be paid. Even when a promise is made to pay under a system of deferred payment, the person is also considered as a consumer Ex: Hire purchase resulting in a credit sale.

**(b) Use of goods with the permission of buyer:** The users of the goods may not always be the buyers. When a purchase is made for family members, relatives or friends, it is implied that they have permission to use the goods. If they find defects in the goods, they, therefore, can initiate legal action against the seller. The word 'with the permission' implies that the user is a rightful user. Ex: Ram purchased cycle. It was used by Sham with the knowledge of Ram. When a defect arises Sham (the user) can sue the seller.

**(c) Not for resale or use for commercial purpose:** The Act provides that the term consumer does not include a person who obtains goods for resale or for use for only commercial purpose. 'Resale' implies that goods are bought for the purpose of selling. When an asset is used with the object of using it as a means to earn profits it is a 'commercial purpose'. Ex: A person purchased a car with the intention of using it as a taxi. Now it is used to earn profit. Here, the buyer of the car is not a consumer as the car is used for commercial purpose.

**(d) Goods purchased for self employment :** If the following conditions are satisfied, the user is recognized as consumer even though goods are bought for commercial purposes :.

- Buyer himself manages the goods without engaging others.
- Goods are used exclusively for the purpose of earning his livelihood.
- Buyer takes it as a type of self – employment

Ex: (i) Purchase of a type writer for self employment, purchase of a taxi car and plying it for self business will be regarded as consumers.

(ii) When a driver is employed to ply the car, the purchaser is not a consumer.

(iii) A rickshaw puller buying a rickshaw for self-employment is a consumer.

The intention of the Act is to save the interest of small consumers who buy goods to be used by them employing themselves for earning their livelihood. Hence, a thing

purchased but used or operated by someone else for transfer of the benefit to the buyer, will not be regarded as a consumer purchase.

**2. In relation to payment of services:**

The second category of consumer is that of user of services. When a person satisfies the following conditions, he is regarded as consumer of services:

- (a) Hirer of Services:** Hiring means procuring a service at a price for a temporary period. Such consumers include persons who hire or avail of any services from all kinds of Professionals, be they providers of routine services like that of barbers or the providers of technical services. Ex: B goes to a doctor for treatments. Here, B hires the services of a doctor and is a consumer.
- (b) Services obtained for consideration :** Services must be of commercial nature and must be obtained on payment, which may be either in cash or in kind. Payments need not be immediate. It can be in installments. Services may be rendered either wholly or partly on credit. When a person avails the services without giving any consideration, he is not considered a consumer Ex: A promise made by a client to pay an advocate after settlement of the suit. Here the client is a consumer.
- (c) Beneficiary of services :** The hirer of services does not hire the services for himself only. He may hire for other persons. The other persons (users) are called beneficiaries. Such beneficiaries will be regarded as consumers if they use the services with the approval of hirer. Ex: Father takes his son to a doctor for treatment. Here both father (hirer) and son (beneficiary) are consumers.
- (d) Hiring of services for commercial purpose:** When one avails the services for commercial purposes, he is not considered as consumer under the Act. Prior to 15<sup>th</sup> March 2003, a person hiring services for commercial purposes was considered as consumer because the exclusion was only in respect of 'goods' bought for commercial purposes.

### 8.5.2 Rights of consumers

The Act recognizes and protects the following six rights of consumers.

- (i) Right to protection against hazardous goods:** The Act protects the consumers against the risk from the marketing of goods which are hazardous to life and property. If a consumer is victimized by purchasing such goods, he will have the right of initiating legal action for a speedy and effective remedy. Ex: Poor quality cement is dangerous to life and property.
- (ii) Right to information:** A consumer is given the right to be informed by the producer about the quality, quantity, potency, purity, standard & price of goods he buys. It saves the consumers from unfair trade practices like false & misleading descriptions about the nature and quality of goods Ex: Hair oil is capable of promoting hair growth.
- (iii) Right to access:** The Act has given the responsibility to the Central Council to organize the market in such a way that the consumers are assured of access to a variety of goods at competitive prices. A shopkeeper cannot force or create conditions under which the consumers find themselves helpless with no choice but to buy goods of one kind or brand only. It is otherwise called freedom of choice.
- (iv) Right to be heard:** The Act gives right to every consumer to be heard by appropriate authorities at appropriate forums. The consumer will receive due attention from such forums while presenting his/ her grievances.
- (v) Right to seek redressal:** A consumer can seek redressal against unfair trade practices and any type of dealing that he considers as an unscrupulous exploitation. Ex: Advance money deposited with a car dealer to supply a car within one month. But the car was supplied after 6 months.

**(vi) Right to consumer education:** Knowledge is power. Only when people know about the rights and remedies available under the Act, they can exercise their rights or seek legal remedies when needed. Otherwise, the system of remedies tends to become rusted. So, consumers need to be aware of the rights and remedies and other benefits of the legal system. COPRA provides proper education to the consumers so that they become aware of their rights.

### **8.5.3 Responsibilities of Consumers**

We all like to know about our rights and show our eagerness to exercise them. But we hardly give same importance and show interest to know and understand our responsibilities as consumers. There cannot be rights without responsibilities. Consumer rights and responsibilities are intertwined together and are supplementary and complementary to each other. Consumers without sharing responsibilities would find it very difficult to enjoy their rights on a long term basis.

There are no definite set of consumer responsibilities prescribed specially under the law. The following are, however, considered as the commonly accepted responsibilities of consumers.

**1. To exercise their rights:** Under COPRA, the consumers have been vested with various rights, such as right to safety, right to choose, right to information, right to be heard etc. These rights will be useful only when they are properly known, understood and effectively made use of at appropriate times.

**2. To make self efforts:** As far as possible, a consumer should not totally depend on the seller for information & choices. He is expected to act in a responsible manner to protect himself from being deceived. A well informed consumer takes better care of his interest. It is always better to be forewarned and forearmed rather than getting remedies after suffering a loss.

- 3. Proof of transactions:** The proof of purchase should be obtained and carefully preserved. When a consumer makes a complaint about defects in goods, such proof enables him to establish his claim for repair or replacement of goods. Hence, it is an important responsibility of consumer that he insists, collects and preserves all possible documents including warranty/ guarantee cards issued by dealers. For durable goods these documents are all the more important.
- 4. To make proper claim:** Another responsibility of consumer is not to make unreasonably higher claims. It is seen in cases where consumers claim huge compensation for no apparent reason. It is regarded as irresponsible act which should be avoided.
- 5. To make proper use of product:** Generally products are offered with instructions of their use. But they are ignored. We have got a bad habit of making rough use of the product during guarantee period thinking that the product will be replaced during the guarantee period. It is unethical practice. It is the responsibility of consumers to use the product properly, strictly following the instructions provided..
- 6. To file complaints :** Most of the time consumer ignores the loss he suffers on purchase of defective goods. This attitude encourages the corrupt businessman to supply defective goods. It is our responsibility to file a complaint even for a small loss which will make the sellers more conscious and also restrained.
- 7. To be quality conscious :** It is the responsibility of consumer not to make any type of compromise with the quality of product. This way the problems of supply of substandard and duplicate goods by the sellers can be solved.
- 8. To avoid being carried away:** Usually the companies make tall claims through advertisements by exaggerating the qualities and different features of product. It is the responsibilities of consumer to compare the benefits received from the actual use of product with the benefits promised in advertisement. If there is any discrepancy, it must be brought to the notice of appropriate authorities for action.

