MARKETING MANAGEMENT

PGDBA-202



BLOCK 1:
BASICS OF MARKETING

Dr. Babasaheb Ambedkar Open University
Ahmedabad

MARKETING MANAGEMENT



Knowledge Management and
Research Organization
Pune

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

MARKETING MANAGEMENT

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Dr. Babasaheb
Ambedkar
Open University

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BLOCK 1: BASICS OF MARKETING

Block Introduction

Market is an exchange of relationship between the consumer and the manufacturer or the service provider. This is possible because the the products are prepared in the plant / operations unit / laboratories. They are handed over to the end-customer through retailers, wholesales or the brokers. The customer buys it by paying certain amount of money. In short, it is the exchange of products and money. Today's business is going through the tough times because of completion. In this sense, marketing your products will contribute a major role in sustainable development of any business. Marketing depends on major factors like pricing, customer perception and the sales management. Cost-effectiveness has immense significance which decides the proportion of profit margin of your sales. Coordination among the customer, sales and production is challenging aspect of any effective marketing strategy.

The first block of marketing management gives you solid foundation of marketing sector. You will be introuduced to different terms which are used in corporate field on regular basis. The standard defenitions will clarify all your doubts from mind and will take you away from any future confusion as well. The depth and width of knowledge can be enlarged through various learning strategies like glossary, case studies, assignments and some activities. You will be in a position to know business to business (B2B), business to customer (B2C), the varius functions of marketing and scope of marketing in any sector. The current trends in marketing will be shared with you in the second part of the block. Modern marketing has changed in all the ways from traditional marketing.

It is interesting to know the difference between the market and the concept of marketing. Most of the time people get confused in both the terms. This block is made interactive by identifying the various styles of the learners suitable for post-graudate students. The students are engaged through Check Your Progress to assess themselves without any pressure by the faculties. The content developed is completely need-based. For example, corporate social responsibility is linked with business ethics and the principles of the marketing. The customer-oriented, product-oriented marketing approach is conducive for your professional growth as a sales manager. It is worth to study the world of marketing in detail and make your basics strong enough to cater the needs of the customers. The author has tried his best to match the expectations at optimum level from students' point of view.

Block Objectives

After learning this block, you will be able to understand:

- The basics of marketing.
- The scope of marketing in the organizational success.
- Marketing as a transfer mechanism.
- Business ethics and consumer perception.

Block Structure

Unit 1: Introduction to Marketing

Unit 2: Marketing Concepts and Principles

UNIT 1: INTRODUCTION TO MARKETING

Unit Structure

1.0 Learning objectives

1.1 Introduction

1.2 Some Terms Related to Marketing

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1.4 Introduction to Marketing

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1.0 Learning Objectives

After learning this unit, you will be able to understand:

- Market and marketing.
- Definition of marketing by different authors.
- Ethics of marketing.
- Exchange process.
- The concept of elements of marketing.

1.1 Introduction

This is the unit which concentrates on making you familiar to more than 40 different coined terms from the marketing. You will be acquainted with peculiar concepts like niche market, macro environment, channels of communication, channels of distribution, market penetration and others. The author has arranged them so logically and systematically that you can distinguish between the two easily. For example, pull promotional strategies and push promotional strategies or the difference between qualitative research and quantitative research. The product life cycle (PLC), the market share model is explained with the help of figures to learn marketing as domain knowledge. The role of marketing is illustrated with the help flow-chart to comprehend systematic and smooth process of marketing. You can look at it as a mistake-proofing tool to avoid any future mistake. You will notice that marketing is a conditional activity leading to an exchange of goods and services in return of money. These conditions are described step by steps. Marketing mix & ethics of marketing will add value to your core business functions and prevent you from any misconduct of future. Many useful tips are provided by the author to give you practical-minded experience.

1.2 Some Terms Related to Marketing

Marketing involves an interaction with the customers. Such interaction aims at making the consumer purchase the product or service. Thus, we can say marketing is all about selling your product or service to the customers.

Some people get confuse ‘marketing’ with other terms like ‘advertising’ or ‘publicity’. However, advertising is only one part of marketing; it is just a way to get the customer to purchase your product or service. Newspaper publicity increases awareness about the product or service which eventually lead to customer to make a purchase.

Therefore, we must understand that marketing is a mixture of all theactivities of advertising, promotion, publicity everything that contributes to the look and feel of the product and the method of selling anddelivering it to the customers etc. These activities convince the consumer to buy your product. This concept gives of the important terms related to marketing is called ‘marketing mix’. We will study this concept later in this unit.

1. **Market:** Market is a place where business transactions hapeen based on negotiations. According to Perreault and McCarthy, "market is defined as a group of potential customers with similar needs or wants who are willing to exchange something of value with sellers offering various goods and/or services to satisfy those needs or wants."

2. **Marketing and Corporate Social Responsibility:** It is wrong to assume that business owners are always looking for profit. No business can be run without support of society. Hence, it is the responsibility of all to give back society from what we have earned. It also contributes to have societal health. In addition, the Central Government of India has made a provision to spend minimum 2% of net profit for the society. It can be used for rehabilitation, education, health, drinking water supply etc.

3. **Marketing and Environment:** We as a global citizens need to think a lot about environment. You can contribute to keep the city clean, near and tidy. Each one of us must be sensitive about our green planet 'earth'. When you market your products, you should ensure you don't spoil the environment. Even it is essential to think at the time of packaging products, waste management etc. It will save the cost and also mininze the wastage. Hence, it is win-win situation both for society and company as well.

4. **Value Proposition:** It is a strong belief of a consumer or end-user that the given promise is kept and it is experienced and tasted by him in due course of time. The expected results are proposed in terms of problem-solving, relevance or benefits etc.

5. **Adoption process:** A buying process for first-time purchases is particularly for consumer markets and comprising such as, awareness, interest, evaluation, trial, adoption, post-adoption confirmation, which are similar to AIDA.

6. **Advertising:** The activity of attracting public attention to a product or business by paid announcements in print, broadcast andelectronic media. Comparative advertisement, classified advertisements are major types of advertising.

7. **BCG (Boston Consulting Group) Matrix:** The BCG Matrix compares various businesses in an organization's portfolio on the basis of relative market share and market growth rate. Relative market share is determined by the ratio of a business's market share (in terms of unit volume) compared to the market share of its largest rival. Market growth rate is the growth in

the market during the previous year relative to growth in the economy as a whole. The combinations of high and low market share and high and low business growth rate provide four categories for a corporate portfolio. (Hedley, Naylor).

8. **Stars:** SBU that are stars have a high share of a high-growth market and typically require large amounts of cash to support their rapid and significant growth. They have additional growth potential and so profits should be ploughed back into this business for future growth and profits. For example software, entertainment, electronics and telecommunications are some of the industries which have a very high growth rate. The appropriate strategy for stars is to maintain the market share through large doses of investment (both internal as well as external).

9. **Cash Cows:** SBUs that are 'cash cows' (provide lot of cash for the firm) have a high market share in a slowly growing market. As a result, they tend to generate more cash than is necessary to maintain their market position. Cash cows are often former stars and can be valuable in a portfolio because they can be 'milked' to provide cash for other riskier and struggling businesses.

10. **Question Marks:** SBUs that are 'question marks' have a small share of a high growth market. The question mark business is risky, since there is already a leader in that business. As such it requires lot of funds to invest in plant, equipment and personnel in order to keep pace with the fast-growing market. The term question mark is well conceived, because at every stage the organization has to think hard about whether to keep investing funds in the business (to turn it into a star) or to get out.

11. **Dogs:** SBUs that are 'dogs' have a relatively small share of a low-growth market. They may barely support themselves, or they may even drain cash resources that other SBUs have generated. Usually dogs are harvested, divested or liquidated (if turnaround is not possible).

After the SBUs of an organization are plotted on the growth-share matrix, the next step is to evaluate whether the portfolio is healthy and well-balanced. A balanced portfolio; obviously, has a number of stars and cash cows and not too many question marks or dogs. Depending on the position of each SBU, four basic strategies can be formulated while building a balanced portfolio:

- Heavily invest in Stars. High market share and high industry growth mean higher probability of future success.

- Maintain cash cows because they provide resources for future growth-investment in wild cats and stars.
- Use selective resource allocation for wildcats to convert them into starts.
- Liquidate or divest dogs that are not worth investing in to improve their position:
- As time passes, SBUs change their position in the growth-share matrix. Successful SBUs have a life cycle. They start as question marks, become stars, then cash cows, and finally dogs towards the end of their life cycle. Therefore, companies should keep on eye not only on the curren positions of their businesses but also on their moving positions. Each business should be examined as to where it was in past years and where it will probably move in the years ahead. If the expected journey of a business is going to be a tough one, alternative plans must be kept ready. The growth-share matrix, thus, becomes a useful planning framework for strategists. They can use it to try to assess each SBU and assign the most reasonable objective in the light of past experiences, current situation and future trends. Mistakes, however, could turn the tide against the above theoretical reasoning especially in cases where all SBUs are asked to aim for the same growth rate or return level. As we all know, the very basis of SBU analysis is that each business has a different potential and requires its own objective.

This Matrix is also known as "The Boston Box". This 2 x 2 matrix is a model to help a firm analyse its product portfolio. The two axes are relative market shareandannual market growth and the four quadrants are:

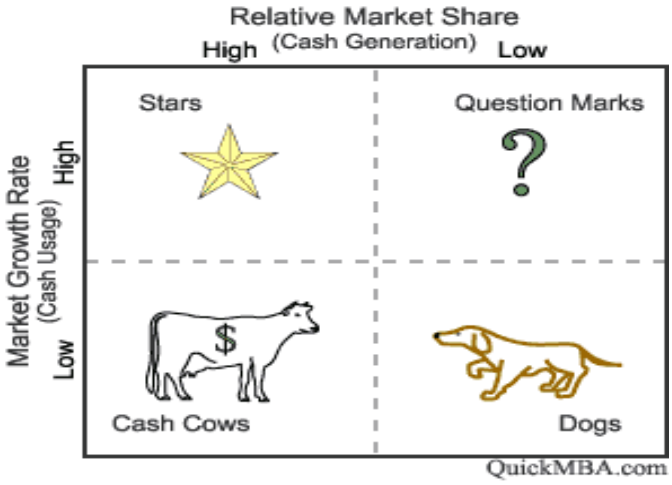


Fig 1.1 The Boston Box

Dogs - low relative market shareand low annual market growth;

Stars - high annual market growth and high relative market share;

Cash Cows - high relative market shareand low annual market growth;

Question marks (also known as problem children)—low relative market shareand high annual market growth.

12. **Business to Business (B2B):** Can refer to a market, product or industry whereby the context is of a firm selling to another organisation to either use the product or service or change into another product or service, rather than a consumer buying for personal consumption.
13. **Business to Consumer (B2C):** Can refer to a market, product or industry whereby the context is of a firm selling to an individual for his own personal consumption, rather than to an organisation for their use or consumption.
14. **Buyer:** A role within the Decision Making Unit (DMU): The buyer often advises deciders and undertakes the administrative transaction and so may bea buyer in the purchasing department.
15. **Buyer Behaviour:** "The stages that buyers go through when buying goods or services. There are many factors that influence buyer behaviour (see Consumer Buyer Behaviour and Business Buyer Behaviour and Decision Making Process).
16. **Channel of Distribution:** Channelling goods from their origin to their ultimate destination and involve the use of intermediaries, or middlemen such as wholesalers and retailers. Factors that impact the selection of channels include: the customers, the product, competitors, size and resources and channel power.
17. **Channels:** May refer to Distribution Channel or Communication Channel.
18. **Communication Channel:** Elements within the promotions mix that an organisation uses to communicate with target audiences.
19. **Comparative Advertising:** A type of advertising that a firm uses to compare their products or services directly with competitors. Needs to be used with care and is illegal in some countries.
20. **Competitions:** A form of sales promotions that is used to gain interest from a target audience, whereby they may win a prize.
21. **Customer:** A person or company who purchases goods or services. They may not be the "consumer", but the end user.

22. **Demographic Segmentation:** An method of segmenting markets by demography.

