CHAPTER 1: NATURE AND SCOPE OF BUSINESS

INTRODUCTION:

Every human being is engaged (involved) in some activity or other in order to live a satisfactory life. All these activities are divided into two parts:

1) Economic Activities: Economic activities are meant for earning livelihood.
2) Non-Economic Activities (Social Activities): Non-Economic activities are of socialistic nature e.g. social work, prayer, sleep, love affection etc.

Human wants are unlimited and means (resources) to satisfy these wants are limited. Economic activities are aimed at satisfying the human wants are unlimited,

There are various economic activities which can be classified into following categories which involves exchange of goods or services.

Economic Activities

- **Profession**
- **Employment**
- **Business** (Production and Distribution of Goods)
  - **Industry** (Production of Goods)
    - **Primary**: Agriculture, Extractive, Genetic
    - **Secondary**: Manufacturing, Construction
    - **Tertiary**: Service
  - **Commerce** (Distribution of Goods)
    - **Trade**
      - Home Trade
        - Wholesale Trade
        - Retail Trade
      - Foreign Trade
        - Import
        - Export
        - Entreport
    - **Auxiliaries to Trade**: Transport & Communication, Warehousing, Insurance, Banking, Mercantile

(A) BUSINESS: Business is that branch (aspect) of economics which is concerned with the production and distribution of goods and services for the satisfaction of human wants.

There are two aspects of business.

1) Production of goods and services
2) Distribution of goods and services

The production aspect of business is called 'INDUSTRY' and distribution aspect of business is called 'COMMERCE'

FEATURES OF BUSINESS:

(1) Sale or Exchange: A business activity always involves sale or exchange of goods or services for money or money's worth.

***(2) Profit motive*:** A business activity is always carried on for the purpose of making profit. Therefore an activity which is conducted only for a social cause cannot be considered as a business activity.

(3) Continuity: Business does not involve a single transaction but a series of transactions with the aim of making profits. A cloth merchant continuously purchases cloth, stores it in order to sell at a profit is called as business.

(4) Risk: Every business involves some element of uncertainty regarding profits. These include risk of rising cost, falling prices, risk of falling demand or increased competition, risk arising out of change of government policies, rules, regulations, etc.

(5) Dealing in goods or services: Goods which are used by final consumers categories :
(a) Consumer goods: Goods which are used by final consumers for consumption are called consumer goods e.g. TV, soaps, textiles, Foodgrains, etc.
(b) Producer's goods: Goods used for further production by producers are called producers goods, e.g. machinery, equipments, etc.
Services are intangible goods, e.g. services of lawyers, doctors, etc.

(6) Two parties: Every business transaction has minimum of two parties that is a buyer and a seller. Business is nothing but a contract or an agreement between buyer and seller.

(7) Production: Business activity may be connected with production of goods or services. In this case, it is called as industrial activity. The industry may be primary or secondary.

(8) Distribution: Business activity may be concerned with marketing or distribution of goods in which case it is called as commercial activity.

(9) Social obligation: Modern business is service oriented. Modern businessmen are conscious of their social responsibility. Today's business is service-oriented rather than profit-oriented.

(10) Satisfaction of human wants: The businessman also desires to satisfy human wants through conduct of business. By producing and supplying various commodities, businessmen try to promote consumer's satisfaction.

(11) Business skills: For the conduct of the business the businessman must have various business skills. Without business acumen a businessman can not succeed in business.

(B) INDUSTRY: Industry is a branchy of business. Industry is responsible for the production of goods and services. Thus, industry is concerned with manufacturing activities.

TYPES OF INDUSTRY:

(1) Primary Industry: These industries are engaged in the production of goods with the help of nature or natural resources e.g. agriculture, fishing, forestry, farming, hunting, etc.

(2) Extractive Industries: These industries are concerned with extracting materials from certain natural resources e.g. mining, oil extraction, petroleum, etc.

(3) Manufacturing Industries: These industries are concerned with extracting materials from certain natural resources e.g. textiles, cement, paper etc.

(4) Construction Industries: These industries are concerned with construction activities e.g. construction of roads, bridges, dams, buildings, etc.

(5) Genetic Industries: These industries are concerned with reproducing and multiplying certain species of plants and animals. The main aim is to earn profit from the sale of such plants and animals. For example, nurseries, cattle, rearing, multiplying and selling plants, animal breeding, etc.

(6) Service Industry: In the modern times service sector plays an important role in the development of the nation and hence, it is named as service industry. The main industries which fall under this category include Hotel Industry, Tourism Industry, Entertainment Industry etc. As a matter of fact the various aids-to-trade like Insurance, Banking etc can also be called as Service Industries.

***(C)* COMMERCE:** Commerce is that branch of business which is concerned with distribution of goods and services between producers and consumers and all those activities which help smooth exchange of goods and services. Commerce includes Trade and Aids to trade.

Commerce = Trade + Aids to Trade

Definition: "Commerce comprises a group of specialized activities which together form an essential part of the process of production. It links suppliers and consumers by means of trade and aids to trade."

(I) TRADE: Trade means actual buying and selling of goods and services for money or money's worth. Trade is that branch of commerce, which is essential for satisfaction of human wants. *It helps to increase the welfare and standard of living of the people. It is divided into:*

(1) HOME TRADE: Home Trade means buying and selling of goods within the country. It is also called Domestic Trade. Home Trade is again divided into two types:

(a) Wholesale Trade: Wholesale trade means trade in bulk quantities. It means trade, which is conducted on a large scale. The trader who conducts wholesale trade is called a wholesaler. Thus, wholesale trade is concerned with buying of goods in large quantity from the producers and selling them in comparatively small quantity to retailers.

(b) Retail Trade: Retail Trade means trade in small quantities. It means trade, which is conducted in a small scale. The trader who conducts a Retail Trade is called a Retailer. Thus, retail trade is concerned with buying of goods in large quantities from wholesalers and selling them in small quantities to ultimate (final) consumers (customers).

(2) FOREIGN TRADE: Trade between two or more different countries is called Foreign Trade. Foreign trade refers to the exchange of goods and services between two or more different countries. Foreign Trade is again divided into three types:
(a) Import Trade: Import Trade means buying of goods from other countries and bringing them to home country. So, if any goods are purchased form UK and brought to India then it is called Import Trade of India.

(b) Export Trade: Export Trade means selling of goods to other country. So goods are supplied to USA from India, it is called export trade of India.

(c) Entreport Trade: Entreport Trade means re-export of imported goods in original form or after some processing to another country. If certain goods are imported from Japan and exported to USA it is known as Entreport Trade.

(II) AIDS TO TRADE: In the process of Trade i.e. exchange of goods and services there are certain difficulties such as:

1) Difficulty of Place
2) Difficulty of time
3) Difficulty of risk
4) Difficulty of exchange (finance)
5) Difficulty of person
6) Difficulty of Information (Knowledge)
7) Promotional Difficulties
8) Difficulties for growth at National and Global Level.

The activity which helps in overcoming (removing) these difficulties are known as Aids to Trade. Thus, Aids to Trade helps in smooth conduct (to carry on) of a trade. Aids to trade are specialized agencies or services or activities which remove the difficulties of trade.

DIFFERENT AIDS TO TRADE ARE AS FOLLOWS:
(1) Transport and Communication: In modern times, producers and consumers are separated by varying distances. Therefore, the movement of goods from one place to another place till they reach final consumers is necessary. This difficulty (place) is removed by transport. Transport creates Place Utility by making goods available at right place. Transport helps in transporting (movement) of raw materials and labour to factories and transporting the finished goods to a large number of customers. It widens the market for goods. Goods are transported by different modes (ways) of Transport like Railways, Roadways, Water transport and Air transport. Agencies providing transport services rightly called the 'WHEELS OF COMMERCE'.
Communication: Communication means transmission of information and instruction. It includes post, telephone, telegrams, etc. It helps to establish communication between buyers and sellers at distant places so there is no need to meet personally.

(2) <u>Warehousing:</u> Some goods are produced throughout the year but are consumed seasonally e.g. umbrellas. Some goods are produced seasonally but are consumed throughout the year e.g. food grains, cotton, etc. This requires storing of goods for the time lag between production and consumption. This difficulty of time is solved by warehousing. Warehousing means storing of goods. It creates time utility by making goods available at right time. In addition to this, warehouses provide different services like grading, packing, weighing and labeling, etc.

(3) <u>Insurance:</u> When goods are to be transported from one place to another and when they are stored they may be subject to many risks; such as damage, destruction, loss by theft, loss by fire, etc. Insurance provides protection against these risks. It makes good all the losses arising out of all such uncertainties so businessmen can conduct their business activities safely and efficiently. There are various types of insurance like life insurance, fire insurance, marine insurance etc.

(4) <u>Banking:</u> Goods are exchanged i.e. bought and sold with the help of money. Finance is required at every stage in Industry and Commerce. It is a lifeblood of any business. This difficulty of finance is solved by banking. Banking means the activity of accepting deposits from public and granting loans to the public. Bank accepts deposits by way of saving accounts, current accounts. Fixed deposit accounts and advance loans by means of cash credit, overdraft facilities, terms loans, etc. Banks provide finance to manufacturers, traders, etc. which is the life blood of modern commerce.

(5) <u>Mercantile Agents:</u> In modern times, goods are produced on a large scale. It is not possible for a producer to sell them directly to consumers due to vast distance between the two (producer and consumer). This difficulty of person i.e. lack of personal and direct contact between producers and consumers is removed by the services of middlemen like wholesalers, retailers, commission agents, brokers, etc. These are called Mercantile Agents.

(6) <u>Advertising and Publicity:</u> In modern times, goods are produced on a large scale, hence it becomes necessary for producers to create a demand for their products. Advertising helps in providing information about the products to consumers so that the demand for goods is created and goods are easily sold. It creates new markets for the products and promotes (increase) goodwill of a business firm (organisation). It helps to face competition. It attracts customers towards the product.

(7) <u>Trade Promotion Organisation</u>: These are organizations established by the business community to protect and promote their interest. They play promotional and development role for members. The examples include Chambers of Commerce, Export Promotion Councils, FICCI, Indian Institute of packaging.

(8) <u>Global Organisation</u>: The main objective of global organisation is to promote International Trade. It also helps underdeveloped and developing nations by many ways. The examples are World Bank, IMF, WTO, IFC etc.

IMPORTANCE OF COMMERCE AND TRADE:

(1) Linking Producers and Consumers: Producers and Consumers cannot have direct or personal contact on account of vast distances separating them. Commerce is concerned with the distribution of goods and services. Through distribution each producer is connected with consumers.

(2) Satisfaction of Human Wants: Commerce makes possible the efficient distribution of goods and services, which are produced in different parts of the world. This has helped consumers to satisfy their wants for any commodity.

(3) Higher Standard of Living: When man consumes (uses) more products, his standard of living improves (increases). Commerce makes new goods of improved quality available to the consumers and helps them to raise their standard of living.

(4) Progress of Industries: Commerce creates demand for goods produced by industry. Commerce looks after the distribution of goods and services. Producers are relieved from the worries of distribution of goods and services. Producers are relieved from the worries of distribution and selling of goods. They can concentrate on production activity only. Thus, commerce helps industrial progress by widening production, distribution and consumption.

(5) Generation of Employment (job) Opportunities: Commerce creates new jobs. Expansion of Trade and Aids to Trade creates numerous jobs for Accountants, cashiers, salesmen and professionals like Chartered Accountant, Lawyers, etc. Also due to commerce demand is created and demand in term increases production which creates new jobs opportunities.

(6) Rise in National Income: When distribution becomes smooth, production increases and when production increases national income rises.

(7) International Co-operation and Goodwill: Commerce establishes trade links between the different countries of the world. This brings the people of those countries closer to each other. In this way friendship develops between them. Thereby the exchange of thoughts and views, ideas and culture also take place. This develops international co-operation and goodwill.

(8) Advantages to Under Developed-Countries: Trade arrangements between advanced countries and underdeveloped countries take place. The advanced countries can import form under developed countries, raw materials, needed by them and can export to the underdeveloped countries machineries, technical know-how (Production Technology) to help them to build up their industries. The advanced countries also supply the finished goods to under developed countries.

(9) Stability in Prices: Commerce results into balancing of supply with demand which results into stability of prices.

(10) <u>International Co-operation and Cultural exchanges</u>: International trade brings international co-operation and understanding. Due to trade, countries come closer are linked together effectively. Trade is also responsible for cultural exchanges which promotes understanding among different countries. It leads to international brotherhood.

(11) <u>Special benefits during emergency</u>: Trade gives special benefits to countries which are facing scarcity in the supply of Foodgrains, industrial raw materials and other essential requirements.

<u>DISTINGUISH BETWEEN</u>

(1) INDUSTRY AND COMMERCE

NO.	***INDUSTRY***	***COMMERCE***
	Meaning	
1	Industry is that part of business which is concerned with the production of goods and services	Commerce is that part of business which is connected with distribution of goods and services.
	Position	
2	It occupies primary position in business	It occupies secondary position in business
	Status	
3	Without industry, there is no production and without production, commerce has no meaning	It starts where production ends
	Utility	
4	It creates form utility of converting raw materials into finished goods.	Commerce creates place utility and time utility by movement of goods from one place to another place at right time.
	Demand and Supply	
5	It represents supply side of goods and services.	It represents demand side of goods and services
	Capital	
6	Industry requires huge capital	Commerce requires little less capital
	Product	
7	Industry needs raw materials to produce finished goods	Commerce distributes the finished goods already produced by industry
	Ownership	
8	It is owned and managed by the producers and manufacturers.	It is owned and managed by mercantile agents, middlemen, etc.
	Dependence	
9	It depends more on machine than men.	Commerce depends more on men than machines.

(2) TRADE AND AIDS TO TRADE

NO.	*TRADE*	*AIDS TO TRADE*
	Meaning	
1	Trade means exchange of goods and services for money or money's worth.	Aids to trade are specialized agencies or activities that help to remove difficulties of trade.
	Division	
2	Trade is divided into home trade and foreign trade.	There are in all six Aids to Trade. 1.Transport & Communication 2. Warehousing 3. Insurance 4. Banking 5. Mercantile Agents 6. Advertising & Publicity
	Aim (Object)	
3	Trade aims at making goods and services available to consumers and satisfy their wants.	Aids to Trade removes all difficulties of trade.
	Parties	
4	Trade involves two parties i.e. buyers and sellers.	Aids to trade involves a large number of parties rendering (giving) services.
	Importance	
5	Trade is very important and primary activity in commerce.	Aids to trade are secondary activities dependent on trade.

(3) COMMERCE AND TRADE

NO.	*COMMERCE*	*TRADE*
	Meaning	
1	Commerce is concerned with distribution of goods and services.	Trade means actual buying and selling of goods and services.
	Scope	
2	Commerce is a wider term and it includes trade as well as all those activities which help the smooth conduct of trade. Commerce= Trade +Aids of Trade	Trade is a branch of commerce and refers to the exchange of goods and services.
	Relationship (Parties)	
3	Commerce involves a long chain of distribution and many people.	Trade involves direct relationship between buyer and seller.
	Branch	
4	Commerce is a branch of business.	Trade is a branch of commerce.

<u>STATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE.</u>

1. Commerce and Industry are supplementary to each other.
2. Commerce is a part of trade.
3. Commerce makes a country self-reliant.

4. Business is always for profit.
5. Banks and Insurance Companies have rendered the trade more complicated.
6. Industry reduces unemployment.
7. Commerce and trade are Synonymous terms.
8. Commerce is the buying and selling of goods.
9. Transport creates time utility.
10. Warehousing creates place utility.
11. The scope of commerce is wider than business.
12. There cannot be trade without aids to trade.
13. Industry, Commerce and trade are interdependent.
14. Coal mining is a manufacturing industry.
15. Business and Commerce have the same meaning.
16. Insurance covers all the risks of uncertainties in business.
17. Industry represents the demand side of goods and services.
18. Water transport plays an important role in the international trade of the country.
19. Trade is for the satisfaction of human wants.
20. Industry is concerned with distribution.

FILL IN THE BLANKS:

1. Industry is concerned with ___________ while commerce is concerned with ___________ of goods and services.
2. The term business is ___________ than commerce and industry.
3. Poultry farming belongs to the ___________ type of industry.
4. Industry represents the ___________ side of goods while commerce represents the ___________ side of goods.
5. Warehousing creates ___________ utility of goods.
6. Transport creates ___________ utility of goods.
7. The difficulty of risk is overcome by ___________.
8. Salesmanship and Publicity create ___________ for goods.
9. The difficulty of exchange is overcome by ___________.
10. The difficulty of space or distance is removed by ___________.
11. Industry creates ___________ utility in goods.
12. Oil Industry is a _________ industry.
13. Commerce is a branch of ___________.
14. Textile industry is a ___________ industry.
15. The difficulty of payment is facilitated by ___________.
16. __________ means buying and selling between the countries.
17. Business is an important branch of ___________
18. Business deals with two main functions ___________ and ___________
19. Business can be divided as ___________ and ___________
20. Commerce = ___________ + ___________.
21. ___________ is buying and selling of goods and services in order to make profits.
22. A professional gets his income in terms of ___________.
23. Economics is concerned with the problems of the best method of ___________
24. Publicity creates ___________.

SUGGEST APPROPRIATE TERMS FOR THE FOLLOWING STATEMENTS:

1. The function that creates time utility.
2. The function that creates place utility.
3. The type of trade in which goods are bought from other countries.
4. The activity which removes the obstacle of distance in trade.
5. The industry concerned with reproduction of plants and animals.
6. The industry, which depends upon nature but requires human effort in production.
7. The industry that extracts goods from natural economy.
8. Buying and selling of goods with or without the use of money.
9. A business activity, which involves production of goods.
10. The business activity, which is concerned with distribution of goods.
11. Type of trade in which goods brought from abroad and exported after some processing.
12. Trade conducted within political boundaries of the nation.

CHAPTER 2. SMALL BUSINESS

Q.1. Explain the small scale industry or tiny sector or cottage and rural industry

Ans. *Introduction:* Small scale industry may sound small, but actually plays vital role in overall growth of economy. These industries are specialized in production of consumer commodities. Small scale industry plays crucial role in developing countries having shortage of capital and abundant labour.

After independence planners recognized importance of this sector. So, strategic position is allotted to small industries in country's industrial policy.

Meaning and Definition:

The industries in India which are organized in a small scale and produce goods with help of machines; hired labour and power are considered as small scale industries.

Definition is changed over now.

1. Initially two categories were considered those using power with less than 50 employees and those not using power with employee strength more than 50 but less than 100.

However, capital resources invested in plant and machinery, building etc. have been the primary criteria to differentiate small business from large and medium scale business.

An industrial unit can be categorized as small business if it fulfills the capital investment limit fixed by Government of India.

As per latest definitions:

2. On Dec. 21, 1999, Any Industrial Unit regarded as small scale industry, the following conditions is to be satisfied:

Investment in fixed assets like plant and equipment either held on ownership terms or on hire purchase should not be more than 1 crore. However the unit in no way can be owned or controlled or auxiliary for any other industrial unit.

3. Micro, small and Medium Enterprises Development (MSMED) Act 2006.-

Enterprises have been categorized into two manufacturing units of services rendering units.

Investment criteria as per MSMED ACT.

	Manufacturing sector	**Service Sector**
Micro	Does not exceed 25 lakhs	Does not exceed 10 lakhs
Small	25 lakhs but does not exceed 5 crores	10 lakhs but does not exceed 2 crores
Medium	5 crores but does not exceed 10 crores	2 crores but does not exceed 5 crores

4. On May, 2010, policy supported definition

The investment limit for tiny sector will continue to be Rs. 25 lakhs and the limit for MSME sector (Micro, small and Medium Enterprises) should be 1 crore.

Tiny Sector:

The status of tiny enterprises is given to all small scale units whose investment in plant and machinery is upto Rs. 25 lakhs irrespective of location of unit.

Q.2. Explain the characteristics / Features of small Industry

ANS: The following are the Characteristics / Featrures of Small Industry

1) *Labour Intensive*: Small scale industries are directly related to labour. It is unique feature of small business, Maximum labour power is utilized than capital. Absorption of surplus amount of labour helps to control inequality and poverty in economy.

2) *Employment Generation:* It creates 8 to 10 times more employment opportunities than large scale, industries. In the period of 1995-2004 small business created 82.57 lakh employments and currently 2010-11 total number of people employed in small sector is 1 crore 90 lakhs in India. Countries which are characterized by acute unemployment problem should emphasis small scale industry model.

3) *Low gestation period:* small business can be setup within short period of time. They can increase production flow of consumer goods immediately.

4) *Methods of production:* It utilizes traditional and modern methods of production. Traditional method involves operations by hand and skills of labourer. Modern methods involve operations by machines. Methods and techniques are simple and less time consuming. They can meet shortage of essential goods and commodities.

5) *Export Earnings:* it contributes remarkably to exports of country. Handicraft, embroidery, handloom ivory\products contributes 30% of total exports.

6) *Adaptation:* Small businesses require less capital and are labour intensive. They can easily adapt the changing trends as they are small in size. Average growth rate of small business between 1994-2004 was 9.62%

7) *Decentralized Economy:* it prevents concentration at economic power in few hangs and more even distribution of income.

Small business industries are suitable for developing countries like India where labour is abundant and shortage of capital is experienced.

Small scale industry is divided into two groups

Small Scale Industry

Traditional Small Scale	**Modern Small Scale**
It includes metal work, Ivory, wood carpet carving, making things which needs special skills, and leather, silk, hand woven textile, pottery, goods of common use.	Producing cycle parts, sewing machines, razer blades, electrical goods, radio sets, etc.

On the basis of capital invested small business is segregated as cottage/ tiny sector. On basis of location, it is considered as rural or urban industry.

Q.3. Explain definition of Cottage industry

ANS: An industry where the creation of product and services are home based rather than factory based and specific skill is required is called as cottage industry.

Products and services created by cottage industry are often unique and distinctive. Production of commodities take place at home and labour is supplied by family members. Machinery used is common. They are not usually mass-produced.

Q.4. Explain the characteristics / Features of Cottage Industry

ANS: <u>The Following are the Features of cottage industry:</u>

1) <u>Unorganised nature:</u> Cottage industries are scattered all over country. They are functioning at different levels – district, village, towns, also. They are specialized in consumer products but they are not organized because of absence of common link. E.g. you can observe number of same consumer products available in market by different manufacturers. Especially edible items like spices, pickles.

2) <u>Use of traditional techniques:</u> Cottage industries are based on skillful productions. They are characterized by low degree of mechanization and are usually family based. Some units belonging to this sector produce selective goods of high skill workmanship like carpets, wooden and ivory carving, inlay work.

3) <u>No mass production:</u> Cottage industries come under small scale industries type. They are usually not mass producers. They produce less production as compared to others but they can maintain quality according to expectations of customers.

4) <u>Maximum potential of employment generation:</u> Cottage industry is basically regarded as self-employed industry . They absorb huge amount of surplus labour in rural economy. Cottage industry starts its function especially in a country where unemployment with under-employment prevails.

5) <u>Preservation of cultural heritage</u>: Some cottage industries produce goods which are highly skillful and requires traditional techniques only. they maintain distinct identity of its own through products. They provide unique platform to display indigenous goods that can fairly compute with foreign goods due to impression of Indian culture that makes them unique.

6) <u>Use of agriculture resources:</u> Some cottage industries are based on agricultural raw material which is available in that particular geographical area. They process agricultural produce and provide inputs to agricultural sector. E.g. in Konkan – fruit processing, mango, jackfruit, pulp, Sangli – Turmeric powder.

COTTAGE INDUSTRY PRODUCTS (AT GLANCE)

Common consumer goods	***Highly skilled production***	***Agro based processing***
Footwear, Garments, Toys, Silk, Handloom, Leather goods.	Dress fabric, ivory carving, khadi, stone Idols, Jewelry ornaments.	Edible items, spices, oils, honey, pickles, fruit products, jams etc.

However these industries are not exclusively confined to rural area. They may occure in urban and semi urban areas also. They provide part time and full time employment. They have reasonably good export potential.

Examples of goods produced under cottage industry (in Maharashtra)

AGRO-BASED GOODS

(Region wise specialized commodities)

Konkan	Production and processing and marketing of Konkan (Gorcinia). Mango products, fruit processing at Ratnagiri, Shreewardhan, Alibag.
Western Maharashtra	Turmeric production of Sangli, sugar and agro product at Radhanagri, Karad, Kurundwad: specialized in milk product.
Vidarbha	Nagpur food processing industry
Marathwada	Special textile and shawl at Aurangabad

SKILL BASED PRODUCTION

(Region wise specialized commodities)

Konkan	Wooden Toys at Sawantwadi
Western Maharashtra	Kolhapur: Shoes, Jewellery items
Vidarbha	Machinery for food processing, metal separator- Nagpur
Marathwada	Imitation jewellery at Aurangabad. (Bidri work)

Q.5. Explain the benefit of Cottage Industry to society

ANS. The benefits of Cottage Industry to society are:

1) Manual skills of older generations can be utilized thereby reducing the idle manhour of society.

2) General self-sufficiency of micro societies can be generated especially for countries based on village life. Majority of village people can take part in result and merits of industrial revolution. Small business and cottage industries can be alternative for big industries and assuring wealth production.

3) The self-pride of village people can be raised and thereby increase their role in employment of whole nation.

4) Cost of maintaining cottage industries is very low as compared to other industries . It gives great advantage to entrepreneur.

Small scale industry is the backbone to economic growth. It undertakes cottage and tiny sector. However it may be differentiated with following points.

No.	***Cottage Industry***	***Small Scale Industry***
1)	***Investment in Plant and Machinery*** Does not exceed Rs. 25 lakhs	More than Rs.25 lakh but does not exceed Rs.5 Crores
2)	***Use of technique*** Mostly traditional, involves mostly operation by hand	Use of traditional as well as modern techniques
3)	***Labour Supply*** Primarily with help of family members	Labour is available from outside
4)	***Raw Material*** Maximum use of raw material available from local areas	Raw material is obtained from outside if locally not available

Q.6. What do you mean by Rural Industry

ANS: Definition: According to KYIC (Khadi and Village industry Commission) Rural industry means “any industry located in rural areas, population of which does not exceed 10,000 or such other figure. Goods and services provided with or without use of power and in which the fixed capital investment per head of an artisan or worker does not exceed Rs.1000.

According to Government of India: Any industry located in rural area, village or town with population of 20,000 and below, an investment of Rs.3 crores in plant and machinery is classified as rural industry. Rural industrialization provides an answer to many problems of agriculture sector.

Q.7. Explain the types of Rural Industry

ANS: The Following are the types of Rural Industries

1) Agro-Based Industries: Sugar industries, jiggery, oil processing from oil seeds, pickles, fruit juice, spices, dairy products. Etc. e.g. Shree Mahila Griha Udyog Lijjat Papad.

2) Forest-Based industries: Wood products, Bamboo products, Honey collection, coir industry, making eating plates from leaves, e.g. Honey collection centre at Mahabaleshwar.

3) Mineral Based Industries: Stone crushing, cement industries, red oxide making, wall coating powder etc. e.g. Ambuja cement.

4) Textile Industry: Spinning, Weaving, colouring, bleaching, etc. e.g. Textile industry at Solapur. Engineering and services rendering industries: production of agriculture equipments, tractors, pump set repairs etc. e.g. Kirloskar Engineering work at Kirloskarwadi.

Q.8. Explain the Major sectors in Rural Economy

ANS: Ministry of Agro and Rural industries MOARI in India established in September 2001, with aim to develop rural industrialization, main aim at MOARI is to upgrade skills, supply chain management, and markets and introduce innovative techniques.

The following are the Major Sectors in Rural Economy:

1) Fisheries in rural India: Overall fish production increased from 1995-96. It is outcome of National Programme of Developing fish seeds. A diversified Range of fishing methods along with processed fish products introduced in Indian rural markets. It has resulted in overall productivity and exports.

2) *Horticulture business in India*: India has diverse soil and climate. It provides opportunity for horticulture. In last decade continuous increase in horticulture is experienced in rural India by adopting new methods and techniques. Some of crops cultivated in horticulture sector comprises vegetables, fruits, flowers, medicinal and aromatic plants, spices, condiments, mushrooms.

3) *Sericulture Business:* these are rural based agro-industries which involve silk production activity mostly developed in southern part of India. It offers agro-based, ecologically and economically sustainable activity for poor section, small and marginal farmers including women.

4) *Jute Business:* Jute is a prime product in rural India, which is exporting to overseas nations because of its uniqueness. It brings maximum foreign exchange. The delta of river Ganga in West Bengal has wide range of production of gunny bags, shopping bags, handicrafts, carpets which have huge demand in urban areas.