**9. To take care of environment:** A consumer must consider the impact of the use of the product on the environment before buying a product. Not bringing home-cooked food to school, taking cold drinks in plastic cups, using mineral bottles have become very common. It is his responsibility to do everything possible to save environment from waste management problem.

**10. To be conscious of other responsibilities:** Besides the above responsibilities, consumer should be conscious of some other responsibilities. They should stick to the agreement made with manufactures, traders & service providers. They should make timely payment in case of credit purchases. They should not tamper with the connecting links of services like electric & water meters, bus & train seats etc. They should remember that they can exercise their rights only when they are ready and willing to fulfill their responsibilities.

## **8.6 PROCESS OF FILING COMPLAINT**

### **8.6.1 Complain/ Complaint**

**Meaning :** Complaint or complain is a statement made in writing by the aggrieved consumer containing certain allegations to the National Commission or the State Commission or District Forum. It can be filed only by a person who is competent.. The object of filing a complaint is to get relief provided under the Act.

**8.6.2 Who can be a Complainant [sec 2(1) (b)]:** Complainant is the person or agency who files the complaint. The complainant can be

- (i) a consumer or
- (ii) any voluntary association of consumers registered under the Companies Act or under any other law for the time being in force; or
- (iii) the Central or any State Government
- (iv) any one or more of than one consumer, where there are numerous consumers having the same interest.

(v) the legal heir or representative, in case of the death of the consumer.

In addition to the above, following persons can also file a complain : (a) Beneficiary of goods and services (b) Husband of a woman consumer (c) A relative of consumer (d) Insurance company

**8.6.3 Contents of a Complain/Complaint:** A complaint may contain any of the following allegations with documentary evidences :

- (i) An unfair trade practice or restrictive trade practice that has been adopted by any trader. Ex Selling of expired medicine to a patient.
- (ii) Goods mentioned in the complaint suffer from one or more defects. Ex- Purchasing a car with a manufacturing problem which seller knows.
- (iii) Services mentioned suffer from deficiency in any respect. Ex-An advocate not attending the court as per the schedule.
- (iv) The goods/services mentioned in the complaint have been charged a price in excess of the price.
  - (a) fixed by or under any law for the time being in force..
  - (b) displayed on the goods or on any package containing such goods.
  - (c) displayed on the price list exhibited by the seller.
  - (d) agreed between the parties
- (v) Goods mentioned are hazardous to the life and safety when used, have been offered to sale to the public. Ex-Selling of electric iron without safety test by the company.
- (vi) Services which are hazardous or likely to be hazardous to life and safety of the public when used, are offered for sale. Ex- A car repairer not repairing the brake properly & the driver met an accident. It is an instance of hazardous service.

**8.6.4 Where to file a Complaint :** Where or with whom to file the complaint depends upon the value of goods or services or compensation claimed. As per this Act, the consumer can file the complaint with the

- a) District Forum if the value of claim is within Rs 20 Lakhs.
- b) State Forum if the value of claim exceeds Rs 20 Lakh but not exceeding Rs 1crores.
- c) National Forum if the value of claim exceeds Rs 1 crore.

**8.6.5 Time frame of complaint [Sec 24A]:** The Act provides that a complaint cannot be admitted unless it is filed within two years from the date on which the cause of action has arisen. However, if the Forum /Commission is satisfied that there was sufficient cause for not filing the complaint within the prescribed period, they may allow such complaints to be entertained. But the Forum/Commission must record the reasons for condonation of delay.

There is no set of rules to decide the time when cause of action arises. It depends on the facts and circumstances of each case.

**8.6.6. Dis- allowing a complaint:** Under the following situations a complaint can be dis-allowed.

- (i) Complaint is of a general nature where consumers are not identified. .
- (ii) A complaint by an unregistered association
- (iii) A complaint filed after expiry of limitation period i.e. 2 years from the date on which cause of action arises. However, the consumer forum may accept after verifying the genuineness of delay.

#### **8.6.7 Frivolous and vexatious complaints**

Frivolous & vexatious complaints refer to silly complaints having no useful or serious purpose. Since the court fees is not charged from the consumer & there is no need to engage the services of a lawyer, very often consumers feel tempted to file such types of

complaints. So, the Act provides that any complaint, before accepted, should be properly examined. If a consumer is found guilty of filing such type of complaint, he may be imposed with a fine of maximum Rs. 10,000.

## 8.7 MODEL QUESTIONS

### OBJECTIVES AND SHORT ANSWER TYPE QUESTIONS

#### 1. Choose and write the correct answer from the alternatives given below:

- a) Consumer Protection Act was passed in the year
- |          |           |
|----------|-----------|
| i) 1984  | iii) 1986 |
| ii) 1985 | iv) 1987  |
- b) COPRA came into force in April
- |          |           |
|----------|-----------|
| i) 1984  | iii) 1986 |
| ii) 1985 | iv) 1987  |
- c) As per resolution of UNO in 1985, the number of areas identified where protection was needed for customers are
- |        |         |
|--------|---------|
| i) 05  | iii) 07 |
| ii) 06 | iv) 08  |
- d) COPRA extends to whole of India except
- |                       |              |
|-----------------------|--------------|
| i) Odisha             | iii) Manipur |
| ii) Jammu and Kashmir | iv) Nagaland |
- e) Complaint contains allegations against
- |                        |                      |
|------------------------|----------------------|
| i) National Commission | iii) District Forum  |
| ii) State Commission   | iv) Selling agencies |

**2. (A) Correct the underlined portion in the sentence given below**

- i) COPRA was passed in the year 1996
- ii) Mr. Ralf Nadar is a Political activist.
- iii) If father takes his son to a doctor, father is the beneficiary
- iv) It is the responsibility of customer to make higher claim
- v) Complain has to be filed within 3 years from the date when cause of action has arisen.

**B.. Fill in the blanks**

- i) COPRA came into force in the month of \_\_\_\_\_ 1987.
- ii) To deal with consumer related problems \_\_\_\_\_ Act was passed in 1886.
- iii) Consumer Dispute Adjudicatory Authority is established for \_\_\_\_\_ settlement of Consumer dispute.
- iv) COPRA saves a consumer from being duped by \_\_\_\_\_ goods & services.
- v) To seek redressal under COPRA, one has to be a \_\_\_\_\_ first.

**3. Answer the following questions in one sentence each**

- i) Give one feature of COPRA
- ii) State one objective of COPRA
- iii) Define Consumer.
- iv) Define Complainant
- v) Who is a Complainant ?
- vi) What is the time frame of a Complainant?
- vii) Give one reason for dis-allowing a complaint.
- viii) What is frivolous & Vexatious complaint?