23. **Direct Marketing:** Direct marketing may refer to direct distribution or direct promotions. Direct distribution involves a firm dealing directly with theend user, rather than through a middleman. Direct promotion involves a firm communicating directly with a target audience or enabling the audience to communicate directly with them and includes: direct mail, the internet, personal selling, telemarketing, direct response advertising ande-mails.

24. **Environment:** A firm's environment made up of its macro- and micro-environment (see relevant sections andExternal Analysis). These are factors beyond the company'scontrol.

25. **Macro Environment:** The wider environment, or external factors, that impact a firms business, sales and marketing; they are usually beyond the firm's control. They are generally known as PEST or SLEPT factors.

26. **Market Entry:** Wherea firm launches an new product into an new or existing market.

27. **Market Penetration:** Selling more of existing products in existing markets is marketing strategy of developing business. This may be undertaken through cross-selling, increasing promotions or distribution, taking competitors' customers, expanding the market or increasing product usage.

28. **Marketing:** Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.

29. **Marketing Planning:** Offering relevant products and services of a plan to identify and pursue specific market segments for development. The plan includes an analysis, objectives, strategies, tactics, implementation and controls.

30. **Marketing Research:** Gathering, analysing data about any internal and external factors to reduce risk and enable better marketing decisions to be made. It includes: market research, product research, pricing research, distribution research, promotions research, sales research, and environmental research (the macro and micro environment). It should not be confused with Market Research which involves research the market only and is just oneaspect of marketing research.

31. **Market Skimming:** A term used by Cooper to refer to what most marketers consider to bea prestige pricing strategy (also known as premium pricing); this is where a high price is charged for a exclusive product, often in a niche market.
32. **Marketing Strategy:** The strategic, or long-term, marketing plan.
33. **Micro Environment:** Part of the external environment that impacts a firm‟s business, sales and marketing. It is closer to the firm than the macro-environment and tends to be industry-specific; it includes: markets, competitors, suppliers and other stakeholders.
34. **NASA:** Need, Acceptance, Solution, Acceptance..
35. **Niche Market:** It is a small or narrow market segment.
36. **Personal Selling:** Personal communication between an seller and (prospective) purchaseras well as a critical role in itself, it can be considered part of the Promotions function of the Marketing Mix. Cooper defines selling as "a function which is concerned with identifying the specific needs, desires and problems of individual customers and providing satisfaction of these through benefit or solution in order to facilitate profitable business transactions".
37. **Product Life Cycle:** A model indicating the stages a product goes through from pre-launch to withdrawal from the market: most commonly, thereare four and five stage models. The four stage model: introduction, growth, maturity anddecline. The five stage model: development, introduction, growth, maturity anddecline.

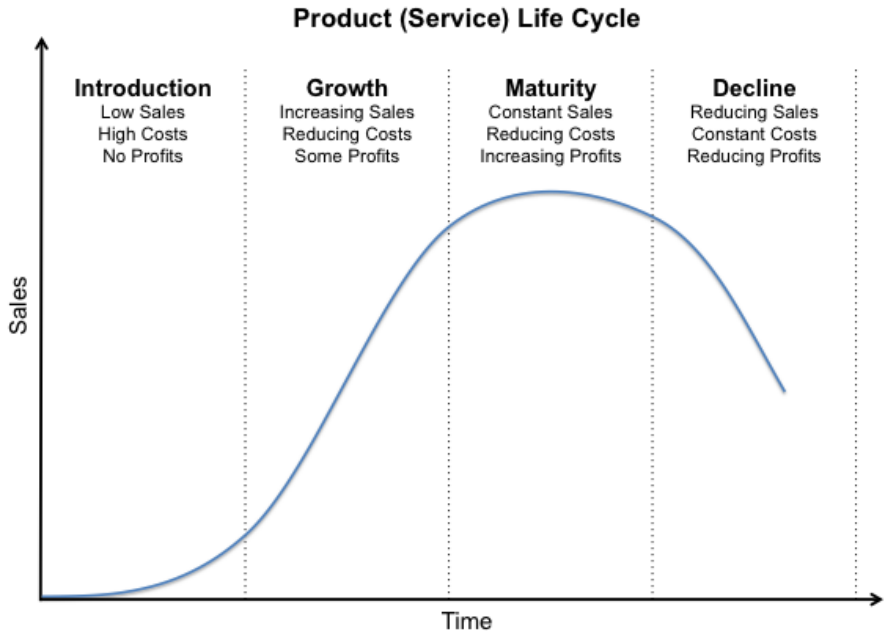


Fig 1.2 Product Life Cycle

38. **Psychographic Segmentation:** An method of segmentation by which the market is divided into groups of people who have the same lifestyle which encompasses values, attitudes and interests.

39. **Pull Promotional:** Strategy Pull promotion is a strategy whereby the producer targets theend user with their promotions with the intention of them demanding the product from the intermediary and so, in fact, pulling it through the channel of distribution. Promotional methodscommonly usedare consumer advertising and sales promotions. A firm will often undertake both pull and push promotional strategies.

40. **Push Promotional Strategy:** Push promotion is a strategy whereby the producer targets the intermediary with their promotions and so on through the distribution chain, for example, a wholesaler targets an retailer. Theaim is to push the product through the channel of distribution to the customers. Promotional methods commonly usedare trade sales promotions, personal selling and, to an lesser extent, some tradeadvertising. A firm will often undertake both pull and push promotional strategies.

41. **Qualify:** Wherea sales person establishes purchasing potential of a prospect and also determines that the person they are talking to has the relevant decision-making authority.

42. **Qualitative Research:** A form of marketing research whereby opinions and ideas are elicited. Rather than using closed question questionnaires, the researcher undertakes interviews, focus groups and similar techniques. The

findings are more detailed and subjective than those from quantitative research and so, although often of greater value, they are more difficult to evaluate and present.

43. **Sales Cycle:** A complete process which can beapplied in the selling environment. Different texts indicate a different number of stages although they all tend to follow the same pattern, even though some stages may occur at any time during the sales process. It is widely recognised that there are three main stages: presale, sale and post-sale; they then tend to be further sub-divided. Cooper [1] identifies ten stages: prospecting, appointment making, preparation, ice-break, need/problem identification, presentation, negotiation and handling objections (many would separate these stages), closing the sale, processing the order and follow-up. They would tend to be shown in a circleas the sales follow-up should lead to potential prospects being generated.

44. **Target Marketing:** The process of segmentation, targeting and positioning (not to be confused with market targeting) which is the full name for targeting, the second stage in the target marketing process.

Check Your Progress 1

1. Which of the following is not a recognized area of opportunity for developing synergy?
   a. Functional
   b. Processual
   c. Strategic
   d. Managerial
2. Which of the following is one of the four key elements which must be adhered to if synergy is to be achieved?
   a. Efficiency
   b. Competitive strategies
   c. Customer satisfaction
   d. Effective leadership

3. What is synergy?
   a. When the organization is providing a product to the customer that perfectly suits their requirements.
   b. When the parts of an organization are combined and managed in such a way that the drawbacks exceed those which would result if the parts were operating separatelyWhen the parts of an organization are combined and managed in such a way that the benefits exceed those which would result if the parts were operating separately.
   c. When the parts of an organization are combined and managed in such a way to reduce costs.
   d. When costs decrease as the volume of unit production increase.
4. Market Skimming is also known as:
   a. Premium pricing.
   b. Penetration pricing.
   c. Both of the above.
   d. None of the above.

1.3 Definition of Marketing

There are various definitions with different emphasis the functional process and activities that marketing. Some important definitions are as follows.

1. The Chartered Institute of Marketing defines marketing as: “Marketing is the management process for identifying, anticipating and satisfying consumer’s requirements profitably”.

The focus of this definition is on the need of balancing customer satisfaction with the overall objective of an organisation, that is, profit. It is based on the belief that these two concepts are inter-relatedand no organisation can surviveandgrows without creating a balance between these two.

2. Another definition of marketing is proposed by American Management Association (AMA) as: “Marketing is the process of planning andexecuting the conception, pricing, and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives”.

   Many experts feel that this definition presents marketing as a functional

process conducted by the marketing department. They further believe that marketing, in recent times, has grown to become an organisational philosophy or an approach to doing businesses and the AMA definition does not focus on those strategic aspects of marketing.

3. These objections led to some recent definitions of marketing mooted by strategists, which are listed below.

McDonald: "Marketing is a management process whereby the resources of the whole organisation are utilised to satisfy the needs of selected customer groups in order to achieve the objectives of both parties. Marketing then is first and foremost an attitude of mind than an services of functional activities".

Drucker: "Marketing is so basic that it cannot be considereda separate function at par with other actions such as manufacturing or personnel. It is first a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, the customer's point of view.

Check your progress 2

1. Marketing is a management process whereby the resources of the whole organisation are utilised to satisfy the needs of selected customer groups in order to achieve the objectives of both parties. Marketing then is first and foremost an attitude of mind than an services of functional activities". This is a defitinition by _____.

   a. Drucker

   b. McDonald

   c. Both of the above

   d. None of the above

2. Marketing is the process of planning and executing the conception, pricing, and promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

   a. American Marketing Association (AMA)

   b. American Indian Marketing Association.(AIMA)

   c. Both of the above.

   d. None of the above.

1.4 Introduction to Marketing

The Marketing philosophy of business assumes that an organisation be able to provide the best service, thrive and can generate revenues by identifying and fulfilling the needs of its customers. On the other hand is recent thinking, various definitions of Marketing have been given from diverse perspectives, exchange and utility being the two important ones.

The Marketing Concept

Early 1950s philosophy gave marketing much important role inbusiness. To apply this concept, an organisation must meet three basic needs.

1. It must truly believe in the customer's importance. Most of the companies give duplicity to this idea; no manager wants to be caught saying that customers are not important. By contrast, a genuine customer orientation demands a keen commitment of people, timeand monetary resources to implement this orientation.
2. Marketing efforts must be integrated. Specific and measurable goals should be set andall marketing activities should be coordinated. If various departments follow their own private agend as in conducting marketing activities, the organisation may lose sight of customer's needs.
3. Finally, management must accept the assumption that profit goals will be reached through satisfied customers. Clearly, the path to profit is not a simple one; all business firms compete within a complex environment that demands a smart management of organisational resources and efforts. Nevertheless, managers must have confidence that if their needs are satisfied by offering quality products at fair prices, their companies will make money. Similarly, not-for-profit organisations will achieve their financial and other goals if they satisfy their customers and members.

Fig 1.3 illustrates these three pillars of the marketing concept, which are necessary conditions for creating satisfactory exchangeand in making marketing a true philosophy of business.



Fig 1.3 Key assumptions of the marketing concept

New concept of Marketing: Customer is king

Check your progress 3

1. Marketing efforts must be not integrated. Specific and non measurable goals should be set andall marketing activities should be coordinated.

   a. True

   b. False

2. Pillars of the marketing concept, which are necessary conditions for creating satisfactory exchangeand in making marketing a true philosophy of business

   a. Four c. Three

   b. Five

1.5 The Role of Marketing

The main goal of an organisation's marketing efforts is to develop satisfying and useful relationships with customers. These efforts help the marketing department to serve an important role within the organisations and society.

Considering the organisation level, marketing is a vital business function that is necessary in nearly all for-profit or not-for-profit industries. For the for-profit organisation, marketing is responsible for most tasks that bring revenue and, hopefully, profits to an organisation. For the not-for-profit organisation, marketing is responsible for attracting customers' needed to support the organisation's mission, such as raising donations or supporting a social cause. For both types of organisations, it is unlikely they can survive without a strong marketing effort.

At a broader level, marketing offers following benefits:

1. Developing products that satisfy needs and improve society's quality of life;
2. Lowering the prices of products by creating a competitive environment;
3. Offering access to products to a large number of customers in varied geographic regions through product distribution systems;
4. Building demand for products that require organisations to expand their labour force;
5. Offering techniques that have the ability to convey messages that change societal behaviour in a positive way (e.g., anti-smoking advertising).