5) *Tea Business:* For past years this business prominently developed in India. Chief areas include rural hills and backward areas of northeast and southern states of Assam, West Bengal, Tamil Nadu, Kerela, Tea varients CTC, green tea, etc.

6) *Poultry Business:* India is 7th largest poultry producer all over the world. Major contribution to this business is from rural and semi urban state of A.P. Karnataka and Kerala,Tamilnadu contributes 45% of total egg production and central part of India contribute 20%.

7) *Rubber Business:* Malabar coast in Kerala, Tamilnadu, and southwest Konkan are major areas where rubber production is prime industry. In rural parts in year 2006 total production contributes 6.49 lakh tons. It is stable and increasing next years.

Q.9. Explain the role of Small Business in Rural India

ANS. Real India resides in Rural India. 3/4th population is from rural areas and 75% of the labour force earn life boost from agriculture. That is why rural industries must be developed to solve problem of unemployment.

Small Business support a large portion of rural population in India. It provides major source of employment.. it also helps to control rural migration to cities. Small business industry is responsible for having hugely preserved cultural heritage of India. Small business has maintained distinct identity of its own in rural India.

Growth and development of rural economy is an essential precondition to develop the nation as whole. The gap between rural and urban disparities should be lessened. The standard of living of rural people should be increased. Establishment of small business in rural and interior parts of India provides answer to all problems. Let us discuss the significant role of small business in Rural India.

1. _Employment generation:_ Small scale business creates largest employment opportunities for rural India next to agriculture. Being labour intensive nature of small business, it has immense employment generating potential. It absorbs surplus amount of labour in rural economy. Prominent occupation of rural area is agriculture where seasonal unemployment is very common. It is reduced remarkably by small business in interior parts. The picture gets clear from the following table.

Generation of employment in rural India

Industry	***Contribution of Employment***
Food Products Industry	0.48 million people (13.1%)
Nonmetallic mineral product	0.45 million people (12.2%)
Metal products	0.37 million people (10.02%)
Chemicals, machinery parts, wood products, General repairs	9.5%

Total contribution of small business is around 45% in area of employment.

2. ***Utilization of skill of rural population:*** Small industries in rural areas are skill based. Wherein the skill for manufacturing is passed from one generation to another. Traditional skills many times can be utilized and provides encouragement to rural population wood carving, stone carving, meta carving products require such skill. Even textile industries producing special traditional material requires skill. Interior parts of Punjab, Ludhiana are the main centers of our country to produce woolen hosiery, sewing machine parts, bicycle parts. Thirupur in Tamilnadu is the unique example where many small scale firms are involved in spinning, weaving, dying of cotton garments.
After liberalization policy, the formation of WTO in 1995 resulted in a major challenge to the well-being of small business in rural area. More than 160 items were reserved under, small business in rural areas. Quantitative restrictions have been withdrawn and protection was given in the form of reservation.

3. _Support of agricultural sector:_ Agriculture is the heart of rural area. Small business industry provides inputs to agricultural sector in form of processing facilities and consumer goods for consumption. Rural based cottage industry affects agricultural production favorably. Agro based industries such as food/fruit processing, fisheries, dairy, etc. utilise raw materials from agriculture sector and accelerates growth.

Agricultural Sector $\xrightarrow{\textbf{RAW MATERIAL}}$ Agro-based industries Dairy, Fruit Processing

4. _Optimum utilization of local raw material_: Raw material, which is available locally in rural areas is utilized at optimum level by small scale business. It reduces cost of transportation, saves time consumption and results in overall reduction in cost of production which ultimately gives affordable price of finished product to customer.

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5. _Equitable distribution of National Income:_ Development of small business in rural India, results in decentralizing industrial expansion, it brings about more equitable distribution of national income and wealth, because of ownership pattern of these industries is more widespread , it leads to income generation and better distribution of wealth.

6. Reducing gap between rural urban area: Small business industry works as an employment source and as a result helps in lessening gap between urban and rural disparities. Indian rural sector is no longer primitive and isolated. It is growing towards development. It provides answers to many problems such as Poverty, Unemployment, and backwardness. Rural industrialization is viewed as an effective means of accelerating process of rural development.

7. Mobilization of capital: Large scale industries tend to get localized and concentrated in certain areas. But small scale industries are more decentralized and are spread through rural India. They are scattered and can easily mobilize capital. They are ideally suitable for a capital-scare, labour abundant in rural part of India.

8. Evolution of Co-operative sector: Growth and development of small business in rural India has resulted in co-operative institutions at rural and district level. Co-operative sector is very active in agro-based industries especially in western Maharashtra. Contribution of co-operative sector in the fields of education, employment, finance is remarkable.

9. Rural entrepreneurship: Increase in number of entrepreneurship at rural part has encouraged competitiveness. It has promoted spirit of enterprising, finance is remarkable.

10. Connectivity to developed world**:** Small business has created employment in rural India and contributed to economic as well as social development of rural sector. There is overall increase in education, social awareness and familiarity to modern technique. It has resulted connectivity of rural India to developed world.

11. Self-sufficiency at local level: Rural population got opportunity of self-sufficiency through small scale business. It has created confidence and feeling of self esteem in rural area. Especially it has played remarkable role in rural women's life.

Q.10. Explain the problems of small business in India.

ANS. Introduction: the small scale and cottage industries face a number of problems because they are small in size. It prevents them from taking advantage of economies in large scale production. At same time the units have little motivation to expand in size and they are not able to take advantage of various government incentive schemes.

As a result many small scale units in India turn sick and a large number of them have to close down. The level of sickness is very high in small units. At the end of March 2007,it was found that 1,14,132 of units were sick. An amount of Rs. 5,267 crore of bank credit was blocked in them. Only a small number of these units have been identified by bank as potentially viable.

The following are the problems of Small Business in India:-

1) Finance and credit: Lack of finance is the most serious problem faced by small business. The position of cottage and village industries in this regard is even worst. Many small units have partnership or single ownership. Their capital base is weak. Artisans or craftsman

running cottage industry take credits from Mahajan as or traders who supply raw materials to them Exploitation is very common.
For small scale industries their credits needs are fulfilled by institutional and non-institutional sources of finance.

Small scale business Finance and credit

Institutional Sources
- State Finance corporation
- SIDBI
- commercial and co-operative Banks

Non Institutional Sources
- Money lenders, Traders, Agents Relatives & Friends

However funds allocated to this sector are inadequate. Small business is forced to borrow from the non-institutional sources at high rates of interest.

2) *Non-Availability of raw-materials:* Many small scale and cottage units depend on local sources for raw materials. Traders and agents supplying these raw materials often exploit the owners of tiny and cottage units by charging higher prices e.g. the handloom industry depends for its requirement of cotton from local traders. These traders often supply cotton from on the condition that the weavers would sell the cloth only to them. They insist buying finished products at lower rate. Thus small business owners are victims of double exploitation.
Further shortage of raw materials often take place due to reasons like natural calamities, transport problems and industrial strikes.
Some small business use imported raw materials. There may be difficult to obtain it due to import restriction, foreign exchange crisis, rise in international prices etc.
Besides shortage other problems related to poor quality of raw materials ,lack of standardization and high cost. These problems directly affect capacity utilization and profitability of small business units.

3) *Problems of infrastructure :* Infrastructure problems also difficulty unless and until they have infrastructure in its place, the rest of the efforts are futile. Many small business have been forced to close down due to acute power shortage. In some parts of country power cuts, Voltage level, safety of the power lines, billing and overall functioning of system.
Besides power shortage, the small business is also effected by transport problems like congestions, bottlenecks, strikes and rise in freight charges. Many units face problem of accommodation in terms of inadequate space, state of bad repairs of their premises, unsuitable location and high rent. Problematic infrastructure definitely affects smooth working of small business.

4) *Outdated technology and old methods of production:* Only a small segment of small scale industry uses the latest and advanced technology. The rest of the units do not have access to such technology. The use of low grade technical know how and skills have resulted in low productivity in many industries.

Many units in small business make use of primitive methods of production. When production takes place with old equipments, it increases cost of production, while productivity is low. Moreover small scale units often do not care about the changing tastes and fashions of people. Accordingly modernization and rationalization are urgently required in small business.

5) <u>Marketing problems:</u> Effective marketing of goods requires a deep understanding of customer's needs and requirements. Many small business units are unable to incur enough marketing expenses to expand the size of their markets. Problems also arise because of dealing in only one product.
These organisation depend excessively on middlemen who many time exploit them by paying low price and delayed payments. Further direct marketing may not be feasible for small scale units in the area of marketing and product promotion.
They also adopt cost oriented methods of pricing. They are very often, forced to restrict their sales to local markets. In recent trends small business is also facing competition from cheap import.

<u>The major problems related with marketing are as follows:</u>
a) Lack of advertising
b) Non-branding of the products
c) Poor standard of quality of product
d) Transportation problems
e) Locational difficulties
f) Cut-throat competition from large sector
g) Complicated marketing procedures
Because of Lack of business links access to domestic markets becomes difficult

6) <u>Problem of sickness:</u> Industrial units unable to sustain themselves financially are called as sick units/ according to RBI a sick unit is that which has incurred a cash loss for one year, is likely to continue it for current year as well as following year and such unit has an imbalance in its financial structure. Sickness is widespread in small business industries like cotton, jute sugar, textile, small steel and engineering industries are being affected by sickness problem. It is point of worry to both policy makers and entrepreneurs.

<u>Causes of sickness are both internal and external</u>

INDUSTRIAL SICKNESS

Internal causes	***External causes***
1) Lack of skilled labour	***1)*** Delayed payments
2) Managerial and marketing skill	***2)*** Shortage of working capital
3) Faulty planning	***3)*** Inadequate loans
4) Problems of payment recovery	***4)*** Shortage of raw materials
5) Lack of mordernisation	***5)*** Competition from importers and large scale sector

However rehabilitation of sick units is a costly proposition. It involves rescheduling of capital formation, planning, technological upgradation and provision for fresh working capital. Recently percentage of sick units in small business in both registered and unregistered sector can be analysed reasonwise as follows.

Percentage of SMALL BUSINESS SICK UNITS (March 2010)

Reason	*Registered sector*	*Unregistered sector*
Shortage of capital	48%	47%
Lack of demand	71.6%	84.1%
Non availability of raw material	15.1%	15.2%
Power shortage	21.4%	14.8%
Labour problem	7.4%	5.1%
Marketing Problem	44.5%	41.2%
Equipment Problem	10.6%	12.9%
Management Problem	5.5%	5.1%

7) *Underutilization of capacity*: Many small business units cannot utilize optimum resources and capacity due to lack of marketing skills or lack of demand. Many small business firms have to operate below full capacity. It leads to increase in operating costs and wastage of or resources. It finally results to sickness and closure.

***8) Problem of maintaining quali8ty of the product*:** Small business units many times concentrate on cutting costs and keeping prices low. Many times they do not adhere to desired standards of quality. They do not have adequate resources to invest in quality research and maintain standard of quality. At the same time there is lack of expertise to upgrade technology. Maintaining quality is the weakest point when small business competes in global market.

9) Global competition: In present context of liberalization, privatization and Globalization (LPG) policies being followed by several countries across the world, competition is not only from medium and large industries but also from multinational companies which are giants in terms of their size and business volume. It is difficult to withstand the quality standards, technical skills, financial creditworthiness, managerial and marketing capabilities of large industries. There is limited access to markets of developed countries due to stringent requirements of quality certification lie ISO 9000, ISO 14000, ISO 26000.

10) Export related problems: The small business has contributed in a significant way to the expansion and divergence of India's exports. In spite of several policy measures announced by Government to encourage exports, small business units still face problems like lack of organized efforts to increase exports, demand fluctuations. They also face difficulties of cross-cultural marketing.

11) Other Problems: In addition to the problems discussed above, small business units face number of other problems like:

a) Labour problems which include highly demanding employees, absentism, lack of skilled workers and transportation of workers, strikes, high wage rates in some cases of inefficiency.

b) Unchanging and unresponsive production patterns and right methods of planning and implementation.
c) Burden of local taxes.
d) Products many times are not recognized as branded products.
e) Personal problems like spending long hours to work and less time with family and the rewards have not been favorable.
f) Problem of delayed payment by large firms and government departments.

Q.11. Explain the Government Assistance and Special Schemes for Industries in Rural, Backward and Hilly Areas

ANS. Mostly small business in India is scattered in rural and interior parts. India has one of the world's most elaborate small enterprises development programmes. These programmes are in areas of financial, marketing and technical support. In fact as noted by Rakesh Mohan, amongst, developing countries, India was the first to display special concern for small scale enterprise.

Following are the Government Schemes for Hilly and Backward Areas

1) *Integrated infrastructural Development centers:* (IID) Central Government has formulated scheme for setting up IID in rural and backward areas, of country since 8th Five year plan period. A target was to set up 50 such IID centers. During ninth five year plan also the scheme was continued. Under this scheme Central Government provides aid in form of Grant upto Rs. 2 crores (Rs.4 crores in case of north east regions) for a project with an investment of Rs. 5 crores. It excludes cost of land to state Government for setting IID centers. Provision of loan from SIDBI for this scheme is upto Rs.3 crores.

2) *District Special Employment Programme:* Rural industrial units primarily concern with private enterprises. Special Employment programme (SEP) was launched at district level. In 1992-93, Programme envisages employment generation of 10,000 persons per district over a period of time. So far 71 backwards districts spread over in 24 states in country were benefiter with this scheme. In 1998, 46 districts were covered under the scheme. Programme is fully operational in 16 districts namely.

District	State	District	State
Alibag	AP	Allepy	Kerala
Kumo	AP	Thrissur	Kerala
Kohima	Nagaland	Sarguja	M.P.
Banaskantha	Gujrat	Kalahandi	Orissa
Ambala	Haryana	Dausa	Rajasthan
Chamba	Himachal Pradesh	Aizwal	Mizoram
Mali	U.P.	Tirunelveli	Tamil Nadu
Kolar	Karnataka	Ramanath-puram	Tamil Nadu

Types of village industries units set up under this programme include carpentary, black smith, aluminium and Leather product, fruit processing, cane, bamboo, medical plants, honey processing, stone crushing, detergent, soap, brick, bhatta, etc.

3) *125 Block Development Programme:* This programme was initiated in 125 backward blocks. It was launched on 2nd Oct, 1994. Programme had target of minimum sustainable employment of 1000 persons per block. So far 171 institutions have been identified under this programme.

4) *Package for Tiny sectors:* Tiny sectors currently defined as those having investment in plant and machinery upto Rs. 25 lacs constitute about 95% of small business. Policy measures announced in August 1,1991 separate package of facilities and incentives was provided under this package earmarking of 60% of credit flooring of small business was reserved for tiny and cottage sector. Banks give priority for lending money to tiny units. 40% of tiny units having investment in plant and machinery up to 5 lacs and 20% share to those having investment upto 5 to 25 lacs. Under this scheme.

CREDIT FLOW

- 60% Tiny Sector
  - 40% (invest upto 5 lakhs)
  - 20% (invest upto 5 to 25 lakhs)
- 40% other small business

Q.12. *Explain the other policies and financial assistance of Government to Small Business?*

ANS: The following are the other policies and financial assistance of Government to small business:

1) *Cluster based approach:* Central Government has formulated many schemes to develop and promote small business throughout the country. In budget speech 1999-2000. Finance Minister announced NPRI (National Programme for Rural Industrialization) to promote clusters of units in rural area to setup 100 rural clusters in each year.

A cluster is defined as the collection of enterprises producing some or similar products or services clusters are engaged in the same line of manufacturing activities or services, located within an identifiable area NPRI provides assistance upto Rs.5 lacs for interventions in cluster. There is budget provision of Rs.5 crore in 10th plan under the scheme cluster development covers diverse areas like marketing, export, promotion, skill up gradation and infrastructure. The Ministry of small scale industries launched a scheme Technology and upgradation and Management Programme called UPTECH in 1998. Later in August 2003, the scheme was renamed Small Industry Cluster Development Programme (SICDP) which started working on broad base SICDP guidelines were revised in March 2006.

2) *New small Enterprise Policy 1991:* To provide vitality and growth inputs to small business Government announced New Small Enterprise Policy 1991. After 1990 Government adopted policies to liberalize economy and to open it up to foreign competition. This is policy package for small, tiny and Village industries.

Important measures announced in the policy

a) The investment limit for tiny units was raised form Rs.2 lacs to Rs.5 lacs.
b) Locational restrictions to these industries were removed
c) The new policy widened, the scope of small business to include industry related service and business enterprises, besides manufacturing units.
d) A separate package for the promotion of 'TINY' enterprises was proposed in New Policy. The tiny enterprises were to receive various types of Government support on continuing basis other small enterprises would receive only one-time benefits like preference in land allocation, power connections, etc
e) The policy proposed to meet the entire credit demand of tiny units.
f) The policy encouraged for collaboration between large and small business and to invest in small sector.
g) Enlarging of National Equity Fund scheme and single window scheme
h) The policy introduced new legal form of organisation where liability of atleast one partner is unlimited.it is known as restricted partnership.
i) Priority was given to the tiny sector in government purchases as well as in allocation of indigenous/ raw material.
j) The policy proposed that market promotion of small and tiny sectors products should be undertaken by co-operatives, public sector institutions and other professional agencies.
k) Integrated Infrastructure Development centers were setup for small business to help industries located in rural and backward areas, Stronger co-ordination between industry and agriculture should be promoted.
l) Provision of assistance and other advisory services
m) Price Preference and reservation of certain product

3) ***Financial assistance for small business:*** Several schemes were introduced to provide financial assistance to small business

1986 – *Small Industries Development Fund (SIDF)*
1987 – *National Equity Fund (NEF)*
1988 – *Single window scheme (SWS)*

Their Functions:

SIDF	Provides refinance assistance for development, expansion, diversification and rehabilitation of small, cottage, tiny and village industry.
NEF	Provides equity type support for setting new projects in tiny sector and provides assistance for sick units.
SWS	Provides long term loans for fixed capital to new tiny and small business

In addition commercial banks were supposed to give priority to small scale and cottage industry in granting credit facilities. For this purpose procedures and conditions of financial assistance from commercial banks and other institutions have been liberalized

Q.13. Explain the Ministry of Agro and Rural Industries (MOARI)

Ans: Co-ordinated programme with various agencies.

Institutions providing financial assistance

SIDBI	Small Industries Development Bank of India
NABARD	National Bank for Agriculture and Rural Development

KYIC	Khadi and Village Industries Commission
SFC	State Finance Corporation
NSIC	National Small Industries Corporation

1) SIDBI: SIDBI is wholly owned subsidiary of IDBI was setup in 1989 as the principal financial institution to promote finance and develop small business. It was setup with a view to ensure larger flow of assistance to small business units.

Basic Objectives:

1) Initiating steps for technological upgradation and mordernization of existing units.
2) Expanding channels of marketing in small sector
3) Promotion of employment oriented industries especially in semi urban areas to generate employment

SIDBI provides assistance to small business through existing credit delivery system

Major activities:

1) Granting direct assistance and refinancing loans
2) Extension of seed capital/soft loans
3) Financial facilities relating to marketing and development of industrial areas and technical support
4) Direct discounting and rediscounting of short term trade bills.

The Small and Medium Enterprises SME fund of Rs. 10,000 crore was implemented by SIDBI since 2004.

Schemes by SIDBI:

1) General scheme for all forms of organizations in small scale sector for setting up new small business unit or for expansion, mordernisation, diversification, etc.
2) Scheme for cottage village and Tiny industries.
   a) Composite loan scheme
   b) Scheme for artisans, village/ cottage industries for equipment and / or working capital and also for work shed.
3) Specific schemes for all forms of small business for acquisition of
   a) In house quality control
   b) Computer and related accessories
   c) For manufacturing and installation of renewable energy and energy saving system
   d) Equipment refinance schemes
   e) Scheme for Small Road Transport Operators (SRTOS)
4) Schemes for marketing activities
   a) Schemes for marketing activities
   b) Scheme for purchasing mobile sales van.
5) Scheme for medical profession
   This is for entrepreneurs setting up hospitals/ nursing home/ poly clinic/ small hospitals
   a) Scheme for hospitals / nursing homes.
   b) Scheme for acquisition of electro medical and other equipment.

6) Scheme for tourism related activities
   a) Scheme for tourism
   b) Scheme for hotel and restaurant projects for setting up or development of cultural centres, convention centres, tourist service agencies, etc.
7) Schemes for women Entrepreneurs
   a) Mahila Udyam Nidhi
   b) Scheme for women entrepreneurs

Those schemes are provided for setting up new projects in tiny or small sector and also for rehabilitation of viable sick units. Special scheme for assistance to ex-servicemen including widows of ex-servicemen sponsored by Director General Ministry of Defence.

2) NABARD: (National Bank for Agriculture and Rural Development): NABARD is established on the recommendations of Shivaraman committee by an Act of Parliament in July, 1982. It is one of the prominent agencies to provide credit in rural areas. It is set up as an apex development bank with a mandate for facilitating credit flow for promotion and development of agriculture small business industry, cottage and village industries, handicrafts and other rural crafts. It has also commanded to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

Role:

a) Providing refinance to lending institutions in rural areas
b) Bringing about or promoting institutional developments
c) Evaluating monitoring and inspecting client banks.

Besides this pivotal role NABARD also functions as given below:

1) Acts as a co-ordinator in the operations of rural credit institutions
2) Extends assistance to the Government , The RBI and other organizations in matter relating to rural development.
3) Offers training and research facilities for banks, co-operatives and organizations working in the field of rural development.
4) Helps the state Govrnment in reaching their targets of providing assistance to eligible institutions in agriculture and rural development
5) Acts as regulator for co-operatvie banks.

3) KVIC-(Khadi and Village Industries Commission):

It is a statutory body established by an Act of Parliament in April 1957. It took over the work of former All India Khadi and village Industries Board.

Prime Minister's Employment Generation Programme PMEGP was introduced during 2010-2011 which is expected to benefit small business. KVIC has given governing role for PMEGP.

Functions of KVIC:

a) KVIC is charged with planning , promotion , organization and implementation of programme for development of khadi and other village industries inrural areas in co-ordination with other agencies

b) Function comprise building up of a reserve of raw material and implementing supply of producer
c) Creation of common service facilities for processing of raw materials and semi finished goods and providing marketing facilities
d) Organising training
e) of artisans engaged in this industries and encouragement of co-operative efforts among them. (Artisans are craftsmen doing skillful job)
f) Encouraging and promoting research in the production techniques and equipment employed in KVIC sector

4) Comprehensive policy pacakage 2000:

On August 30,2000. S.P.Gupta Committee recommended comprehensive policy package. Main objective was to meet global competition.

Important features of this Policy:

1) An increase in investment limit from Rs.5 lacs to Rs.10 lacs in industry related to service and business enterprise
2) Raised the limit for excise duty exemption from Rs.50 lacs to Rs.1 crore
3) Providing grants of Rs.75,000 to each small unit for obtaining ISO 9000 certification till the end of 10^{th} Plan
4) Conducting the third census of small industry after a gap of 12 years.

Q.14. Explain the Mahila Bachat Gat?

ANS: Mahila Bachat Gat plays significant role to support small scale industries. Mahila Bachat Gat is organisation of co-operation for self-development of women.

In rural region where roots of development are yet to reach and basic economic needs are yet to be fulfilled, self-help groups were established. Primary objective is to empower women at grass root level. It has resulted into Mahila bachat gat which is a co-operative movement. It is almost two decades old and has specific role in country's economic development.

Rate of interest for Mahila Bachat Gat is 2%. Micro loan is available to members to buy equipments. They can either take contractual work or help cottage industries. People in process of rehabilitation can stand a chance of dignified livelihood. They can purchase construction machinery at subsidized rate through Government schemes.

Objectives of mahila bachat gat:

1) Income generation of low income group women
2) Providing guidelines to member to start cottage industry
3) Making rural women independent
4) Elevating economic status of women in family

History and Background of Mahila bachat gat:

We can trace origin concept of self-help group and Mahila Bachat Gat in Bangladesh. It is a micro-finance institute. Dr. Mohammed Yunus, professor of economics in Chitgaon University had initiated project " Grammen Bank" in 1976. Basic objective was to provide loans to landless poor women to promote self-employment. In December, 2001, the membership consists of 23.78 lakh people.

Contribution of Mahila Bachat Gat in Maharastra:

Even when we travel through dry and dusty villages in Maharastra we easily come across Mahila Bachat gat existing there. It shows dynamic picture of women's collective working towards social transformation. Rural women who are ordinarily potrayed as being weak, secluded and victims of tradition are shattering all stereotypes. They are successfully running savings and credit groups and handling money that runs into 6-7 figures, interacting with bank managers with ease. Some are running their own small business, be it home based bangle selling or opening utensil store.

Mahila Bachat Gat are not only economically active but many of them show awareness about social responsibility such as:

1) Establishing primary health care centers in villages
2) Addressing issue of clean water and sanitation
3) Active participation in village education committee
4) Contesting local elections

Prominent examples of Mahila Bachat Gat

i) Mann Desh Mahila (MDM) Bachat gat:

Mrs. Chetna Gala Sinha is a founder and head of this self help group. It comprises of a bank, Mann Desi Mahila Sahakari Bank, Mann Vikas Samajik Sanstha and a microfinance institution, Mann Desi Mahila Bachat Gat Federation. All clients are rural women with daily incomes of less than Rs.60 and more than 60% are daily wage labourer. They live in inaccessible drought prone areas of Mhaswad in Maharastra and North Karnataka.

ii) Hemabai Didi Saraswati Mahila Swayam Shahayta Samooh, Raigad:

A group of 12 women started in the year 2000 by contribution of Rs.5 per week. They grew up savings. Later they borrowed loan of Rs.60,000 and purchased a silk reeling machine from Sericulture department. They are now expertise in Grade 'A' production that sells at high value. Members of this group now lead a respectful life.

We find remarkable presence of Bachat Gat in rural as well as urban areas. In urban areas some of them provide tiffin services. They are suppliers of pickles, food products and caterers for wedding and parties.

Mahila Bachat Gat for women who are below the povery line (BPL). Such Mahila Bachat Gat especially provide finance for those women who are extremely deprieved of basic needs. They provide livelihood for marginalized women.

List of Some of Bachat Gat in Maharastra:

1) Karmayogi Mahila Bachat Gat, Mumbai, Mai Marathi Sanstha.
2) Swamini Mahila Bachat Gat, Akhil Sangh, Pune.
3) Pragati Mahila Bachat Gat, Devrukh.
4) Asha Mahila Bachat Gat, Latur
5) Kalpataru Mahila Bachat Gat, Dhamangaon Pat.

Different types of loans:

1) Short term loan (1 year)
2) Long term loan (2 to 5 years)
3) Loans against deposit (1 year)
4) Loans against gold (1 year)
5) Individual loans are given up to Rs.15,000
6) Group loans- Mahila Bachat Gat borrow from bank at co-operative lending rate and then relend money to their members.