**4. Answer the following in not more than Six Sentences each**

- i) What interests are protected under COPRA?
- ii) Why did a consumer need Protection?
- iii) State in brief the objectives of COPRA.
- iv) What are the allegations coming under a complaint ?
- v) Who can be a complainant?
- vi) What is frivolous & vexatious complaint ?

### **5. LONG ANSWER TYPE QUESTIONS**

1. What is COPRA ? What are the necessities of COPRA?
2. Write a note on evolution of Consumer Protection Movement.
3. What is COPRA ? State its features and outline its objectives.
4. Who is a Consumer Under COPRA ?
5. What are the rights of Consumer ?
6. State the responsibilities of Consumers?

### **ANSWERS TO OBJECTIVE QUESTIONS**

Q.1. (a) iii, (b) iv, (c) iii, (d) ii, (e) iv,

Q.2. A: (i) 1986, (ii) Consumer, (iii) Son, (iv) Proper (v) 2

B: (i) April, (ii) COPRA, (iii) Speedy (iv) Hazardous (v) Consumer

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# CHAPTER- 9

## CONSUMER PROTECTION COUNCILS AND CONSUMER GRIEVANCE REDRESSAL MECHANISM

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### STRUCTURE

- 9.1 Objectives of the Councils
- 9.2 Classification of the Councils
- 9.3 Consumer Grievance Redressal Mechanism
  - 9.3.1 Introduction
  - 9.3.2 District Forum
  - 9.3.3 State Commission
  - 9.3.4 National Commission
- 9.4 Questions

### 9.1 OBJECTIVES OF THE COUNCILS

The prime objectives of the Consumer Protection Act is to promote and protect the interest of consumers. For facilitating the realization of these objectives, the Act provides for the establishment of Consumer Protection Councils at the Central, State and District levels. These councils are advisory bodies. They advise and assist the consumers in protecting interests in the following areas

- **Safety:** Unsafe goods cause injury to the users. It is the responsibilities of councils to protect the consumers against marketing of goods which are hazardous to life and property. The councils ensure that proper instructions are given for the use of the product-so that risk involved in improper use can be avoided.

- **Information:** Right information at right time and at the right place helps taking right purchase decision. It is the responsibility of the producer to inform the consumers about the quality, quantity, potency, purity, standard and prices of goods they buy. This saves the consumers from becoming victims of unfair trade practices like false and mis-leading descriptions. Further, adequate information help consumers compare different products before making final purchase. The Councils ensure that such information are made available.
- **Accessibility:** Fair competition is beneficial to the consumers because that provides consumers with variety of products at lowest cost. Due to easy accessibility to different products, the consumers get the opportunity of choosing among many. Such accessibility is ensured by the councils.
- **Attention :** It is the aim of the councils to assure the consumers that their grievances would be duly heard and they would receive due attention and consideration from different forums. So, the councils organize & compose different forums under the Act.
- **Non- exploitation:** It is the duty of the council to see that the consumer is given the right to seek redressal against unfair trade practice and unscrupulous exploitation. For this the Act has provided for the
  - (a) Establishment of consumer forums, and
  - (b) Recognition of restrictive and unfair trade practices as a ground to make a complaint.
- **Consumer Education:** Where the people do not exercise their legal remedies, the system of remedies tends to become rusted. For proper functioning of the legal system, it is necessary that knowledge of availability of legal remedies should be so widely disseminated that people as a whole become conscious of their rights. Thus, the council is charged with the responsibility to provide the consumers proper education. Once the consumers are made conscious of their power, they feel energized to fight against exploitation by businessman.

## 9.2 CLASSIFICATION OF CONSUMER PROTECTION COUNCILS

There are three Consumer Protection Councils i.e.

- i. Central Consumer Protection Council at the central level
- ii. State Consumer Protection Council at the state levels.
- iii. District Consumer Protection Council at the District levels.

### 9.2.1 CENTRAL CONSUMER PROTECTION COUNCIL (SEC 4 TO 6)

**Primary Objectives** -The Central Council gives (i) wide publicity to the rights of the consumers and the consumer dispute redressal agencies (ii) procedure of filing complaints therein through television, radio, newspaper & Magazine.

**Constitution** : The central government by notification may form a council known as Central Consumer Protection Council (in short Central Council)

**c) Composition:** The membership of the Central Council is broad based. Members of the council are selected from various areas of public interest. Central Government has provided that the council shall consist of the following members not exceeding 150 namely:

- The Central Minister in charge of consumer affairs shall be the chairman.
- The minister of state in the department of civil supplies (without independent charge) shall be vice-chairman.
- 8 MPs (5 from Lok Sabha and 3 from Rajya Sabha)
- The commissioner for SC & ST
- 20 representatives of the Central Government departments concerned with consumer interest
- At least 35 representatives of the consumers or consumer organizations
- At least 10 representatives of women
- Representatives of farmers, trade and industries not exceeding 20

- Persons capable of representing consumer interests not specified above –not exceeding 15
- Secretary in the Department of Civil Supplies shall be the Secretary of the Central Council.

**d) Vacancy :** A member can resign by submitting his written resignation to the chairman. The vacancy would be filled from the category to which the resigning member belonged and also only for the period for which he would have continued.

**e) Term:** The term of the council is for three years.

#### **9.2.2. STATE CONSUMER PROTECTION COUNCILS [SEC7)**

**Object :** The object is to promote & protect the consumer rights within the state.

- **Constitution:** Under sec-7 of the Act, State Governments are required to establish their respective protection councils (in short state councils). Rules as to composition are to be prescribed by the State Governments.
- **Composition:** The state council consists of the following members :
- The minister in charge of consumer affairs in the State Governments shall be the Chairman.
- Such number of other official or non official members representing such interest as may be prescribed by the State Government.
- Such number of other official or non-official members not exceeding ten, as may be nominated by the Central Government.

**d) Meeting :** It shall meet at least twice in every year. The time & place of the meeting is decided by the chairman. The procedure in regard to the transaction of its business is prescribed by the State Government.

**9.2.3. DISTRICT CONSUMER PROTECTION COUNCIL [SEC 8A]**

- a) **Object:** The objects are similar to those of the Central & State Councils. This provides a forum for promoting & protecting the rights of consumers at grass root level.
- b) **Constitution:** The state Government shall set up a District Consumer Protection Council for every district as per the consumer protection (Amendment) Act 2002. Earlier to this, the State Governments were free to set up or not to set up.
- c) **Composition :** The District Council consists of the following members:
- The collector of the district is the chairman
  - Such number of other official and non-official members representing such interests as may be prescribed by the State Government.
- d) **Meeting :** It shall meet at least twice in every year. The time and place of the meeting is prescribed by the chairman.