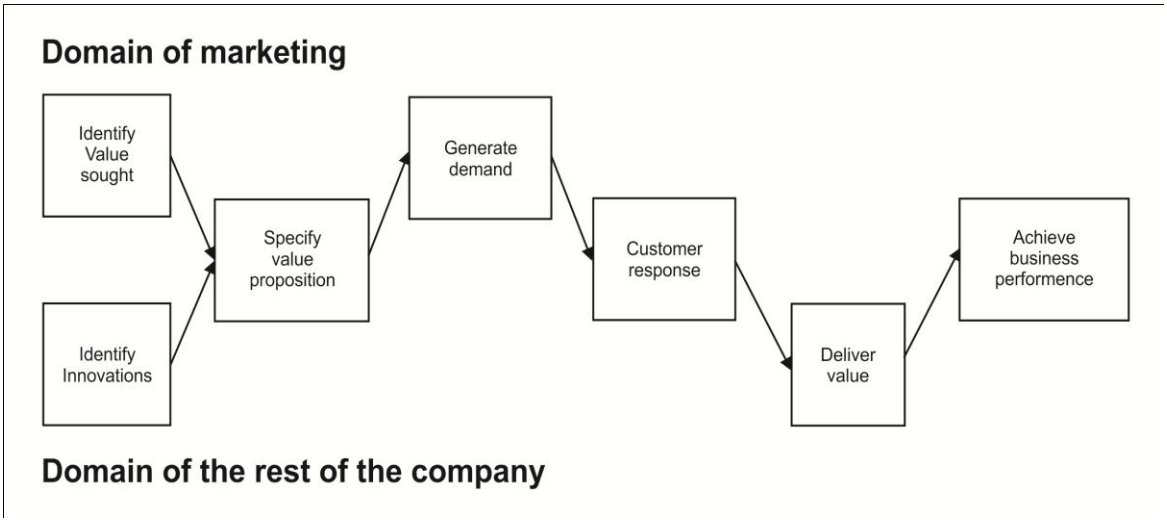


Fig 1.4 Role of marketing

Check your progress 4

1. The main goal of an organisation's marketing efforts is to develop satisfying and useful_____with customers.
   a. Relationships
   b. Profits
2. Lowering the prices of products by creating a competitive environment ____.
   a. True
   b. False

1.6 The Exchange Process

The core part of any definition of marketing is exchange, which is giving something of value in return for something of value. A product is anything customers will exchange something of value for, usually because it satisfies an need or a want. Marketers divide products into three categories:

1. Goods or physical items;
2. Services or activities that provide some value to the recipient;
3. Ideas or concepts that provide intellectual or spiritual benefits to the customer.

Regardless of the nature of the exchange, certain conditions must exist before the exchange can occur. At a minimum, the following five conditions are necessary for successful exchange:

1. At least two parties must be involved;
2. Each party must have something that interests the other party;
3. Each party must be able to communicate and deliver;
4. Each party must be free to accept or reject any offer from the other party;
5. Each party must consider it desirable or at least acceptable, to deal with the other party.

The absence of even one of these conditions can cause the best strategies and plans to fail.

The Production Era

The Industrial Revolution of the eighteenth century was the beginning of the production era, which lasted until the late1920s. These companies focused on the manufacturing process and looked for the ways to produce their goods faster and more efficiently in this period. The production era had sellers' markets in many industries, meaning that demand for products exceeded supply.

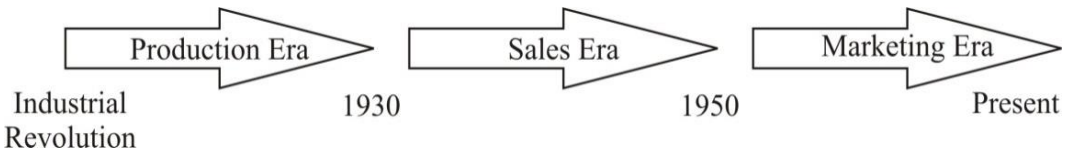


Fig 1.5 The Evolution of Marketing

The Sales Era

The period approximately from 1930's to 1950, during which companies focused on promoting anddistributing their products.

The Marketing Era

The period that began in the 1950s and continues today, during which companies formed marketing departments, began to pay attention to customers' wants and needs and started to implement the marketing consent.

Marketing Concept

The idea of maximising long-term profitability while integrating marketing with other parts of the company and meeting customer needs and wants.

Check your progress 5

1. The Industrial Revolution of the eighteenth century was the beginning of the _____.

   a. Production Era

   b. Sales Era

2. The idea of maximising long-term profitability while integrating marketing with other parts of the company and meeting customer needs and wants.

   a. Selling Concept

   b. Marketing Concept

1.7 Elements of Marketing Concept

To apply the marketing concept, marketers must do three things; meet customer needs and wants, achieveand maintain long-term profitability and integrate marketing with the other functions in company, These companies believe in the customer orientation. This is essentially a managerial philosophy in which the customer is central to everything the company does.

Marketing in the Future

The twenty-first-century marketing professional will need to have the analytical capacity to handle increasing amounts of data, the creative talents to define products anddevelop messages for a crowded market place and the social awareness to navigate in complex global markets. If you imagine the addition of technological knowledge and ethical sensitivity, you will have a pretty good idea of what the marketing challenge will look like in the next century.

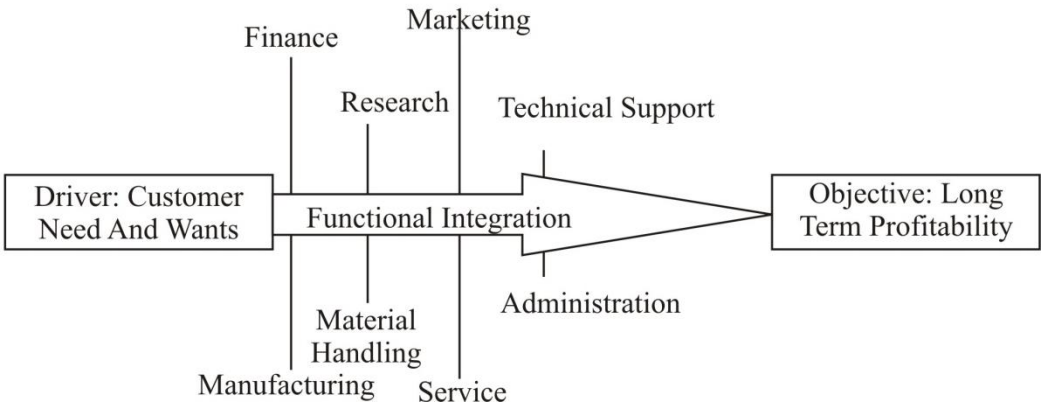


Fig 1.6 The marketing concept

The Marketing Strategy

It is the overall plan for marketing a product that includes selecting and analysing a target market and creating and maintaining a marketing mix.

The Marketing Mix



Fig 1.7 Marketing Mix

Once you have identified your target market, the next step is to create the marketing mix, which is an set of four elements: product, price, distribution and promotion. You have a good control over the elements in your marketing mix. However, you have very little control over the environment where you are operating. For example, Toyota can decide which cars it will make but it cannot decide what the pollution control laws will be in India three years from now. Because of the amount of influence these external forces have, marketers think about the marketing mix in the context of their overall business environment.



Fig 1.8 The marketing mix

Product

Products are integral to theexchange process; without them, there is no marketing. As pointed out earlier, products can be good, service or an idea. A marketers understand clearly that a product is actually a 'bundle of value' that meets customers' expectations. For example, when we buy a pair of Reebok shoes endorsed by cricket star Mahendra Singh Dhoni, we get more than leather, rubber and laces. You buy a little piece of the Mahendra Singh Dhoni's image.

Price

It is the value, usually in monetary terms, which sellers ask for in exchange for the products they are offering. Pricing and product image are directly related; for example; if grape juice of similar quality were packaged in two bottles, one with a generic label and one with the Lever's label, the latter could command a higher price. Customers will pay a higher price for a well-known, well-regarded product, partly because of the image created through advertising and other promotions. High prices can help createa top-of-the-line image. For example, luxury products advertise their high prices.

Distribution

It is the process of making available the products from the producer to the end consumer. This may involve several steps and the participation of multiple distribution channels. (e.g., Distributors-wholesalers-Dealers-Retailers)

Anexample of a distribution channel is shown in the diagram below:

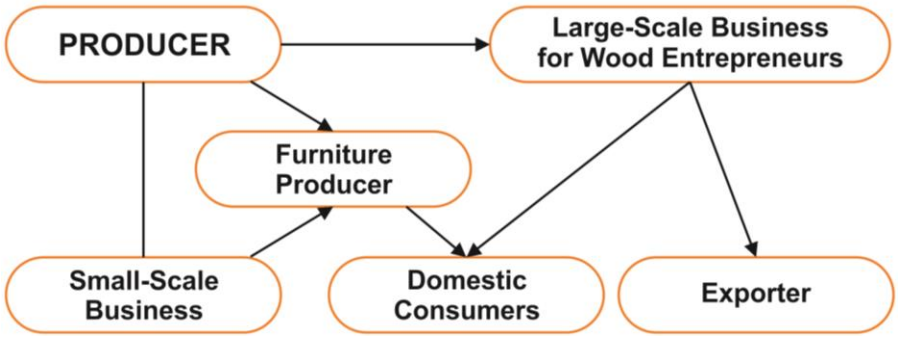


Fig 1.9 Distribution Channel of Furniture Manufacturers

Promotion

It includes a range of techniques, including advertising, sales promotion, public relations and personal selling, which are used to communicate with existing and potential customers. Industrial marketers also rely heavily on promotion. A machine tool market can use magazine advertising; a dealer sales-incentive contest, trade shows and press releases to promote products. IBM, Apple, Compaq and other computer suppliers combine extensive personal selling with advertising and public relations. For expensive, complex products and systems, close interaction between-buyer and seller is often required, which leads to a lot of personal selling in such markets.

Selection of marketers of an advertising media reflects their overall promotional strategy for a product.

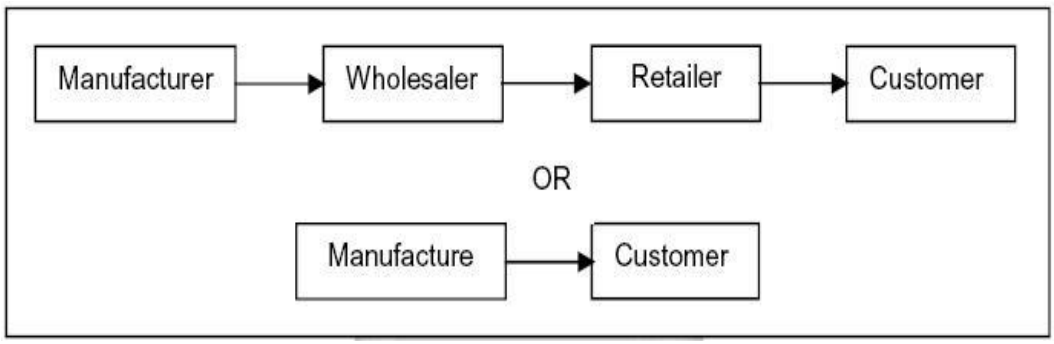


Fig 1.10 Marketing channels

Industrial marketers may also advertise in a range of specialised and general-interest business magazines to reach potential buyers.

Check your progress 6

1. There are _____ main external elements of marketing mix.

   a. six

   b. four

2. Once you have identified your target market, the next step is to create the Product mix.

   a. True

   b. False

1.8 Ethics of Marketing

Some critics argue that the money-making motive of some marketers has encouraged many to disregard ethical business behaviour. Ethics is concerned with what is right and what is wrong. Many people think that actions which violate laws are considered unethical. While it is true that illegal activity is also unethical, a business activity can be unethical even though no laws are violated. For instance, some consider it unethical for marketing companies to aggressively promote unhealthy foods to children though such promotional practices are generally not viewedas illegal.

Sometimes the line between what is considered ethical and unethical is very thin since right and wrong change depending on such factors as nationality, culture and even industry. For example, many websites offer users access at no monetary charge to their content (e.g., articles, videos, audio clips, etc.) but they do so only if users register and provide contact information including email addresses. Some of these sites then automatically add registrants to promotional email mailing lists. Some view the practice of automatic 'opt-in' to a mailing list as being unethical since customers do not request it andare forced to take additional action to be removed from the list ('opt-out'). However, many marketers see no ethical issue with this practice and simply view adding registered users to an email list as part of the 'cost' to customers for accessing material.