OBJECTIVES

➢ ***Select the correct option from the option given below and rewrite the sentences***

1) The investment limit for tiny sectors will continue to be ___________.
   a) Rs. 10 lacs b) Rs. 25 lacs c) Rs. 1 lac
2) Manual skills of elder generations can be utilized in __________ industry.
   a) Small Scale b) Large Scale c) Cottage
3) We find agro based industry mainly in _____________ area.
   a) Rural b) Urban c) Semi urban
4) Sericulture is mostly developed in __________ part of India
   a) Northern b) Southern c) West Bengal
   b)
5) SIDBI is _____ source of finance for small business
   a) Traditional b) Institutional c) Non Institutional
6) NPRI provides assistance upto ________ for intervention in cluster
   a) Rs. 10 lacs b) Rs. 20 lacs c) Rs.5 lacs
7) District special employment programme was launched in ________
   a) 1989-90 b) 1992-93 c) 1995-96
8) Cottage industries are specialized in __________
   a) Luxury goods b) Imported goods c) consumer goods
9) Shivaraman Committee has suggested establishment of __________
   a) SWS b) KVIC c) NABARD
10) Prime Minsiter's Employment Generation programme was introduced under _______
    a) SIDBI b) NEF c) KVIC
11) Ornaments of biri work are famous from ________
    a) Nagpur b) Radhanagari c) Aurangabad
12) We can trace origin of concept of Mahila Bachat Gat in ________
    a) India b) Pakistan c) Bangladesh

➢ ***Match the correct pairs:***

Group 'A'	***Group 'B'***
a) Tea business	1) Dress Fabric
b) Rubber business	2) Delta of Ganges
c) Agro based industry	3) Ratnagiri
d) Highly skilled production	4) Assam
e) Turmeric production	5) Malabar coast in kerala

	6) Poultry 7) Wood products 8) Sangli 9) Leather goods 10) Southern parts of India

Group 'A'	*Group 'B'*
a) Infrastructure problem b) Marketing problem c) Export related problem d) Under utilization of capacity e) Consumer goods	1) Decrease in operating cost 2) Stable demand 3) Labour shortage 4) No branding 5) Demand fluctutation 6) Huge advertisement 7) Increase in operating cost 8) Cottage industries 9) Power shortage 10) Large industries

➢ ***Write a word/phrase/term which can substitute the following statements:***

1. An industry in which investment in fixed asset is more than 25 lacs but does not exceed 5 crores
2. Sector of small scale unit where investment in plant and machinery is upto 25 lacs irrespective of location of unit.
3. An industry in which creation of product & services is home based rather than factory based
4. Business which requires low gestation period
5. Type of goods produced in cottage industry
6. Technique of production used in cottage industry
7. Industry which preserves cultural heritage in form of skillful production
8. A place in Maharashtra famous for wooden toys
9. An industry in which mostly operations by hands are involved
10. Part of rural industry based on agricultural product
11. Agro industry which involves silk production
12. Rural industry sector which brings maximum foreign exchange
13. The delta of river Ganges is rich in this production
14. Malabar coast in Kerala is famous for this business
15. Fishing industry is considered as prime industry in this region
16. A sector which is backbone of rural India
17. A sector which is active in agro based industry especially in western maharastra
18. Quality certification which is required in markets of developed countries
19. Scheme for backward area which is formulated since 8th five year plan period
20. Programme which emphasizes employment generation of 10,000 persons per district over a Period of time
21. Financial institution which is wholly owned subsidiary of IDBI
22. Scheme approved by SIDBI for purchasing mobile sales van

23. Scheme approved by SIDBI for acquisition of electro medical and other equipments
24. An apex development bank which facilitates credit flow in rural area
25. Committee which has recommended comprehensive policy package 2000
26. An organisation of co-operation for self-development of women

➢ ***State with reasons whether the following are true or false:***

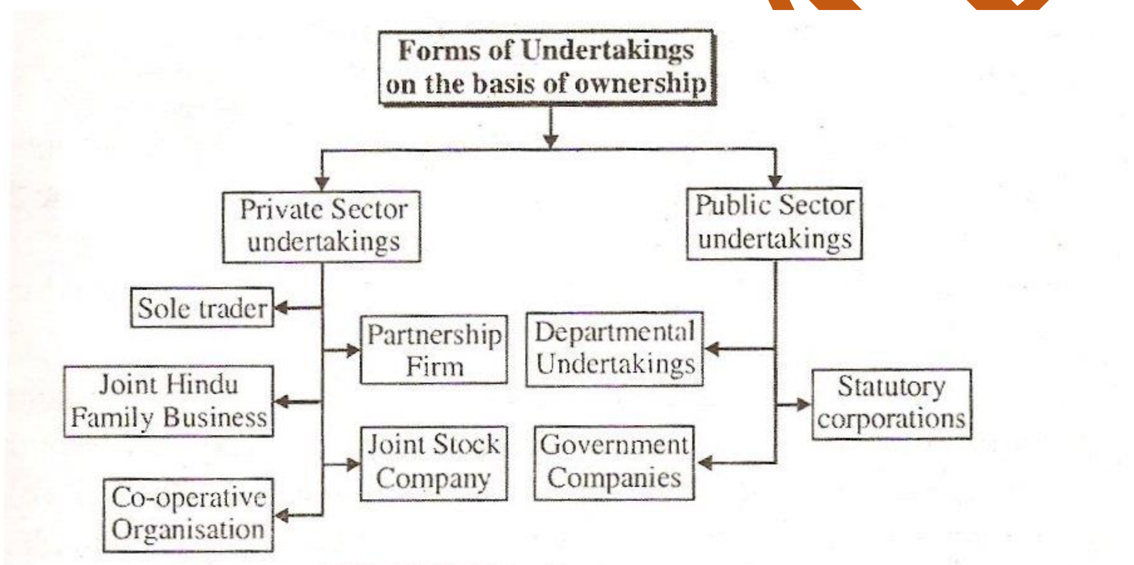
1. Cottage industries are established only in rural areas
2. Small scale industries use outdated technology
3. Very less quantity of small business is exported
4. Sickness is very common in small business
5. Small business work on full utilization of their capacity
6. Small business is the main source to create employment in rural India
7. Small scale business is capital intensive industry
8. Small business is not suitable for developing countries
9. Wood carving is considered as modern small scale industry
10. Operating cost of small business is high
11. Cottage industries use modern machineries
12. Horticulture is well developed in rural India
13. Jute business brings maximum foreign exchange
14. Small business industry gets finance easily at low interest rate
15. Maintenance cost of small business is high
16. Small business are able to make huge advertisement and publicity
17. Small business cannot face global competition
18. SIDBI is the principal institution to promote small business
19. Productivity of small business is low because of low equipments.

CHAPTER 3: PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

Q.1. Explain different forms of Business Undertaking.

ANS: ***Introduction:*** A business undertaking is an organization through which business activities are carried out. Business undertaking or organizations are known by different terms such as firm, factory, mill, shop, company, plant, etc. These business undertakings or organizations

Are classified on the basis of different factors such as size , nature of activities, ownership etc. when business organizations are classified on the basis of ownership, sectoral division of business enterprises comes into existence . It includes (1) Private Sector Undertaking and (2) Public Sector Undertaking. Private sector undertakings are those business organizations which are owned by private persons or institutions. They include sole trader partnership, joint Hindu family business, Joint Stock Company and co-operative society. Public sector undertakings can be well understood by the following chart.



Q.2. Explain Private Sector Undertaking. What are its features?

ANS: ***Meaning***: These undertakings are owned and managed by private entrepreneurs. They can be started by individual, firm or company.

Important features of private sector undertakings:

1) ***Private Ownership:*** These undertaking are owned by private entrepreneurs.
2) ***Private Management and control:*** These undertakings are managed and controlled by owners or professionals employed by owners to look after the Business.
3) ***Private Capital or Finance:*** Whatever finance required for the business is brought in by the owners.
4) ***Profit Motive:*** The main objective of private sector undertakings is to make profit by doing business activities.

Q.3. Explain Public Sector Undertaking. What are its Features and Importance?

ANS: **Meaning:** Business undertakings owned, managed and controlled by public authorities are known as public sector undertakings .They constitutes the public sector.

The public sector undertakings are owned managed and controlled by the central or the state Government or both or any local authority.

Before independence public sector was absent in Indian economy. But after independence India adopted mixed economy in which the public sector undertakings were expected to play an important role. With the result, development of public sector undertakings took place rapidly.

The mixed economy implies co-existence of both the public and private sector.

The Bureau of Public Enterprises observes public sector undertakings as “born as the outcome of the conscious policy of government to speed up the industrialization of the country with a view to give added impetus to economic growth as well as to achieve certain socio-economic goals as enunciated in the Industrial policy.”

Before independence India was industrially underdeveloped. It had mainly an agriculture-based economy. Economic problems like poverty, unemployment and inequalities were common. This needed a change. Therefore, with

The implementation of the Industrial policy resolution 1956 the government assigned an important role to the public sector in Indian economy.

Objectives of Public Sector Undertakings:

a) To accelerate the growth of industries by setting up basic and strategic industries such as steel, power, oil, etc.

b) To provide necessary infra-structural facilities i.e. services in the key sectors such as railways, telecommunication, and air transport, nuclear power etc.

c) To check the growth of monopolistic tendencies in private sector undertakings and multinationals.

d) To protect employments by taking over sick units.

Features of Public Sector Undertakings:

1) Government Ownership: Public sector undertakings are owned by central or state Government or jointly by both or a local authority.

2) Government Management and Control: The management and control of these enterprises rest with the government. The top officials, poor managers are appointed by the government.

3) Government Finance: The entire or major finance of these enterprises is supplied by the government.

4) Public service Motive: The main aim of public sector is to provide services to the society. They do work for making profit but it is not their main or only objective like that of the private sector enterprises.

5) Operating in various Sectors: Public sector undertakings operate in various sectors such as production of capital goods, mining, insurance, banking, telecommunication, transport etc. Thus they serve almost all sectors in the economy.

6) Monopoly Position: In most of the areas of business activities public sector units are monopoly units. Private sector enterprises are not allowed to enter in that line of business.

It is mostly true in public utilities such as railways, mining, energy and Insurance, etc. However since 1991 because of the economic reforms, private sector undertakings are now allowed to operate in some areas such as insurance, air transport, banking, etc. Public sector enterprises have to compete with them.

7) Autonomous or Semi-autonomous Nature: Public enterprises are either autonomous or semi- autonomous. It means they are giving an official status and freedom of decision - making or they work under the control of a government department.

8) Channel for using Foreign Funds: The government implements its plans of industrial or economic development through public sector undertaking. In addition to this, when a foreign government gives financial. Technological or other help it is channelised through public sector undertakings.

Importance: Public sector undertakings play important role in developing economies like ours. With the dawn of planned economic development era, in India, public sector organizations became the engine of industrialization. Government began to participate in business and started playing the role of an entrepreneur. It established much business undertaking in heavy and basic industries and laid the foundation of India's economic development. It facilitates the process of industrialization by starting public enterprises providing necessary infrastructural facilities.
Even today in spite of privatization and other features of reforms started in 1991 Public sector organizations are considered as important partners in India's march towards global economic power. The reasons of importance of public sector organizations can be specifically described as follows.

1) Needs for Planned Development: With the inception of five year plans it become necessary to create a solid base for industrialization. This implied establishment of heavy and basic industries like steel, mining, heavy machinery ship building, etc. In these industries private entrepreneurs were not interested as profit- making was a distant reality. Therefore, the government had to take the lead and start these industries in the public sector.

2) Need for Infra-structural Facilities: To speed up the process of industrialization, infra-structural facilities like roads railways, ports electricity, etc. become necessary. Private entrepreneurs do not yield low returns on investment. Obviously government has to take the initiative and ensure necessary infra-structural facilities.

3) Need for Creation of Jobs: Public sector undertakings are established in different parts of a country .They generate many jobs for people in those parts and thereby reduce the problem of unemployment to some extent.

4) Social Welfare: Public sector organizations providing essential goods and services make them avail*able* to their customers at reasonable prices. They improve well being of people.

5) *Model Employer:* Public sector organizations generally take care of their employees. They provide housing, canteen and other facilities to their staff. Thus, they set an example as an ideal employer which private sector undertaking are expected to follow.

6) *Need to Avoid National Waste:* When private business units become sick and have to close down their operations, many people lose their jobs, physical resources like land, buildings machinery, etc remain idle and finance gets locked. To prevent this waste of national resources sometimes government takes over these units and carries on their operations.

7) *Employment:* Every developing economy faces the problem of unemployment. To accelerate the growth of economy they have to establish the industries which are essential and risky which private enterprises generally avoid. Such establishment of industries would lead generation of employment.

8) *Regional Imbalance:* All developing countries do not have all round development. Certain areas are totally under developed. Public enterprises try to bring about the balanced regional growth.

9) *Concentration of Wealth:* Public enterprises eliminate the concentration of wealth and power in the hands of a few. This eliminates the evils of concentration of wealth and also will remove the inequalities in distribution of income and wealth.

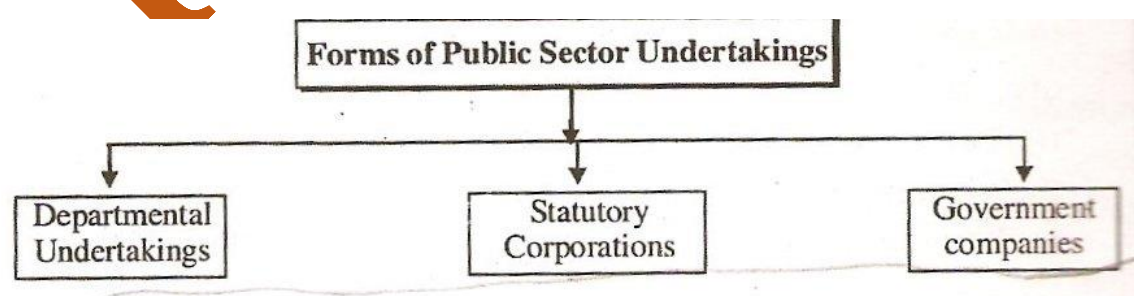
10) *Reasonable Profit:* The public enterprises are expected not to operate as profit motivated but rather have to work for the service of the people, keeping in line the commercial aspect. Profits can be utilized for the welfare of the people.

11) *Exports:* The rate of economic growth will grow because of promotion of exports. Public enterprises in this way would increase the foreign exchange.

12) *Self Reliance:* Certain sectors of the economy need to eliminate their dependence on outside sources. Public enterprises work towards bringing about the self reliance which would make the economy strong and stable.

Q.4. Explain different Forms of Public Sector Undertaking.

Ans: There are three forms of public sector undertaking as shown below:



***Departmental Undertakings or Organizations*:** Departmental undertakings are the oldest form of public sector undertakings. A Departmental Undertaking is a public enterprise which is organized, financed and controlled by the government in the same way as any other government department. This implies that in this form the undertaking is organized as a government department .The necessary funds are provided to it by the Government .it is managed by the civil servants and people working under their control. It is headed and controlled by the minister of the department. The department undertakings are mainly working in public utility services and strategic industries such as railways, post, defense and atomic power.

***Features of Departmental Undertaking are*:**

1) *Formation:* These undertakings are established by the government and attached to specific ministries.

2) *Management and control:* Department undertakings are managed by civil servants. They work under the control of concerned ministries. The minister of the department is directly responsible for the working of the undertaking.

3) *Finance:* Theses undertakings are financed totally by the government. The budget of the department is sanctioned by the parliament or state legislature. Finance rising from outside sources is not allowed.

4) *No separate Legal status:* Department undertakings do not enjoy separate legal status. It weeks under a ministry as a part of it.

5) *No Authority to use the Revenue:* The departmental undertaking does not have any authorities to use the revenue it has generated for its own purpose. It has to deposit the money in the treasury. Decisions about the disposal of money are taken by the government.

6) *Accounting and Audit Control:* Departmental undertakings are subjects to the same budgetary, accounting and audit control by government as applicable to other departments.

7) *No Borrowing Power*: A departmental undertaking has no borrowing powers. It cannot raise funds from outside sources. It has to depend upon the budget sanctioned by the parliament.

***Merits of Departmental Undertaking are*:**

1) *Easy to form:* These undertakings can be formed easily. They are started by the government as per its requirements. They need not be registered with any authority. No legal formalities are registered with any authority. No legal formalities are required to be completed for their establishment. Therefore the formation of these undertakings.

2) *Easy Financing:* The required finance is made easily available to these undertakings. It is provided by the government. The departmental undertaking, therefore, need not make any efforts to raise finance from outside sources.

3) Essential in some sectors: This from of public enterprises is most useful in public utility sector like defense, railways, post, etc. Any matter related to the operations of the undertakings can be raised in the parliament. This acts as a check on irregularities in their operations. In national interest these sectors should remain with the government.

4) Useful to Government: These undertakings are useful to the government in implementing its policies and programmer's .The government can undertake many useful programmers through these departments.

5) Government's Accountability: The departmental undertakings function under government control. They are attached to concerned, ministries. Therefore, the government can regulate their working as it intends. However the ministers in charge of the departmental undertakings are answerable to the people through the parliament.

6) Source of income for Government: Departmental undertakings are actually business organizational. They earn money which is a source of income for the governments.

7) Secrecy: These undertakings can maintain secrecy in their working which may be very essential in some areas like defense.

8) Useful in Developing Countries: Departmental form of public undertakings is very useful in developing countries. In the developing countries even private sector undertakings do not have adequate funds to start and operate large scale activities , especially in the public utility services .Therefore the departmental undertakings are the proper enterprises through which the government can provides basic necessities can also create infra- structural facilities which are essential for economic development i.e. roads, electricity , airports ,etc.

Demerits of Departmental Undertaking are:

1) Lack of Flexibility: The departmental undertakings are not flexible. They work under government department. In it decision - making becomes a lengthy process as it has to go through various levels. In addition to this the rules and regulations framed by government are very rigid. They do not allow the departmental to change according to the needs of the situations.

2) Lack of Autonomy: The departmental undertakings are often subject to excessive government control and interference as they are part and parcel of government departments. They do not have freedom to take their own decisions; they can not frame their own policies and implement them in their own way

3) Limitations on Management: The departmental undertakings are managed by civil servants, not by professional managers. They may not have experience of running a business enterprise. These factors adversely affect the management of these undertakings and their efficiency suffers.

4) *Slow Decisions:* In the departmental undertakings decision-making is a slow process. It is mainly due to red tapes. The decisions are taken by bureaucracy who is not accustomed to quick decision-making.

5) *Low Efficiency:* Many times the departmental undertakings run inefficiently. They do not bother about their poor performance or losses because most of them are monopoly undertakings which do not face any competition. They therefore, pay least attention to efficiency or quality.

6) *No Stable policies*: The departmental undertakings completely depend on the government for their working. The government formulates their policies and makes all major decisions. With the changes in the government, these policies also change .Many times the policies are formulated and the decisions are made to suit the ideologies of the partly in power. This affects the smooth working of these public enterprises.

***Statutory Corporations*:** Statutory or public corporation is another form of public sector undertakings it is an autonomous organization established by a special Act or statute of the central or state legislature. Statutory corporations are specially created business organizations. They are established by passing special Acts known as statutes. The statute defines scope of the corporation and mentions its powers, duties, functions, pattern of management, etc. As these undertakings are created by special. Acts or statues, they are calls' statutory corporations'. State Bank if India, Life Insurance Corporations,
Unit Trust of India, Oil and Natural Gas Commission are some examples corporations, in India.

***Features of Statutory Corporations are*:**

1) *Statutory Formation*: Statutory corporations are formed by passing the statute by central or state legislature.

2) *Management by Board*: Statutory Corporations are managed and controlled by Board of Directors. The Board is appointed as per provisions of the statute.

3) *Separate Legal Status:* These corporations are created by statues. Once they are established they get separate legal statues like a joint stock company. As such it can sue or be sued without the approval of the government

4) *Independent Financing:* These corporations do not depend upon the government funds for day-to-day requirement. They get financial help from the government whenever necessary but they are free to raise finance from external sources also. Their budgets need not be passed by the legislature.

5) *Financial Autonomy:* Statutory corporations can utilize their income to meet their expenditure. They are not required to take permission of the government for making financial decisions .They prepare their budgets and work accordingly

6) *Independent Personnel Policies:* These corporations can recruit, promote and train people as per their needs. They can have their own staffing patterns.

7) Public Accountability: These corporations are accountable to the public. Any matter related to them can be raised in the legislative body through the concerned special legislation.

8) Status of Employees: The employees are employed by the undertaking which is established by the government and therefore they are treated as government or civil servants. They enjoy the same privilege and rules as other government departments.

9) Accountability: The undertaking is accountable to the parliament

***Merits of Statutory Corporations are*:**

1) ***Operational Autonomy***: Statutory corporations enjoy freedom of operations they can frame their policies, set their goals and can decide ways to achieve these goals.

2) ***Flexibility:*** Statutory corporations enjoy managerial flexibility. These corporations enjoy managerial flexibility. These corporations are free to take decisions regarding production. Marking, personnel, finance accounting procedures, etc. They can charge the decision or modify them whenever necessary.

3) ***No government Interference***: The Government does not interfere with the working of the statutory corporations. They are not dependent on government departments for decisions or any other matter.

4) ***Freedom to Raise Funds:*** Statutory corporations can raise funds on their own without taking the permission from the government. Their budgets are not sanctioned by the legislature. They can raise funds by issuing Equity or preference shares or bonds to the public.

5) ***Working on Commercial Lines***: These corporations do their business operations for earning profits, though it is not their main motive. They can utilize the profit for their development or expansion programmers. Some part of profits may also be used for the welfare of consumers and community.

6) ***Competent staff:*** The statutory corporations are free to employ the staff as per their requirement. They can employ competent and professional staff by offering it attractive terms and conditions this ensures efficiency in the performance of their employees.

7) ***Prompt and Quick Decisions***: Prompt and Quick decisions are possible because it has freedom in administrative matters.

8) ***Specialized Management***: The board if directors are specialized in the field of industry that they are appointed for and therefore the organization will be efficient.

9) ***No Profiteering and Exploitation:*** Very often joint stock companies during shortages would go for profiteering and exploit the consumer or public. A public corporation would not indulge in such acts.

***Demerits or Limitations Statutory Corporations are*:**

1) ***Difficulty in Making Changes*:** The statutory corporations are established under a status. Once the Statue is passed it becomes very difficult to change it. It can be changed only by the legislature. The procedure of getting the statute changed is very difficult and lengthy.

2) ***Lack of Autonomy in practice*:** Even though the statutory corporations enjoy autonomy in theory, in practice the picture is different. Indirectly these corporations are controlled by the concerned government department. The government department pressurizes these corporations. The ministers concerned also interfere often with their working.

3) ***Misuse of financial Autonomy***: These corporations enjoy financial freedom. But it is likely to be misused by them. Their funds may be used for purposes which may not be meaningful and the money may be wasted.

4) ***No personal Tough*:** These corporations are managed by salaried employees who may lack personal interest. They are likely to be indifferent to customers and may not have any personal touch, as these corporations rarely face any competition.

5) ***Suitable for Large Scale Only*:** The Organisation or corporations are formed only in the interest of then public and therefore for small scale business.

6) ***Inefficient and Monopoly*:** Public corporations are generally inefficient and enjoy monopoly. They are very often not motivated by commercial principles because being in the interest of the public and nation their losses are borne by the government.

7) ***Retards Growth*:** The undertaking is under the control of the government and its revenues are credited to the government treasury. For growth of the undertaking sanction has to be obtained from the government.

8) ***Lack of Time*:** The ministers do not have much time for the undertaking, due to other important issue which they also has to handle.

9) ***Obsolete*:** Most of the undertaking does not respond to changes in technology, styles of management, consumer needs, due to rigidity in operation.

10) ***Losses*:** Since the undertaking is not operating with profit as its motive, the losses that are made by the undertaking are not taken as a signal pf lack of management because of financial support given by the government.

***Government Companies*:** A government company is a company in which at least 51% of the paid up share capital is held by the government. Its share capital is held by-- (i) Central Government or (iI) State Government or state government or (iii) Partly by the Central Government and partly by the state government. The remaining, share capital may be held by the public.

Government companies are registered under the companies Act, 1956. They can be registered either as private or public limited companies. Hindustan Machine Tools Ltd (HMT), Bart Electronics. Hindustan Aeronautics Ltd. is some examples of the government companies.

Features of Government Companies:

1) ***Formation by Registration:*** The governments companies are formed by registering or incorporating them under the companies Act, 1956. They are not formed under any other special Act. They can be registered private limited companies or public limited companies.

2) ***Management by Board***: These companies are managed by Board of Directors. The Board consists of some members nominated by the Government and some are elected by shareholders.

3) ***Separate Legal Entity***: When a Government Company is registered; it gets a separate legal status like any joint stock company. It become' body corporate'. It is an artificial person created by law having perpetual succession.

4) ***Financed by Government:*** As 51 % or more shares of these companies are held by the government it is mainly government financed company. The remaining share capital can be raised by selling share to the public.

5) ***Employees not Government Servants***: The Government companies appoint employees on their own terms and condition. They are not headed on their own terms and conditions. They are not headed by civil servants .They is not considered as government servants.

6) ***Provision of Companies Act Applicable:*** Being a joint stock company, a government company is subject to most of the provisions of companies Act. Accordingly, it has to publish its annual report and present it in the Annual General Meeting. However, its auditors are appointed by the government on the advice of Controller and Auditor General of India (CAG)

7) ***Power to borrow and to use its Revenue:*** A government company has powers to borrow and to use its revenues.

8) ***Annual Report:*** The annual report is placed before the parliament for adoption and approval.

9) ***Commercial Principles***: The corporation has been established in the interest of the public but the working on commercial principal should not be ignored.

Merits of Government Companies:

1) ***Easy to Form:*** It is easy to form a governments company by getting it register under the Companies Act, 1956, No special Act is necessary to bring it into existence.

2) *Larger Capital Available:* These companies can raise larger amount of capital. Initially they depend on the government for raising funds. But later on they can collect capital by issuing shares to the general public. They get funds from banks or other financial institutions as loans and advances.

3) *Flexibility of Operations:* The Government companies can operate independently like other joint stock companies. They are not departmental organizations operating under civil servants and ministers. They can make their own decision and take prompt actions. They have certain amount of operational freedom and flexibility. They can avoid red-tapes and bureaucracy.

4) *Freedom in Policy Matters:* These companies have freedom to prepare their own plans and set up indecent policies. Huge funds and freedom of policy making enable these companies to have healthy competition with their counter parts in the private sectors.

5) *Professional Management:* The Government companies can appoint professional managers to manage their business. Thus they can have efficient management.

6) *Development of Neglected Sectors:* The Government companies help in the development of such business sectors in which private enterprises may not be interested as they may not be very paying or may involve tremendous risk-taking. The Government companies can enter into all these neglected areas with government support. This help in all-around development of country.

7) *Exemption*: The government has the right or power to follow or not to follow the provisions of the Companies Act 1956 for the benefit of the public.

Demerits of Government Companies:

1) *Non-professional Management*: Management of the Government Companies is in the hands of directors who are nominated by the government. They may not possess professional knowledge, skill and experience to manage business enterprises. This may weaken their competitive strength.

2) *Political Interference:* There can be a lot of political interference in the working of a Government company. Whenever the government changes the ruling political party tries to bring its own directors on the Boards.

3) *No Continuity in Policies:* There may not be continuity in the policies of the Government companies as the management of these companies keeps on changing. This affects the working of the company adversely.

4) *Absence of Real Autonomy:* Theoretically these companies are autonomous bodies. They are free from government control. But in reality they depend on various government departments and ministries. They have to take permission from the government departments in various matters. They have government representatives on their Boards. This also limits their autonomy i.e. power to make independent decisions.

5) *Slow Decision - making Process*: These companies depend upon the government for important policy decisions. This hampers decision-making process and makes it slow.

Q.5. Write a Note on Multinational Companies?

ANS: Meaning: A new type of companies has emerged in recent times, known as Multinational Companies or Corporations, briefly called MNCs. A multinational company is one with incorporation in one country but having business units in several countries. Such business units are set up in different countries either under the direct ownership and control of the original company or by incorporating separate companies in different countries.

According to United Nations: MNC means *"those enterprises which own or control production of service facilities outside the country in which they are based"*
In other words, a multinational company is a business organizations which

1) Operates in more than one country, and carries on production, marketing and research activities. Like any business organization its main objective is to maximize profits world over.
2) Multinational companies organize their operations in different countries in different ways. Some of them are as follows:
a) Branches in various countries with Head Office in one country.
b) Subsidiary Companies (incorporated in different countries) in which the multinational company holds more than 50% voting power.
c) Joint-Venture companies in which local big companies jointly do business with the multinational company.
d) Franchise holders are appointed in different countries by the multinational company;
e) Turn-key projects undertaken by multinational companies in other countries.

Some well known examples of Macs are Hindustan Lever Ltd., Colgate Palmolive (India) Ltd., Brook Bond Ltd., Coca Cola, Pepsi, Sony, LG, IBM, Microsoft, Samsung, Nokia, and Motorola. As a result of globalization some Indian Companies are becoming multinational companies. Infuses Technologies Ltd., Tate Consultancy Services, Reliance Industries Ltd., is some companies which are trying to be multinationals.

Features of Multinational Companies:

1) Formation: Multinational Company is a type of Joint Stock Company. Therefore it is an incorporated association. It is formed under the company law of the respective country.

2) Multination Nature: It is a large scale joint stock company. It is corporate in one country and spreads its business in other countries as separate companies or branches of the same company. It employs people of various countries belonging to different cultures are severe customers in international market.

3) Gigantic Scale of Business: Multinational companies work on gigantic scale. They operate worldwide. Their business network is global.

4) Huge Capital: These companies raise capital on huge scale. Capital is collected by way of issuing shares to the public. Their shareholder is spread all over the world as they operate in different countries.

5) Highly Professional Management: MultiMate ional companies are managed by highly professional managers. Persons heading these companies are competent to view global scenario, understand international markets and handle employees with different cultures.