**9.3 CONSUMER GRIEVANCE REDRESSAL MECHANISM (Sec 9-27)****9.3.1 INTRODUCTION**

The basic objectives of the Consumer Protection Act 1986 is to give protection to the consumer against exploitation. It intends to give relief to the consumer who is not in a position to go to regular courts to fight his cases because of high cost of litigation. He should be given a forum where presenting grievances and fighting for justice is cheap and quick. To meet this objective, the Act provides for a three tier quasi judicial redressal mechanism at the District, State and National levels for redressal of consumer disputes & grievances They are as follows:

**(A) Consumer Disputes Redressal Forum (District Forum) at the District Level**

**(B) State Consumer Disputes Redressal Commission (State Commission) at the State Level.**

**(C) National Consumer Disputes Redressal Commission (National Commission)  
at the National Level,**

District Forum and State Commission are formed by states with the permission of the Central Government while National Commission is formed by the Central Government.

**9.3.2 DISTRICT FORUM [Sec 10-15]**

Section 9 of the Act provides that the State Government shall establish a District Forum in each district by notification. The State Government may establish more than one District Forum in a district, if it deems fit.

**a) Composition :** Each District Forum shall consist of :

- A president who is or has been or is qualified to be a district judge.
- Two other members one of whom shall be a woman

**(b) Qualification of Members :**

The members should

- be not less than 35 years of age.
- possess a bachelors degree from any recognized university.
- be persons of ability and integrity and have enough knowledge and experience of atleast 10 years in dealing with problems relating to economics, law, commerce, accountancy, industry, public affairs.

**c) Disqualification for appointments:** A member of District Forum is disqualified for appointment if he

- has been convicted and sentenced to imprisonment for an offence which, in the opinion of the State Government, involves moral turpitude ; or
- is an un-discharged insolvent
- is of unsound mind and stands so declared by competent court; or

- has been removed or dismissed from the service of the Government or a body corporate owned or controlled by the Government; or
- has in the opinion of the State Government, such financial or other interest as is likely to affect prejudicially the discharge by him of his functions as a member; or
- has such other disqualifications as may be prescribed by the State Government.

**d) Appointment :** The President and other members of the District Forum are appointed by State Government on the recommendation of a selection committee. Such selection committee consists of following 3 persons:

- The President of the State Commission as the Chairman
- The Secretary in the Law Department of the state as a member
- Secretary in charge of the Department dealing with consumer affairs in the state as a member.

If the president of the state commission is not able to act as the chairman due to any reason, the State Govt refers the matter to the Chief Justice of the High Court to nominate a sitting judge of the High Court to act as the Chairman.

**e) Period of Office –** Every member of the District Forum shall hold office for a period of 5 years or till he/she attains the age of 65 years whichever is earlier. Earlier to the Amendment Act, 2002 members were not eligible for re-appointment after the term. However, after the amendment, a member now is eligible for re-appointment so that his experiences can be utilized for a longer period.

**f) Resignation :** A member may resign his office in writing under his hand addressed to the State Government. When the State Govt. accepts the resignation, his office becomes vacant. Such vacancy may be filled up by appointment of a person with requisite qualifications.

**g) Terms of service:** The salary or honorarium and other allowances including terms and conditions of the members may be prescribed by the state Government

### **h) Power of District Forum**

District Forum has the same power as are vested in a civil court while trying suit in respect of the following matters.

- (i) Summoning and enforcing the attendance of any defendant or witness and examining the witness on oath.
  - (ii) Discovery and production of any document or other material object producible as evidence.
  - (iii) Receiving of evidence on affidavits
  - (iv) Requisitioning of the report of the concerned analysis or test from the appropriate laboratory or from any other relevant source.
  - (v) Issuing of any summon for the examination of any witness.
  - (vi) Any other matter which may be prescribed.
- i) Jurisdiction :** It means the scope or limit of authority to hear and decide the cases. A forum takes up those matters which fall under its jurisdiction. Jurisdiction is fixed with reference to value which is called pecuniary Jurisdiction or place known as Territorial Jurisdiction.
- (i) Pecuniary Jurisdiction:** District Forum can entertain complaints where the value of goods or services and compensation, if any, claimed does not exceed Rs. 20 Lakh (Earlier to the Amendment Act 2002, it was limited to Rs. 5Lakh)
  - (ii) Territorial Jurisdiction:** A complaint should be filed in that District Forum where other party has the business or branch office or personally works for gain.

### **j) Procedure Of Dealing with Complaint in District Forum**

#### **[SEC 13-15]**

The District Forum has to observe the following procedure as detailed in Sec 13 on receipt of a complaint:

**1<sup>st</sup>** : On receipt of a complaint, the District Forum shall send a copy of it to the opposite party directing him to give his version on the complaint within 30 days which may be extended by another 15 days by the District Forum.

**2<sup>nd</sup>** : In case the opposite party admits the allegation contained in the complaints, the complaints will be decided on the basis of materials on record.

**3<sup>rd</sup>** : If the opposite party, on receipt of the complaint, denies or disputes the allegations or omits or fails to take any action within the time period given to him by the Forum, the Forum shall settle the dispute in the following manner:

**1. In case of Dispute relating to any Goods**

- (i) Reference to laboratory** : If the complaint relates to a defect in the goods that cannot be determined without proper testing by a competent laboratory, the Forum shall send such goods for analysis to an appropriate laboratory. The laboratory shall submit its report within 45 days.
- (ii) Deposit of fees**: District Forum may ask the complainant to deposit specified fees for payment to the laboratory to carry out the test and such fees are remitted to the laboratory.
- (iii) Forwarding of report**: On receipt of the laboratory report, the Forum shall forward such report to the opposite party along with his remarks.
- (iv) Objection against test**: If any of the parties (i.e. either complainant or opposite party) disputes the correctness of the findings by the laboratory or disputes its method of analysis, the Forum shall ask such party to give his objections in writing.
- (v) Opportunity of hearing**: Forum shall give a reasonable opportunity to both the parties to prove their objections by appearing before it. After hearing their objections, if any, the Forum shall issue an appropriate order.

## **2. In case of Dispute relating to Service or Goods not requiring Testing or Analysis**

- (i) Referring a copy :** When the District Forum receives a complaint relating to a service or goods not requiring any test or analysis, it shall forward a copy of such complaint to the opposite party within three weeks of receipt of such complaint and the forum shall ask him to give his reply within 30 days. This limit of 30 days can be extended upto 45 days if the forum grants.
- (ii) Disputing the allegation:** On receipt of the copy of the complaint, if the opposite party denies or disputes the allegations within the stipulated time, the forum shall settle the dispute on the basis of evidence brought to its notice by both the parties.
- (iii) Settlement of dispute:** Where the opposite party omits or fails to respond within the stipulated time, the Forum shall settle the dispute ex-party on the basis of evidence brought to its notice by the complaints.

Where the complainant fails to appear on the date of hearing before the Forum, then the Forum may either (a) dismiss the complaint for default (b) decide it on merits.

**Time period for final decision :** Every effort is made to hear the complaint as early as possible. The final decision of the Forum shall come.

- (a)** Within 3 months from the date of receipt of the notice by the opposite party where the goods or services do not require any test or analysis.
- (b)** Within 5 months if such analysis or testing by a laboratory is required.

### **J) Scope of Remedies**

If after the proceedings, the Forum is satisfied that the complainant suffers from any defect in goods or deficiency in service, it may pass one or more of the following orders to the opposite party:

- (i)** To remove the defect in the goods pointed by the laboratory report.