Frameworks of analysis for marketing

Possible frameworks:

- Value-oriented framework, analysing ethical problems on the basis of the values which they infringe (e.g., honesty, autonomy, privacy, transparency). An example of such an approach is the AMA Statement of Ethics;
- Stakeholder-oriented framework, analysing ethical problems on the basis of whom they affect (e.g., consumers, competitors, society as a whole);
- Process-oriented framework, analysing ethical problems in terms of the categories used by marketing specialists (e.g., research, price, promotion, placement).

None of these frameworks allows, by itself, a convenient and complete categorisation of the great variety of issues in marketing ethics.

Power-based analysis

Contrary to popular impressions, not all marketing is adverse for consumers and merely in favour of the marketer. In marketing, the relationship between producer/consumer or buyer/seller can be adversarial or cooperative. If the marketing situation is adversarial, another dimension of difference is observed-, describing the power balance between producer/consumer or buyer/seller. Power may be concentrated with the producer (caveat emptor), but factors such as over-supply or legislation can shift the power towards the consumer (caveat vendor). Identifying where the power in the relationship lies and whether the power balance is relevant are important to understanding the background to a ethical dilemma in marketing ethics.



Fig 1.11 Power-based analysis

Check your progress 7

1. _____framework, analysing ethical problems on the basis of the values which they infringe.
   a. Value oriented framework.
   b. Profit oriented framework.
2. Contrary to popular impressions, not all marketing is adverse for consumers and merely in favour of the marketer.
   a. Rate based analysis
   b. Power based analysis

1.9 Let Us Sum Up

Uptil now, you have understood that marketing is a management process whereby the resources of the whole organisation are utilised to satisfy the needs of selected or potential customer groups in order to achieve the objectives of both parties. Marketing then is first and foremost an attitude of mind than the services of functional activities. There are different elements which have a great deal of contribution in making your marketing stragtegy successful. It will help you to design the framework of advertising as well as launching the new products in future. To understand the buying behaviour, you must have deep knowledge of psychological base to decide the likes and dislikes. The ethics have made you smarter in not to compromise in terms of quality standards. After all, each one of you have got the real meaning of service excellence in marketing. In this way, you have enlarged the experience of customer-centred approach from revenue generation point of view.

1.10 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-d), (3-c), (4-a)

Check your progress 2

Answers: (1-b), (2-a)

Check your progress 3

Answers: (1-b), (2-c)

Check your progress 4

Answers: (1-a), (2-a)

Check your progress 5

Answers: (1-a), (2-b)

Check your progress 6

Answers: (1-b), (2-b)

Check your progress 7

Answers: (1-b)

1.11 Glossary

1. **Advertising** - The placement and purchase of announcements and persuasive messages, in time or space, in any of the mass
2. **Audience** - The number and/or characteristics of the persons or households, who are exposed to a particular type of advertising media or media vehicle
3. **Brand** - A name, term, design, symbol or any other feature that identifies one seller's good or serviceas distinct from that of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items or all items of that seller. If used for the firm as a whole, the preferred term is trade name. Library could be considereda trade name.
4. **Competition** - The rivalry among sellers trying to achieve such goals as increasing profits, market shareand sales volume by varying theelements of the marketing mix: price, product, distribution and promotion. The agency changes to better meet consumer wants and needs. For a library competition may be bookstores, community events, video stores or even other libraries.
5. **Consumer** - The ultimate user of goods, ideas or services. Also the buyer or decision maker, for example, the parent selecting children's books is the consumer.
6. **Customer** - The actual or prospective purchaser of products or services.

1.12 Assignment

1. Collect further definitions of marketing and makea comparative study.
2. Define marketing. What is the role of customer in any marketing strategy?

1.13 Activities

What do you understand by the exchange process? Brainstorm in pairs and share it with others. Give detail explanation.

1.14 Case Study

Explain the distribution channel of AMUL dairy products for effective marketing strategies. You can think of different milk products made available in the market, their competitors, their advertisement- "Amul dudh pita hai India!" with some punches in the newspaper like Times of India.

1.15 Further Readings

1. Marketing: Marketing in the 21st Century, Joel R. Evans, Barry Berman, Atomic Dog Publishing, 2009.
2. Marketing Management, Kenneth E. Clow andDon Debelak, SAGE publication, 2009.
3. Marketing Challenge, Laura Mazur, Annik Hogg, Universities Press, 1998.
4. TheEssence of Marketing, Simon Majaro, Prentice Hall PTR, 1993.

UNIT 2: MARKETING CONCEPTS AND PRINCIPLES

Unit Structure

2.0 Learning Objectives

2.1 Introduction

2.2 Functions of Marketing

2.3 Importance of Marketing

2.4 Marketing Concepts

2.5 Old Concept or Product Oriented Concept

2.6 New Modern or Customer Oriented Concept

2.7 Difference between Old and New Concepts of Marketing

2.8 Impact of Modern Concept of Marketing

2.9 Let Us Sum Up

2.10 Answers for Check Your Progress

2.11 Glossary

2.12 Assignment

2.13 Activities

2.14 Case Study

2.15 Further Readings

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Functions of Marketing.
- Importance of Marketing.
- Old and Product Oriented Marketing Concepts.
- New or Modern or Customer Oriented Concept.
- Difference between Old and New Concepts of Marketing.
- Impact of Modern Concept of Marketing.

2.1 Introduction

It is said, "Politics without principles is a sin. Knowledge without wisdom is useless." Any business organization has certain set of values on which it is founded. When you learn this topic, you will perceive that marketing has touched all walks of life in the world. While previously the aim of seller used to be to sell what he used to produce, that is, the buyer had to purchase what the seller was offering he didnot have choice, but slowly as the competition intensified, more and more seller entered into the market the older concept changed, and a more customer oriented marketing strategy was adopted where product was produced as per the requirement of customer. Till today, you have read the concepts like eco-system, green planet and environment. This unit will teach you how to apply them actually at your workplace. You will be civilized citizen with the strong and firm set of principles while running the business. Finally, you will be surprise to know how to understand the priroties of customer suitable to their needs and wants. In this section, marketing will be defined and explained, including segmentation of target consumers, constructing product positioning, budgeting and measuring ROI (Return on investment) and how to leverage the 'four P's' of marketing to execute marketing plans. Marketing, traditionally named as one of the core functions on the business side (the others being finance, operations and human resources) of any enterprise, refers to theact of engaging target customers in effort to convince them to usea particular product or service. You will come across the terms like research analysis, competitive intelligence, integrated marketing, product planning cycles, standard operations procedures (SOP) etc.

2.2 Functions of Marketing

The delivery of goods and services from producers to their ultimate consumers or users includes many different activities. These different activities are known as marketing functions. Different scholar's have described different functions of marketing. Some of the eminent scholar's have described the functions of marketing as under:

G.B. Giles described seven functions of marketing:

1. Marketing research.
2. Marketing planning.
3. Product development.

4. Advertisement and sales.
5. Promotion.
6. Selling and Distribution.
7. After sale services.
8. Public relations.

Tousley, Clark and Clark have describe deight functions of marketing:

1. Purchasing
2. Standardisation
3. Collection
4. Transportation
5. Finance
6. Risk bearing
7. Marketing promotion
8. Sales.

Cundiff and Still havedivided the functions of marketing into three categories as follows:

Functions of Marketing

(i) Merchandising Functions	(ii) Physical Distribution Functions	(iii) Auxiliary Functions
1. Product Planning and Development	1. Storage	1. Arrangement of Finance
2. Standardisation and Gradation	2. Transportation	2. Risk-bearing
3. Purchases and Collection		3. Collection of Market Information
4. Sales		

In brief, the functions of marketing can be explainedas under:

1. Merchandising Functions:

Merchandising functions of marketing includeall those functions of marketing, which are performed in relation to creating ademand for a product and making it available in a specific-market having some specific needs. Following are the functions included in this group:

a) Product planning and development:

It is the time when every activity of a producer clusters around the needs and wants of consumers. Today a producer produces only those goods and services which are required by its customers. A producer has to produce the goods and services according to the needs of his customers so that the object of customer satisfaction may be achieved. He has to make thedesign, size, weight, price and packing of his product according to the changing needs and tastes of his customers.

Therefore, the very first function of marketing is to plan a product and to develop it so that it may satisfy theexpectations of customers.

The complete process of a product planning cycle is as follows.

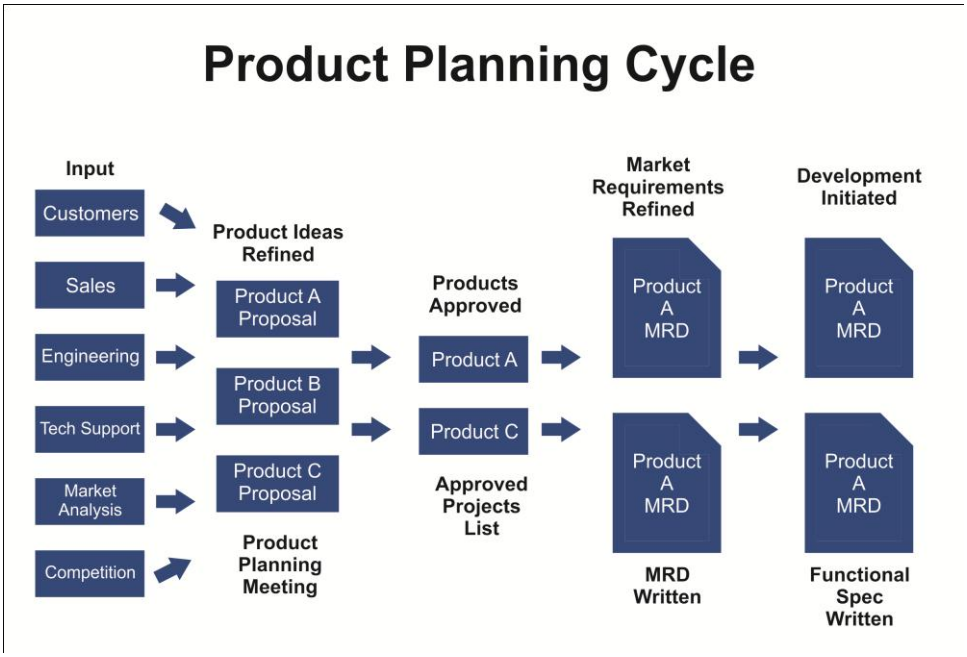


Fig 2.1 Product Planning Cycle

b) Standardising and grading:

Standardising and grading are two very important aspects of marketing of today, because with the help of these two aspects, marketing functions become easy, production becomes uniform, prices become equal and marketing becomes

extensive.

c) Buying andassembling:

For the purpose of functions of marketing, buying is the way of the acquisition of goods and services by the seller or industrial user for the purpose of resale. Although ultimate consumers also purchase the goods and services for the satisfaction of their needs, such purchases are not included within the functions of marketing. The collection of different types of goods and services by mediators for the purpose of resale is assembling for the purpose of functions of marketing.

d) Selling:

Selling is the object around which all theactivities of marketing cluster because no activity in the world of marketing is completed unless and until the real sale of goods and services bought or acquired by the seller or intermediary has been affected.

Broadly speaking, marketing does not mean to sell goods and services only. It includes the discovery of tastes and wants of the customers, production of goods and services according to their tastes, creation of demand, real sale and after sale services. For the achievement of this purpose, it becomes essential for the marketing personnel to establish effective co-ordination among the activities of advertisement, personnel selling and sales promotion followed by after sale service.

2. Physical Distribution Functions

Physical distribution functions of marketing are theactivities performed for the purpose of distributing the goods and services to their real-consumer. These functions includeall the functions related to the transportation of goods and services from the place of producer or seller to the place of buyer. It includes following two functions:

a) Storage:

Storage is considered to be main activity of marketing thesedays. Whenever and wherever the production is seasonal and consumption is parental or whenever and wherever the consumption is seasonal but the production is parental, the goods are to be stored in good condition from the time of production till the time of consumption. Storage aims at meeting different objects such as reading the time between production and consumption, getting the expected appreciation in prices, capturing the market, etc.

b) Transportation:

The real distribution and movement of goods from the place of production to the place of consumption is referred as transportation.