6) Application of Local Laws: Multinationals companies have to follow the rules, laws and regulation, prevalent in the country in which they operate.

7) Employment: Most of the poor and developing countries suffer from unemployment. Establishment of the multinationals provides employment to a large number of people in such countries.

8) High Standards: Multinational manufacture products of superior quality. They strive to get certification from the best international institutions recognized world wide. They follow strict quality control and maintain high standards.

Merits of Multinationals:

1) Large Resources For Growth: All poor and developing countries face shortage of capital which is supplemented by the MNC's this promotes increase in Production, market expansion and increase in employment which brings about rapid industrial growth.

2) Bridges Gap in Technology: Multinationals bridge the gap between obsolete technology and modern technology. In order to compete in global markets it is essential to modernize the industries as the countries lack the changing technology.

3) Research and Development: For products to survive globally MNC's have to divert a large amount of funds for research and developments. The benefits of invention and innovation of the research and development activities are also transferred to these countries.

4) Increase in Revenues: Since the revenues of the MNC's are robust, they contribute a large amount to the government in the country in which they operate.

5) Change in Foreign Trade: MNC's bring about a change foreign trade. India at first was mainly exporting agricultural products but with the coming MNC's the nature of exports have changed to industrial and electronic products also. The imports has also reduced because of increase in production and establishment if new industries.

6) Provide services of Professionals and Experts: MNC's require the services of professionals and experts. This helps in the development of skilled human resources which they lack in the country. New methods of management and investment are introduced.

7) Optimum Use of Resources: MNC's way of operation is efficient and cost effective which increases the place of economic development

8) Style of Management: The management approach is goal setting, action, plans, excellence etc. They follow plans to achieve their objectives totally focused.

9) Domestic Monopolies: A monopoly is b\not favorable in a country because it charges their higher prices and controls at the market. The entry of MNC's breaks the domestic monopoly which brings down efficiency and prices.

10) Employment: Poor and developing economies face unemployment Establishment of MNC's in different sectors provide large employment opportunities to the people.

11) Brings the World closer: In order to sell the product MNC's have to understand the economy, culture, habits, religion, environment etc. In order to be successful they have adapt their product to the type of people which will promote global co-operation.

Demerits of Multinationals:

1) Influences Policies and Interference in Politics: Poor and developing countries have sometimes no other choice but to tolerate the influence of MNC's on policies and programmes which are favourable to them, and politically, socially and economically unfavourable to the country.

2) Valuable Natural Resources: Misuse of natural resources, not ploughing back the profits and increasing consumption not beneficial may lower the savings and thus harm the country.

3) Elimination of Local Firm: MNC's are in a position to eliminate the local firms who cannot face the competition consumption due to ample resources at their disposal and may make themselves a monopoly and exploit the consumers.

4) Adverse effect on Balance of Payments: The advantages of MNC's may not really have a bottom line of profit if they plough back their profits to their countries and if the country has to import machinery etc. which could result in adverse balance of payments.

5) Profit maximization: Many MNC's may not follow social responsibility of business towards the country in which they are operating. This could lead to lower business ethics, exploiting natural resources for their economic gain which have an adverse effect on the country.

6) Materialistic Life Style and Culture: MNC's bring materialistic life style and culture which is not yet right for the country which is still in the developing stage and the people resort to buying products which are not yet appropriate to the economy.

7) Hire and Fire Policies: The MNC's follow the hire and fire policies because it may not be profitable or retrenchment. Many MNC's do not follow labour legislation. As job security is important to these countries. Very often decision making and powers are vested in their hands and delegation does not take place to the people of the country.

8) Double Standards: Multinationals do not follow the same standards for protecting the environment as those in their countries. They have been criticized for polluting the environment, avoiding compensation or penalty for environment damage, maintenance standards for accident free zone and using the countries as dumping grounds.

Distinguish Between:

Private Enterprises	***Public Enterprises***
1) <u>Meaning</u>: The types of commercial organizations which come under this sector are: *[1]* Sole trading concern *[2]* Partnership firm *[3]* Joint stock companies *[4]* Co-operative societies.	The types of commercial organizations which came under this sector are : [1] Departmental undertaking [2] Public corporations [3] Government companies
2) <u>Motive</u>: The main motive of the private sector is to earn profit.	The main motive of the public sector is to achieve the social and economic objectives of the state and provide service to the people.
3) <u>Size</u>: The size of private enterprises is small or large in size.	The size of public enterprises generally big in size.
4) <u>Source of Capital</u>:In private enterprises the source of capital is the savings of the individual, borrowed capital and issue of share capital.	In public enterprises the source of capital is the government or borrowing from the public.
5) <u>Management</u>: It is managed by the owners or by their elected representatives i.e. the Board of Directors or the Management Committee.	Public enterprises by the government department or by the Board of Directions appointed by the government.
6) <u>Economic Equities</u>: Private enterprises lead to concentration of wealth and income in a few hands. This lead to increase in economic inequalities.	Public enterprises aim at distributing wealth and income in order to decrease economic inequalities.
7) <u>Consumers Satisfaction</u>: In order to survive and grow they satisfy the needs and desires of the customer to keep them satisfied.	It is of monopolistic nature which leads to inefficiency and exploitation of the consumers.
8) <u>Incentive</u>: Due to the work reward relationship in this organization the managerial personnel are motivated to work hard and take personal interest.	As there is no work reward relationship and the management and government are not affected they have no incentive to work hard or take personal interest.
9) <u>Political Interference</u>: A private enterprises is free from political interference and there is freedom in operation within the limits of the different legislation.	Public enterprises have large amount of political interference and very often use it to promote their vested interest.

10) <u>Welfare</u>: Private enterprises do not offer welfare facilities to a large extent and do not treat their employees well.	Public enterprises offer large amount of welfare facilitates and treat their employees well.
11) <u>Project Selection</u>: The projects taken up by these enterprises are generally where the break-even point is quick and fast and with good returns.	The industries selected by the public enterprises are those which require huge capital, gestation period is long and industries which are required by the country [infrastructure industries etc.]
12) <u>Decision Making</u>: Decision making is prompt and quick because management is in the hands of the owners or professionals	Decision making is slow because of the quality of management and government procedures

CHAPTER 4: INTERNAL TRADE

MEANING OF INTERNAL TRADE:

The trading activity which takes place within the boundaries of the nation is called internal and domestic trade. It is also known as inter-regional trade, since it is between different regions of the nation. It is transfer or exchange of goods within the nation. Internal trade facilitates movement of goods from the places of production to the places where there are required. It also helps in stabilizing the prices, by transferring goods from one region to another. Inter-regional trade creates a feeling of goodwill among people of different regions.

WHOLE SALE TRADE

Wholesale Trade is a part of Internal Trade (Home Trade). Wholesale Trade means buying goods in bulk from producers (manufacturers) and selling them in small lots (small quantity) to retailers. A trader who conducts such trade is called a wholesaler. Thus a wholesaler is a trader who purchases goods from producers in large quantity and sells them to retailers in small quantity. He acts as middlemen between producers and retailers.

FEATURES OF WHOLESALERS:

(1) Wholesaler is a connecting link between manufacturers and retailers.
(2) He deals in on particular line of goods.
(3) He buys goods in large quantity from producers.
(4) He sells goods in small quantity to retailers.
(5) He requires large capital.
(6) He is neither a producer nor a retailer but a middlemen between the two.
(7) He stores large quantity of goods.
(8) He provides various marketing facilities, such as warehousing, transportation, grading and packing, etc.

SERVICES RENDERED BY A WHOLESALER TO MANUFACTURERS:

1) Distribution of Goods: Wholesaler purchase goods in large quantity from manufacturers and sell the same to retailers who are scattered over a wide area. Thus manufacturers need not worry about sale of goods produced by them.

2) Reduction in Cost of Production: A Wholesaler collects small orders from different retailers. He (gives) places a large order to producer for his products. So a producer can produce goods on a large scale, and cost of producing the goods reduces.

3) Providing Warehousing Facilities: Wholesalers buy goods from producers in bulk and stores them in their warehouse. As and when goods are produced by the producers, they are immediately purchased by the wholesalers. Thus producers are relieved from the problem of storage of goods.

4) Concentration on Production: When manufacturers are relieved from storage and marketing of the goods, they can concentrate on production. This results in production of quality goods at reasonable cost.

5) Providing Finance: Wholesalers give advance payments to manufacturers while placing an order for goods. Sometimes they purchase goods from producers on Cash basis. Wholesalers purchase goods from manufacturers as and when they are produced. So manufacturers need no block up their capital (funds) in holding stock of goods.

6) Risk Bearing: Wholesaler bears all the risks involved in storage and marketing of goods such as loss due to fall in prices, changes in fashions, loss of goods by theft, loss of goods by fire, bad debts, loss in transit, damage, deterioration in quality, etc. Thus manufacturers are relieved from such risks.

7) Providing Market Information: Wholesalers are in contact with the retailers. So, the wholesalers collect the information from the retailers regarding changes in fashions, tastes and habits of the people. This information is supplied to manufacturers so that they can make changes in production programmes.

8) Continuity in Production: Wholesalers give advance orders for goods to manufacture. This helps manufacturers in continuing.

9) Price Stability: (constant): Wholesalers maintain regular and continuous supply of goods. They regulate the supply with demand. This helps in to maintain price stability.

10) Introduction of New Product: In case of manufacture of new product a wholesaler introduces his new product in the market.

11) Marketing Functions: The wholesalers themselves take up marketing functions such as grading, packing, transportation, etc. So manufacturers are relived from such functions.

SERVICES RENDERED BY WHOLSALERS TO RETAILERS:

(1) Ready Replacement of Goods: The Wholesalers help retailers by supplying goods to them and when required in small quantity.

(2) Quick Supply of Goods: Wholesalers keep ready stock of different varieties of goods. Therefore, retailers get the goods more quickly from wholesalers then from manufacturers. This is due to the fact that wholesalers are situated at Central market place.

(3) Providing Storage Facility (warehousing): Wholesaler stores goods in his warehouse in large quantity. Retailers can get the goods from this warehouse as and when they require. So they need not worry about storing the goods in large quantity.

(4) Providing Finance: Wholesalers generally allow credit facility to retailers. When retailers make cash payments for goods they are given cash discounts also. Even retailers are not required to block up their funds in large stock of goods.

(5) Risk Bearing: Since Wholesalers bear all the types of risk involved in storage and marketing of goods, retailers do not suffer losses arising from such risks.

(6) Transportation: Wholesalers make arrangements for transportation of goods from their warehouses to the shops of retailers.

(7) Market Information: Wholesalers inform the retailers about the arrival of new products, latest prices of various products, substitutes available for the existing products, etc. They guide the retailers regarding what to buy, how much to buy and at what price to buy a particular product.

(8) Grading and Packing: Wholesalers classify the goods into different grades, according to the size, shape and quality of goods and they pack the goods into small lots as per the requirements of retailers.

(9) Price Stability: Wholesalers provide continuous and regular supply of goods to retailers and in this way they maintain price stability.

RETAIL TRADE:

A retailer buys goods from the wholesaler and sells it to ultimate consumer, who needs it for consumption. A retailer buys goods in a small quantity from the wholesaler and sells them in a smaller quantity to the consumer.
The word 'retailer' is derived (adopted) from the French word 'retail' that means 'to cut again'. Retailer is a person who purchases goods from manufacturers and wholesalers comparatively in large quantities and sells them to consumers in a very small quantities.

DEFINITION:

In the words of ***Philip Kotler*** *"retailing includes all activities involved in selling goods or services directly to final consumers for their personal, non-business use."*

FEATURES OF RETAIL TRADE:

1) Retail Trade is a trade in small quantities.
2) Retail Trade is conducted (carried on) in local Market. Retail shops are located (situated) near the residential areas.
3) It is a trade in a large variety of different types of goods. This is because Retailers have to deal with people having different tastes, fashions, likes, dislikes, etc.
4) Retailer provides personal services to the consumers as they are in direct contact with the consumers. The main object (aim) of retail trade is consumer satisfaction.
5) Retail Trade is last link in the chain of distribution as it deals directly with the consumers.
6) There is a keen competition in the Retail Trade.
7) Buyers are always individuals or households.
8) Retail Trade requires comparatively limited capital and it has limited risk.

SERVICES OF RETAILERS TO CONSUMERS:

(1) Supply of Goods: Retailers supplies goods to consumers in small quantities according to their needs. As a result of this ready supply the consumers need not store goods in large quantities.

(2) Wide Variety of Goods: Retailer keeps (maintain) a ready stock of wide variety of goods. Thus he provides scope for choice and selection to the consumers.

(3) Supply of Information to consumers: Retailers inform consumers about the availability of new and latest variety of goods.

(4) Shopping Convenience: Retail shop is located (situated) near the residential area, which makes shopping easy, quick and convenient for consumers.

(5) Personal Services: Retailer offers to his consumers personal services. The retailer personally visits customers for collecting orders and making enquires about the goods supplied earlier. He attends to the complaints and suggestions of the consumers.

(6) Expert Advice: Retailer gives expert advice and guidance to his customers about price, quantity and quality of goods to be purchased by them.

(7) Home Delivery Service: A Retailer provides free home delivery service to his regular customers.

(8) Credit Facilities: Retailer offers credit facility to his regular customers. This gives convenience to fixed income group people like wage earners and salary earners.

(9) After Sales Services: In case of certain costly and durable goods like refrigerators, TV sets, washing machines, etc. retailers provide after sales services like repairs, maintenance, etc.

SERVICE TO WHOLESALERS AND MANUFACTURERS:

(1) Marketing of Goods: The Retailer is the last link in the distribution of goods. He is in direct contact with consumers. He relieves manufacturers and wholesalers from the botheration of distribution of goods.

(2) Concentration of Production: Since Retailers help manufacturers in selling goods, manufacturers can concentrate on production. Due to this manufacturers can produce goods of improved (better) quality at low cost and in large quantity.

(3) Market information: The Retailer informs the manufacturers and the wholesalers about customers wants, likes, dislikes, changes in tastes and fashions etc. Due to this manufacturers can make suitable adjustments in their production programme. The Retailers also provide the information about consumers complaints, suggestions, etc. to the manufacturers and wholesalers.

(4) Creation of Market and Building up of Goodwill: The retailer creates market for the goods manufactured by manufacturers and build a goodwill for the manufacturers.

(5) Middlemen: The Retailer acts as a middleman between manufacturers or wholesalers and consumers. Thus Retailers is a connecting link between manufacturers or wholesalers and consumers.

(6) Quick Distribution of Perishable Goods: Wholesalers and Manufacturers need (require) services of retailers for quick distribution of perishable goods like fruits, milk, vegetables, etc.

(7) Other Services: The retailer provides grading, packaging and other marketing services to manufacturers or wholesalers.

TYPES OF RETAILERS

Itinerant/Mobile Retailers

1. *Hawkers and Pediars*
2. *Street Traders*
3. *Cheap jacks*
4. *Market Traders*

Fixed Retailers

Small Fixed Retailers

1. *Street Stall Holders*
2. *Second Hand Goods Dealers*
3. *General Shops*
4. *Specially Shops*

Large Fixed Retailers

1. *Departmental Stores*
2. *Multiple Shops*
3. *Mail Order Houses.*
4. *Hire Purchase*

(A) ITINERANT (MOBILE) RETAILERS: Itinerant (mobile) Retailers are those retailers who do not have fixed place of business. They move from place to place, street to street, from one residential area to other residential area to sell their goods. Since they are moving from one place to another place they are called Mobile Retailers.

Features of Mobile Retailers:

(1) They conduct trade on a small scale.
(2) They do not have fixed place of business. They move from place to place to sell their goods
(3) They deal in low (cheap) price goods of daily use e.g. fruits, vegetables, toys, etc.
(4) They sell goods on cash basis.
(5) They require limited capital.
(6) They do not have fixed line of business.
(7) They provide door to door services to their customers.
(8) Their prices are not fixed and there is a lot of scope for bargaining.
(9) The quality of goods are sold by them is inferior (low quality).

DIFFERENT TYPES OF MOBILE (ITINERANT) RETAILERS:

(1) Hawkers and Pediars: These small Retailers move from one place-to-place and door-to-door for selling goods. Hawkers carry their goods on wheel carriers (handcrafts). Pediars carry their goods on their head or back in the basket or any other container. They sell seasonal goods like fruits and perishable goods like eggs, milk, fish etc. They also sell other goods like pens, small plastic articles, toys, small ready-made garments, etc. They require limited capital. They sell goods on cash basis. They are the oldest and simplest types of itinerant (Mobile) Retailers and are popular even today as they supply goods at the doors of the customers.

(2) Street Traders: Street Traders (dealers) move from one street to another street in big cities and towns and they prefer place near cinema hall, bus stops, railway stations, etc. for selling their goods. They sell small and cheap goods of daily use and deal in only one line of business e.g. bangles, cosmetics, combs, mirrors etc. They require limited capital and sell goods on cash basis.

(3) Cheap Jacks: Cheap Jacks hire (Rental) small shops in a residential locality for temporary period. They shift their shops to another locality when they find that there is no possibility of further sales. Normally they deal in low price goods like pens, socks, clothes, crockery, etc.

(4) Market Traders (Dealers): These retailers are found in different places on fixed days known as "Bazaar Day" or "Market Day" E.g. in our country villages hold markets on certain day in a week on which people from nearby villages come for shopping. These traders also keep stalls on rental basis at different trade fairs and exhibitions. They deal in items of daily use. They require limited capital. They sell goods on cash basis.

(B) SMALL FIXED RETAILERS: These are the small retailers having fixed place of business. They do not move from place to place but sell goods to those customers who visit their shops.

Features of Small Fixed Retailers:

(1) These retailers have fixed place of business.
(2) They are located near the residential areas & offer shopping convenient to Customers.
(3) They deal in wide variety of goods. Thus they give choice to customers.
(4) They do business on a small scale.
(5) They invest limited capital and their organizing expenses are also low.
(6) They provide credit facility, home delivery service & after sales service to customers.
(7) They pay proper attention to the needs and requirements of their customers.

TYPES OF SMALL FIXED RETAILERS:

(1) Street Stall (shops) Holders: These Retailers have permanent stalls in the busy crowded streets of big cities and towns. Places selected for stalls are such that a large number of customers visit stalls. They sell goods of daily use like stationery books, cosmetics, garments, etc. They purchase goods from the local suppliers and wholesalers. The suppliers and wholesalers allow them some discount and credit facility. Such shares are generally opened by individual proprietors. They require limited capital. Their stalls are decorated and the goods are displayed in the window (show cases) to attract the likely customers. In order to induce (force) the people to buy the goods they allow discount and offer gifts.

(2) Second Hand Goods Dealers: These are small retailers purchasing and selling used or second hand goods like books, furniture, household items, clothes, etc. They have their fixed place of business. They purchase the goods from the public or private. They sell goods to the people from low income group. They also repair old goods and sell the same. A limited capital is invested in such shops. Such shops are owned and managed by individual proprietors.

(3) General Shops: These are small retail shops where different varieties of goods are available. Goods which are required in the daily use are made available in these shops. Such shops are started by individual proprietors with limited capital. Such shops are located in residential areas so that consumers get shopping convenience. They buy goods from wholesalers, producers or local suppliers. These shops provide credit facilities and free home delivery services to their regular customers. These retailers deal in a large variety of goods such as food grains, stationery, crockery, clothes, cosmetics, etc. so they are known as general shops.

(4) Speciality Shops: These are retail shops specialized in one line of goods such as clothes, stationery, shoes, TV sets, furniture, etc. They are specialized not only in product of a particular line but also in one product alone E.g. instead of selling whole range of electronic items a Speciality shops may deal in a particular product TV sets. Such Stores offer to the customers a wide variety of particular articles (commodities) in which they are specialized. These shops are located in shopping centres of towns and cities.

(5) Automatic Vendors: Now-a-days a new type of selling systems has been arrived in the market like installing automatic machines where we have to insert a specified coin or money and we will be getting the product automatically. For instance Nescafe Coffee Vending Machines, Pepsi Vending Machines etc.

(C) LARGE SCALE RETAIL SHOPS:

DEPARTMENTAL STORE

A Departmental store is a large retail trading organisation. It is a store big building. It consist of many departments selling different kinds of goods. France is said to be homeland (birth place) of departmental store. Departmental store deals in wide variety of different kinds (types) of goods.
The main object of Departmental store is to increase sales and consumer satisfaction. This is done by providing all the requirements of consumers at one and the same place and providing them good quality (superior) of goods and better facilities in shopping. In departmental store there are various departments for selling different kinds of goods.
eg. Ready-made garments, electrical appliances, furniture, medicine, stationery, crockery, sports goods, etc.

FEATURES OF A DEPARTMENTAL STORE:
1) Complete Shopping Centre: Departmental store is a complete shopping centre. It provides all consumers requirements at one and same place.

2) Central Location: A Departmental store is located (situated) in the heart of the city i.e. in the central part of the city. It can attract the customers from different parts of the city.

3) Premises: The building of a Departmental store should be decent, well furnished with all modern facilities and services like reception and refreshment rooms, telephone, service, music, theatres etc.

4) Centralised Management: The Management and control of departmental store is centralized. All the departments are managed by a single management (Board of Directors)

5) Principle of Specialisation: Each department is specialized in selling a particular line of goods.

6) Quality Goods: A Departmental store provides superior (high) quality of goods. So the goods are reliable and durable.

7) Wide Variety of Goods: A Departmental store provides (supply) a large variety of goods i.e. goods of different designs, brands, colours, patterns, etc.

8) Advertising and Publicity: A Departmental store incurs heavy expenditure on advertisement, publicity and window display (decoration) to attract more and more customers.

9) Suitable for Rich and Higher Middle Class People: In Departmental store more attention is given to quality, choice (selection) and services to customers. So prices of goods are high. So it is suitable only for rich and higher middle class people.

10) Sale on Cash Basis: Customers are not given credit facilities. All sales are generally on cash basis.

11) Cost of Operation: In Departmental store cost of operation is generally high due relatively high expenses for maintenance, advertising, extra facilities allowed customers and higher salaries to employees, etc.

SUPERMARKET

Supermarket is a large-scale retail organisation selling a wide variety of consumer goods, particular food and small articles of household requirements, on the principle of self-service. In a supermarket there are various departments according to the nature of the products, and the products are attractively displayed in each department. There are no counter salesmen to help the customers. Customers have to select from articles kept on open shelves and to put the same in wheeled movable trolleys. The customers push the trolley to the exit where the articles are examined and the price is to be paid at the cash counter. Supermarkets are, therefore, called "Self-service stores".

FEATURES OF A SUPER MARKET:

(1) Location: Supermarkets are situated in the central part of the town and are easily accessible to customers from different localities.

(2) Display: The articles are grouped in various sections or departments. They are displayed on shelves, racks and counters.

(3) Self-Service: Self-service is the main principle of such stores. Salesmen and shop assistants are not appointed to sell the goods. The goods are displayed in a classified manner on shelves. Customers pick up the products according to their choice and put them in baskets or wheeled trolleys.

(4) <u>Wide Variety:</u> These stores sell a wide variety of goods of day-to day use such as tinned products, well-known brands of products, groceries and provisions, ready-made garments, fruits, etc.

(5) <u>Lower Price:</u> These stores make purchase on a large scale from various manufacturers and derive large-scale economies. Further, absence of salesmen also reduces the expenses. Hence, price of goods sold in such stores are relatively low.

(6) <u>Cash Sales:</u> Goods are sold on 'cash and carry basis'. Hence, there is no risk of bad debts.

(7) <u>Packing:</u> Generally, goods displayed on the shelves in different sections are pre-packed. These stores use latest and up-to-date packing material to protect the quality and quantity of the products. On the packages, prices, weights, particulars of goods, grades and quality is specified.

(8) <u>Establishing through Companies:</u> Supermarkets require large financial resources. Hence, they are generally established by Joint Stock Companies.

(9) <u>Large Capital:</u> Super bazaar is large retail trading organisation. It requires substantial amount of capital for big premises, large warehousing, ample parking and stocking of wide variety of commodities.

(10) <u>Packaging:</u> Super markets normally deal in pre-packed products. It uses latest and up-to-date packing material to protect quality and quantity. On all packages, prices, weights, particulars of goods, grade and quality are specified. Goods are packed very neatly so as to make them look attractive.]

<u>MULTIPLE SHOP OR CHAIN STORES</u>

Multiple Shop system is a system of selling goods through branches. Under this system a large scale retail trading organisation open a number of branches in different areas (Parts of the city). All branches are controlled by the Head Office (main office) (central management). In every branch identical goods (similar goods) are sold. USA is said to be the homeland of multiple shops. Multiple Shops are also called chain stores.

<u>Growth of Multiple Shops</u>:
Growth of multiple shops is due to the following factors.
1) Rapid growth of population.
2) Higher standard of living.
3) Advantages of large scale buying.
4) Advantages of specialization.
5) Economies of Integration.
6) Diversification of risk.

7) Advantages of mass publicity.
8) Reduction of marketing cost.
9) Pattern of demand.
10) Desire of consumers to buy directly from manufacturer.

FEATURES OF MULTIPLE SHOPS:

1) ***Distribution of Goods through Branches:*** It is a retail trading organisation selling goods through branches opened in different areas.

2) ***Uniform Appearance (Outlook):*** All the branches (multiple shops) have uniform appearance i.e. interior decoration, window display, furniture, sign boards, etc. of the branches are similar.

3) ***Identical (Uniform) Goods:*** All shops sell identical goods i.e. goods of the same type and at same price. E.g. Bata Shoe Co. Ltd selling foot wears through all Bata Shops.

4) ***Consumer Goods:*** Goods sold at multiple shops are durable consumer goods having regular demand. E.g. shoes, ready-made garments, clothes, etc.

5) ***Maximum Local Convenience:*** Multiple Shop are situated (located) near the residential localities. So it is convenient for the customers.

6) ***Centralised Purchases:*** Purchases for all the branches are generally made on a large scale by the purchase department in the Head Office.

7) ***Decentralised Selling:*** Goods are sold directly to customers through various branches.

8) ***Cash Sales:*** In such stores goods are sold on cash basis.

9) ***Limited Choice:*** In these shops, limited range of goods are sold and customers do not get choice (scope for selection).

10) ***Flexibility in Operation:*** New branches are opened in new areas and branches with declining (reducing) sales are closed down.

11) ***Form of Organisation:*** Multiple Shop require a large amount of capital. So they are generally run by Joint stock Companies.

12) ***Centralised Management:*** The ownership and management of all these shops is centralized. The head office supervises and controls the activities of all the branches.

13) ***Elimination (Removal) of Middlemen:*** When manufacturers themselves open branches for selling their goods, there is no need of any middlemen such as wholesalers, retailers, etc.

ONE PRICE SHOP

One Price Shops are retail shops where all the goods are sold at one and the same price. These shops sell low priced goods of daily use, much as stationery, Napkins, handkerchiefs, toys, shoe laces, crockery, etc. Such shops are of both the types- Small and Large Scale shops. In India, we find many hawkers and peddlers selling their goods at one price at crowded places. Large scale one price shops are found in western countries. The USA, Canada, England etc. First one price shop was started by Mr. Woolworth in USA and the name of this shop was "Five cent & Ten Cent Store". It is a large scale retail store with a number of branches selling all the goods at 5 cent or 10 cent. It has more than two thousand branches in Canada, England and USA. It is also known as chained one price store.

Features of One Price Shop:

(1) All the goods are sold at one fixed price.
(2) There is no scope for bargaining.
(3) They sell low priced goods for daily use.
(4) The turnover is quick
(5) Such shops are located at crowded (busy) places such as near railway stations. Bus stands, and at fairs and exhibitions.
(6) They sell goods on cash basis.

DISTINGUISH BETWEEN

(1) GENERAL SHOP AND SPECIALTY SHOP

NO.	***GENERAL SHOP***	***SPECIALITY SHOP***
	Goods Sold	
1	General Shop deal in different varieties of goods i.e. grocers shop.	Speciality shop deals in one type of goods. Eg. Saree Emporium, Medical Shop.
	Location	
2	General Shops are located near the residential areas.	Speciality shops are located in the busy shopping centres of the city.
	Price	
3	Prices charged by general shops are generally low.	Prices charged by speciality shops are relatively high.
	Expert Advice	
4	General Shopkeepers cannot give expert advice to customer as they deal in a large variety of goods.	Speciality shop can give exert advice to customer as they deal in only one type of goods.

(2) ITINERANT (MOBILE RETAILER) AND NON ITERANT (FIXED RETAILER):

NO.	***MOBILE RETAILER***	***FIXED RETAILERS***
	Place of Business:	
1	They do not have fixed place of business. They move from one place to another place for business.	They have fixed place of business.