- (ii) To replace the goods with new goods of similar description free from any defect.
- (iii) To repay the price to the complainant
- (iv) To pay compensation to the consumer for any loss suffered due to the negligence of the opposite party.
- (v) To remove defects in goods or deficiencies in the services in question
- (vi) To discontinue unfair trade practices
- (vii) To stop the sale of hazardous goods
- (viii) To withdraw hazardous goods from being offered for sale
- (ix) To cease manufacture of hazardous goods and to desist from offering services which are hazardous in nature.
- (x) To pay such sum as deemed fit in the opinion of the Forum when loss or injury has been suffered by a large number of consumers who are not identifiable conveniently (however, the minimum amount of sum so payable shall not be less than 5% of the value of such defective goods sold or service provided to such consumers)
- (xi) To issue corrective advertisement to neutralize the effect of misleading advertisement at the cost of opposite party responsible for issuing such misleading advertisement.
- (xii) To provide adequate cost to parties.

**K) Executory powers of the forum:** The amendment Act 2002, has vested the Consumer Forums with the following executory powers. These are as follows.

- (i) Where an interim order made under this Act is not complied with, the Forum may order for attachment of the property of the person not complying with such order.

- (ii) If such non-compliance of attachment order continues for more than 3 months, the attached property may be sold. Out the sale proceeds, the Forum may award damages to the complainant and the balance amount may be paid to the party entitled thereto.
  - (iii) Where under an order, an amount is due from one person- then such person may apply to the Forum. The Forum will issue a certificate to the district collector and the collector will recover the amount.
- (I) **Appeal:** If any party is not satisfied with the order given by the District Forums, he can appeal to the State Consumer Commission within 30 days from the release of order. The State Commission shall not admit an appeal by a party who has been ordered by the District Forum to pay any amount unless he deposits 50% of such amount or Rs.25,000/- whichever is less, in the District Forum.

### 9.3.3 STATE COMMISSION [sec 16 to 19]

The Act provides for the establishment of the State Consumer Disputes Redressal Commission (i.e. State Commission) by the State Government in the state by notification.

**(a) Composition :** Each State Commission shall consist of:

- (i) A President who is or has been a judge in High Court shall be appointed by the concerned State Government in consultation with Chief Justice of the High Court.
- (ii) At least two members or more members may be appointed, one of whom shall be a woman.

**(b) Qualification:** The members should

- be not less than 35 years of age.
- possess a bachelors degree from any recognized university.
- be persons of ability and integrity and have enough knowledge and experience of atleast 10 years in dealing with problems relating to economics, law, commerce, accountancy, industry, public affairs.

**(c) Disqualification** : A member of State Commission is disqualified for appointment if he

- has been convicted and sentenced to imprisonment for an offence which, in the opinion of the State Government, involves moral turpitude ; or
- is an un-discharged insolvent
- Is of unsound mind and stands so declared by competent court; or
- has been removed or dismissed from the service of the Government or a body corporate owned or controlled by the Government; or
- has in the opinion of the State Government, such financial or other interest as is likely to affect prejudicially the discharge by him of his functions as a member; or
- has such other disqualifications as may be prescribed by the State Government.

**d) Appointment** : The other members of the State Commission are appointed by State Government on the recommendation of a selection committee. Such selection committee consists of the following 3 persons:

- The President of the State Commission as the Chairman
- The Secretary in the Law Department of the state as a member
- Secretary in charge of the Department dealing with consumer affairs in the state as a member.

If the president of the state commission is not able to act as the chairman due to any reason, the State Govt refers the matter to the Chief Justice of the High Court to nominate a sitting judge of the High Court to act as the Chairman.

**(e) Period of Office** : Every member of the State Commission shall hold office for a period of 5 years or till he attains the age of 67 years, whichever is earlier. A member including the President is eligible for reappointment for another term of 5 years or up to the age of 67 years whichever is earlier provided he has the above qualification.

**(f) Resignation :** A member may resign his office in writing under his hand addressed to the State Government. When the State Govt. accepts the resignation, his office becomes vacant. Such vacancy may be filled up by appointment of a person with requisite qualifications.

**g) Terms of service:** The salary or honorarium and other allowances including terms and conditions of the members may be prescribed

**h) Jurisdiction [sec 17(1)]**

- **Pecuniary jurisdiction :** It has the jurisdiction to entertain complaints where the value of goods, services and compensation claimed exceed Rs. 20 lakh but not exceeding Rs. 1 Crore.
- **Territorial jurisdiction :** It extends to the territorial limit of the state
- **Appellant jurisdiction:** It can entertain appeals against the orders of the District Forum within the state.
- **Revisionary jurisdiction:** It has the power to call for the records and pass appropriate orders in a case which is pending or has been decided by a District Forum within the state, if it feels that the District Forum has exceeded or failed to exercise its jurisdiction or there is any irregularity.

**(i) Transfer of cases:** On the application of complainant or of its own motion, the State Commission may at any stage of the proceeding, transfer any complaint pending before the District Forum to another district forum within the state if the interest of justice so requires.

**(j) Procedure of handling dispute [sec -18]**

The procedure for the disposal of complaints as given in sec 12,13 & 14 of the Act (Discussed under District Forum) shall be applicable to the State Commission with necessary modifications.

**(i) Appeals :** A person aggrieved by an order of the State Commission may make an appeal against such order to the National Commission within a period of 30 days from the date of release of such order. The National Commission may entertain an appeal after the expiry of this period of 30 days if it is satisfied that there was sufficient cause for not filing the appeal within that period. The National Commission shall not entertain such appeals by a person who has been ordered by the State Commission to pay any amount unless such appellant deposits or pays such amount or Rs. 35,000 whichever is less.

**(k) Hearing of appeals:** [sec 194] An appeal shall be heard and disposed of within a period of 90 days from the date of its admission. No adjournment is granted by the State Commission unless sufficient cause is shown.

**(l) Penalties for non-compliance of orders:** Every order may be enforced in the same manner as if it were a decree of the court. If any person fails or omits to comply with the order, he may be punished with

(i) Imprisonment for 1 month to 3 years

or

(ii) Fine ranging between Rs. 2000 & Rs. 10000

or

(iii) Both

#### **9.3.4 NATIONAL COMMISSION [sec 20-23]**

It is the top most layer among the three statutory bodies dealing with grievance of consumers. Its office shall be located in Delhi.

**(a) Composition :** The National Commission shall consist of :

(a) A President who is or has been a judge of the Supreme Court. Before appointment consultation with Chief Justice of India is mandatory.

- (b) Other members : Not less than four and not more than such number of members as may be prescribed and one of whom shall be woman.

**(b) Qualification**

The members should

- be not less than 35 years of age.
- possess a bachelors degree from any recognized university.
- be persons of ability and integrity and have enough knowledge and experience of atleast 10 years in dealing with problems relating to economics, law, commerce, accountancy, industry, public affairs.
- However, not more than 50 percent of the members shall be from amongst the persons having a judicial background.