3. Auxiliary Functions

Auxiliary functions are the functions, which make the process of marketing easy and convenient. Following functions are included here under:

a) Marketing finance:

It is the time when every activity of a producer clusters around the needs and wants of consumers.

b) Risk bearing:

Marketing involves many large risks, which include some of the risks that can be insured are flood, fire, theft, robbery, loot, etc. On the other hand, some of the risks such as fall in the prices, changes in the demand, changes in the fashion, and changes in the tastes of consumers cannot be insured. These risks can never beeliminated; however, these can beminimised through effective system of sales forecasting, market research, advertisement, sales promotion, product diversification, etc.

c) Market information:

Market information plays a very wide role in the success of anenterprise. A businessman has to collect different types of market information so that he can chalk out his market programme and policy according to this information. Market information includes the collection of data regarding the trend of market, government policy, price policy of different business enterprises, tastes of consumers, change in fashion, scientific development, channels of distribution, media of advertisement, etc. No business effort can be successful in the absence of this information. This information is collected by different business enterprises, specialised agencies, and government and research scholars at different times.

d) Pricing:

Pricing is perhaps the most important decision taken by a businessman. It is the decision upon which the success or failure of a enterprise depends to a large extent. Therefore, price must be determined only after taking all the relevant factors into consideration. While determining the pricing policy, the factors to be considered are cost of production, severity of competition, prices of competitors,

marketing policy, government policy, the buying capacity of consumers etc. An analytical study of all the functions of marketing discussed above makes it clear that marketing is a very wide term including all the activities from the discovery of needs and wants of consumers to their satisfaction.

Check your progress 1

1. It is the time when every activity of a producer clusters around the needs and wants of consumers.

   a. Product Planning cycle.

   b. Product Promotion Cycle

2. It is the time when every activity of a producer clusters around the needs and wants of consumers.

   a. Marketing Research.

   b. Marketing Finance.

2.3 Importance of Marketing

Marketing covers several aspects, such as advertising, public relations, sales and promotions. Sales and marketing are different. Marketing involves getting a product or service into the market, promoting it, influencing behaviour and encouraging sales. Sales are the actual transaction of getting a product or service into the hands of your customers.

Companies need to be customer-oriented in order to sell the products successfully. Companies that focus on the product instead are sure to fail.

Marketing has acquiredan important place in the economic development of the whole country. It has also become an necessity for attaining the object of social welfare. As an result of it, marketing is considered to be the most important activity in a business enterprise while at the early stage of development it was considered to be the last activity. For convenience, the importance of marketing may be explainedas under.

1. Importance of marketing for society

Importance of marketing for society can be explainedas under:

a) **Delivery of standard of living to the society:** Main job of marketing is to produce goods and services for the society according to their needs and tastes at reasonable price. Marketing discovers needs and wants of the society, produces the goods and services according to these needs, creates demand for these goods and services, encourages customers to use them and thus, improves the standard of living of the society.

b) **Decrease in distribution cost:** Second important function of marketing is to control the cost of distribution. Decrease in cost of distribution directly affects the prices of products because the cost of distribution constitutes an important part of the total cost of distribution.

c) **Increasing employment opportunities:** Employment opportunities aredirectly affected by thedevelopment of marketing. Successful operation of marketing activities needs the services of different enterprises and organisation such as wholesalers, retailers, transportation, storage, finance, insurance and advertising. These services provide employment to a large number of people.

d) **Protection against business slump:** Business slump causes unemployment, slackness in the success of business and a great loss to the economy. Marketing helps in protecting society against all these problems.

e) **Increase in national income:** Successful operation of marketing activities creates, maintains and increases the demand for goods and services in the society. This affects in an increased production, increasing the scope and area of marketing. This increase, in turn, increases the national income, which is beneficial for the entire society.

2. Importance of marketing to the company: Marketing is considered to be the most important activity of all the business activities. All other business activities depend on marketing. The success of an enterprises depends largely upon the success of its marketing activities. We can enumerate the points of importance of marketing to the companyas follows.

a) **Helpful in business planning anddecision making:** To take production based decisions depending solely on production capacity of an enterprise in today's world of increasing competition and changing circumstances involves a lot of risk. Therefore, it becomes necessary to decide what can be sold, how much can be soldand what can bedone to ensure customer loyalty before going for production. Unless and until these key decisions are taken, it is not practical to take thedecision regarding production, purchase, finance of product, type of product and quantity of production. Marketing is very helpful in taking such decisions.

b) **Increase in the profit:** Main object of each and every company is to earn maximum profits by successful operation of its activities. Maximisations of profits can be possible only through the successful operation of the activities of the marketing department and not through the production or finance department.

c) **Helpful in communication between society and business:** Marketing is an effective medium of communication between society and company.

3. **Importance of marketing in adeveloped economy:** Marketing is the key for industrial growth and expansion in the developed world. In a developed country the production is usually carried on at very large scale through the use of latest technology and equipments. In these countries, the production is much more than the demands. Hence, they need better and efficient marketing. Therefore, product diversification takes place and a stiff competition is found in the market. It requires the marketing system to be much more effective so that the produced goods and services can be sold.

4. **Importance of marketing in underdeveloped or developing economy:** Marketing has a very important role to play in thedevelopment of an under developed country. A rapiddevelopment of an under developed country is possible only through the modern techniques of marketing. Importance of marketing goes on increasing in such countries with every increase in industrialisation and urbanisation because marketing is an important tool for producing the goods and services on a large scale and for selling this production successfully in the market.

5. **Importance of marketing in Indian economy:** Indian economy is still developing and in the last few years, the functions of marketing in India have undergone tremendous changes. It is being recognized as a profession based on a systematic part of knowledge. These changes have increased the liabilities of marketing managers these days. All this has resulted in many important achievements in India such as:

   a. Increased employment opportunities.
   b. Balanced growth of the country.
   c. Increased per capita income.
   d. Increased sale of goods.
   e. Increased profits.
   f. Development of the means of communication, transportation and warehousing.
   g. Development of new media of advertisement and sales promotion.
   h. Development of banking, insurance and packing industries.
   i. Development of new means of finance.
   j. Expansion in the scope and area of marketing.
   k. Improved standard of living.
   l. Industrial progress.
   m. Maximum utilisation of available resources.
   n. Increase in exports and national income of the country.

Check your progress 2

1. Marketing not covers several aspects, such asadvertising, public relations, sales and promotions.

   a. True

   b. False.

2. Companies need to be ____ in order to sell the products successfully. Companies that focus on the product instead are sure to fail.

   a. Customer oriented.

   b. Profit Oriented.

2.4 Marketing Concepts



Fig 2.2 Marketing concept

Studies reveal that different organisations have different perceptions of marketing. And these differing perceptions have led to the formation of different concepts of marketing such as:

1. The Exchange Concept;
2. The Production Concept;
3. The Product Concept;
4. The Selling Concept;
5. The Marketing Concept;
6. The Societal Marketing Concept.

The diagram below shows the core marketing concepts

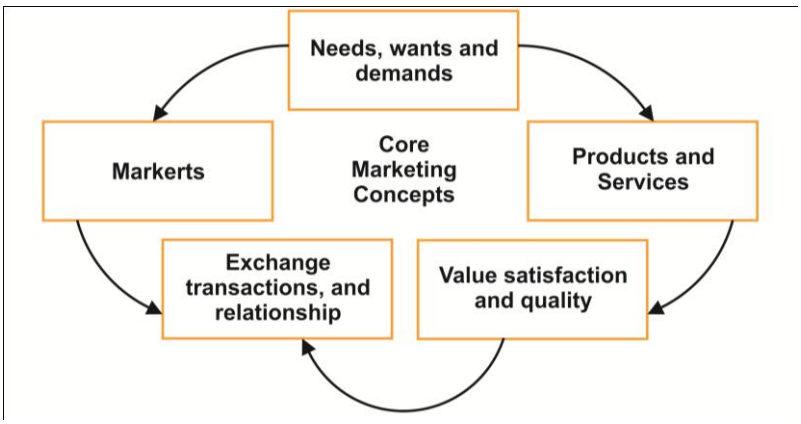


Fig 2.3 Core Marketing Concepts

1. **The Exchange Concept:** This concept is based on the exchange of a product between the seller and the buyer as the central idea of marketing. Even though exchange does form a significant part of marketing, to view marketing as a mere exchange process is not right because marketing is much broader than exchange. Exchange covers the distribution aspect and the price mechanism involved in marketing.The other important aspects of marketing, such as concern for the customer, generation of value satisfactions, creative selling and integrated action for serving the customer, get completely over shadowed in the exchange concept of marketing.

2. **The Production Concept:** This philosophy holds that customers favour products with low offered price and easy availability. Thus this concept holds that high production efficiency and wide distribution coverage would sell the product offered to the market. Organisations following this concept are prompted by adrive to produce all that they can, focusing on production and achieving efficiency in it. But their thinking is guided by the assumption that the steep decline in unit costs arising from the maximisation of output would automatically bring them all the customers andall the profits that they need.

   Unfortunately, they do not get the best of customer patronage. Customers, after all, are motivated by a variety of considerations in their purchases. As a result, the production concept fails to serveas the right marketing philosophy for the enterprise. Production concept is applicable in situations where demand exceeds supply.

3. **The Product Concept:** This philosophy holds that the customer favours and admires quality, performance, innovative features etc. Therefore, firms following this philosophy believe that doing making of superior products and improving their quality over time, they will be able to attract customers. The product concept is somewhat different from the production concept. Whereas the production concept seeks to win markets and profits via high volume of production and low unit costs, the product concept seeks to achieve the same result via product excellence - improved products, new products and ideally designed and engineered products. It also adds emphasis on quality assurance. They spend considerable energy, timeand money on research and development and bring in a variety of new products. Organisations that follow this concept concentrate on achieving product excellence, they do not bother to study the market and the consumer in depth. They get totally engrossed with the product and almost forget the consumer for whom the

product is actually made. They fail to find out what the consumers actually need and what they would gladly accept. When organisations fall in love with the product, it leads to Marketing Myopia because the focus is on the product rather than on the customer needs.

Marketing Myopia: Myopia means near sightedness; it's a eyesight disorder. The term 'Marketing Myopia' is to be credited to Prof. Theodore Levitt. It means a coloured or crooked perception of marketing anda short sightedness about business. Attention to production or product or selling aspect instead of the customer and his actual needs creates this myopia. It leads to a wrong or inadequate understanding of the market and hence failure in the market place.

Company's needs to be customer-oriented in order to sell the products successfully. Companies that focus on the product instead are sure to fail sses maintain themselves through the changing times, thereare some fundamental characteristics in each business. And the fundamental characteristics in variably relate to the basic human needs that the business seeks to serve and satisfy through its products. A wise entrepreneur or marketing personnel would understand this important fact and define his business in terms of these fundamental characteristics of the business rather than in terms of the products and services manufactured and marketed by him at a given point of time. For example, the railways should define their business as transportation, the movie makers should define their business as entertainment and the beverage marketers should define their business as nutrition.

The Selling Concept: This philosophy holds that the customer, if left alone, would not buy enough of the company's products. The organisation must, therefore, undertake an aggressive selling and promotion effort. As more and more markets became buyers markets, and the entrepreneurial problem became one of solving the shortage of customers rather than that of goods, the sales concept became the dominant idea guiding marketing. Most firms practice this concept when they have overcapacity. This concept maintains that a company cannot expect its product to get picked up automatically by the customers. The company has to consciously push its products. Aggressive advertising, high-power personal selling, large scale sales promotion, heavy price discounts and strong publicity and public relations are the tools used by organisations that rely on this concept. As a result, the public often identifies marketing with hard selling and advertising.

Marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it and if they do not, they will not bad-mouth it or complain to consumer organisations and will forget their disappointment and buy it again. These assumptions have not any base. One study

showed that dissatisfied customers may bad-mouth the product to ten or more acquaintances and bad news travels fast. Selling concept is practiced more aggressively with unsought goods, goods that buyers normally do not think of buying such as insurance, encyclopaedias etc. These industries have became perfect in various sales techniques to locate prospective customers and hard sell them on their product's benefits. It is also practiced in the non-profit area by fund raisers and political parties.

The Marketing Concept: The marketing concept holds that company has to be more efficient than its competitors in creating, delivering and communicating customer value to its chosen target markets, in order to achieve its goals.

This concept puts the customer at the centre of the business universe. It states that marketing starts with the determination of consumer wants andends with the satisfaction of those wants. The concept puts the customer both at the beginning and at the end. It says that any business should be organised around the marketing function, anticipating and stimulating and meeting customer's requirements. A business cannot succeed by supplying products and services that are not properly designed to serve the needs of customers.

The marketing concept dependon on the following four pillars-

a. Target market

b. Customer needs

c. Integrated marketing

d. Profitability

See the figure which differentiates it from selling concept:

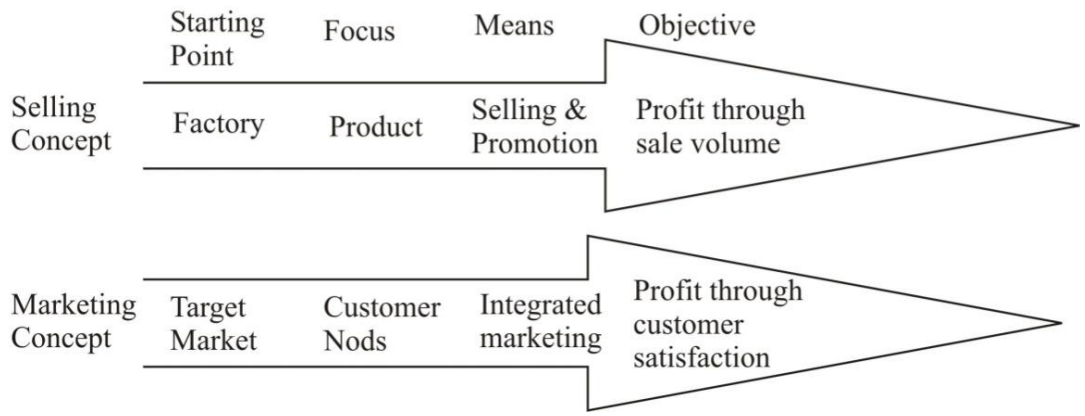


Fig 2.4 Selling Vs Marketing

a) **Target market:** A marketer has to define the market to which it willdirect its efforts. The specification and identification of market would enable the

marketer to design specific marketing strategies. A target market is definedas an set of actual and potential buyers of a product, service or idea. A buyer, who has interest in the product and income and willingness to buy, can broadly be called as potential buyer. However, it might not be possible for the marketer to target all of them. There might be geographical barriers, unsuitability of product to certain climatic conditions or inability of the marketer to reach certain hilly or remote areas. Thus, a small portion of potential market might become part of the target market.

The target market and penetrated market:

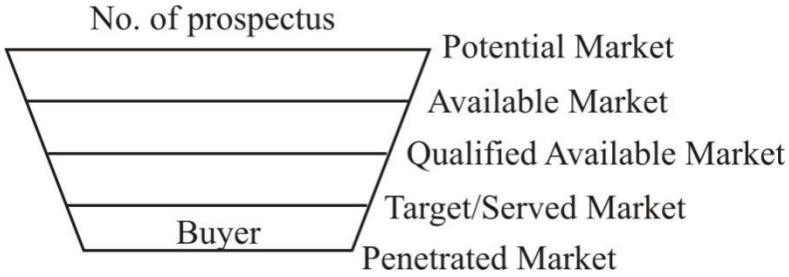


Fig 2.5 Target Market and Penetrating Market

The penetration of product is difficult even if the potential market is large.

b) **Customer needs:** A company can define its target market but may fail to correctly understand the customer's needs. Understanding customers' needs and wants is not always simple. Some customers have needs of which they are not fully conscious.Alternatively, they cannot articulate their needs or they use words that require some interpretation.

There are five types of needs, they are stated needs, real needs, unstated needs, delight needs and secret needs. Responding only to the stated need may short-change the customer.

An responsive marketer finds a stated needand fills it. He is going to loss the customer in the near future.

An anticipative marketer looks ahead into what needs customers may have in the near future.

A creative marketer discovers and produces solutions customers did not ask for but to which they enthusiastically respond.

Therefore, companies must go beyond just asking consumers what they want. This is necessary becausea company's sale comes from two groups, new customers and repeat customers. One estimate shows that attracting a new

customer can cost five times as much as pleasing an existing oneand it might cost sixteen times as much to bring the new customer to the same level of profitability as the lost customer.

Customer retention is thus more important than customer attraction.

c) **Integrated marketing:** When all the company's departments work together for serving the customers, the result is integrated marketing. Integrated marketing takes place on two levels- first, the various marketing functions, viz sales force, advertising, customer service, product management, marketing research must work together. Second, marketing must be embraced by the other departments; they must also think about the customer.

According to David Packard of Hewlett–Packard, "Marketing is far too important to be left only to the marketing department". The company carries out internal marketing as well as external marketing to foster team work in all departments. Internal marketing is the task of hiring, training and motivating ableemployees who want to serve customers well. External marketing is marketing directedat people outside the company.

The relevance of integrated marketing is shown with the help of Figure.

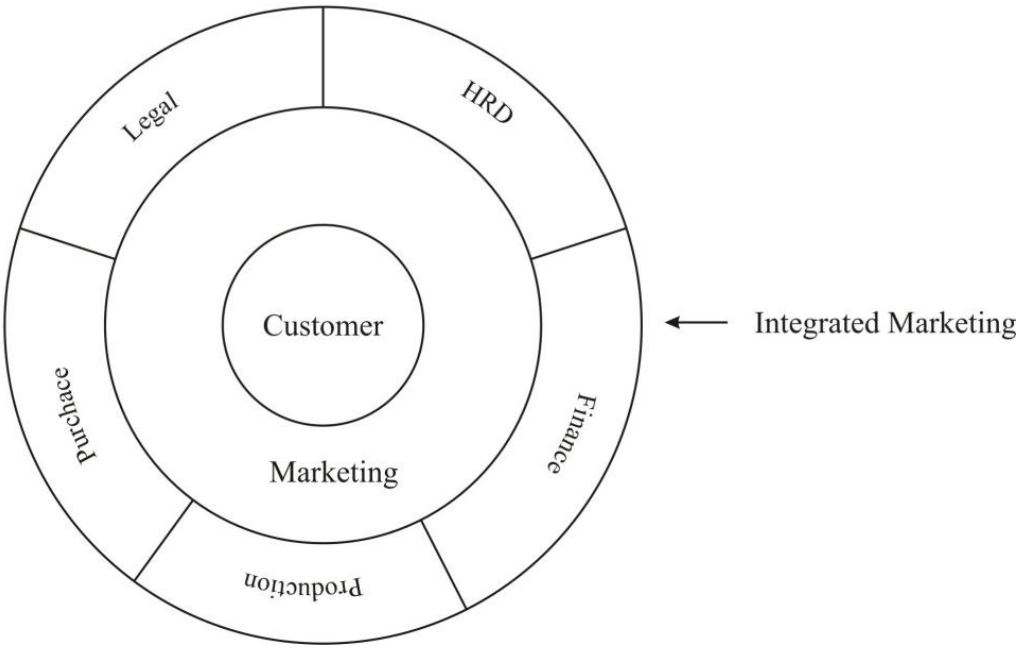


Fig 2.6 Integrated Marketing

d) **Profitability:** In the case of private firms, the major objective is profit. In thecase of non-profit and public organisations, the objective is surviving and attracting enough funds to perform useful work. Private firms should not aim for profits as such but to achieve profits as a consequence of creating

superior consumer value. A company makes money by satisfying customer needs as compare to its competitors.

The Societal Marketing Concept: This concept holds that the organisation's task is to determine the needs, wants and interests of target markets and to deliver the desired happiness moreeffectively andefficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being.

The societal marketing concept calls upon marketers to build social andethical considerations into their marketing practices. They must balance the often conflicting criteria of company profits, consumer wants, satisfaction and public interest. The following table shows the features of various concepts.

Features of various marketing concepts

Concept for Philosophies	**Stage 1**	**Stage 2**	**Stage 3**	**Result of Stage 1-3**	**Profit**
Production Concept	Value idea about customer wants	Mass Production	Mass Production	Product Availability at low price	Profit through mass standardisation
Product Concept	Value idea about customer needs	Superior product by R&D	Distribution without proper marketing mix	Superior performance product availability	Profit through marketing myopia
Selling Concept	Value idea about customer needs	Mass production and distribution	Maximum use of selling technique	Product availability buyer inertia	Profit through hard sell
Marketing Concept	Analyse target market	Know what customer needs	Integrated marketing	Product as per customer requirement	Profit through customer satisfaction
Social marketing Concept	Analyses target market and know customer needs	Study customer needs in the light of ecological impurities	Integrated market with ecological constraints	Product as per customer requirements and ecological constraints	Profit through human satisfaction

Check your progress 3

1. Myopia means near sightedness; it's a eyesight disorder. The term 'Marketing Myopia' is to be credited to Prof. Theodore Levitt. It means a coloured or crooked.

   a. True

   b. False

2. This concept holds that the organisation's task is to determine the needs, wants and interests of target markets.

   a. Societal Marketing Concept

   b. Customer Marketing Concept

2.5 Old Concept or Product Oriented Concept

The classical concept of marketing says that marketing is a part of production process. Somedefinitions:

American Marketing Association: "Marketing is the performance of business activities that direct the flow of goods and services from the producer to consumer or user".

According to Prof. J.F. Pyle, "Marketing comprises both buying and selling activities".

Above two definitions of marketing confine marketing to sale and purchase only. These definitions do not include any allied activity of marketing such as transportation, storage, financing, insurance, risk-bearing etc.

Tousley, Clark and Clark, "Marketing consists of those efforts which affect transfers in the ownership of goods and services and provide for their physical distribution".

The definition of marketing includes the factor of physical distribution along with sale and purchase of goods and commodities. Thus, this definition is wider than earlier definitions.

Characteristics of old product-oriented concept of marketing areas follows:

- It stresses production.
- It assumes that marketing is only the physical distribution of goods and

services from producer to consumer.

- It assumes that marketing starts after the goods have been produced and it ends after the goods have been sold.
- It does not provide for any alliedactivity of marketing such as, transportation, warehousing, insurance, financing etc.

According to this concept, the ultimate object of marketing is to maximise the profits by maximising the sales.

Check your progress 4

1. The definition of marketing includes the factor of physical distribution along with sale and purchase of goods and commodities.

   a. True.

   b. False.

2. Marketing comprises both buying and selling activities".

   a. Prof Maslow

   b. J.E.Pyle

2.6 New Modern or Customer Oriented Concept

Modern concept of marketing is a customer-oriented concept. This concept is based on the assumption that a business and industrial enterprise can achieve its object of maximising the profits only when it considers the needs and wants of its consumers and tries for the satisfaction of these needs and wants. Some definitions:

William J. Stanton, "Marketing is a total system of interacting business activities designed to plans price, promote and distribute want—satisfying products and services to the present and potential customers.

Prof. Paul Manure, "Marketing is the delivery of standard of living to the society".

Prof. Malcolm, McNair, "Marketing is the creation and delivery of standard of marketing is the process of discovering and translating consumer needs and wants into product and service specifications, creating demand for these products and services and then in turn expanding this.

Cundiff and Still, “Marketing is the business process by which products are matched with the market and through which the transfers of ownership are effected".

Thus, new concept of marketing highlight upon the satisfaction of consumers. This concept states that marketing begins and ends with the customers. It stresses that a business and industrial enterprise stands only for the customers. Satisfaction of consumer needs is the only way of success. This concept is based on earning profits through this satisfaction of consumers. According to this concept, a producer must produce what his consumers need; price must be fixed as per what his consumers can afford; production must be in the quantity that consumers requireand the goods must bedistributed through the channels most suited to his consumers.