	Capital	
2	They require very limited capital.	They require relatively higher capital.
	Basis of Trade	
3	They sell goods only on cash basis.	They sell goods on cash as well as credit
	Prices	
4	Prices are relatively low are organizing expenses are low.	Prices are relatively high as organizing expenses are relatively higher.
	Type of goods	
5	They deal in seasonal and perishable goods and items of daily use, the quality of goods is low.	They deal in durable as well as perishable goods is high.

(3) STREET TRADERS AND STREET STALL HOLDERS

NO.	***STREET TRADERS***	***STREET STALL HOLDERS***
	Nature	
1	Street traders are mobile or itinerant retail traders. They move from place to place for business	Street Stall holders are small fixed place retail traders. They have their small shops in busy streets for business.
	Capital	
2	Capital requirement is comparatively less as separate shop establishment is absent.	Capital requirement is more as they require shop, furniture, etc. for their business.
	Articles Selected	
3	Small and Cheap articles of daily use are selected for the business.	Articles like books, furnitures, utensils, clothes, household wares, etc. are selected for the business.
	Utility	
4	Street traders give title convenience but create nuisance and inconvenience to public on the road.	Street stall holders give convenience to lower and middle class people without creating any inconvenience to public on the road.

(4) MULTIPLE SHOPS AND DEPARTMENTAL SHOPS

NO.	***MULTIPLE SHOPS***	***DEPARTMENTAL SHOPS***
	Definition:	
1	It is a large scale retail trading organisation selling identical goods through branches in different areas.	Departmental store is a large retail trading organisation having in a single building a number of departments selling different types of goods.
	Location:	
2	Multiple Shops are located near the residential areas. They require less space (small premises)	Departmental stores are located at the central place of the city. They require large space (big premises).
	Nature:	
3	They are selling a particular line of goods.	These stores sell a large variety of different kinds of goods.

	Object:	
4	The object is to increase the sales by opening branches in different areas and by selling identical goods.	The object is to increase the sales by selling different types of goods at one place.
	Buying and Selling:	
5	Here, there is centralized buying and decentralized selling.	Here, there is decentralized buying and centralized selling.
	Choice of Customer:	
6	Limited choice is given to customers as only limited and standardised articles (goods) are made available.	It gives wide choice to customers as different varieties of goods are made available.
	Prices of Goods:	
7	Prices of goods are relatively low, due to savings in cost of operation (running that particular shop) no extra facilities provided to customers.	Prices of goods are high due to high cost of operation and expenditure on extra facilities provided to customers
	Services to Customers:	
8	These shops do not provide (give) various services such as free home delivery.	These stores provide maximum services to customers such as telephone, free home delivery, reading room, refreshment, etc.
	Cost of Operation:	
9	The cost of operation is relatively low.	Cost of operation is high due to big premises and extra facilities allowed to customers etc.
	Business risk or loss:	
10	The loss in one branch may be compensated set of (recovered) by the profit in other branches.	Spreading of loss is not possible as the organisation operates (working) form on place only.

STATE WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

(1) A retailer sells goods in bulk.
(2) A wholesaler sells goods on credit.
(3) A retailer has no direct contact with customers.
(4) There is sufficient scope for selection of commodities in a retail shop.
(5) A retailer has to spend heavily on publicity.
(6) A retailer has to spend heavily on publicity.
(7) Retail prices are usually higher.
(8) A retailer helps to bring changes in the design and the quality of products.
(9) Itinerant retailers own large shops.
(10) A speciality shop sells large number of different products.
(11) Mobil retailers practice a great deal of salesmanship.
(12) Cheap Jack's Shops are permanent shops.
(13) Retailers services are available only at a central Market Place in the town.
(14) Street Stall-holders do not have permanent shops.
(15) The total turnover of a general shop is small.

(16) Multiple shops sell a wide range of products.
(17) Some people consider it a matter of prestige to buy from departmental stores.
(18) Multiple shops sell goods on credit basis.
(19) Multiple Shop are known for providing a number of amenities an personal services to customers.
(20) From the point of view of business risks a multiple shop organisation is better than a departmental store.
(21) A departmental store opens several departments in different parts of the country.
(22) Multiple Shop are a number of shops situated together and owned by different proprietors.
(23) Branch managers of multiple shops have wide powers.
(24) Multiple Shop occasionally conduct grand and reduction sale campaigns.
(25) Prices of goods in multiple shops differ from shop to shop.
(26) Multiple shops means a number of shops under one roof.
(27) Centralised purchases and decentralized selling are the main features of multiple shops.
(28) Departmental stores have to spend heavily on advertisement.
(29) Multiple Shops have no future in India.

FILL IN THE BLANKS:

(1) The last link in the chain of distribution is the ___________.
(2) Retailers extend ___________ facilities to their customers to increase their sales.
(3) A retailer comes in direct contact with his ___________
(4) Retailers extend ___________ facilities to their customers to increase their sales.
(5) Hawkers move from ___________ to ___________ and sell the goods at the very ___________ of customers.
(6) Prices charged by mobile retailers are ___________ than those charged by fixed retailers.
(7) ___________ specialize only in the sale of one line of goods.
(8) A ___________ sells household articles at cheap prices.
(9) Retailers offer local convenience by opening shops in ___________ .
(10) ___________ retailers do not have a permanent place of business.
(11) Retail Trade creates ___________, ___________ and ___________ utilities.
(12) Retailers offer local convenience by opening their shops in the midst of ___________.
(13) ___________ hire small shops on temporary basis in residential localities.
(14) Consumers get lot of choice when they buy from ___________.
(15) Retailers provide knowledge about the goods to ___________ .
(16) The retailers who sell all sorts of goods are called ___________ .
(17) The retailers who do not have a fixed place for business are called ___________.
(18) Pedlars carry goods on ___________ . .
(19) ___________ hire shops on temporary basis in residential areas.
(20) Retailer supply information about the market to ___________ through wholesalers.
(21) Prdoucer’s selling depots established all over the country are called ___________
(22) Departmental stores buy goods directly from ___________ .
(23) Departmental stores cater to the needs of ___________ people.
(24) Multiple shops sell goods on the principle of ___________
(25) ___________ is said to be the name of departmental stores.

(26) ___________ are based on the principle of centralized buying and decentralized selling.
(27) Maximum shopping convenience is available at ___________ .
(28) Branch Managers of Multiple Shop have ___________ powers.
(29) A departmental store offers a ___________ range of goods.
(30) ___________ price is one of the advantages of multiple shops.
(31) Multiple Shops cater to the needs of ___________.
(32) Multiple Shops are owned and managed by ___________ .
(33) Multiple Shops eliminate ___________ from the chain of distribution.
(34) Multiple shops are owned and managed by ___________.
(35) In a departmental stores sales are ___________ .
(36) In a departmental stores, prices of goods are relatively ___________ .
(37) In multiple shops, prices of goods are relatively ___________ .

***SUGGEST THE APPROPRIATE COMMERCIAL TERMS FOR THE FOLLOWING*:**

(1) Name the store which provides thousands of goods at one place.
(2) Name the retail store which sells rice, wheat, sugar and all goods under one roof.
(3) Name the store which is located in the heart of the city.
(4) Name the business organisation which opens shops with uniform lay-out appearance and business policies.
(5) Name the retail trading organisation which gives limited choice to consumers.
(6) Name the retail trading organisation which combines the advantages of centralized buying and decentralized selling.
(7) Name the retail trading organisation which gives ample choice to consumers.
(8) A trader who sells in small units directly to the final consumers.
(9) A trader who moves from place to place and sells goods in small quantities at the doors of consumers.
(10) A mobile retailer who carries his goods in carts or vehicles.
(11) A mobile retailer who sells his goods on his head or back. .
(12) A mobile retailer who sells his goods at busy street corners or on footpaths or pavements.
(13) A mobile trader who hires small shop in residential localities but goes on shifting it from place to place depending on the prospects of demand.
(14) A mobile trader who opens his shop on periodical market days.
(15) A retail shop where different kinds of day-to-day consumer products are sold.
(16) A retail shop specializes in the sale of specific line of goods.
(17) A retailer who sells old and used articles collected through representatives or brought from an auction sale.
(18) A retailer who erects almost permanent but small structure on busy streets.

CHAPTER 5: BUSINESS ENVIRONMENT

Q.1. What is Business Environment? Explain its features and importance.

ANS: Meaning: Business functions in an environment. Prof. B. C. Tendon defines the term 'business environment' in these words, "Business environment refers to those aspects of the surrounding of business enterprise which influence its operations and determines its effectiveness." Business environment refers to those forces which directly or indirectly affect the business. Business environment means the surroundings, conditions, situations, and trends within which business organizations have to operate.

Features of Business Environment:

1) ***Environment has two broad components:*** Two broad components of Business Environment are: (a) external environment such as economic, political, social, regulatory etc. and (b) internal environment that exist within the business Organisation such as strengths, weakness, opportunities and threats for human capital along with style, skill, efficiency of management.

2) ***Environment is dynamic***: Business environment is changing continuously. Economic, social, demographic market forces are always changing. Business enterprises have to work under such dynamic conditions.

3) ***Environment is the surrounding situation:*** Business environment means the surrounding situation within which business Organisation has to function. Political, economic, social, legal foxes move around the business Organisation. These foxes collectively create a situation called business environment.

4) ***Environment is complex in nature:*** Business environment has many dimensions which work with different frequency and intensity. Being complicated in nature, business organisation should understand them. The government intervention is economic spheres and growing social awareness has made it further complex.

5) ***Environment is multi dimensional:*** On one hand it gives business opportunities and on the other hand it creates problems or challenges e.g. policy of privatisation recently adopted by the government is advantageous to private sector but disadvantageous to public sector.

6) ***Environment and business planning go together:*** Planning is necessary to derive maximum benefits from favourable environment. Planning is useful to deal with the problems created by honorable business environment the failure to consider the relevant environmental features may result into failure of business planning.

7) ***Environment needs minute study:*** The changes constantly taking place in the environment should be carefully studied by the business organisation so as to adjust its activities according to changing environmental forces. For the survival and growth of business adjustment from time to time is necessary due to uncontrollable nature of environmental factors.

8) <u>Environment wants us to be eco friendly</u>: The nature has maintained a well-balanced eco-system by observing natural laws and being eco-friendly will help the human race in the coming future. E.g.: Afforestation drives, Rain water harvesting, judicious usage of energy resources etc.

9) <u>Environment influences business policies</u>: Business environment affects the production, marketing and finance etc. Environmental factors affect all aspects of business. Policies towards growth and profitability depend on environment under which the business operates.

<u>Importance of Business Environment</u>**:**

1) <u>To ensure optimum utilization of resources</u>: Optimum use of available resources for the business enterprise is possible by studying the business environment. It enables the enterprise to take full advantage of the policies harmed by the government.

2) <u>To exploit business opportunities to the maximum possible extent</u>: Study of environment is necessary to discover and exploit new opportunities for business expansion broad strategies and long-term planning enable the development of a formidable business wait.

3) <u>To keep the business flexible and dynamic</u>: Changing environmental factors should be appraised from time to time. So as to keep the business flexible and dynamic. The new opportunities and threats created by the environment can be appraised by the corporate planners to make the most of it.

4) <u>To make the business socially acceptable</u>: Environment study makes it possible for the business to expand and to make it acceptable and agreeable to different social groups. By fulfilling its social obligations towards different groups of society, business can create goodwill and reputation for itself.

5) <u>To Understand future problems and prospects</u>: Study of business environment enables a business enterprise to visualize future problems that can arise as also future business prospects in advance. Deriving benefit from honorable business opportunities is possible as also it can face the problems boldly.

6) <u>To maintain adaptability to socio economic changes</u>: A business organisation needs to show its keen intentions towards adapting with to the socio-economic changes.

Q.2. Explain various Dimensions of Business Environment.

ANS: Some of the important dimensions of business environment can be described as follows.

(I) <u>INTERNAL ENVIRONMENT</u>**:** Every business organization has to function in an internal environment. The internal environment refers to the surroundings, conditions and situations within a business organization. It includes all elements within the organization's boundaries. The main components of the internal environment are the management (the Board of Directors), employees, processes, culture and climate.

Elements or factors: Components or elements of the internal environment are as follows:

1) Management: Management which enjoys all authority and shoulders every responsibility has a great deal of influence on the basic excisions of a business organization. It is ago because it, especially top management, has individuals who have special knowledge, expertise and professional competence. In a joint stock company, the management is represented by its Board of Directors consisting go eminent business, industrialists, traders and professionals.

2) Employees: Employees become a major force within the internal environment. They are supposed to put in all their efforts as directed by the management. They are expected to do their jobs to the best of their capacities. However, the employees differ in education, attitudes, capabilities, motivation, etc. Therefore, they often create problem for the management. The management has to motivate them for better performance by reconciling their personal need or interests with organizational requirements.

3) Processes: In business organizations management performs three important functions which are parts of managerial process. They are co - ordination, decision- making and communication. Management co- ordinates activities of individuals and their groups I. e. departments, sections, etc. In the co- orientating process management uses various measures such as policies, procedures, rules and regulations, etc.

Decision- making is the managerial process where managers make selection of a particular course of action. Sometimes the decision- making power may be concentrated in one single person. On the other hand, in some organizations decision- making power may be widely dispersed or decentralized. The style of decisions- making influences the operations of a business organization.

Through communication process management conveys information to people in an organization. For communicating the people it may use written means such as letters, circulars , memos , reports, etc, Sometimes it may communicates through face-to-face conversation style also influences the internal environment of a business organization .

4) Culture: Organization culture tells its people “Who we are “and “how we do things around here”. It determines what is desirable and what is undesirable. The organizational culture is the cumulative result of shared beliefs, values, attitudes and possible reactions to the environment.

5) Climate: Climate represents an organization’s overall character. It consists of process, structure and culture. So culture and climate are closely related to each other. The climate in business organization may be favorable for personal development of its employees or its may be one of fear, suspicion and misunderstanding. The quality and nature of management influences the climate in any business organization.

(II)POLITICAL ENVIRONMENT**:** No business organization can remain aloof or unaffected by politics. Every business organization has to operate within the framework provided by the political system.

The political environment includes political philosophy, political system, political parties and their ideologies, role of the Government, political stabilities, etc. Every political pertly has its own strategies to handle social as well as economic matters. Many a times these strategies decide price level, consumer of a business, organization, political, environment, therefore, plays a vital role in formulation of business policies.

Elements or Factors of Political environment contains the following elements:

1) Political systems: The way in which a political system functions in a country has tremendous impact on business and industry some of the political systems can broadly be described as:

a) Democracy: If the political set up in a country is democratic the supreme authority lies in the people who elect their representatives to form a government, in democracy conflicts are resolved by discussion. In democracy favorable business environment is created and consumers enjoy full freedom of choice, so, businessmen need to plan their policies according to consumer's expectations. In the democratic set up it becomes easy for the businessmen to put forth their demands openly through their associations regarding infrastructure, taxes, regulatory machinery etc. In India there is parliamentary democracy where the majority parley leader forms the cabinet from amongst the elected members

b) Autocracy: Under this system the decision making is concentrated in the hands of an individual or a small group of individual. There is no participation of people in decisions making. Business decisions are dictated by the whims of ruling dictator or a clique and not by needs of the people.

c) Communism: The country where there is communist regime has a centrally planned economic system. Government acts as an entrepreneur and owns and managers al l business activities, Individual business do not have any freedom to make major decisions.

2) Role of the government:

a) Regulatory Role: Government may regulate business activities from beginning to end. It may control operations by its policies regarding permission to start or close down a business, taxation, incentives, grants, subsidies, penalties and punishment. The Government plays its regulatory role to ensure the best of possible use of available resources and to protect the interest of the customers. However, the regulatory role of the government often degenerates into' inspectors' raja which by using discretionary controls kills private initiative and enterprising

b) Promotional Role: Government may function as a promoter for business activities by providing infrastructure such as transport facilities , road , port, water supply , electricity, training etc. Efficiency of business organization largely depends upon the availability of these facilities. The government limits its role as provider of all infrastructural facilities

c) Entrepreneurial Role: While playing this role the government initiates industrial activities. In developing or underdeveloped economies, some basic industries are likely to be neglected by private enterprises because of their low profitability or long gestation period. State or Central government in such situations takes imitative in the establishment of these industries and lays down the foundation of economic development of a country.

d) Planning Role: Economic planning has been recognized as a necessity by all. Unplanned economy has many evil effects such as inequalities, exploitation, wastage of resources, etc.

To avoid these evils and to achieve economic growth and social welfare, every country adopts planning. In planning the government it decides aims and objectives and, priorities in the light of aim and objectives and allocation of recourses to achieve the aims and objectives. In other words, the government acts as a planner and all sectors and agencies in the economy have to work within the framework given by planning, in under-developed and developing countries the role of the government as a planner become very vital.

3) __Political Parties__: Political Parties have their own ideologies and priorities. The political party which gets majority implements its own manifesto. In India, there are multi- party implements its own manifesto. In India, you are multi- partly system in which there are national and regional parties.

4) __Political Stability__: Business can flourish if the government of the country is stable. Political stability assures continuation of the same business policies by the government. Business organization can formulate long term policies and plans where there is political stability.

(III) __ECONOMIC ENVIRONMENT__: A business organization needs resources to produce goods or to render services. These resources are human, financial, physical and informational. They are the outcome of economic environment. Economic environment refers to all forces and factors which have an economic impact on business. There is close relationship between business and its economic environment. Business gets all its needed inputs from economic environment and economic environment absorbs the output of business organizations. The dependence of business on economic environment, economic system is total. Economic environment includes industrial production, agriculture, planning, and infrastructure, national income, per capital income, money supply, price level, savings, population, stage of economic development and stage of trade cycle.

__Elements or Factors__: The following are some important economic factors:

1) __Economic system__:

a) __Capitalism__: In capitalistic system, the philosophical emphasis is on individualism, private ownership of resources, profit motive and free market mechanism. In it competition at free market place gives consumers a right to buy goods or services according to their individual choices deficiencies occur in the economy. It is a modification of modern capitalism. USA is the best example of capitalism.

b) __Socialism__: In socialistic system, the tools of production are organized, managed and owned by the government for the benefits of people. It allows private enterprises but emphasizes a strong public sector, agricultural, reforms, control over private wealth and investment and serif- reliance. There is limited completion of private enterprises with state - owned businesses. Profits are recognized. It advocates employment tall and suitable rewards for efforts put in. India broadly follows this economic system with some substantial modifications initiated since 1991 under new economic reforms

c) __Communism__: In communist system, all private property and right to income are abolished. The state owns and directs all tools of production. There is absence of competition as all market and business are state owned. Profits are not allowed .The state provides all recourses to start business owned by the state. Key management positions are held by party members. There is no freedom of decision- making for manager. Cuba is the best example of communism. China also has communist system, but it has made some radical modifications in it under' Capitalistic communism.

2) Stage of Development: An economy can be at a particular stage of economic development. Accordingly, counties can be economically underdeveloped, developing and developed. India has a developing economy.

3) Growth Strategy: Growth Strategy refers to a shift in the emphasis on the growth of a particular aspect of economy. During the Nehru era in India, the' Mahalanobis strategy; of economic development, put emphasis on development of large scale, modern capital goods industries. At present the growth strategy is to encourage export oriented industries.

4) Economic Policies: Economic policies like import-export policy, fiscal policy, financial policy, monetary policy , pricing policy , industrial policy , labor policy , agricultural policy , etc. influence business decisions .

5) Economic conditions: Economic conditions like national income, per capital income, size of domestic market infrastructure, availability of resources, population trend, international trade, etc. affect business.
In India, since 1991, under the New Economic Policy, foreign trade policy, tax system, financial sector etc. The process still continues as reforms in labor policy, agriculture policy, and air transport policy are being made

***(IV)* SOCIAL ENVIRONMENT:** Social and cultural environment refers to social and cultural factors that affect business; it includes the customs, traditions, belief and values that are respected by society and its complex cultures. As the society changes, the cultural and social aspects of it also change, this leads to new needs, new products and services and new business challenges. Social - cultural factors define acceptable business behavior, they affect business decisions in different situations.
In India cultural diversity at work places poses a serious problem in business, Different languages, religions, castes, creeds, customs, belief make business decisions very difficult, especially while managing people

***Elements / Factors*:** Important elements of the social environment can be described as follows:
1) Social Structure: It refers to social system such as family system, caste system, status of women, composition of population, etc. In India, joint family system is being replaced by small family system , known as ' nuclear family system ' especially in urban areas . Caste system stands in the way of labor mobility. Woman are being employed in large number, stander of living of urban families has been improving. All these developments do affect market conditions and demands for various good and services.

2) Social responsibility: Every business organization is a' Social institution' as it exists in the society and functions for the society. It draws its resources from the society and its products or services are absorbed by the society and its products organization owes to various segments of the society i.e. customers, suppliers, workers, etc. It has certain obligations towards these interest groups and it's certain obligations towards these interest groups and it is expected to discharge these obligations as far as possible.

(V) <u>LEGAL AND REGULATORY ENVIRONMENT</u>: Legal and regulatory environment refers to those governmental regulations and rules by which business must operate. The governmental laws, regulations and rules are designed to promote the overall common good of a society.

The legal and regulatory environment puts certain restrictions on business organizations. But government intervention through regulatory legislation often becomes inevitable and desirable, especially in a planned economy. To protect the appropriate interests of various social groups, governmental rules and regulations become essential. Businessmen through their associations can persuade the government to make suitable amendments in the prevalent legislation under which certain rules and regulation are formulated.

<u>Elements or Factors</u>: Various laws in country constitute its legal constitute its legal and regulatory environment. In India , many laws such as companies Act partnership Act , Negotiable Instruments Act , Income Tax Act, Factories Act ,SEBI Act, Excise Act , Trade Union Act, etc, regulate business . Businessmen are supposed to know and understand the basic spirit of these Acts rather than their words. Violation of these Acts leads to various penalties. These penalties ultimately damage goodwill of business organizations

<u>Impact of Government Policy</u>: Legal and regulatory environment refers to governmental laws regulations and rules. The government rules and regulations made under various laws put certain restrictions on business. But they are essential to protect public interest. Business organizations have to observe these rules and regulations in their own interest. Otherwise they may face penalties in the form of fines and imprisonment.

By formulating various policies the Government regulates the business organizations. Policies refer to long term guidelines. On the basis of policies the Government enacts laws and creates many regulatory agencies that are given the task of protecting the public from undesired business practices. Impact of government policies is far- reach nag and long term. In India , the government has laid down industrial policy , labor policy , pricing policy , fiscal policy foreign trade policy , etc.
In the light of the new Economic Policy or Economic reforms the government has introduced radical reforms in industrial, labor, financial, foreign trade, foreign exchange, taxation and other policies. These are the steps that are being taken to make Indian business more competitive in the global market. Business organizations in India are expected to formulate their policies, plans and programmers in tune with the national policies. The good business citizenship implies that they should follow the rules of the land, prosper themselves and promote economic development of the country.

Q.3. Write a note on World Trade Organisation? Explain need / importance of WTO.
ANS: <u>Role of World Trade Organization</u>: Business in the product of various environmental factors amides which it functions. International or global environment is one of the factors influencing business organizations in a particular country. Globalization, Privatization and

Liberalization are some of the aspects of international environment. One of the important institutions which accelerate the process of globalization and liberalization is World Trade Organization (WTO). As a significant element of international environment the WTO affects business organizations all over the world.

Need and Importance: After World War II is was felt that there should be an organization regulating international trade. A series of trade negotiations took place among some of the countries to reduce tariffs and to facilitate international trade in goods. This led to the establishment of an organization known as 'General Agreement on Tariffs and Trade' (GATT) in 1948. The basis objective of the barriers rules and regulations regarding international trade for all those nations who were ready to sign and accept GATT agreement.

The GATT was replaced by WTO in 1995. It came into existence as the result of conferences of ministers representing numerous countries held in Uruguay in 1993 (known as Uruguay Round) and in Market (Morocco) in 1994. The WTO has its headquarters in Geneva, Switzerland.

The purpose of the WTO is to ensure that international or global trade becomes free, smooth and predictable. The WTO creates and embodies legal ground rules of global trade among member nations. It offers a system for international trade. It aims to create economic peace and stability in the world through a multilateral system based on consent given by its member nations to ratify the rules of the WTO in their individual countries. This means that the WTO rules become a part of country's domestic legal system. The rules apply to local persons and business organizations in their business conduct in the international field. In other words, if a country is a member of the WTO, its local laws cannot contradict the WTO rules and regulations. Today the number countries of the WTO are 125 (i.e. nearly the whole world except China and some other countries). The WTO rules apply, therefore, to over 90 percent of international trade.

Though the WTO replaced the GATT, it is not merely an extension of the GATT. It has a very different character. Its scope is much wider that that of the GATT. The focus of the GATT was on reducing tariffs on manufactured goods only. Now the WTO works for elimination of tariffs as well as non-tariff barriers. It also challenges environmental, health and other regulations which may be regarded as barriers to international trade. In addition, the WTO covers trade in services and trade-related aspects of intellectual property. Thus, the WTO has much stronger enforcement power than those of the GATT. In case of the GATT, its member nations often ignored its rulings whenever disputes were referred to it. But in case of the disputes brought to the WTO, its WTO decisions are bindings. If a country fails to comply, the WTO can authorize the complaint country to impose trade sanctions. In other words, the WTO rules can be forced through sanctions. This makes the WTO very powerful international body.

Q.4. Explain Functions of WTO.
Ans: The functions of WTO are as follows:
1) Administering and implementing trade agreements: Multiform trade agreements among member countries have to be properly administered among member countries have to be properly administered and implemented. WTO performs this function because it

aims at maintaining foreign trade activities as smooth as possible. It informs concerned importers and exporters and their government about existing rules and regulations. It also assures these parties that the rules will not have any sudden change.

2) <u>Acting as a forum for trade negotiations</u>: The trade agreements are signed by concerned nations after long discussions and even controversies. WTO makes a forum available for all the nations for trade negotiations.

3) <u>Seeking to resolve disputes</u>: Foreign trade transactions often involve differences and disagreements between the trading nations. The disputes arising out of these can be best settled by a neutral party who has some legal foundation and whose decision is binding upon both the conflicting parties. WTO plays this role. Any member country can bring dispute to WTO. On such disputes, judgment is made by specially appointed independent expert. Initially, efforts are made to settle the disputes through consultation. It they fail then the matter is settled on legal grounds.

4) <u>Reviewing national trade policies</u>: Trade policies adopted by member countries are reviewed periodically by WTO. It helps WTO to understand national policies of these countries and to assess their impact on international trade. Even the member countries are benefited.

5) <u>Assisting developing countries</u>: Most of the members of WTO are either developing countries or developed countries. WTO helps them by make some special provisions for them. For example, giving more time limits to implement the clauses of agreement, increasing trading opportunities for these countries, making other members safeguard the interest of these countries etc. It provides technical assistance to these countries by conducting trade policy courses, regional seminars, etc.

6) <u>Co-operating with other international institutions</u>: WTO co-operates with those international institutions which are also involved in global economic policy-making such as World Bank and International Monetary Fund.

Q.5. What is Privatisation? Explain its Importance?

ANS: Privatisation means inducing Private ownership management and control in to public sector undertakings. Privatisation implies reduction in the role of the public sector due to reservation of public sector. The number of industries reserved for public sector came down from 17 to 8 in 1991. Now there are only three industries reserved for public sectors.

The government of India began the process of Privatisation on July 1991. since then several public sector undertaking have been sold fully or substantially to private sector.

<u>Importance</u>:

1) <u>Improvement in efficiency</u>: The motive of the private sector enterprise is to maximize profits. Therefore they have to improve efficiency and performance.

2) <u>Raising Funds</u>: By selling government equity to private sector it is possible to raise funds for public investments.

3) No Political Influence: Once the private sector organisation is privatized, it become free from political and governmental intervention.

4) Quick Decision: In a private sector, quick decision can be taken to respond to changing circumstances.

5) Quick remedial measures: In a private sector, should be taken to avoid wastage losses and to secure benefits.

6) Easy to fix responsibility: In a private sector, responsibilities are generally fixed by the board of directors. Therefore it is easy to fix responsibility in case of failure in performance.

7) Capital market discipline: In a private sector, are subject to economic forces in the capital market and strict regulation of institutions.

8) Better services to customers: The survival and growth of the private sector enterprises depends on the consumer satisfaction. They try to provide better goods and services to their customers.