**(c) Disqualification** : A member of National Commission is disqualified for appointment if he

- has been convicted and sentenced to imprisonment for an offence which, in the opinion of the State Government, involves moral turpitude ; or
- is an un-discharged insolvent
- Is of unsound mind and stands so declared by competent court; or
- has been removed or dismissed from the service of the Government or a body corporate owned or controlled by the Government; or
- has in the opinion of the State Government, such financial or other interest as is likely to affect prejudicially the discharge by him of his functions as a member; or
- has such other disqualifications as may be prescribed by the State Government.

**(d) Appointment:** The appointment of the members of the commission is made by the Central Government on the recommendation of a selection committee. This selection committee consists of following three persons:

- (i) A Judge of the Supreme Court to be nominated by the Chief Justice of India to act as the Chairman.
- (ii) Secretary in the Department of Legal Affairs in the Govt. of India as a member.
- (iii) Secretary of the Department dealing with consumer affairs in the Govt of India as a member

All the members of the selection committee will give an undertaking each that they do not and will not have any financial or other interest as is likely to affect prejudicially their functions.

- (e) **Period of office** : Every member will hold office for a term of five years or up to the age of seventy years, whichever is earlier. However, the members are eligible for reappointment for another term of five years or up to the age of seventy years whichever is earlier, subject to the condition that he fulfils the qualifications & other condition for appointment. The selection committee has to recommend such re-appointment.
- (f) **Resignation**: The President or a Member may resign his office in writing under his hand addressed to the Central Govt. When the Central Govt. accepts the resignation, his office becomes vacant and such vacancy may be filled up by appointment of a person possessing requisite qualifications.
- (g) **Terms of office**: The salary or honorarium and other allowances including terms & conditions of the members may be prescribed by the central Govt.
- (h) **Jurisdiction**:
  - (i) **Pecuniary Jurisdiction**: The National Commission may entertain all the matters where value of claim exceeds Rs 1 Crore.
  - (ii) **Territorial Jurisdiction** : Ordinarily the National Commission shall function at New Delhi. It may function at other places as the Central Govt. may notify in the Official Gazette from time to time.

- 
- (iii) **Appellate jurisdiction:** It has jurisdiction to entertain appeals against the order of any State Commission.
- (iv) **Revisional jurisdiction:** National commission can call for the records and pass the appropriate orders in any consumer dispute which is pending before or has been decided by any State Commission if it feels that the State Commission has exceeded or failed to exercise its jurisdiction or there is any irregularity.
- (i) **Procedure of handling dispute:** [Sec 22 & 22 A]  
Sec 22 of the Act provides that the provisions of sections 12, 13 & 14 and the rules made thereunder for the disposal of complaints by the District Forum shall be applicable to the disposal of disputes by the National Commission with necessary modifications.
- (j) **Appeals:** Any person aggrieved by the order of the National Commission may appeal against such order in the Supreme Court within a period of 30 days from the date of such order. The Supreme Court may entertain an appeal after the expiry of 30 days if it is satisfied that there is sufficient cause for not filing the appeal within that period. Further, no appeal by a person who is required to pay any amount in terms of an order of the National Commission shall be entertained by the Supreme Court unless that person deposits in the prescribed manner 50 percent of that amount or Rs. 50,000 whichever is less.
- (k) **Finality of orders:** Where no appeal is preferred against the order of District Forum / State Commission/ National Commission such order shall be final.
- (l) **Penalty :** Every order made by District Forum/ State Commission / National Commission may be enforced in the same manner as if it were a decree of the court. All persons are supposed to comply with the orders. If not, they may be punished with:
- i) Imprisonment for 1 month to 3 years
  - or
  - ii) Imposed fine ranging between Rs 2000 and Rs 10000
  - or
  - iii) Both imprisonment and fine.

## 9.4 MODEL QUESTIONS

### Objectives and short answer type questions

1. **Choose the correct answer from the alternatives given below:**

- (a) Prime objective of COPRA is to  
(i) Promote consumer interest (iii) Promote and protect consumer interest  
(ii) Protect consumer interest (iv) Promote Traders interest
- (b) Councils are  
(i) Advisory bodies (ii) Policy making bodies  
(ii) Executive bodies (iv) Penalty imposing bodies
- (c) Central consumer protection council is formed by  
(i) State Govt (ii) Local Bodies  
(ii) Central Govt (iv) International agency
- (d) The chairman of central consumer protection council is  
(i) Chief Minister of a state (ii) President of India  
(ii) Governor of a state (iv) Central Minister
- (e) Meeting of state consumer protection council is held at least  
(i) Once a year (ii) Thrice a year  
(ii) Twice a year (iv) Four times a year

2. **Fill in the blanks**

- (a) \_\_\_\_\_ is the chairman of District council
- (b) \_\_\_\_\_ is the chairman of central consumer protection council
- (c) There are \_\_\_\_\_ nos of consumer protection councils
- (d) Membership of central council should not exceed \_\_\_\_\_
- (e) State Govt. sets up a district consumer protection council for every district as per amendment act \_\_\_\_\_

3. **Correct the underlined portion**

- (a) It is optional to set-up district council in each district
- (b) Chief minister of a state is the chairman of district council.
- (c) Meetings of district councils are held at least once a year.

- (d) The president of district forum should have the rank of a high court judge
- (e) Selection committee for appointment of president & other members for district forum consists 6 persons.

**4. Write in one word.**

- (a) The statutory body created for handling grievances of consumers at district level.
- (b) The statutory body created for handling grievances of consumers at state level
- (c) The statutory body created for handling grievances of consumers national level
- (d) The statutory body created to promote & protect the interest of consumers at district level
- (e) The statutory body created to promote & protect the interest of consumers at state level
- (f) The statutory body created to promote & protect the interest of consumers at national level
- (g) Top most layer among three statutory bodies dealing with the grievances of consumers.

**5. Answer the following in one sentence each**

- (i) Who forms central council by notification ?
- (ii) How many representatives of consumer organizations compose the central council?
- (iii) What is District Forum?
- (iv) What is a state Council?
- (v) What is the tenure of a member of a district forum?

**6. Answer the following in six sentences each**

- (i) What are the primary objectives of central councils?
- (ii) State the composition of state council
- (iii) Outline the composition of central council
- (iv) State the qualification of members of district forum
- (v) What are the powers of district forum?

- (vi) Who are disqualified for being a member of state commission ?
- (vii) Who are disqualified for being a member of national commission?
- (viii) Outline the jurisdiction of national commission?
- (ix) Outline three objectives of consumer protection councils in general.

**Long Answer type questions**

- (a) Explain the objectives of consumer protection council
- (b) State the procedure of dealing with complaint in district forum
- (c) Write a note on scope of remedies available in the district forum.
- (d) Write a note on state commission.
- (e) Write an essay on composition, activities, period of office, jurisdiction etc of national commission

**Answers to objective questions**

1. (a) iii (b) i (c) ii(d) iv, (e) ii
2. (a) Collector, (b) Central minister (c) 03, (d)150, (e) 2002
3. (a) obligatory, (b) collector (c) twice, (d) District (e)03
4. (a) District forum (b) state commission (c) National commission  
(d) District council (e) state council (f) Central council (g) National Commissioner.