Modern concept of marketing has some specific characteristics as follows:

- The consumer is the king and therefore, the satisfaction of consumer must be the prime object of anenterprise;
- The functions of marketing must be recognised as the most important functions of anenterprise;
- Needs and wants of the customers must be identified properly and totally before starting production;
- Production must be in accordance with these needs and wants;
- All the resources of production must be utilised to their best extent so that the cost of production may be minimised.

Profits must be increased only by reducing the cost of production or by reducing the cost of sales and not by increasing the selling price. Every activity of an enterprise must start with the consumer andend with the satisfaction of the consumer.

Check your progress 5

1. Marketing is a total system of interacting business activities designed to plans price, promoteanddistribute want—satisfying products and services to the present and potential customers.

   a. William. J. Stantonb.

   b. Peter. F. Drucker.

2. Marketing is the business process by which products are matched with the market and through which the transfers of _____ are effected".

   a. Flagship.

   b. Ownership

2.7 Difference between Old and New Concepts of Marketing

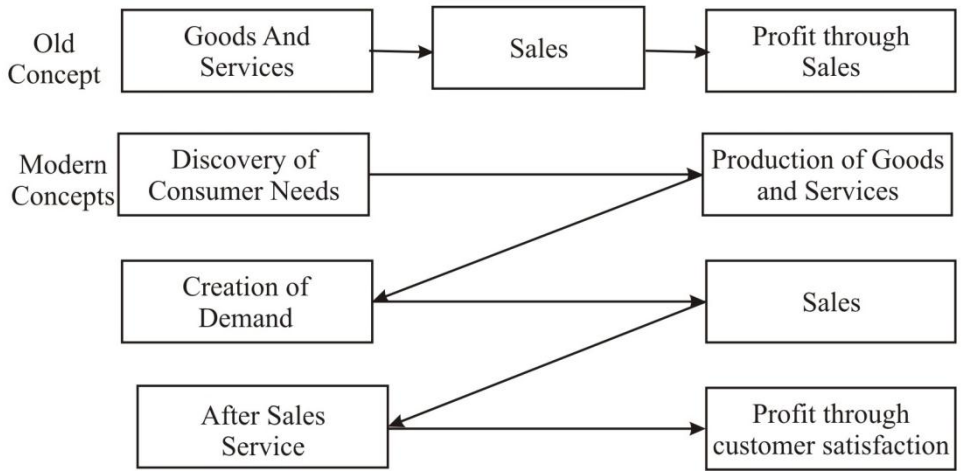


Fig 2.7 Graphic representation of oldand new concepts of marketing

The difference between oldand new concepts of marketing can beeasily understood from the following table:

S. NO.	Traditional Marketing	Modern Marketing
1.	Marketing needs to interrupt the customer to get attention.	Customers control their attention and marketers engage when and how consumers want
2.	Marketing pushes a "consistent" message to the market place.	Marketers join the conservation by enabling communities of customers, prospects, partners and other influencers.
3.	Limited set of Marketing channels	Rapid proliferation of (and experimentation with) new measurable and targetable channels

4.	Marketing is mostly right-brained (creativity andart).	Marketing is mostly left-brained (scienceand math).
5.	Marketers are not held fully accountable and (as a result) are not considered strategic at many organisations.	Marketers can demonstrate bottom line impact, justify their budget and plan the marketing mix with quantitative rigour.

Check your progress 6

1. Marketing is mostly right brained in _____.
   a. Traditional Marketing
   b. Modern Marketing
2. Rapid poliferation of new measurable and targetable channels is in modern marketing.
   a. True
   b. False

2.8 Impact of Modern Concept of Marketing

The impact of modern concept of marketing may bedescribed as under:

1. Helpful in product development

Modern concept of marketing is very helpful in the discovery and development of new products because this concept is based on intensive research regarding needs, wants and behaviour of consumers.

2. More social satisfaction

Modern concept of marketing stresses upon the satisfaction of needs and wants of consumers. Thus, this concept provides for greater social satisfaction. In fact, it creates and delivers the standard of living to the society.

3. Impact towards national economy

Modern concept of marketing is important not only from the consumers and producers point of view but also from the point of view of the country as a whole. This concept provides more employment, makes maximum exploitation of the

resources of the quantity, restricts the wastage to the minimum and upgrades the industrial production. It provides more and new goods and services to the society and increases the standard of living. Thus, this concept of marketing is very helpful in the overall growth and development of the country.

On the above discussion, it can be concluded that the importance of new concept of marketing is increasing day by day and it is meeting the objectives.

Check your progress 7

1. Modern concept of marketing is very helpful in the discovery and development of new products because this concept is based on intensive research regarding needs.

   a. True

   b. False

2. The concept provides more employment, makes_____of the resources of the quantity, restricts the wastage to the minimum and upgrades the industrial production

   a. Maximum exploitation

   b. Minimum explotation

2.9 Let Us Sum Up

You have learned that today's marketplace has become volatile and full of uncertainties. The challenges are more difficult than ever to tackle. For customer, it is 'More is less!' in terms of service excellence. It is now more thorny than ever to get your product noticed, so marketers have to be creative. It is highly recommended that you should opt for modern ways of marketing than traditional one. This is because it has positive, great impact towards social satisfaction, national and global economy. You can think of how to use technology giving you cutting-edge profit margin and increasing market share through social media like other fields or sectors. No one will hesitate that you are in a position to differentiate between selling and marketing unlike earlier. It is very essential for you to keep in mind that marketing has to deal with other departments and processes in your organization like production, legal, finance, human resources, learning and development and others. You have identified the significance of the

coordination and communication in terms of time, money, manpower among these all is a must for you. As a marketer, you should develop thinking from third point of view.

2.10 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-b)

Check your progress 2

Answers: (1-b), (2-a)

Check your progress 3

Answers: (1-a), (2-a)

Check your progress 4

Answers: (1-a), (2-b)

Check your progress 5

Answers: (1-a), (2-b)

Check your progress 6

Answers: (1-a), (2-b)

Check your progress 7

Answers: (1-a), (2-a)

2.11 Glossary

1. **Price -** The formal ratio that indicates the quantities of money goods or services needed to acquirea given quantity of goods or services.
2. **Product -** A bundle of attributes or features, functions, benefits and uses capable of exchange usually in tangible or intangible forms.

3. **Product Mix -** The full set of products offered by an organisation e.g., books, videos, story hours, etc.
4. **Marketing -** The process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goals.
5. **Market -** The set of actual of potential users/customers.
6. **Demand -** The number of units of a product sold in a market over a period of time. For example, six thousand library books were circulated in branch X's market area last year.
7. **Customer –** The actual or prospective purchaser of products or services.
8. **Database -** A compendium of information on current and prospective users that usually includes demographic data as well as use data, volume and content.

2.12 Assignment

Discuss the meaning and scope of marketing function. How does it influence/affect the exchange process? Illustrate with suitable examples.

2.13 Activities

Discuss in the group on the evaluation of marketing orientation and the factors responsible for this change in focus. Finally present it before the class.

2.14 Case Study

What is the importance of customer-oriented approach to marketing? Make a list of Dos and Don’ts to increase the customer satisfaction level.

2.15 Further Readings

1. Basic Marketing: Principles and Practice, Tom Cannon, Thomson Learning, 1995.
2. Essentials of Marketing, Geoff Lancaster, Lester Massingham, Ruth Ashford, Mcgraw-hill Professional, 2001.
3. Marketing, Society and Conflict, Sidney J. Levy, Gerald Zaltman. Prentice-Hall, 1975.
4. Marketing: Marketing in The 21st Century, Joel R. Evans, Barry Berman, Atomic Dog Publishing, 2009.
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6. Marketing Management, Philip Kotler, Kevin Lane Keller, Mairead Brad, Pearson, 2008.
7. Principles and Practice of Marketing, John Frain, Pitman Publishing, 1996.

Block Summary

The studies reveal that different organisations haved different perceptions of marketing. These perceptions have led to the formation of different concepts of marketing such as: the exchange concept; the production concept; the product concept; the selling concept; the marketing concept; the societal marketing concept. You all have understood that the consumer is the king and therefore, the satisfaction of consumer must be the prime object of anenterprise. The functions of marketing must be recognised as the most important functions of an enterprise. The notable views on the ethics of management, the various elements, marketing mix are shared in the words of management gurus who have spend half of their life in marketing research and strategies. As a salesperson, you need to know the difference between needs and wants based on production. Minimum cost and maximum revenue is the need of time which will help you to grow along with the organization.

The term marketing was later discussed in detail supported by sufficient definitions by various renonwned writers. Marketing needs to be innovative, unique, interactive and appealing activity. To do all this, you ought to have out-of-the-box thinking approach. All the above discussion shows that the field of marketing is evolved around three major aspects. They are ‘Customer’, ‘Cost’ and ‘Competiton’. It is your duty to design, plan, direct and implement your tools, techniques, models, roadmap keeping them in mind. This will make you a successful and effective marketing manager or a leader.

Block Assignment

Short Answer Questions

Write a short note on the following

1. Organisational orientation.
2. Modern Concept of marketing.
3. Product oriented concept.
4. Marketing Concepts Element.
5. Marketing Mix.
6. Customer expectations versusorganisational concepts.

Long Answer Questions

1. "Marketing is the management process for identifying, anticipating and satisfying consumer's requirements profitably". Discuss
2. Discuss the evaluation of marketing orientation. What factors are responsible for this change in focus?
3. Explain the term 'integrated marketing' with the help of notable examples.
4. "Marketing functions are the core functions of an enterprise" Elaborate.

Enrolment No. ☐

1. How many hours did you need for studying the units?

Unit No	**1**	**2**	**3**	**4**
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	_____
Language and Style	☐	☐	☐	☐	_____
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	_____
Conceptual Clarity	☐	☐	☐	☐	_____
Check your progress Quest	☐	☐	☐	☐	_____
Feed back to CYP Question	☐	☐	☐	☐	_____

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

ENTREPRENEURSHIP

PGDBA-201



BLOCK 2:
ENTREPRENEURIAL VENTURE, ENTREPRENEUR FUNCTIONS AND PROJECT MANAGEMENT

Dr. Babasaheb Ambedkar Open University

ENTREPRENEURSHIP



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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

ENTREPRENEURSHIP

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---

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Financial Problems, Administrative Problems, Marketing Problems, Production Problems, Fatal Mistakes for Small Retailing

UNIT 2 WOMEN ENTREPRENEURS

Reasons for Low / No women Entrepreneurs, Role, Problems and Prospects, National Organizations of Women Entrepreneurs, International Organizations of Women Entrepreneurs, Networks Promoting Women's Entrepreneurship

Dr. Babasaheb
Ambedkar
Open University

PGDBA-201

ENTREPRENEURSHIP

BLOCK 2: ENTREPRENEURIAL VENTURE, ENTREPRENEUR FUNCTIONS AND PROJECT MANAGEMENT

UNIT 1
CREATING ENTREPRENEURIAL VENTURE

UNIT 2
FUNCTIONS OF AN ENTREPRENEUR

UNIT 3
PROJECT MANAGEMENT

BLOCK 2: ENTREPRENEURIAL VENTURE, ENTREPRENEUR FUNCTIONS AND PROJECT MANAGEMENT

Block Introduction

Entrepreneurship is possibly the most desirable element in human society. It acts as a catalyst for growth of economy or society. A successful entrepreneur has been treated as heroes, while those who failed were possibly ridiculed by the society. Hence, the study of this subject is quite interesting. Under this study an attempt can be made to understand how did the process developed over years and an analysis can also be made to find out the reasons for the success or failure. It may be also noted that the skills which makes a successful entrepreneur can also be applied for success in a non-business situation as well, for example, while running a team in any organization. Hence, it is very important to learn this subject.

Unit 1 will help you to learn the basics of the Entrepreneurship process and also the role of Entrepreneur in recognizing and managing opportunity. This unit will also help you to know views of Economists, Sociologists, Psychologists about Entrepreneur. Unit 2 will help you to know more about an Entrepreneur, in terms of it's attributes and characteristics etc. Unit 3 explains the role of an Entrepreneur in the development of economy, How the Entrepreneurship process could be helped for further success.