Q.6. Explain the need of Globalisation?
ANS: The following are the need of Globalisation:
1) Better utilization of resources: Because of the expansion of the market globalization enable business organisation to fully utilize the available resources.

2) Spreading of risk of loss: As the business operation are spread at global level, it become possible to spread the risk of loss between domestic and global market.

3) Achievement of goals: As the field of the activities are international, it become possible for the business organisation to achieve its goals and objectives.

4) Government incentives: The government provides incentive to help the business organisation for encouraging them to enter in global markets.

5) Transfer of technology: Because of Globalisation it is possible to make transfer of technology from developed to developing countries

6) Export promotion: When a country adopts Globalisation, exports are promoted and imports are minimized.

7) Creation of Employment: Globalisation, through expansion of production generates employment opportunities.

8) Faster economic development: Globalisation also develops faster economic development of a country and also improves the standard of living.

Q.7. Explain the need of Liberalisation?

Ans: The term Economic liberalization refers to the process of removing rigid and unnecessary restriction on the business creating hurdles in the process of economic growth.

The following are the need and importance of Liberalisation:

1) India was facing difficulties in the economic fronts during the eighties. The overall economic growth, foreign exchange reserves are all serious challenges.

2) There is internal debt trap from 1986. There were several liquidity crises. India was on the brink of defaulting international payments.

3) When Shri, Narasimha Rao government took over in June 1991, the foreign exchange situation of India was highly unsatisfactory.

4) Dr. Manmoham Singh had a tough time to fight the crisis. Changing the exchange rate was only the weapon in his hand. But it could not provide a long term solution.

5) It was necessary to introduce a series of economic reforms liberalizing various control and restriction to stimulate economic activities.

6) These economic reforms go under the title 'Liberalisation' include the follows:

- ✓ Abolition of Industrial Licensing.
- ✓ Reduction in restriction of Import duties.
- ✓ Reduction in control of foreign exchange, both capital and current account.
- ✓ Reduction in restriction of Foreign investments.
- ✓ Reduction in level of personal and corporate taxation.
- ✓ Privatisation of public sector units.
- ✓ Loosening of MRTP regulations.

CHAPTER 6: MANAGEMENT

Q.1. Define Management? Explain its nature / features.

Ans. The various definitions of management are as follows:

1) "Management is the art of getting things done through people". ***– Mary Parker Follett.***

2) "Management is what management does" ***– Peter Drucker, James Lundy, Louis Allen, etc.***

3) "Management is the art of getting things done through and with people in formally organized groups". ***– Harold Koontz***

4) "To manage is to forecast and to plan, to organize, to command, to co-ordinate and to control". ***– Henri Fayol***

Nature / Characteristics / Features of Management:

1) Management is a process: Management is a process. It includes Planning, Organizing, Directing and Controlling. The manager has to plan and organize all the activities. He had to give proper directions to his subordinates. He also has to control all the activities.

2) It follows certain well-established principles: Management follows certain well-established principles, such as division of work, discipline, unity of command, etc. These principles help to solve the problems in the organizations.

3) It is all-pervasive: Management is necessary for running a business. It is also necessary for running educational institutions, charitable institutions, religious institutions, etc. In short, management is necessary for all activities. Therefore it is all pervasive.

4) It involves getting things done through people: The managers do not do the work themselves. They get the work done through the workers. The workers should not be treated like slaves. They should not be tricked, threatened or forced to do the work. A favorable work environment should be created and maintained.

5) It is aided (helped), not replaced by computers: Nowadays, all managers use computers. Computers help the managers to take accurate decisions. But computers can only help management. They cannot replace management. This is because management takes the final responsibility.

6) It is intangible: Management is intangible i.e. it cannot be seen, touched etc. The success or failure of management can be judged only by its results. If there is high profit, high productivity, good discipline, etc. then the management is successful and vice versa.

7) It is object (result) oriented: very organization has certain objectives. Management tries to achieve these objectives. Therefore it is object oriented.

8) It is situational in Nature: Management makes plans, policies, and decisions according to the situation. It changes its style according to the situation. it uses different plans, policies, decisions and styles for different situations.

9) It need not be ownership: In small organizations, management and ownership are one and the same. But in large organizations, management is separate from ownership. The managers are highly qualified professionals who are hired from outside. The owners are the shareholders of the company.

10) It is an Art and Science: Management is creative and result oriented. Therefore it is and Art. Management is a separate body of knowledge, it conducts continuous research, etc. therefore, it is a Science.

11) It is Multidisciplinary: Management uses knowledge from many different subjects such as Economics, IT, Psychology, Sociology, etc. Therefore, it is Multidisciplinary.

12) It uses a Professional Approach: Management uses a professional approach to get the work done from the employees.

Q.3. Is management a Science? Why? Or Is management an Art? Why? Is Management a Profession? Why?

ANS: IS MANAGEMENT A SCIENCE: According to F.W.Taylor, Management is a Science. We can find out whether Management is a science or not by examining the following points.

1) Body of Knowledge: Science is a systematized body of knowledge. It contains some general truths. Management is also a systematized body of knowledge. It also contains some general truths.

2) Scientific Methods: Science uses scientific methods for collecting information. Management also uses scientific methods for collecting information. This information is used take decisions. Computers are used to take accurate decisions.

3) Observation and Experiments: Science collects information by Observation and Experiments. Management also collects information by Observation and Experiments.

4) Principles, Rules, etc.: Science consists of principles, rules, laws, etc. They are exact for E.g.: Law of Gravity. Management also consists of principles, rules, etc. but they are not exact. This is because management deals with the most complex and unpredictable factor i.e. human behaviour. Human behaviour cannot be predicted. It goes on changing. So it is not possible to make exact principle about human behaviour. For example Henry Fayol's 14 principles of Management.

5) Universally Accepted: The process and principles of science are universally accepted. The process and principles of management are also universally accepted. Managers from all over the world follow the same functions and principles of management.

6) Input and Output: In Science, the output changes only if there is change in the input. In management, the output changes even if the input remains the same. This is because management deals with human beings. Human beings give different results at different times.

7) Physical Social Science: Science can be broadly classified into:
(a) Physical Science: They are exact sciences. When physical principles are applied, they will always give the same results. For e.g.: Physical, Chemistry, etc. Management is not an exact Science. When management principles are applied they will not always give the same results. Therefore, it cannot be called a Physical Science.

(b) Social Science: They are inexact or soft sciences. They deals with human behaviour. For e.g.: Economics, Psychology, etc. Management is also an inexact or soft science. It deals with human behaviour. So it can be called a social science. In fact many experts feels that management is the most inexact social science. So we can conclude that management is a science. It is not a physical science. It is a social science.

IS MANAGEMENT AN ART: According to Mary Parker Follett, Harold Koontz and other experts "Management is an art getting things done through people."
We can find out whether management is an art or not by examining the following points:
(1) Creative and Innovative: An art is creative and Innovative. It makes new songs, stories, paintings, films, etc. Management is also creative and Innovative. It makes new objects, situations, events, etc.

(2) Individual Style and Approach: Every artist has his own style and approach. Every manager has his own style and approach for solving problems. They also use different styles of leadership.

(3) Knowledge and skill: An art requires knowledge and skill. Management also requires knowledge and skill. It requires human skills, technical skills, conceptual skill, etc.

(4) Result Oriented: An art is result oriented. An artist is judged by his results. If there is high production, high sales high profit then the manager is considered to be efficient and successful.

(5) Practice / Experience: An artist becomes perfect only by practice. A manager also becomes perfect only by experience (practice).

(6) Application and Dedication: An artist has to use his mind (application) and his heart (dedication). A manager also requires application and dedication.

(7) Intelligence: An artist requires intelligence. A manager also requires intelligence. He requires mental, social and emotional intelligence.

(8) Initiative: An artist must have initiative. A manager must also have initiative. He must also encourage his subordinates to have initiative.
Therefore, Management is an Art.

MANAGEMENT AS A PROFESSION: A profession, according to *Rustom Davar*, a calling in which one professes to have acquired some special knowledge which is used either in instructing, guiding or advising others. It requires a body of knowledge which can be taught and applied universally. A profession also requires special knowledge and technical skill. A set of fixed rules and standards guides its member. To enter in a profession certain educational qualifications are essential.

FEATURES OF PROFESSIONAL MANAGEMENT:

1) ***A body of Knowledge:*** A profession has a well-defined and systematized body of knowledge related to a particular area of activities.

2) ***Facilities to acquire the Knowledge:*** The body of knowledge should be taught in formal institutions so that it can be learnt through instructions.

3) ***Use of Knowledge:*** Careful use of the knowledge learnt through rigorous training should be made for solving complex problems of people.

4) ***Service Motive:*** Serving people by instructing, guiding or advising them in solving their problems should be main motive. Earning money should be necessary motive.

5) ***Restricted Entry***: Entry in the profession should be restricted only to those who have the prescribed educational qualifications.

6) ***Professional association and code of conduct***: A profession should have an association of which membership is compulsory. Such professional association regulates the entry in the profession, issues certificates of practice and prepares a code of conduct (a set of standard rules of professional behaviour) for its members and enforces it.

IMPORTANCE:

1) ***Encouraging Creativity:*** Professional management is important as it encourages creative approach to problem-solving.

2) ***Growing importance of Management Consultants:*** Management has been recognized as a profession through the coming of numerous management consultancy firms. Many big companies are appointing management consultants to get the benefit of their expertise.

3) ***Increasing Gap between Ownership Management:*** With the growing number of shareholders and the consequent wide separation between ownership and management, in many large companies professional management is becoming more and more important. Professional managers, well educated and nicely paid, can manage companies with new, objective, dynamic and progressive approach.

4) ***Growing Complexities of Business:*** Complexities of modern business activities will compel managers to possess managerial knowledge, skills and training for efficient management. This implies that professional management has bright future.

Q.4. Bring out the Purpose and Importance / Role / Need of Management?

ANS: According to Peter Drucker, "Management is what the modern world is all about." There is a wide gap between Europe and Asia. This gap is called the "Science and Technology Gap". But in reality it is the "Management Gap". In other words, the European countries are well managed while the Asian countries are badly managed. Japan and Germany were totally destroyed in the Second World War. But today both these countries are highly developed. This is because these countries are well managed.
The following points bring out the purpose of management:

1) ***<u>Management Motivates People, Develops Team Spirit and Reduces Turnover and Absenteeism</u>:*** Management motivates people. It provides positive incentives, negative incentives, financial incentives and non-financial incentives. These incentives increase the willingness and efficiency of the employees. This increases the productivity and profitability of the organization. Management also develops team spirit. It also reduces labour turnover and absenteeism.

2) ***<u>It encourages Initiative and Innovation</u>***: Management encourages initiative. This means, it encourages the employees to make their own plans and to execute these plans and to execute these plans. It encourages the employees to give their suggestions. Initiative gives satisfaction to the employees and success to the organization. Management also encourages innovation. It brings new ideas, new methods, new techniques to the organization.

3) ***<u>It ensures Industrial Peace</u>:*** Management ensures industrial peace. It gives more importance to the "Human Element" in business. It applies Positive motivation, Y Theory, Democratic management, etc. All this improves the relations between the employees and the employers.

4) ***<u>It makes Optimum Utilisation of resources</u>:*** Management brings together the available resources. The available resources are the six M's i.e. men and women, money, machines, methods, materials, an markets. It makes optimum,, (best) utilization (use) of these resources for achieving the objectives of the organization.

5) ***<u>It utilizes the benefits of Science and Technology:</u>*** Man has made rapid progress in the field of science and technology. Management utilizes the benefits of this progress. It provides industries with the latest machines. It provides the consumers with the latest products.

6) ***<u>It helps Society:</u>*** Today a lot of importance is given to social objectives. Business provides society with a regular supply of good quality goods and services at reasonable prices. They also provide employment opportunities to society. They also build hospitals, schools, colleges, etc. for society. So management is helping society in many ways.

7) ***<u>It improves the quality of life of the workers</u>***: Management shares some of its profits with the workers. It provides the workers with good working environment and conditions. It also provides them with financial and non-financial benefits. All this helps to improve the quality of life of the workers.

8) It helps Expansion and Diversification: Management helps the organization to achieve its objectives efficiently, systematically, easily and quickly. It helps the organization to face the cut-throat competition. All this helps the organization to grow, expand and diversify.

9) It minimizes Wastages: Management minimizes the wastages of human, material, and financial resources. This is done through proper production planning and control.

Q.6. Write a note on Level of Management.

ANS.: All the managers in the organisation do not belong to the same level just as all the students of the college do not belong to the same class. Some managers belong to the higher level some to the lower and some to the middle level. Management positions are graded into:

- ❖ Top Level,
- ❖ Middle Level and
- ❖ Lower Level

AT TOP LEVEL: The managerial personnel are few in number. The top level executive report to the Board of Directors.

- ✓ Chief executive officer or general manager.
- ✓ President of the organisation.
- ✓ Vice-President of the functional areas such as production, marketing, finance and personnel.
- ✓ Managing Director

AT SECOND LEVEL: The managerial has more managerial personnel as compared to top level. The managerial personnel at the second level report to the top level management. The managerial personnel at the second level include:

- ✓ Divisional heads of multi-divisional companies
- ✓ Special business units
- ✓ Regional and area managers in a large national or international organisation.
- ✓ Departmental heads such as Marketing manager, Finance Manager, Human resource Manager etc.

AT THIRD LEVEL: The managerial has more managerial personnel as compared to second level. The managerial personnel at the third level report to the second level management. The managerial personnel at the third level include:

- ✓ Assistant Managers
- ✓ Supervisors
- ✓ Junior executives

Q.7. Write a note on Functions of level of Management?

ANS.: Every level of management performs certain functions. The functions vary from level to level. The function of each level can be explained as follows:

FUNCTIONS OF TOP LEVEL MANAGEMENT:

1) *Mission Statement:* The top management frames plans mission statement of the organisation. The mission statements give a clear direction to the activities of the organisation.

2) *Plans and Policies:* The top management frames plans and policies from long term point of view. The long term goals and objectives are set up by the top level management. Periodic review of plans and policies is underken.

3) *Organising Resources*: The top level management makes arrangement of important physical, financial and other resources of the company.

4) *Selection:* The top level management has the responsibility of selecting departmental heads and other key executives.

5) *Direction:* The top level management provides necessary direction to the middle level executives to implement the plan.

6) *Control of Activities:* The top level management designs and develops a system of monitoring, development and evaluation of performance.

7) *Motivation:* The top level management has the responsibility to train and motivate key personal of the organisation.

8) *Reporting:* The top level management reports to the board of directors regarding the performance of the organisation.

FUNCTIONS OF SECOND LEVEL MANAGEMENT:

1) *Planning:* The middle level management frames plans and policies from long term point of view. The long term goals and objectives are set up by the top level management. Periodic review of plans and policies is undertaken.

2) *Organising Selection:* The middle level management makes arrangement of important physical, financial and other resources of the company.

3) *Direction:* The middle level management provides direction to the lower level execute to undertake the activity.

4) *Motivation:* The middle level management has the responsibility to train and motivate lower level executes of the organisation.

5) *Controlling:* The middle level management monitors and control the departmental performance.

6) *Reporting:* The middle level management reports to the top level management regarding to performance of the department. They provide recommendation to the top level management.

FUNCTIONS OF THIRD LEVEL MANAGEMENT:

1) ***Planning:*** The lower level management frames plans and policies in order to undertake day-to-day activities.

2) ***Organising Selection:*** The lower level management makes arrangement of important physical, financial and other resources like raw materials, spare parts etc. of the company.

3) ***Direction:*** The lower level management provides direction to the lower level execute to undertake the activity. They also assign jobs and issues order.

4) ***Motivation:*** The lower level management monitors and controls the activities of the operative personnel.

5) ***Reporting:*** The lower level management reports to the top level management regarding the performance of the department. They provide recommendation to the top management.

CHAPTER 7: INTERNATIONAL BUSINESS

Q.1) Explain the meaning of international business

ANS. Meaning:

International business is a term used to collectively describe all commercial transactions that take place between two or more regions, countries and nations beyond their political boundary. Usually, private companies undertake such transactions for profit. Governments undertake them for profit and for political reasons. It refers to all those business activities which involves cross border transaction of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

A multinational enterprise (MNE) is a company that has a worldwide approach to markets and production or one with operations in more than one country. An MNE is often called Multinational Corporation (MNC) or Transnational Company (TNC). Well known MNCs include fast food companies such as Mcdonald's and Yum Brands, vehicle manufacturers such as General Motors, Ford Motor company and Toyota, consumer electronics companies like Samsung, LG and Sony, and energy companies such as ExxonMobil, Shell and BP. Most of the largest corporation operates in multiple national markets.

Q.2.) Explain the scope and importance of international business.

ANS. International business is the process of focusing on the resources of the globe and objective of the organisations on global business opportunities and threats, in order to produce, sell or exchange of goods/services worldwide. The term international business has emerged from the term 'International Marketing', which in turn, emerged from the term 'International Trade'. International business is much broader than international trade. Import and export of goods and services means international trading, has been growing very fast and it also includes a wide variety of other ways in which the firm operate internationally. International business constitutes the following:

The following are the scope and Importance of International Business:

a) Import and Export of Goods :

Exporting of goods means sending tangible goods to foreign countries and importing of goods means bringing tangible goods from foreign country to one's own country. Here tangible goods mean those goods which can be seen and touched .

b) Import and Export of Services:

This includes trading of intangible goods. Here intangible goods mean invisible goods which cannot be seen or touched. Due to the intangible aspect of services this trade in service is also known as 'invisible trade'. These services include communication, construction and engineering, educational and financial services, entertainment and recreation, lodging and boarding, travel and tourism, transportation, professional services etc.of these tourism, transportation and business services are major constituents of world trade services.

c) Licensing and Franchising:

Licensing is permission given by one party to the other party in a foreign country to produce and sell goods by giving permission to use their trademark, patent or copy rights. For this a fee is charged. Pepsi and Coca Cola are the best examples of licensing; as they produce and sell their product all over the world through local bottlers in foreign countries. Franchising is a term used in connection with the provision of services. It is similar to licensing. Best example of franchising system of fast food chain of restaurants all over the world successfully, through franchising system.

d) Foreign Investments:

This involves investment of funds abroad in exchange for financial returns. It is also one of the important forms of international business. Foreign Investment can be of two types: Direct and Portfolio Investment. Direct Investment takes place when a company directly invests in properties such as plant and machinery in foreign countries. This investment is done with a view to undertake production and marketing of goods and services of foreign countries. This is also known as Foreign Direct Investment, that is FDI. In joint venture investments in production and marketing facilities are made jointly with one or more foreign parties.

A Portfolio Investment that a company makes into another company by acquiring shares or providing loans. It can earn dividend on shares and interest on loans. The investor earns income by investing in shares, bonds, bills or notes in a foreign country or providing loans to foreign business firms.

Q.3) What are the modes of entry into international business

ANS: Exports and Imports: Exporting of goods and services of our country to another foreign country. Exporting is the simplest and widely used mode of entering foreign markets.

Forms of exporting include indirect exporting, direct exporting and intra-corporate transfers:

a) Indirect Exporting:

Indirect exporting is exporting the products either in their original form or in a modified form to a foreign country through another domestic company. For example, many book publishers in India sell their book to export houses which in turn export them to other countries.

b) Direct Exporting:

Direct exporting is selling of products to a foreign country directly through its distribution arrangements or through a host (another) country's company. Initially some ice-cream producers in India sold their ice-creams directly in other countries. But now some of them have entered into arrangements with local companies of those countries to sell their product.

c) Intra-corporate transfers:

Intra-corporate transfers are selling of products by a company to its affiliated company in another company. Hindustan Lever now known as Unilever is a company which uses this mode of export goods sold by Unilever India to USA is treated as exports for India and imports for the United States of America.

The following are the major item which are exported and imported

a) Major items exported by India:

Agricultural and allied products, chemicals and engineering products, gems and jewellery, leather products, minerals and ores, textile and garments etc.

b) Major items imported by India:

Chemicals, crude oil and petroleum products, edible oils, electronic goods, gold and silver, pearl and precious stones, etc.

c) India's major trading partners:

Countries like USA, UK, Belgium, Germany, Hong Kong, UAE, Singapore, Malaysia, Switzerland and Japan.

Q.4) What are the advantages and disadvantages of indirect exports

ANS: The following are the Advantages of Indirect Export:

a) Exporter gets immediate payment
b) Risks are taken by the merchant exporters or wholesalers who undertake to export the goods.
c) Merchant exporter does not incur any expenditure
d) Export opportunities are available in the home market
e) Manufacturers can concentrate more on production

The following are the disadvantages of Indirect Export:

a) Manufacturer remains ignorant about export market and cannot think of any changes in the product.
b) Manufacturer is not a partner in the goodwill earned by the exporter.
c) Not useful for goods which are custom built and where after sales service is important.
d) Manufacturer has no control over the price.
e) The physical movement of goods from one country to other involves high costs of packaging, transportation and insurance.

Q.5) WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF DIRECT EXPORTS

ANS: The following are the Advantages of Direct Export:

a) There is control over price and credit terms
b) There is personal contact with the end-user
c) The consumer gets goods and services for a lower price.
d) The distribution channel is shorter
e) The manufacturer gets to develop goodwill
f) There is better after sales service.

<u>The following are the Advantages of Direct Export:</u>

a) Price control also leads to bargaining over items
b) Lower prices for the consumer may at time lead to small profit margins

Q.6) What is the meaning licensing? Explain its advantages and disadvantages
ANS. <u>Meaning:</u>

It is a form of direct export. In this mode of entry, the manufacturer gives the right to use its technology, work methods, copyrights and patents, brand names, trademarks etc. to a manufacturer in a foreign country. The manufacturer in the domestic country is called 'licensor' and the manufacturer in the foreign country is called 'licensee'. Though it is an easy way to enter foreign markets, the cost is more. Sometimes the manufacturers of both countries enter into a mutual exchange of technology and patents. This is known as cross-licensing.

<u>The following are the Advantages of Licensing:</u>

a) There is relatively low investment on the part of the licensor
b) The financial risk for the licensor is also low
c) The risk of failure of the product does not rest with the licensee
d) The licensee has more knowledge of the markets as he is a local person

<u>The following are the disadvantages of licensing:</u>

a) The market opportunities are reduced both for the licensor and licensee
b) If there is legal hassle, the cost of litigation is very high
c) Trade secrets of the licensor can be leaked out
d) The licensee may sell the goods or products outside the chosen territory after the expiry of the contract

Q.7) ***What is the meaning of franchising? Explain its advantages and disadvantages.***
ANS. <u>Meaning:</u>

Franchising is a form of licensing. Here more control is exercised over the franchised as compared to licensing. Under franchising, an independent organization (franchisee) operates the business under the name of another company (Franchisor). A fee is paid by the franchisee to the franchisor. A major difference between franchising and licensing is that franchising is more often applied to services while licensing is more related to production and marketing of goods. The rules for franchising are stricter as compared to licensing. The major franchisers operating in India are McDonalds, Pizza Hut, Wal-Mart, Dominos, Holiday Inn and Avis car rentals.

<u>The following are the Advantages of Franchising:</u>

a) There is low investment for the franchisor to enter global markets
b) The franchisor learns from the experience of the franchisee
c) The franchisor gets all information about the markets, customs, and culture of the best country.
d) The franchisee does not face the risk of product failure

The following are the disadvantages of Franchising:

a) International franchising is more complicated than domestic franchising
b) Franchising agents reduce market opportunities for both the franchisor and franchisee
c) There is added responsibility on both parties to maintain product quality
d) There can be misunderstanding between the parties
e) Trade secrets can be leaked

Q.8) ***What is the meaning of contract manufacturing? explain its advantages and disadvantages.***

ANS. Meaning:

In this mode, an international company enters into a long term contract with a local firm to undertake production of specified goods for a given period for subsequent sale by the former. The international company provides the technical know-how to the local firm. In this system there is full control over the external marketing programme.

The following are the Advantages of Contract Manufacturing:

a) Cost of production is reduced as the host country's companies produce goods at low cost
b) Investment risk is low
c) Small and medium industries can also develop and prosper in the host country
d) The international company get the advantage of location due to production in the host country

The following are the Disadvantages of Contract Manufacturing:

a) If the marketing activities are taken up by the host country, the interest of the international company is threatened
b) Product quality may suffer if the firms do not stick to manufacturing standards
c) Since goods are specifically produced under the terms of contract, the local manufacturer in the foreign country has no control in the manufacturing process

Q.9) W***hat is the meaning of joint venture (jv)? Explain its advantages and disadvantages***

ANS. Meaning:

When two or more firms come together to form a new business having separate and distinct legal entity different from its parent firms, a joint venture is formed. It emerges from the efforts the exporter and an entrepreneur in the importing country to work together. Joint ventures involve shared ownership. Various environmental factors like social, technological, economical an political encourage the formation of Joint Ventures. A number of Indian manufacturers and exporters are involved in a number, of joint ventures in Asia and Africa.

The following are the Advantages of Joint Venture:

a) Joint Ventures provide large capital funds.
b) They are suitable for major production
c) The risk is shared between partners
d) The skills (technical, technical and marketing) available from both the partners are shared

The following are the Disadvantages of Joint Venture:

a) There is potential for conflict between the partners due to varied interests
b) Decision making is slowed down due to the involvement of a number of parties
c) Entry of competitors, changes in the business environment may lead to collapse of a Joint Venture

Q.10) W*hat is the meaning of wholly owned subsidiaries? explain its advantages and disadvantages*

ANS. Meaning:

Some companies like to have complete control over their operations in the foreign country. These companies prefer this mode of entering into international markets. In wholly owned subsidiaries, the parent company makes 100% investment in its equity capital and thus acquires full control over the foreign company. This can be done in two ways.

a) The company sets up a new firm to start operations in the foreign country. This method is also known as green field venture.

OR

b) The company acquires an established firm in the foreign country. It then uses that firm to manufacture and market its products in the host country

The following are the Advantages of wholly owned Subsidiaries:

a) The parent company has complete control over its operations in the foreign country.
b) The company need not disclose its trade secrets as it is in complete control

The following are the Disadvantages of wholly owned Subsidiaries:

a) Since the investment required by the parent company is 100%, it is not possible for small and medium investors to form wholly owned subsidiaries
b) The losses incurred also have to be borne by the parent company

Q.11) Explain the export procedure and documentation

ANS. All companies involved in exports need to obtain an Importer's-Exporter's Code (DCC) number from the Directorate General Foreign Trade (DGFT) or Regional Import Export Licensing Authority and registration with the Export Credit and Guarantee Corporation (ECGC). This is done in order to safeguard against risks of non-payments.

The export procedure goes through the following steps:

1) Getting the export order:

a) The export order comprises of a Proforma Invoice which an offer made by the exporter is indicating his intention to sell. These invoices are accepted and signed by the importer. It then becomes a confirmed export order.
b) A Purchase Order is also required to be sent by the buyer to the exporter. This is accepted and signed by the exporter in accordance with the terms and conditions of the contract.
c) Sometimes an exporter can insist for a letter of credit from the buyer. A letter of credit is an instrument of payment and contains detailed terms and conditions for shipment of goods. It is guarantee issued by the importer's bank that it will honour payments of export bills up to a certain amount.

2) *Production and Procurement:*

a) The export order and letter of credit is handed over to the bank. The bank approves the order by stamping it as “Export Finance Granted”

b) Depending on the value of the export order/letter of credit and other factors, the bank calculates the drawing power of the exporter.

c) The bank then releases the funds which are then credited to the exporter’s account.

d) The goods are then insured by the exporter to protect the goods against loss or damage during transit and in the warehouse.

3) *Excise clearance:*

a) Excise duty is payable on the material used for manufacturing goods as per the Central Excise Tariff Act but in many cases payment of excise duty is exempted by the government if the goods are meant for exports.

b) It the goods are exempt from excise duty, the excise duty paid is refunded. This is basically meant as an incentive for manufacturers to export more products. The refund of excise duty paid is known as excise drawback.

c) The excise drawback is monitored by the department of excise drawback working under the ministry of finance. This department fixes the rates fir drawback for different products.

d) The sanction and payment of drawback is done by the commissioner of customs or the Excise In charge of place where the export of goods takes place. This may be a port or an airport or any station on land.

e) Some countries provide concessions on tariff for goods coming from a particular country. To avail this benefit a certificate of origin is required. This is proof that the goods which have arrived in the country are actually manufactured in the country from which the export took place.

f) For exporting goods by ship, the manufacturer approaches the shipping company for space. It specifies the types of goods, the probable date of shipment and the port of destination. The shipping company then issues a shipping order. This contains instructions to the captain of the ship that the custom cleared goods can be received on board.