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## CHAPTER-10

# CONSUMER AWARENESS

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### STRUCTURE

- 10.1 Introduction
- 10.2 Meaning
- 10.3 Need and Importance
- 10.4 Consumer Organisations & NGOs
  - 10.4.1 Introduction
  - 10.4.2 Meaning
  - 10.4.3. History
  - 10.4.4 Role
- 10.5 Guidelines for smooth functioning of consumer organization
- 10.6 Questions

### 10.1 INTRODUCTION

Consumers for business are as indispensable as oxygen is for all living beings. Business without consumer cannot be conceived of and there can be no true mission for business than the business of serving consumers. Peter F. Ducker, the world known management thinker has rightly said, “with respect to the definition of business purpose and business mission, there is only one such focus, one starting point. And it is the ‘consumer’. The consumer defines the business. A business is not defined by the company’s name, statutes or articles of association. It is defined by the want the consumer satisfies when he buys a product or service. To satisfy customer is the mission or purpose of business”.

Even much earlier, Mahatma Gandhi while highlighting the importance of a consumer had said, “A consumer is the most important visitor on our premises. He is not dependent on us, we are on him. He is not an interruption to our work; he is the purpose of it. We are not doing a favour to a consumer by giving him an opportunity. He is doing us a favour by giving us opportunity to serve him.”

But despite their recognition as the key players in the market, even described as the sovereigns, kings or gods, they in reality seldom play the role they are capable of playing. They hardly realize that both individually and collectively they stand today much more empowered than years ago and can become more demanding and assertive in their bargaining with business players. Because of such inexcusable ignorance of their power and strength they have allowed them to be soft targets for all kinds of exploitation by markets. The solution for relief from such explanation, therefore, lies in getting more and more aware of their rights, responsibilities and other privileges that they are entitled to.

## **10.2 MEANING**

“Consumer awareness” means becoming aware of, better knowing and understanding of the various rights, privileges as well as responsibilities by consumer with regard to the products or services being marketed or sold to them which enables them to get their most from what ever they purchase. In otherwards, consumer awareness is about making the consumer, aware of products or services. However, this is mostly unknown to many people irrespective of their status, position and levels of learning. Consumers occupy a supreme position in a free economy. But, they never received the attention they deserve. Therefore, awareness should prevail amongst the consumers to protect them from unscrupulous trade practices and to give them the ideas of the utility of money spent by them. Such awareness will make them the sovereigns but not slaves.

Broadly speaking ‘consumer awareness’ refers to the combination of the following:

- 
- (a) His knowledge about the quality of product purchased by him.
  - (b) His understanding about hazards and risks associated with the product i.e. his knowledge on the adverse effects of advertisement.
  - (c) His knowledge about consumer rights. That means, firstly the consumer should know that he has the right to get the right product. Secondly, if the product is a faulty one, he has the right to claim compensation as per the prevailing law.
  - (d) His knowledge about consumers' responsibilities. That means he has certain obligations to discharge to enforce his rights.
  - (e) His knowledge about the mechanisms available for lodging complains and seeking redressal of his grievances.
  - (f) His knowledge about the process and procedure of filing complaints.
  - (g) His knowledge and interest in sourcing all possible information on consumer related issues and problems.
  - (h) His knowledge about the various agencies and organizations both Governmental & non-governmental fighting for their interest.
  - (i) His knowledge as well as interest in getting actively associated with all types of consumer movements.

### **10.3 NEED AND IMPORTANCE**

Lack of awareness has its root in many of the problems that encircle consumer. People do not know what they should do in case they are subjected to exploitation of any kind in the market place. They are not aware of the resources available to them for redressal of grievances. Therefore such massive and inexcusable ignorance, no law will ever be of any help to protect their due rights against bad practices of sellers. Unless they are being educated and made aware of the available remedies in case of violation of their rights, all would turn into a kind of exercises in futility.

Due to following reasons consumer awareness has become important:

- (j) To protect the consumer and help them get value for their money.
- (k) To educate them about their rights and reliefs.
- (l) To help them to get united and organized so that they can save themselves from being deceived by strong, powerful & organized producers.
- (m) To save them from being exploited through various unfair trade practices such as defective/ unsafe products, adulteration, mis-leading advertising, black-marketing, hoarding etc.
- (n) To help in filing complaints in appropriate consumer forums if duped.
- (o) To inculcate in them the pride of being nationalist by ensuring that the sellers pay tax to the Govt. by asking for the bill in each purchase.
- (p) To promote formation of a healthy society by making available quality goods at reasonable price & by gaining control over consumption of harmful goods.
- (q) To motivate the consumers to save by encouraging them to control wastage of money and extravagancy.

## **10.4 CONSUMER ORGANIZATIONS AND NGOS**

### **10.4.1 Introduction**

“United we stand and divided we fall” has remained since ages past a time tested guideline for any fight in any sphere against injustice and exploitation of any kind. The message that it gives is that relief from exploitation lies not through individual effort but only through collective and united efforts. Consumers represent a massive exploitation group who constantly remain exposed to in one form or the other. They need to fight against exploitations not through individual efforts but unitedly through collective efforts.

But uniting this massive number is a big problem. It needs some one or agency at different levels to unite them to bring them together under a common platform. This calls for leadership. There are two sources where from leadership comes in such cases, one is from within and the other is from outside. When from among the consumers leadership

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emerges, the birth of consumer organization takes place. The leadership may also come from outside agencies who may come forward to champion their cause, unite them to put a common front. They take the form of voluntary organization or Non- Governmental Organization (NGO).

#### **10.4.2 Meaning**

A voluntary consumer organization is an agency which works for the welfare of community in any given area out of its own volition. It may be just an individual or a collection of individuals or it may have a formal structure. Actually it is a group of well trained, committed persons living in an area of activity, dealing & interacting with the people. Precisely speaking, it is formed voluntarily by consumers to protect their rights & interests. They existed even before the advent of consumer forums. Their works are always isolated & ignored.

#### **10.4.3 History of Consumer Organisations and NGOs**

Non-government organizations (NGOs) are those organizations which aim at promoting the welfare of the people. They are non profit making. They have their own voluntary decision making structure. NGOs are free from the interference of the government. They may be fully or partially financed by the government or any other agency. NGOs dealing with the consumers's grievances are also known as consumer organizations and associations.

The first association to be set up was the Indian Association of Consumer. In 1963, the National Consumer Association was set up. It was a wing of a social organisation, the Bharat Sevak Samaj. The main aims of this NGO were to study the trends of prices in the market and publish them for the information of consumers and to agitate against malpractice of traders. In the 1960s food crisis gave rise to black marketing. In 1964 the National Consumer Association started the movement against the price rise caused due to the drought of the 1960s. Meetings were organized to protest against the price rise. It also formed social squads to keep a watch on the price trends in different cities of India.

Slowly and gradually several other associations were organised to seek redressal for consumer's grievances. Presently there are more than 300 voluntary organizations working in the area of safety of consumers all over the country. In India, some of the prominent organizations are as follows (i) Voice, New Delhi, (ii) Common Cause, New Delhi (ii) Consumer Guidance Society, Mumbai (iii) Consumers Association, Kolkata.

#### **10.4.4 ROLE OF CONSUMER ORGANIZATION & NGOS**

Most of the consumer organizations are NGOs (Non Government Organization). They are set up to protect and promote consumers interest. Various functions/ roles/ played by consumer organizations and NGOs are as follows:

1. **Educating the Consumers:** Ignorance is the root problem for the plight of Indian consumers. Most of the consumers are pathetic because they are not aware of their rights. They do not have strength to resist when they are cheated or exploited. Rather, they prefer to suffer silently. It is for this reason, education of consumers about their rights and responsibilities assumes great importance. The consumer organisations & NGOs play a very significant role in educating consumers by organization training, awareness camps and programmes, seminars & workshops.
2. **Publications and Media Role :** These organisations play a very important role in providing coverage, communication links among consumers. Regular news letter, magazine brochures, journals are the medium of communication between consumer activists and consuming public. Through these consumers they ventilate the problems they encounter. Besides publications, the organization may produce audio visual materials like posters, charts, video films, cassettes and slides can serve as good media for dissemination of information to create consumer awareness. For instantances Voice publishes a bimonthly magazine called 'consumer voice' which covers a wide variety of subjects of importance for consumers.
3. **Facilitating and Conducting Field Studies and Research:** Many of the consumer problems can be solved by conducting research and field studies and surveys. Research is required to know
  - (i) The kind of consumer education the society needs, at what level and to what extent.

- (ii) The nature and varieties of malpractices adopted by business so that preventive measures can be found out to check such practices. The results of these students can be available in the organization journal, magazines, periodicals, circulars etc.

**4. Encouraging Consumers to Protest :**

Consumer organizations encourage the consumers to protest and take legal action against unscrupulous, exploitative and unfair trade practices of sellers.

- 5. Providing Legal Assistance:** They provide support and free legal advice to consumers who are in need of such advice. So that consumers get legal remedy against the damages caused to consumers.

- 6. Filing Complaints :** When required they file suits, complaints, writ petitions in appropriate consumer courts like district forum, state commission & national commission on behalf of consumers.

- 7. Launching Public Interest Litigation:** In the interest of general public, they launch public interest litigation (PIL) on important consumer issues. PIL means a legal action initiated in a court of law regarding a matter of general public interest such as ban on a product injurious to public health.

- 8. Vigilance :** Services like postal, telephone, water, electricity are managed by government. Unfortunately, no resolute attempt is made yet to make government functionaries consumer friendly. Some of the consumer organizations form vigilance groups to observe, monitor smooth rendering of such services.

- 9. Public Meeting:** Consumer organizations organize public meetings with large number of active participants. Participation of many persons is an effective tool for advocating consumerism. Consumers meet peacefully and discuss concerning their interests. Consumer movement is augmented through such open negotiations.

**10. Others:**

- (a) Encourage consumers to boycott goods which are defective and bad in quality
- (b) Resist price-rigging, adulteration, hoarding, black marketing and underweight selling.
- (c) Produce films on food adulteration, on the misuse of drugs and cosmetics, on the law for consumer protection and on the agencies for consumer protection.

- (d) Extend support to government agencies to bring to book cases of adulteration, sale of hazardous products.
- (e) Promote the network of consumer associations region-wise and state wise along with the federation.
- (f) Set up voluntary complaint counters for consumer guidance and counselling.
- (g) Motivate people to adapt socially desirable consumption standards.

### **10.5 GUIDELINES FOR SMOOTH FUNCTIONING OF CONSUMER ORGANIZATION**

- a. Consumer organisation should declare that it is non-political. It should avoid inviting politicians to speak to its members. Members with political connection should not be allowed membership.
- b. They should set an example by practising what they tell other members. They should advise consumers not to give or accept bribes.
- c. They should admit mistakes if proved with facts. Mistakes are a part of learning process and one learns from mistakes.
- d. Efforts should be made to separate issues from personal problems.
- e. Consumer activist should avoid loose talks. Listening to loose talk and acting ahead of it spoils the main objective of consumerism.
- f. Consumer activists should act with dignity and behavior should not be rude leading to violence.
- g. It is better not to expect too much from others. Consumers should respond only when confronted with exploitation.
- h. Consumer activists should have tolerance, not averse to criticism.
- i. The consumer activists should work quietly avoiding all publicity because it may lead to jealousy.
- j. Activists should not get alarmed by enormity of the problems.
- k. Activists should not make false promises and pass on ambiguous information to others.

- I. Activists should take care that the goals & objectives of their organisation are practical.

## 10.6 MODEL QUESTIONS

### Objective and Short Answer Type questions

#### 1. From the given alternatives, choose the correct answer.

- (a) "To satisfy customer is the mission or purpose of business". The person who said this is
- I. G.R. Terry    II. F.W. Taylor    III. Peter Drucker  
IV. H. Fayol
- (b) The full form of NGO is
- (i) New Government Organisation  
(ii) National Government Organisation  
(iii) Non Government Organisation  
(iv) Noble Government Organisation
- (c) The National Consumer Association was set up in the year
- (i) 1990    (ii) 1991    (iii) 1992    (iv) 1963
- (d) Through consumer awareness programme the consumers are made aware of their.
- (i) Rights only    (ii) Responsibilities only    (iii) Both rights and responsibilities  
(iv) Only rights but not responsibilities

#### 2. Fill in the Blanks

- (a) Consumer awareness means understanding by a consumer of his \_\_\_\_\_ with regards to product or service.
- (b) \_\_\_\_\_ work to protect & preserve the rights of consumer.
- (c) The first consumer association to be set up in India was \_\_\_\_\_
- (d) National consumer association was set up in \_\_\_\_\_

**3. Correct the underlined portion in the following sentences.**

- (a) Presently more than 3000 voluntary organizations working in the area safety of consumers.
- (b) Most of the Consumer organizations are Govt. organisations
- (c) National Consumer Association was set up in 1973.
- (d) The first association to be set up in India was National Consumer Association.

**4. Answer the following in not more than one sentence each**

- a) What is consumer awareness ?
- b) Define NGOs.
- c) Any two needs of consumer awareness

**5. Answer the followings in not more than 6 sentences each.**

- a) Write a short note on consumer awareness
- b) State the importance of consumer awareness (Any three)
- c) Write a brief note on the history of consumer organisation
- d) Outline the role of consumer organisations in educating consumers.

**Long Answer Type Questions**

- 1. Define consumer awareness. State its needs & importance.
- 2. Explain the role of consumer organizations & NGOs in protecting the interests of consumers.

**Answers to objectives questions.**

- 1. (a) iii (b) iii (c) iv (d) iii
- 2. (a) Rights, Responsibilities (b) Consumer organisation (c) Indian Association of Consumers (d) 1963
- 3. (a) 300 (b) NGOs (c) 1963 (d) Indian Association of Consumers

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