4) *Inspection:*

a) To ensure export of quality products, the items are subject to compulsory preshipment and quality control Inspection. For this an inspection certificate by a designated authority is necessary for submission to the customs department.

b) Consignment wise inspection is done through the Export Inspection Agency (EIA). The exporter approaches the agency with details in a prescribes form and with necessary blank documents showing that the stipulated inspection fee has been deposited with the EIA.

c) The inspection is carried out by a quality control inspector at the factory site. On completion, the EIA issues an inspection certificate in triplicate.

d) Inspection is not compulsory in case the goods are exported by trading houses and export houses which are set up in Export Processing Zones **(EPZ).** Special Economic Zones **(SEZ)** a 100% Export Oriented Units **(EOUs).**

5) _Dispatch of Goods:_

a) Before dispatch, the goods are packed. The packing contains details of the importer, gross weight, port of shipment, destination and country of origin.

b) Goods can be dispatched either by road or rail.

c) In case of road transport, there are no specific formalities. The manufacturer engages a reliable carrier and sends the consignment to the port. For this the lorry/truck receipt is given to the designated Clearing and Forwarding (C and F) agent along with other documents.

d) A special procedure is followed when the goods are sent by rail. On loading goods into the wagon, the railway authorities issue a 'Railway Receipt' (RR) which serves as a title to the goods. The exporter then endorses the RR in favour of his agent. This allows him to take delivery of the goods at the port of shipment.

6) _Customs clearance:_

a) Before being loaded on to the ship, the goods have to be cleared by customs.

b) For customs clearance, the shipping bill is prepared by the exporter. This is the main document required for permission to export. It contains the details of the goods being exported, the name of the ship (vessel), the name of the port at which the goods will be off loaded, the name of the country and the exporter's name and address.

c) The shipping (five copies) is submitted with the following documents to the Customs Appraiser- at the Customs House:
(1) Export contract/ Export order
(2) Commercial Invoice
(3) Letter of Origin
(4) Letter of Credit
(5) Certificate of Inspection (if necessary)
(6) Marine Insurance Policy

7) _Payments:_

a) Once the documents are submitted a carting order is issued by the superintendent if the concerned port. The carting order contains instructions to permit the entry of the cargo into the dockyard. The cargo is then stored in the appropriate space. Most of this work is done by the Clearing and Forwarding agent (C& F).

b) Once the goods are loaded on to the ship, the captain of the ship issue's a Mate's receipt to the superintendent. The receipt contains information about the description of packages, date of shipment and condition of the cargo at the time of boarding, name of the vessel etc. the mate's receipt is handed over the C & F agent.

c) The mate's receipt is given to the shipping company for computation of freight. The shipping company then issues a bill of lading which is evidence that the company has accepted the goods for shipping. When the goods are sent by air, document is called the airway bill.

d) An invoice for the dispatch is prepared. This invoice includes the quantity of goods and the amount to be paid to the importer. The C & F agent gets the invoice attested by the customs.

e) The documents required by the importer to claim the goods and clear them through customs are letter of credit, insurance policy, certificate of origin, packing list and bill of lading. These documents are sent by the exporter through his bank and they are delivered to the importer after accepting the bill of exchange. This is an order to the importer to pay a certain amount of money to the bearer of the instrument. This document is submitted with the above documents for getting the payment from the bank. The bill of exchange can be sight draft or a usance draft. In case of sight draft the documents the documents are handed over to the importer only against payments. In case of usance draft, the documents are handed over against the acceptance of bill of exchange. The payment can be made at the end of a specified period. Once the above procedure is completed, the exporter's account is credited with the funds made by the importer.

f) Sometimes, the exporter can get payment immediately without waiting for the release of funds by the importer. This is done by signing a letter of indemnity. Through this letter the exporter assures the bank of paying the money with interest in case of non-receipt of payment from the importer.

g) Once the payment are received by the exporter, he gets a bank certificate of payment. This is a certificate which indicates that all documents relevant to the particular export consignment are in order and payment has been received.

Q.12) Explain the Import procedure and documentation

***ANS*:** Importing of goods and services involves purchasing them from another country. The import procedures differ from country to country and depending on the import-export policies of the country.

<u>The import procedure goes through the following steps:</u>

1) <u>Trade Enquiry:</u>

a) The importer first collects information on the goods he wants to import. This includes information about the countries that export the product, the name of the firm etc. then he approaches the export firm with a trade enquiry. This is a letter written by the importer to the exporter requesting him to supply information about the price, terms and conditions for the goods he wants to import.

b) The exporter then prepares a proforma invoice. This is a document which contains information about the goods including their quality, grade, size, weight, design and price of the product. The terms and conditions of export also included.

2) <u>Import License:</u>

The Export Import (EXIM) policy of our country indicates which goods need license for import and which can be imported freely. For goods that require a license, the importer has to acquire the license. At the time of importing goods, the DEC number is to be mentioned.

3) <u>Foreign Trade:</u>

The exporter has to be paid in foreign exchange by the importer as he resides in a foreign country. For this the Indian currency has to be exchanged to the foreign currency. This is done by the Exchange Control department. Of the Reserve Bank of India (RBI). The importer has to get the foreign exchange sanctioned. For this he applies in a prescribed form to a bank authorized by RBI. After scrutiny of the documents, the necessary foreign exchange is sanctioned.

4) *Placing Order:*

Once the license is obtained, the importer places and import order with the exporter for supply of goods. This order contains information on all aspects relating to the goods to be imported. These include quality, quantity, size, grade, price, packaging and shipping, ports of shipment, insurance, delivery schedule and modes of payment.

5) *Letter of Credit:*

If the exporter agrees to a letter of credit, then the importer obtains it from his bank and forwards it to the exporter. It minimizes the risk of non-payment for the exporter. At the same time, the importer should arrange for sufficient funds to be paid on delivery of the goods.

6) *Shipment of Advice:*

Once the goods are loaded on the vessel, the exporter sends a shipment advice to the importer; this document contains detail about the goods, invoice number, bill of lading and name of the vessel, the port of export and date of sailing the vessel.

7) *Dispatch of documents:*

After the goods are shipped, the exporter submits a set of documents to his banker for further proceedings. This include bill of exchange, bill of lading, packing list, certificate of origin, marine insurance policy etc. the bill of exchange submitted with these documents is called documentary bill of exchange. This can be sight draft or usance draft. In case of sight draft, the documents are handed over against the acceptance of bill of exchange. The acceptance of bill of exchange for delivery of documents is known as retirement of import documents.

8) *Arrival of Goods:*

Once the goods are dispatched the person in charge on the ship informs the officer in charge at the unloading dock about arrival of goods. A document called the import general manifest is handed over. This contains all the details of the imported goods. On the basis of the document, the goods are unloaded.

9) *Release of Goods:*

Before the goods are released, they have to be cleared by customs. The procedure for clearance is lengthy. Most importers carry out this procedure through their C & F agents. The procedure takes place as follows:

a) For taking delivery of goods, a delivery order is needed. This can be done either by a formal order issued by the shipping company or through an endorsement by the shipping company on the back of the bill of lading. Once this is done and the freight charges are paid, the goods can be collected by the importer.

b) The importer also has to pay port trust dues. This is levied by the Landing and Shipping Dues offices. The dues are paid by filling a form in duplicate. One copy is given back to the importer after payment of dues. This is known as the trust dues receipt.

c) The goods have also to be assessed for customs import duty. For this, the importer fills a form known as bill of entry. This document are scrutinized by the concerned authority and id duty is levied, it is paid by the importer.

d) The bill of entry is presented to the dock superintendent for release of goods. And examiner physically checks the goods and marks his report on the bill of entry. This is then submitted to the port authority and the goods are released.

Q.13) E*xplain foreign trade promotion: incentives and organizational support*

Ans: Our country is always striving to keep its economy healthy and the business of export is a major contributor to the finances of the country. The Government offers support in different forms to the industry to expand business in the field of exports. The Ministry of Commerce and Trade tries to help the industry with its infrastructure, promotion and marketing. For this a number of schemes have been launched for more exports and a number of organizations have been formed to help the exporters.

The following are the Measures and schemes:

a) Exemption from Sales Tax:

Goods to be exported are exempted from Sales Tax. Earlier export firms were also entitled to a 'Tax Holiday' i.e. they were exempted from paying Income Tax for a certain period of time. Now days, tax holidays are given only to manufacturing units setup in the Export Processing zone (EPZ), 100 percent Export Oriented Units (EOUs) and to units setup in the Special Economic Zones (SEZs). Details of these zones are discussed later in this chapter.

b) Export Promotion Capital Goods Scheme (EPCG):

EPCG (Export Promotion Capital Goods Scheme) is a scheme in which one can import the capital goods which may be for pre-production, production or post-production as well as computer software systems, spare parts, fixtures, dies, moulds all very concessional rate of custom at 0% in some sectors and 3% for all sectors whereas the normal custom duty is nearly 24%.this scheme helps manufacturers who are interested in upgrading their plant and machinery. The main objective of this scheme is to encourage the import of capital goods for export production.

c) Duty Drawback Scheme:

The Duty Drawback Scheme enables exporting companies to obtain a refund of Customs duty paid on imported goods where those goods will be treated, processed or incorporated into other goods for export or are exported unused since importation.

d) Manufacturing under Bond Scheme:

Under this scheme, all export manufacturers are exempted from import duty and other taxes on inputs used to manufacture such goods. The manufacturer is allowed to import goods without paying any customs duty.

e) Advance license scheme:

It is a duty exemption scheme. In this scheme, the exporter manufactures goods for export by using duty free domestic and imported inputs. Exporter does not pay any customs duty if he uses imported goods for manufacturing of export goods. The exporter who is regular in exporting of goods can get this license against their production Programs. And for exporters, they can get the license for a specified period.

f) Schemes of recognizing export firms as export house, trading home and superstar trading house:

The Government grants the status of Export House, Trading Home and Superstar Trading House to some of the selected firms to promote established exporters and help them for marketing their products in International Market. This status is given on the performance of the firms in past few years. These firms also have to fulfill other conditions of the import-export policy, along with their performance. They act as highly professionals, dynamic institutions and important instruments of export growth.

g) Export of Services:

Various service houses are recognized with an aim to encourage services related to export. On the basis of the performance of the services of the firms in past few years, they are referred as International Service House, International Star Service Export House etc.

h) Export Finance:

As discussed earlier, exporters approach banks for finance for manufacturing goods required for export. They also need finance to ship their goods. They can approach the banks for kinds of finance. The pre-shipment finance is provided to the exporter for manufacturing, purchasing, processing and packaging of goods of export. The post-shipment finance is given to the exporter from the date of extending credit after the shipment of goods. Finance from the banks is available at very attractive concessional rates to the exporters.

i) 100 percent Export Oriented Units (EOUs):

The Export Oriented Units (EOUs) scheme introduced in early 1981,is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31st December 2006, EOUs are mainly concentrated in textiles and yarn, food processing, electronics, chemicals, plastics, granites and minerals/ores.

j) Export Processing Zone (EPZs):

These are areas or estates set up generally in developing countries by their Governments to promote industrial and commercial exports. These zones offer incentives such as exemption from certain taxes and business regulations. They are also called development economic zone or special economic zone. Most of them are set up near ports or airports and provide an international competitive duty free environment at very low cost.

Q.14) *Explain organizational support for promotion of foreign trade ?*

Ans: *The Following are the Organizational support for Promotion of Foreign Trade:*

a) Department of Commerce:

The Department of Commerce regulates, develops and promotes India's international trade and commerce through formulation of appropriate international trade and commercial policies and implementation of the various provisions. The basic role of the Department is to facilitate the creation of an encouraging environment and infrastructure for accelerated growth of international trade. The Department formulates, implements and monitors the

Foreign Trade Policy which provides the basis framework of policy and strategy to be followed for promoting exports and trade.

b) Commodity Boards:

There are seven statutory Commodity Boards under the Department of Commerce. These Boards are responsible for production, development and export of tea, coffee, rubber, spices and tobacco, coir and silk. These boards are established for development of production of traditional commodities and their exports.

c) Export Inspection Council (EIC):

The Export Inspection Council (EIC) was setup by the Government Of India under section 3 of the Export (Quality Control and Inspection) Act, 1963, in order to ensure sound development of export trade of India through Quality control and Inspection. EIC is an advisory body to the Central Government, which is empowered under the Act to notify commodities which will be subject to quality control inspection before export, establish standards of quality for such notified commodities and also specify the type of quality control/ inspection to be applied. It is India's official export certification body.

d) Export Promotion Council (EPC):

They are non-profit organizations registered under the Companies Act/ Societies Registration Act. The aim of the councils is to promote and develop the export of particular products. There are 21 EPCs dealing with different commodities and each EPC has its own website. The names of some of the EPCs are given below:

Agricultural and Processed Food Products Export Development Authority (APEDA)	Coffee board	Handloom Export Promotion Council
Apparel Export Promotion Council	Coir Board	Handicrafts and Handloom Export Corporation
Chemicals Pharmaceuticals and Cosmetics Export Promotion Council, (CHEMEXCIL)	Electronic and Computer Software Export Promotion Council	Office of the Development Commissioner for Handlooms
Carpet Export Promotion Council	Engineering Export Promotion Council	Development Commissioner for Iron Steel
Cashew Export Promotion Council of India	Federation of Indian Export organisation (FIEO)	Indian Silk Export Promotion Council
Chemical and Allied Products Export Promotion Council	Gems and jewelry Export Promotion Council	Indian Trade Promotion
Cotton Textile Export Promotion Council	Export Promotion Council for Handicrafts	Council for leather Export

e) Export Promotion Council (EPC):

Indian Trade Promotion Organization (ITPO) Indian Trade Promotion Organization (ITPO) was set up on 1st January, 1992 under the Companies Act, 1956 by the Ministry of Commerce. It is the nodal agency of the Government of India for promoting the country's external trade. JTPO, during its existence of nearly three decades, in the form of Trade Fair Authority of India and Trade Development Authority, has played a proactive role in catalyzing trade, investment and technology transfer processes. Its promotional tools include organizing of fairs and exhibitions in India and abroad, Buyer-Seller meets, Contact Promotion Programs, Product Promotion Programs, and promotion through Overseas Department Stores, Market Surveys and Information Dissemination. ITPO has five regional offices at Mumbai, Bengaluru, Kolkata and Chennai and four International offices at Germany, Japan, UAE, USA.

f) Indian Institute of Foreign Trade (IIFT):

The Indian Institute if Foreign Trade (IIFT) was set up on 1963 by the government of India as an autonomous organization to help professionalize the country's foreign trade management and increase exports by developing human resources, generating, analyzing and disseminating data and conducting research. Today it is one of India's most prestigious business schools.it is also a deemed university.

g) Indian Institute of Packaging (HP):

The Indian Institute of Packaging is a national enterprise set up in May 1996 by the Indian Packaging and allied industry and the government of India, Ministry of Commerce. The Institute's Endeavour is to improve the standards of packaging needed for the promotion of exports and help create infrastructural facilities for the overall packaging improvement in India through Research and Development, problem solving consultancy and testing, training and education, industrial co-ordination, information, dissemination and other promotional effort.

h) State Trading Organizations (STC):

The State Trading Corporation of India ltd (STC) is a premier international trading house owned by the Government of India. Having been set up in 1956, the Corporation has developed vast expertise in handling bulk international trade. Though dealing largely with the East European countries during the early years of its formation, today it trades with almost all the countries of the world. It exports a large number of items ranging from agricultural commodities to manufactured products from India to all parts of the world.

STC supplies quality products at most competitive prices and ensures that die goods reach die foreign buyer within the prescribed delivery schedule. It also imports bulk commodities for Indian consumer as per demand in the domestic market at most competitive prices making use of its global strengths.

Q.15) E*xplain International Monetary Fund (IMF)?*

ANS: The IMF also known as the "Fund" was conceived at a United Nations Conference convened in Bretton Woods, New Hampshire, United States, in July 1944. The 44 governments represented at the conference sought to build a framework for economic

cooperation that would avoid a repetition of the vicious circle of competitive devaluations that had contributed to the Great Depression of the 1930s.
The International Monetary Fund (IMF) is an organization of 187 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. Details about the IMF at a glance is given in the table below.

Q.16) ***Write a note on: World Bank.***
ANS: The World Bank is a vital source of financial and technical assistance to developing countries around the world. Its mission is to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors.
It is not a bank in the common sense, it is made up of two unique development institutions owned by 187 member countries: ***The International Bank for Reconstruction and Development (IBRD) and the International Association (IDA).***
The ***IBRD*** aims to reduce poverty in middle-income and creditworthy poorer countries, while ***DDA*** focuses on the world's poorest countries.
Their work is complemented by that of the ***International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID)***
Together they provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture and environment and natural source management.
The World Bank established in 1944 is headquartered in Washington D.C. we have more than 10,000 employees in more than 100 offices worldwide.
In India, the World Bank works in close partnership with the Central and State Governments. It also works with other development partners: bilateral and multilateral donor organizations, nongovernmental organizations (NGOs), the private sector, and the general public- including academics, scientists, economists, journalists, teachers and local people involved in development projects.
One of the latest projects of the World Bank in India is the ***National Ganga River Basin Project-*** the World bank has approved $1 billion in support of India's efforts to clean the iconic Ganga. It has approved $975 million for the ***Eastern Dedicated Freight Corridor Project (PFC).***
India's Dedicated Freight Corridor (DFC) program will enable the country to create one of the largest freight operations in the world. The DFC will reduce Green House Gas (GHG) emissions by 2.25 times over a 30 years period. The World Bank will support the program with $975 million in the first phase.

Q.17) ***Write A Note On: World Trade Organization (WTO)***
ANS. The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. This is done by preparing agreements signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters and importers conduct their business.
India is a founder member of the WTO.

The WTO assures consumers and producers that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services, they can use. The WTO aims at creating a more prosperous, peaceful and accountable economic world.

The WTO has 153 members representing more than 95% of total world trade and 30 observers. The WTO is managed b y a ministerial conference, meeting every two years; a general council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the ministerial conference. The WTO's headquarters is at the Centre William Rappard, Geneva, Switzerland.

By lowering trade barriers, the WTO's system also breaks down other barriers between peoples and nations.

At the heart of the system – known as the multilateral trading system – are the WTO's agreements, negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. Essentially, they are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

Q.18) ***Write A Note On: WTO Agreements***

Ans.*1)* ***GATT (General Agreements of Tariff and Trade):*** The General Agreements of Tariffs and Trade (typically abbreviated GATT) was negotiated during the UN conference on Trade and Employment. GATT was signed in 1947 and lasted until 1993, when it was replaced by the World Trade Organisation in 1995.

From 1947 to 1994, GATT was the forum for negotiation lower customs duty rates and other trade barriers, the text of the General Agreement spelt out important rules, particularly non-discrimination.

Since 1995, the updated GATT has become the WTO's umbrella agreement for trade in goods. It has annexes dealing with specific sectors such as agriculture and textiles and with specific issues such state trading, product standards, subsidies and actions taken against dumping.

2) Agreement on Textile and Clothing (ATC): The basic aim of the Agreement on Textiles and Clothing (ATC) was to secure the removal of restrictions which were applied by some developed countries to import of textiles and clothing. To this end the agreement set out procedures for integrating the trade in textiles and clothing falling into the GATT system by requiring countries to remove the restrictions in four stages over a period of 10 years ending on 1st January, 2005, from this date, world trading in textile and clothing became virtually quota free. This has benefited a number of developing countries in expanding their textile and clothing exports.

a) Agreement on Agriculture: The WTO's Agriculture Agreement is a significant first step towards fairer competition and trade in agriculture. WTO member Governments agreed to improve market access and reduce trade-distorting subsidies in agriculture. In general, these commitments were phased in over a six years from 1995 (10 years for developing countries).

b) General Agreement of Trade in Services (GATS): Ranging from architecture to voice-mail telecommunication and to space transport, GATS services are largest and mostly dynamic component of both developed and developing country economics. Important in their own right, they also serve as crucial inputs into the production of most goods. The importance of services was discussed in the Uruguay round of talks by countries on Multi Trade Negotiations. This led to the General Agreement on Trade in Services (GATS).

The General Agreement on Trade in Services (GATS) came into force in 1995 and constitutes the legal frame work through which World Trade Organization (WTO) members progressively liberalise trade in services, including health-related services. Within the GATS framework, trade in health-related services is understood as the provision of specialized and general health personnel, nursing services, hospital services, ambulance service and physiotherapeutic and paramedical services provided by medical and dental laboratories.

GATS allow WTO members to choose which service sectors to open up to trade and foreign competition. The overall aim of GATS is to liberalize trade in services. This is governed by the 'Most Favoured Nations' obligation that prevents countries from discriminating among foreign suppliers and services.

c) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS): This WTO agreement came into force from January 1, 1996. Intellectual property rights are the righted given to people over the creations of their minds. The WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how copyrights, patents, trademarks, geographical names used to identify products, industrial designs, integrated circuit layout-designs and undisclosed information such as trade secrets-"Intellectual property"- should be protected when trade is involved.

Q.19) *DISTINGUISH BETWEEN DOMESTIC AND INTERNATIONAL BUSINESS.*

Domestic Business	***International Business***
Geographical Scope	
Within the national boundaries of the domestic country	Varies from national boundaries of two countries to the entire globe
Operating Style	
Production, marketing and investments limited to domestic country	Operations spread to the entire globe
Tariff	
Tariff rates of various countries do not affect the domestic business	Tariff rates of various countries affect the international business
Foreign Exchange Rates	
Rates and fluctuations do not directly affect domestic business	Rates and fluctuations directly affect international business
Quotas	
Quotas imposed on exports and imports by various countries do not directly affect domestic business on exports and imports	International business
Culture	
Domestic culture, of the country affects business including product design	Cultures of various countries affect international business including product design

Export-Import procedures	
Domestic business not influenced by export-import procedures of the country	International Business needs to follow export-import procedures of various countries
Markets and Customers	
Domestic companies meet the needs and demands of the domestic markets and customers	International Business needs to understand the markets and customers of various countries

CHAPTER 8: MARKETING

Q.1. *EXPLAIN THE MEANING OF MARKET?*

ANS: The word market has come from the Latin word "marcatus" which means Traders place of trade. Generally, we use it as vegetable market, share market, fruit market, bullion market, cloths market etc. We state that market is the place of purchasing and selling.

Market can be defined as follows:

According to Jevons "Market means anybody of persons who are in intimate business relations and carry on extensive transactions in any commodity"

According to Philip Kotler "market is an area of potential exchange"

In brief, market is a place where sellers and buyers come together to enter into buying and selling transactions.

Meaning and Definitions of Marketing:

Marketing is a concept compared to market. It is an organized trading process .It includes sales and various activities for exchange of goods and services.

Definitions

The American Marketing Association: "Performing the business activities that direct the flow of goods and services from producer to consumers or users".

Paul Mazur defines marketing as" The creation and delivery of a standard of living to society".

Philip Kotler "the set of human activities directed as facilitating and consummating exchanges, the essence of marketing is exchange of products the transactions is to satisfy human needs and wants. All business activities helping and promoting the exchange functions are included in marketing"

Q.2. *Explain the role or significance or importance of marketing?*

ANS: Marketing plays crucial role of importance in modern industrial social set up. Marketing is a base for life, food, clothing, shelter, happiness and health are our main requirements. We are dependent on marketing for fulfillments our requirements. Production and consumption are pillars of economy. It is necessary to maintain continuity and balance between these activities. Marketing makes it possible. Hence marketing is known as new lease of life for human life and modern economy as well.

The following are the Importance of Marketing:

(1) Marketing and Society/Consumers:

Marketing is a social and commercial process. It plays an important role in process of social development. This can be clear with the help of following points:

a) Increase in the standard of living:

Modern society is divided into three classes 1) Rich class 2) Middle class and 3) Poor class. Standard of living of society mainly depends on purchasing power of these classes. Better standard of living needs fulfillment of various wants, which is possible with the help of marketing. Hence it can be stated that standard of living is a gift of marketing. In simple words marketing improves the standard of living of society.

b) Employment Opportunities:

Marketing is an important instrument of employment. The process includes various activities, such buying, selling, warehousing, transportation, grading, finance, risk undertaking etc. which provides employment to number of persons .Thus marketing generates sufficient scope for employment to thousands of people and improves their income levels.

c) Economic Stability:

Marketing plays a vital role, in the economic stability of a country. Economic growth depends on economic stability. Economic stability depends on balance between production and consumption i.e demands supply. To maintain balance in production and consumption marketing is necessary .Marketing maintains this balance and stabilizes the economy.

d) Creates Utility:

Marketing is an economic activity. It creates ownership, place and time utility in goods and services. Marketing creates demands .Various activity of marketing creates utility e.g. Exchange of goods offers ownership, time utility and place utility is created due to warehousing and transportation .Thus marketing provides value to the goods and services and right time at right place and reasonable price.

***e) Satisfaction of human wants*:**

Marketing plays a significant role in the distribution of goods and services to the consumer satisfaction of their wants. It is the activity which transfers goods and service from the place of consumption to satisfy, the needs of society. Thus, marketing has great importance in providing goods necessary to satisfy human wants.

(2) Marketing and Organizations:

Various business organisations obtain benefits of marketing in following ways:

a) Gain Income:

An organizational profit depends on its income, while future of organizational depends on its profit. Organizational can earn profit through various activities .Marketing provides 'Market' to goods and services .The function of marketing develop wants and fulfills the same .Organizations can spend on production and marketing through the income earned.

b) Marketing Information:

Modern economic is dynamic in nature. There are tremendous and rapid changes in likes, dislikes, price and demand. An entrepreneur has to take decisions according to changed environment .Entrepreneurs have to search new products, new customers, new market, new process of production and so on. Producer can collect all this information from various marketing sources and can introduce changes in their production, survive in competition.

c) Source and Channel of New Ideas:

Marketing is an important and complex aspect of the modern dynamic economy. Dynamic changes constantly occur in the field of marketing which is very essential for providing sources and channels of new ideas and guiding policies.

d) Decision Making :

Producers produce goods and services. He has to take major decisions like what to produce? Where to produce? How much to produce? All these decisions directly affect the profit. These decisions are major and hence are difficult to take. Marketing helps producers to take proper decisions, at right time. Hence "success" of business and proper decisions are interdependent which is possible due to marketing.

Q.3. E*xplain the functions of marketing?*

Ans: Marketing is made up of a number of activities known as marketing functions; therefore, fee study of marketing management is nothing but the crucial evaluation of various marketing functions. The widely accepted functions of marketing are as follows:

a) Buying:

Buying is an important function of marketing and it is the first step in the process of marketing. Every trading concern needs efficient and economical buying to get adequate profit. The lists of specific requirements are to be prepared and suppliers are contacted. To buy means to purchase a commodity, having specific price, from the seller, to fulfill our needs.

b) Selling:

Selling is another important function of marketing. It involves the transfer of title of goods to the buyer. It is very important from the point of view of the seller, the (Consumer and the general public).The objective of profit of a concern is successfully carried out through the sale of goods. The selling function in marketing creates demand for the product. It involves the creation and expansion of market for the goods produced in anticipation of demand. Thus, selling increases profit of the business and the production of goods and services available to the consumers in society.

c) Transporting:

Transporting includes the movement of goods and services from the place of production to the place of consumption .Transportation primarily creates place-utility. It is of great importance to get (obtain) the benefits of regional specialization of production, division of labour and large scale production .Large scale production is possible because of the fastest modern transportation for sending raw- material to the industries and finished goods to the market.

d) Warehousing:

Warehousing function creates time-utility. Storage is very essential to keep the goods from the time they are produced until they needed for the ultimate consumers. At present, the goods are produced in anticipation of demand and therefore, it is necessary for the producer to store the goods systematically till the time of their sale. The storage function is made effective by establishing warehouses. Storage helps to keep steady flow of commodities in the market throughout the year.

e) Financing:

To make availability of adequate and cheap finance is very essential for the smooth marketing of the products .The total growth of the business depends upon finance, hence all sectors of business are in need of regular supply of marketing money.

f) Market Research:

Modern marketing requires a lot of information accurately, adequately and promptly for many purposes. In marketing such information is very useful to solve a number of marketing problems. The proper study of this information enables the seller to know when to sell, where to sell, at what price to sell, who are the competitors etc .This market information helps to the seller to know the likes and preferences of customers.

Q.4. W*hat is the marketing mix?*

ANS: Introduction:

Marketing mix is an important concept of marketing management. The aim of each business is maximization of profits. For that it is necessary to capture markets in order to increase sales of the product. In order to do so marketing organization has to concentrate on four important factors (aspects) i.e. Product, Place, Promotion and Price known as marketing –mix. We will study all these 4 factors or 4 P's of marketing mix in details.

Meaning of Marketing Mix: Marketing Mix is one of the most important elements of marketing management .Today's marketing management involves in identification of needs of customers and to satisfy those wants (needs). To promote sales of a product special efforts are necessary. In order to increase sales of a product and satisfy the wants of the customers. Marketing mix of an organization is divided into four elements, which are as follows: (Four P's)

1. Product Mix
2. Place of physical distribution Mix
3. Promotion Mix
4. Price Mix

Definition:

William Stanton – "The concept Marketing Mix is related with combination of four important factors of marketing i.e. Product, Price, Promotion and Place"

Philip Kotler – "Marketing Mix is a set of controllable variables and their levels that the firm uses to influence the target market."

Q.5. W*hat are the basic elements of marketing mix or four p's of marketing mix?*

Ans: The important basic elements of marketing mix are as follows:

a) Product:

Product is one of the significant elements of marketing mix because without product there is no marketing. A product has a bundle of utilities consisting of various product features and accompanying services. A product is described as a factor by which a company provides consumers satisfaction. Hence, customer buys such product which provides more satisfaction to him. The product is the main element of marking mix.

b) Price

Pricing is an important element of marketing mix of organisation. Fixing price of a product is one of the most difficult tasks of marketing manager. Price is the measure of material value and gives effect to demand, price brings equilibrium between supply and demand of products in the market. So pricing decisions are the most significant decisions because they are the very basis of survival and growth of the organisation.

c) Promotion

Promotion is also one of the most important elements of marketing mix. It is an important activity in marketing to lubricate the marketing efforts. It is highly specialized marketing function. Promotion includes advertising, sales, promotion, publicity, personal selling, public relations etc.

d) Place (Distribution)

Marketing or distribution of products to the actual users is the main object of the process of marketing. When product is ready for market, the producer has to determine the methods and routes of bringing the product to the market. Distribution creates place, time and ownership utilities to the product. The decision of selecting proper marketing channels is of great importance in marketing process as it affects other decisions of marketing

Q.6. ***What is the product mix?***

ANS: Meaning:

A Product is an item or thing which can be offered to a market to satisfy a want of customers. This term can be used as broad or narrow concept. The narrow concept is that the thing which is tangible and has some physical and chemical properties is known as a 'product.'

The broader concept is that the things which considers objectives , ideas, personalities, physical objects, services, organizations, price, amenities, supportive, literature is called products.

Philip Kotler "Product is defined as a thing which attracts attention of prospect so that can be used and consumed by consumers and is available in the market, which satisfies wants and needs. Product as a wider term consists of visible thing, service, individual, geographical, location, organization and ideas."

Now, it is clear that the term product is used as a broad concept. It includes physical objects, services, place, organization, personalities, ideas etc. Products are tangible, intangible or both e.g. Mobile handsets, bike, T.V. are all tangible products. Banking, Insurance, Storage, Transport are all services which are intangible.

Q.7. What are the classifications of product mix?

Ans: Many Products are available in the market to satisfy the needs of consumers. These products can be classified as follows:

Classification of Products

1	2	3	4
DURABILITY	***PROCESS***	***NATURE***	***USE***
Durable Goods Non-Durable Goods Manufactured Goods	Primary Goods Semi Manufactured Goods Manufactured Goods	Natural Goods Agricultural Goods	Consumer Goods Industrial Goods

(1) Classification on the basis of Durability:

The product can be classified into two categories according to its durability.

a) <u>Durable Goods:</u>

This products life is for many years. So, it is called durable goods e.g. vehicles, machinery, fan, cycle, railway, motor car etc.

b) <u>Non- Durable Goods:</u>

The life span of these goods is short. There includes food products, bakery products, garments, vegetables, food grains etc. some of these goods are used only once e.g. vegetables, bakery products, paper, biscuits etc. some of the products can be used again and again e.g. soaps, food grains and ready garments. etc.

(2) Classification on the basis of process:

Considering the process, process can be classified into three types:

a) <u>Primary Goods:</u>

Primary goods are these which are directly consumed as they are. No process is required e.g. iron, coals, fish, grains etc.

b) <u>Semi-Manufactured Goods:</u>

Semi-manufactured goods are those goods on which further processing is made and after that process the goods can be used. e.g. paper, cloth etc

c) <u>Manufactured Goods:</u>

Raw-material is converted into finished (final) product by some process and then these goods are called as manufactured goods. e.g. table, chair, motor car, sugar, medicines etc.

(3) Classification on the basis of nature:

These products can be classified into three types according to its nature

a) <u>Natural Goods</u>:

Natural goods are those which are directly obtained to human beings as a gift from nature e. g. water, mineral deposits, forest, etc.

b) <u>Agricultural Goods:</u>

Agricultural goods are those which are cultivated (obtained) from agricultural land e.g. cotton, wheat, rice, fruits, food grains, etc.

c) Manufactured Goods:

Manufactured goods are those, which are produced at industry with the help of human efforts and machinery by making process e.g. mobile handset, computer, motor car, tooth paste, soap, sugar, etc.

(4) Classification on the basis of Utility (usability):

The products are divided according to its use, into two types are as under.

a) Consumer Goods:

The goods which are consumed by consumers to satisfy their needs they are called consumer goods e.g. Pizza, Berger, shoes, cycles, medicines, etc.

i. Convenient Goods:

The goods which are necessities, used frequently and are easily available at market place are called a Convenient Goods.

ii. Specialty Goods:

The goods which attract attention of customers and customers take special efforts to purchase the products are called as specialty goods. Luxury items are a kind of specialty goods e.g. costly watches, motor car, perfumes, body spray scents, ornaments etc

iii. Shopping Goods:

While purchasing these goods customer compares price, quality, color, size, shape of these goods to other goods e.g. sarees, shoes, furniture, readymade garments.

b) Industrial Goods:

The goods which are used for production of other goods are known as industrial goods e.g. machinery, spare- parts, cotton, raw-material etc. In short, the goods which are required by industry for further processing are called as industrial goods.

Q.8) ***What is the meaning branding?***

ANS: Meaning:

Branding- Means giving a distinctive name/number, or mark to a product for its identification from competitors product.

Today branding is very essential for advertising and promotional support to the product in marketing and to make the product recognizable to the customers. The main object of branding is to distinguish the product from the products of other competitors in the market . a brand can be registered and when it is registered, it enjoys legal protection which is known as " Trade Mark " and others cannot make use of it. The letter "R" in a circle on each package indicates that the brand is duly registered. The producer can build up an image of his organization around the Brand .Branding is the most powerful instrument of sales promotion. The owner of a registered brand product personally behind the product and also creates special consumer preference.

Thus, it gives personal guarantee for maintaining the quality and standard of the product as per advertisement. This is very important to build product image in the market. Generally, every brand suggests something about a product i.e. name of product, its quality, its specialty, its utility purpose etc. it must be remembered that a brand name should be short and easy to pronounce, remember, identity and advertise also.

Q.9) W*hat is the meaning of labeling*?

ANS: <u>Meaning:</u>

Label is a part and parcel of a package. A label provides written information about the product. Labeling helps the buyer to understand the nature of the product; its distinctive features, its composition, and its performance etc .there are grade, labels and description labels. In grade labeling, product classifications are based on standards of quality. Products are classified into A, B, C or 1,2,3 categories based on quality e.g. geogray 1,2,3 but for branded products, mostly descriptive labeling is used, furnishing detailed information about product attributes and qualities. For several products, statutory labeling requirements are laid down and the marketers are bound to follow them.

Because of label customers can identify their liking product from various types of product in the market. Label helps to know the name of product, name of producer, weight utility, contents, safety, date of production, expiry date and retail price of the product to the customers.

Q.10. *What is the meaning of packaging*?

ANS: <u>Meaning:</u>

Once a decision regarding brand is taken, then it is necessary to consider about packaging and labeling of product. Packaging and labeling are specialized activities which need services of advertising experts. Branding, packaging, labeling, product warranty and services after sale is the product marketing effective procedure. Package is important to the buyers to recognize the product. Similarly modern methods of packaging are useful to the producer to distinguish (distinct) his product from competitors.

Packages and their labels, provide accurate information to the customers regarding the contents and use of the product. Packaging, branding and labeling go together and they are integral part of product; planning and development. The main purpose of labeling is to give the consumers information about product, he is buying. Labeling system must enable consumers to determine quality and compare products.

Q.11. *What is the meaning of physical distribution?*

ANS*: *<u>Meaning:</u>

Physical distribution means the process of delivering the product to the users or consumers promptly, softly and in time. Physical distribution includes planning, action and control of the physical flows of raw materials and finished products form the place of origin to the place of consumption to meet the needs of customers. In physical distribution to deliver the rights goods to right customers at the right time and place.

<u>CHANNELS OF DISTRIBUTION:</u>

<u>Meaning:</u>

The channel which is selected to provide products to the consumers is known as channel of distribution. It is also called as "Distribution Chain" or "Chain of Distribution".

Definition:

American Marketing Association "A market channel is a structure of intra- company organisation units and extra company agents and dealers, wholesale and retail, through which a commodity, product or service is marketed."

Philip Kotler "A channel of distribution as a set of independent organisations involved in the process of making a product or service available for use or consumption by the customer or business user."
So it is clear that channel of distribution means the functions performed by many organisations (agencies), those are called as intermediaries or middlemen. The products are made available to consumers through these channels or middlemen."

Q.12. *What is the role and importance of physical distribution?*
ANS: The role and importance of channels of distribution can be known from the following points:

a) Place Utility:
Distribution creates place utility. Distribution channels carry the products from the point of manufacture to the point of consumption. Thus, the distribution channels make available the products where they are needed. It helps to maintain a balance between supply and demand."

b) Time Utility:
All agents and middlemen in channel of distribution stores goods with them for sometime because of which products are available when they are needed. This increases the time utility of the products. Time utility is very essential to make availability of goods as and when needed.

c) Ownership Utility:
Distributors play an 'important role' in changing the ownership of goods and thus, create ownership utility. Change in the ownership of goods increases the ownership utility. E.g. the utility of Newspaper is more to readers than the publisher of newspaper.

***d) Regular Supply*:**
Distribution channels play a role of regular supplier of goods to the customers in the market. Thus, distribution channels are very important to maintain regularity and continuity of goods supply. Hence distributors are very essential to overcome the shortage of goods.

e) Warehousing Function:
All middlemen in distribution channels store the goods. Distribution channels play an important role in storing goods till they have demand in the market. Due to storing of goods by distribution channel, the price stability is also maintained in the market.

f) Development of New Markets:

Distribution channels make it possible to develop new geographical markets in the interior parts and also in banned/remote areas. Thus distribution channels are very essential and play a important role in expansion of markets.

Q.13. ***What are the types of channel of distribution*** **?**
Ans: ***The following are the types of Channel of Distribution:***
a) Distribution through Mercantile Agents:
This is the distribution channel which includes brokers or agents, commission merchants or wholesalers and the retailers. Usually, the manufacturers, use this channel of distribution. Generally, agents are employed for the distribution of producers goods e.g. Fruits, agricultural goods, vegetables etc. Thus , in this channel of distribution the producer uses the services of an agent in marketing.

b) Distribution through Wholesalers and Retailers:
This is a normal regular and popular channel of distribution and is often preferred traditional channel. Generally, wholesaler performs specific marketing functions of buying in large quantities, receiving and storing, and selling in small quantities to large number of retailers. Thus, he is a merchant middleman between producers and retailers, and he always tries to sell on profit basis.

c) Distribution through Retailers/Dealers:
This is a short trade channel in which the producer assumes the functions of the brokers and wholesalers. The distribution by the producer direct to the retailers has some distinct advantages. By adopting this channel of distribution, he can put in a more aggressive sales effort to boost the sales of his products. This method is very useful to the producer because it provides firsthand information about the market and consumer's interest.

d) Distribution Direct to Consumers:
This is the shortest channel of distribution as there is no intermediary. In this channel sales are directly made to consumers either by producers or house to house (door to door) visits by salesman. This method is most common in industrial marketing where capital goods are sold e.g. (Oil engine, computers, mobiles, pump sets, equipments, vehicles etc. are generally sold on a direct basis. It is also undertaken in agricultural commodities where there is a small production.

Through above channels of distribution are available, it is very essential to take policy decision before selecting a particular channel of distribution. Hence, before selecting a final channel of distribution, general considerations like nature of product, characteristics of individual buyer, buying habits, completion etc. must be considered.

Q.14) What are the factors determining the choice of a suitable channel of distribution?
Ans: ***The following are the factors determining the channel of distribution***
(1) Market Consideration:
Factors influencing choice of channel related with market are as follows:
a) Number of Consumers:

If the number of potential consumers are in large, large number of middlemen are needed and if the consumer's number is small, there is no need of large number of middlemen.

b) <u>Size or Order</u>:

The channel has to be selected as per the orders for product from customers. If the size of the order of a product is huge or in bulk then direct or small channel can be selected, but if the size is small and is from many customers then large or more than one channel can be selected.

c) <u>Sales in future:</u>

While deciding channel of distribution, the sales forecast is essential. If the expected sales are huge, many marked areas has to be captured or covered. It is essential to select more than one channel of distribution. So, it is possible to reach many customers.

d) <u>Nature of Market:</u>

Nature of the market is an important factor. It is to be considered that whether the product is meant for the consumer or the industrial buyers. If it is for both the markets, more channels will have to be employed.

(2) <u>Factors related to Production:</u>

Following are the factors influencing the choice of channel related to production.

a) <u>Price of a Product:</u>

There are different prices for different products. For low priced items such as pen, paper, clips etc. longer channel is selected. But for higher priced items such as tractor, TV, computers, mobile handsets etc. Short channel is selected.

b) <u>Bulk and Weight of Product:</u>

The product can be bulky (e.g. cement, steel, machinery etc) or it can light weight (e.g. paper, pen, stationery, readymade garments etc).For bulky products the cost of distribution and cost of handling is high. So short channel is preferable. But for light goods a longer channel is preferable.

c) <u>Perishable Nature:</u>

In case of products of perishable nature (e.g. milk, eggs, fruits etc.) shorter channel is more preferred. But if the product is of non-perishable nature, longer and wide channels can be selected.

d) <u>Nature of Products:</u>

Some articles are very delicate, so it is necessary to handle those goods very carefully e.g. glassware, watches, computers, sun-glasses etc. So selection of short channel is preferable. Some goods are easy to handle e.g. readymade garments, toys, utensils etc). So for all such products longer channel can be selected.

(3) <u>Factors related to middlemen:</u>

Factors influencing choice of channel related to middlemen are:

a) *<u>Manufacturer's Policies</u>*:

If the attitude of middlemen is liberal, the manufacturers prefer to use services of middlemen. But if such attitude is rigid, they prefer to sell directly to consumers.

b) <u>Middlemen's Services:</u>

Middlemen provide essential services both to producers and consumers. In such cases the manufacturers prefer to sell their products through middlemen. Thus, middlemen's available services also influence the channels.

c) Sales Volume :

The channel which offers maximum sales volume is preferred to other channels. Thus, the sales volume influences the channel of distribution.

d) *Cost of channel*:

Cost consideration is very important in determining channel of distribution. Therefore, the channel having low cost is more preferred by the manufacturers.

(4) Factors related to organizations:

Factors influencing choice of channel related to organizations/company are as follows:

a) *Suitability*:

The channel which is more suitable and convenient is more preferred than any other channels. Hence a channel which is more appropriate and suitable is preferred more.

b) Desire of Control:

If producers desire for control of channel, they prefer to establish a short and direct channel. In such cases more effective sales promotion may also be used.

c) Financial Position:

The companies having strong financial position can use the services of their own sales force. However, the organizations having weak financial position utilize the services of middlemen.

d) Custom of Business:

In some industries the channel of distribution depends upon the custom of business. Therefore, they have to follow the prevailing channel of distribution.

e) Efficiency:

Efficiency of a channel of distribution is also an important factor. Hence, organization must select such channel of distribution which increases sales and decreases cost of sales.

***Q.15) What is the meaning of promotion (sales promotion)*?**

ANS: ***Meaning:***

Sales Promotion is an important aspect in marketing to lubricate the marketing efforts. It is a highly specialized function of marketing. Sales promotion is of great importance in modern marketing. Sales promotion includes every activity that contributes in any way, directly or indirectly, to the promotion of profitable sales. Hence, it is very useful to introduce new products, to attract new customers, to induce present customers to buy more and to increase sales. Thus, sales promotion techniques are supplementary to advertising programmes.

Definition:

Sales Promotion has been defined by American Marketing Association:" Sales Promotion refers to those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as display shows and exhibition, demonstrations and various non-recurring selling efforts and in the ordinary routine."

G.H. Hopkins: "Sales Promotion is an organized effort applied to the selling job to secure the greatest effectiveness for advertising and for dealer's help."

***Q.16) What is the role or importance of sales promotion*?**

ANS: The following are the role or importance of sales promotion

a) Better control:

Sales Promotion brings effective control over the sales activities. The financial aspects can be brought under perfect control of the organisation because cost of sales promotion can be easily compared with the profit per unit of product sold.

b) Low Unit Cost:

Nowadays due to large scale production, sales promotion plays a significant role in marketing activities. It increases sales and ultimately helps for low cost of production. Thus, it is very useful for increasing sales and bringing low cost.

c) *High Living Standards*:

Marketing is a belt which connects the wheels of production and distribution. Sales promotion activities are very useful to accelerate sales by which employers are maintained at the same level and thus the standard of living is not affected unfavorably. The activities may lead to maintain parity in economic ups and downs which may raise the standard of living.

d) Guidance to Middlemen:

Various methods of sales promotion are very useful to guide wholesalers and retailers. They can get guidance through various materials of sales promotion by which they guide to consumers. Such guidance is of great importance to create demand for product.

e) To Remain Stable in Competition:

Sales promotion is of great importance to retain in the severe competition of business rivals. The modern age is the age of keen competition in which sales promotion is very important to attract the consumers to the product. It gives strength to the producers to face against competition.

f) Changing Attitude of Consumers:

At present the marketing environment is changing constantly due to new inventions and ideas in the field of production and distribution. This is because the attitude of consumers about the product is changing. In this situation sales promotion , through various methods of advertising, plays an important role in bringing new products in the market.

Q.17) What is the meaning of promotion mix?

Ans: Meaning:

Promotion is the persuasive communication about the product by the seller to the buyer. It covers advertising, personal selling, sales promotion publicity, public relation, exhibition and demonstration used in promotion. Largely it deals with non-price competition.

Definition:

"A specific combination of promotional methods used for one product or a family products. Elements of promotion mix include print or broadcast advertising, direct marketing, personal selling, point of sale displays and/or merchandising. "

1) The four elements of marketing mix are co-equal, interdependent and essential. The marketing mix acts as the integrated marketing strategy and the four elements together constitute the marketing strategy.

2) Individually the four elements are important but their significance lies in the proper mix or blend indicating the unique way they are combined as a careful plan or strategy, to meet competition in a dynamic marketing environment. For one market segment we have typical marketing mix.

3) The decisions on the four elements of marketing mix must be properly co-ordinated and balanced in order to achieve an optimum marketing mix.
4) Although grasp of the customer is common to all the four elements. The marketing mix is expected to provide maximum customer satisfaction.

Q.18) What is the role of advertising and its role towards manufacturer and consumers?

ANS: <u>Meaning of Advertising:</u>

Advertising plays a significant role in modern marketing system. Mass production and mass distribution are totally dependent on all forms of advertising. Its importance/ role can be known from the following heads/stages.

The following are the Role of Advertising relating to manufacturers:

a) <u>Wider Market:</u>

Advertising contributes to increase in sales and wider market.it brings new products to the attention of the people. It provides necessary information about the product such as use, utility price, durability etc. to the probable customers and increases the demand for product in the market. Thus, it is possible to capture wider market for the product.

b) <u>Creation of Demand:</u>

Advertising informs the scattered customers about the new product in the market and motivates them to buy such product. Thus, advertising is of great use in creation of demand for the new product.

c) <u>Increased Production:</u>

Advertising plays an important role in increasing demand for the product which automatically increases the production. Increase in production induces new method of production and improvement in quality of a product.

d) <u>Reputation and Goodwill:</u>

Advertising popularizes the product and builds up reputation and goodwill of the company. It creates an image of the producer's business in the market.

The following are the Role of Advertising relating to Consumers:

a) <u>Quality Products:</u>

Advertising plays an important role in competitive market. Advertising provides information to the producers about their competing products. Thus, it enables the producer to improve the quality of the product, which is beneficial to the customers.

b) <u>Knowledge of New Product:</u>

Advertising plays significant role in giving knowledge of new products to the customers. Hence customers can buy their requirements as per their own liking and preferences. Advertising is useful to customers for getting knowledge of new products in the market.

c) <u>Saves Time and Money:</u>

Advertising saves time, money and energy of customers in obtaining information about the products. By demonstration of product advertising educates the public in the right method and thus saves consumer's time, money and energy.

d) <u>Low Price:</u>

Advertising leads to increase in production which ultimately leads to reduction in cost of production. Similarly, middlemen can be avoided and make direct purchases from producers. Due to this consumers can get the product at a low price.

e) <u>No Cheating</u>:

Due to advertising customers obtain proper quality products. Hence producers have no chance to cheat the customers in the market.

Q.19) What are the advantages of advertising to society?

Ans: The following are the advantages of Advertising to the Society:

a) <u>Employment</u>:

Various advertising media provide many employment opportunities to the society. Advertising agencies are in need of artists, painters, writers, singers and photographers etc.

b) <u>Standard of Living:</u>

Advertising Medias raise the standard of living of people. Because of advertising many new products can be brought to the notice of the public and by purchasing such products the public may increase their standard of living.

c) <u>Education</u>:

Advertisements are prepared in a very attractive manner by using facts, figures, tables, slogans, colour combinations etc. which may increase the knowledge of the public. Advertising is an important tool of educating people about the use of different product.

d) <u>Exchange of culture</u>:

Advertising is of great importance in transferring culture of a nation to abroad. Advertising operates within the limits of culture to create new expectations for the customer. It has educative value and hence it affects thoughts, gestures and behavior of the people.

e) <u>Low Price:</u>

The prices of newspapers and magazines are affordable only because of they contain various advertisements contributing in total costs.

Q.20) What is the meaning of personal selling?

ANS: <u>Meaning</u>:

Selling means the transfer of ownership of goods or services to a buyer in exchange for money. In modern days, selling is based upon the principle of customer's satisfaction. This selling is an art as well as Science.

<u>Definition</u>:

Philip Kotler "Personal Selling is a face to face interaction with one or more prospective purchasers for the purpose of making sales."

The following are the role or importance of Personal Selling:

a) <u>To Find Prospect:</u>

Sales personal plays important role in locating and identifying new customers who are interested in the company products.

b) <u>To Assist Customers:</u>

Salesman provides advice and technical assistance to customers about the utility and use of the product. They also provide personal services to the society in connection with the marketing of goods.

c) To increase Sales Volume:

Salesman plays significant role in increasing the volume of sales and earn more amount of profit to the organization. Without efforts of salesman, increase in sales is not possible.

d) To Keep Customers Satisfaction:

Salesman provides necessary information to the customers about the available product and their utility and thus keep the customers satisfaction about their purchases .

e) To convince the prospects:

Salesman induces the prospects and convinces them to buy the product of the company. This is very essential to increase the customers i.e. large sales volume.

f) To Remove Ignorance:

Salesman have an ability to remove ignorance, doubts and emotional objection of the customers concerning to the usefulness of a product.

Q.21) What are the objections to advertising/ethical considerations in advertising?

ANS: Advertising has become an integral part not only of our marketing process but also of our entire economic and social life. It is double-edged instrument/tool in the marketing mix. If it is a property used it can be a boon or a blessing for distribution channel. But if it is misused, it can also act as a bane in distribution. The following are the advertising objections:

a) No Responsibility of Claims:

Majority of advertisers make very tall claims about their products or services, but in actual practice it may not happen so. In short advertisers are not generally accepting responsibility of claims.

b) No Truth:

There are some advertisements in which there is no truth at all and the statements made are totally false.

c) Bait Advertisements:

Some advertisers demonstrate and shows cheating and false bait advertisements to customer in the market. Such unethical consideration in very common in present advertisements.

d) Lack of testimonials:

Many advertisers fail to prove the utility and quality of the product in the market. In short, advertisers are not in a position to best their advertising product.

e) Lack of Decency:

Some advertising medias suffer from lack of decency i.e. there is no loyalty, no honesty and morality is maintained while making advertisement of product in the market.

Q.22) What are the factors influencing pricing?

ANS: Meaning of Pricing:

The payment we make in terms of money is called as " Price of a Product." Price is an exchange value of a product. Price is expressed in terms of money or in kind. The amount can be charged for goods as well as for services. The price of a product has a great bearing on the interest of both the buyer and the seller. The price must be equal to the total amount of benefits i.e. physical, economic, social and psychological benefits. Thus pricing is an important element in market policy.

Economists defines price as the exchange value of a product or service always expressed in money. To the consumer the price is an agreement between the seller and buyer concerning what each is to deceive

Factors influencing Pricing .A business firm should consider number of factors which influence the pricing decisions. These factors are as below:-

(1) INTERNAL FACTORS:

a) <u>Business Objectives:</u>

Pricing contributes one of the shares in achieving the objectives of many companies. These objectives are affected in pricing policies such as stability in prices, maximizing profits, face competition etc. hence, these factors should be considered before the price of a product is being fixed.

b) <u>Costs:</u>

The most decisive factors is the cost of production. It is a simple proposition that prices charged must be such as will enable the producer to cover his cost and earn a reasonable profit. The cost of production is the price which consumer is willing to buy.

c) <u>Marketing-Mix :</u>

Price is one of the factors of marketing-mix and therefore price of the product must be fixed by considering other factors of marketing-mix. Sometimes high prices are charged to show the quality of a product and sometimes low prices are charged to make a new product popular.

d) <u>Product Differentiation</u> :

Few producers adopt the policy of product differentiation in order to show some special features from the products of competitors. Thus, through product differentiation they try to fix a price policy separate from their competitors.

e) <u>Organization Factor:</u>

Price fixing is an important responsibility of the top management and due. Sales manager has to implement such policy. Hence, in order to promote sales, top executives and sales manager should consult each other while fixing price of a product.

(2) <u>EXTERNAL FACTORS</u> :

a) <u>Demand:</u>

In consumer/ customer oriented marketing the consumers are influenced by price and hence value of a given product to the consumer is the prime consideration. Every product gives buyer service and satisfaction, the total of which is the value of a particular consumer. Thus, consumer demand to product price influences.

b) Competition:

Competition is the another factor which influences pricing. Therefore, every producer has to consider competition in fixing his price policy. It is very difficult to decide the extent of competition and hence to avoid competitive pricing, a firm may try to differentiate his product from those of competitions.

c) *Government Policy*:

Government policy and restrictions may also affect the price of a product. Many a times the retail prices of the products are fixed by the government e.g. Medicines, gas, petrol etc. Thus, the price fixed by the government is the price which the consumer has to pay.

d) Distribution Channels:

The impact of distribution channels may also influence the price of a product. Number of middlemen are working in the chain of distribution from producer to consumer and the compensation of each is excluded in price which the consumer pays. This is because sometimes price is charged high.

e) Buyers Behavior:

The buyer's behavior must be considered in fixing price policy. A buying motive of a buyer has great influence on the price. Therefore, buying motives of a consumer must be given due consideration in fixing the price of a product.

Q.23) *DISTINGUISH BETWEEN SELLING AND MARKETING:*

SELLING	***MARKETING***
Meaning	
Selling means accepting money or money's worth for the transfer of title of goods to the buyers.	Marketing is an economic process by means of which goods and services are exchanged and their values are determined in terms of money price.
When starts	
Selling begins with production of goods in the industry.	Marketing begins with understanding wants and desires of customers.
Focus	
Selling has a focus on product and production.	Marketing focuses on customers needs.
Profit	
Selling makes profit through sales volume.	Marketing expects profit through customers satisfaction.
Need	
Selling lays more emphasis on the needs of seller.	Marketing lays more emphasis on the need of the customers.
Scope	
Selling is a part of marketing	Marketing is a comprehensive term and

	selling is one of its activities.
Importance	
Selling depends on aggressive selling, advertising and sales promotion activities.	Marketing depends on developing suitable market-mix.
Supply/ Demand	
Supply is more important in selling.	Marketing gives importance to demand of the product.