Block Objective

After learning this block, you will be able to understand:

- How to plan and create an Entrepreneurial Venture?
- The more and better understanding of an Entrepreneur
- The type of organization, which is most suited for any business
- How to manage the process of creating an Enterprise/Business?

Block Structure

Unit 1: **Creating Entrepreneurial Venture**

Unit 2: **Functions of an Entrepreneur**

Unit 3: **Project Management**

UNIT 1: CREATING ENTREPRENEURIAL VENTURE

Unit Structure

1.0 Learning Objectives

1.1 Introduction

1.2 Business Planning Process

1.3 Environmental Analysis – Searching and Scanning

1.4 Identifying Problems and Opportunities

1.5 Defining Business Ideas

1.6 Basic Government Procedures to Be Completed

1.7 Let Us Sum Up

1.8 Answers for Check Your Progress

1.9 Glossary

1.10 Assignment

1.11 Activities

1.12 Case Study

1.13 Further Readings

1.0 Learning Objectives

After learning this unit you will be able to understand:

- The Business Planning Process
- The Scope of the Business Plan
- The Elements of the Business Plan
- How to analyze Environment– Searching and Scanning?
- The Problems and Opportunities
- How to Define Business Ideas
- How to List and explain the Basic Government Procedures to Be Completed Structure

1.1 Introduction

The process of creating a new entrepreneurial venture is called the entrepreneurial process. This process goes beyond the mere problem solving approach inherent in a managerial process or by a manager, and involves creativity, perseverance and risk taking by the entrepreneur. However, the entrepreneurial process can only take place if the environment for entrepreneurship in favorable. The environment in this case signifies the type of economy, the incentives available to entrepreneurs, the constraints placed upon them, the availability of markets and resources, etc.

However, it is possible to lay down a general procedure or process that captures the essence of entrepreneurship, if the other factors are favorable. The process has four distinct steps:

1. Identifying opportunities
2. Developing the business plan
3. Determining the resources required, and
4. Managing the enterprise

Of the above, the step of developing the business plan is a crucial one, meriting detailed study. It is therefore covered in the next subsection, "Business Planning Process". Opportunity identification is the process by which the entrepreneur recognizes an opportunity for a new business venture. This may happen serendipitously, where the entrepreneur simply happens to stumble on a good business idea, or it may be the result of a carefully structured process by the entrepreneur. For instance, the entrepreneur may ask friends, acquaintances and even employees about their lifestyles, what they perceive as missing in their lives, things they are unsatisfied with, etc. From such casual conversations, the entrepreneur may gain an understanding; develop an idea for a business venture.

Entrepreneurs are constantly on the lookout for new ideas. They evaluate the lives of friends, relations, co-workers, even strangers at party, in terms of needs, and the products and services that fulfill those needs. They are attuned to phrases like "I wish I had something that could …", or "I wish I could find someone to …" These phrases signal a need in the person saying them and entrepreneurs quickly latch on to that need and develop a product or service to fulfill that need.

However, this does not mean that entrepreneurs develop products and services for every need they encounter. Once an entrepreneur encounters a need, he will then put it through a process of screening and evaluation to decide whether

the venture to fulfill that need would be financial viable. The entrepreneur also evaluates the proposed business venture in terms of risks and returns, personal inclination and skill set of the entrepreneur himself, financial outlay, estimated product life cycle, etc.

Once an entrepreneur is convinced of the economic, social, psychological and chronological viability of the idea, he proceeds to the next step, developing the business plan.

1.2 Business Planning Process

The business plan flows from the evaluation process carried out by the entrepreneur when he screens his ideas for soundness. It is a written document detailing all the relevant elements (internal and external) inherent in making the venture a success. It may be split into functional sub-plans such as the Marketing Plan, Finance Plan, Operations Plan, etc. It is a "road map" for the first three years of the proposed business venture and answers three basic questions; "Where is the venture now?" and "How will it get there".

The business plan is usually prepared by the entrepreneur himself. However, in cases of complex business processes or businesses involving areas where the entrepreneur is weak (such as technologically intensive businesses), the entrepreneur may hire a consultant to prepare the business plan.

a. Scope of the Business Plan

The business plan may be aimed at one or more of several audiences.

For e.g., it may be aimed at bankers or venture capitalists for the purpose of securing finance. Or it may be aimed at suppliers to gain a supply commitment. It may be aimed at potential customers. Thus, the business plan must be able to satisfy the unique needs of all these audiences. It must address the issues each of them is interested in and answer all their queries and doubts.

There are three crucial angles from which the Business Plan must be written:

1. The Entrepreneurial angle
2. The Marketing angle
3. The investor angle

The planning process brings objectivity to the venture. When the entrepreneur first gets his idea to start the enterprise, the product / service may

seem like a sure shot success. However, by going through the business planning process, the entrepreneur is forced to look at factors like competition, size of the market, SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, etc. The entrepreneur thus becomes aware of the actual size and scope of the project and the obstacles to progress that may be present. He can then plan on ways and means to overcome those obstacles. In some cases, the entrepreneur may realize that some obstacles cannot be overcome and may decide to terminate the project at that point itself. This will save a lot of time, money and effort that would otherwise have been poured into the enterprise without success.

b. Elements of the Business Plan

It helps if the entrepreneur has a basic format of a business plan. Such packages cannot replace the knowledge and expertise of the entrepreneur, but they to the structure the ideas and to format the business plan such that it can be presented to investors, potential, clients, etc.

In general, the Business Plan must have the following elements:

1. Introductory Page

The Introductory Page gives, at a glance, the purpose of the report, the financing required and the name of the person / company preparing the report. It usually contains the following:

a. Title of the Report

b. Name of the company and its owners

c. Name of the person who has prepared the report

d. A brief description of the proposed business (usually not more than a paragraph or two)

e. The amount of financing required

f. A statement of the confidentiality of the report

Thus, the potential investor has, at a glance, the concept of the business, the owners and the financial outlay expected. This is important because some investors may have made policy decisions about:

i) **The type of business -** Some investors, due to reasons that may be personal, political, and religious, etc., do not invest in certain types of business. For

example, the investor may have made a decision not to invest in any business involved in the production or distribution of alcohol or tobacco. The Introductory Page thus saves him the time it would have taken to read through a major part of the report, only to realize he would never invest in it anyway.

ii) **The owner of the business -** Investors have to protect their investment. Therefore, it is important for them to know who the promoters of the proposed business are. If the owners have a history of failed businesses, the investor may study the report in greater detail. On the other hand, if the investor has previously funded a business by the owners and it has proved a success, the investor may look more favorably on the report.

iii) **The financial outlay -** Investors may also have a policy on the amount of money they will invest in a particular type of business on in a particular type of business or in a particular owner. The introductory page tells them at a glance whether the proposed business falls within the financial limits they have laid down.

2. Executive Summary

The Executive Summary is prepared after the entire report is prepared, but is placed at the beginning of the report. The purpose of the Executive Summary is to stimulate the interest of the investor and to provide key information that will make the investor read the entire report. The Executive Summary is usually not more than three to four pages in length.

The Executive Summary should highlight the salient features of the plan, including the nature of the proposed business, the financial plan, the marketing plan and the steps that will be taken to ensure the success of the business.

3. Industry Analysis

The Industry Analysis is a description and discussion of the industry within which the proposed business will operate. The investor must know the context of the business and the Industry Analysis is vital in this regard. The Industry Analysis provides:

a. **The history of the industry -** This gives a historical background to the industry and tells the investor whether it is the relatively new industry or a well established one. Some investors, in fact, may prefer newer industries,

since such industries tend to embrace technology more quickly. Others may prefer older industries with a history of stability within the general economy.

b. **Current scenario in the industry -** This provides the current state of affairs vis-à-vis the labor situation, infrastructure, laws and taxation, etc.

c. **Future trends** - These projections help the investor decide whether the risks and rewards are within the parameters he may have laid down for investment.

d. **Competitors** - Each major competitor should be identified and analyzed. The investor will specifically be looking for a SWOT analysis of each competitor and how they will react to a new entrant into the market. The plan must also briefly describe how the new venture plans to tackle competition.

e. **Customers -** The market should be segmented and the target segment clearly identified. The investor will specifically look for data on how the new venture's customers profile will differ from that of existing players.

f. **Government intervention -** The level of government intervention in that particular industry must be mentioned. Investors may be reluctant to invest in an industry where the government intervention is high

g. **Government forecasts and support -** If there are any forecasts made by the government; these should be included in the report. Similarly, any support provided by the government must be mentioned.

4. Description of Venture

The Description of Venture is a complete overview of products / services to be offered by the business, its operating procedure, etc. Key included are:

a. **Product / Service -** This describes the product or services in detail.

b. **Location of the business -** This is important because investors would like to know whether the place of business has sufficient infra structure to support the support the business. If it is to be a retail operation, then factors like traffic, accessibility, visibility etc. are also important.

c. **State of the building -** This provides information like whether the building is old, new or under construction, need for renovation must be mentioned.

The purchase / lease cost, parking space available, etc., must also be mentioned.

d. **Skills required by personnel -** The special skills required by personal to run the business must be mentioned. The plan should also mention whether persons with such skills are easily available, whether additional on the job training will be required, etc., must be required, etc.

e. **Office equipment requirement -** The plan should mention the types and number of units of each type that the business will require. If purchases are to be made in phased manner, the estimated duration of each phase must be mentioned. The plan should also mention whether equipment will be leased or purchased and the cost of such procurement.

f. **Business background of the entrepreneur -** The investors will be interested in knowing the business background of the entrepreneur, Successful ventures started by him / her, currently running businesses, etc.

g. **Personal background of the entrepreneur.**

h. **Reason for starting the venture.**

i. **Developmental work completed to date.**

5. Production Plan

The production plan provides details of how the product will be produced. If it is a service, the plan will detail the processes and methodology of providing the service. Some important elements of this section of the plan are:

a. Scope of production: Whether the business will be responsible for all or only part of the manufacturing operation.

b. Whether a part of the process is to be sub contracted. If so, details of subcontractors.

c. Cost of subcontracting.

d. Production process layout with illustrations.

e. Initial material requirements.

f. Raw material requirements.

g. Cost of manufacture. Future capital requirements.

h. List of potential suppliers and their background.

6. Marketing Plan

This plan describes market conditions and the strategy to price, promote and distribute the product. The marketing plan must be as detailed as possible, since most investors consider marketing to be the most crucial element in the success of the venture. The marketing goals and the methods to achieve those goals must be clearly given.

7. Organizational Plan

This plan described how the business will be organized. It details the management structure, flow of authority and responsibility, etc. It also indicates the kind of ownership of the organization, whether a proprietorship, partnership, private limited company, public limited company, etc. Some of the elements of this section of the business plan are:

a. Form of ownership.

b. If a partnership, names and background details of partners.

c. If a limited company, names of principal (major) shareholders and amount of stock held by them.

d. Names of background of the Board of Directors.

e. Method of operating the bank account (who has signing authority, whether the account is to be operated on an either/or basis or only with all signatures of operating authorities etc.

f. Details of members of the managing team (if any).

g. Roles and responsibilities of key managers

h. Salary packages, perquisites (perks), etc. of key managers.

8. Risk Factors

It would be foolish to presume that a new business venture does not face any risk in the marketplace. The wise entrepreneur, does a thorough study of factors involved and takes pains to plan ahead to tackle such risks. The business plan, therefore, must contain an assessment of risk associated with the proposed venture. Risks may arise out of competition, weak infrastructure, internal weaknesses (weaknesses in the ownership, management etc.), technological advancement, etc. For e.g. the advent of the telephone and subsequently fax and

internet has more or less made the telegraph obsolete in most parts of the world. Therefore, the entrepreneur must be aware of current technology, the advancement path of technology and its impact on the proposed business.

9. Financial Plan

The Financial Plan contains the financial blueprint for the venture. In general, the following areas are covered in the Financial Plan:

a. The forecast sales and approximate expenses for the first three years of the business in summary form

b. The monthly breakdown of forecast sales and approximate expenses for the first year of operation

c. Cash Flow (projected) for the first three years in summary form

d. Monthly projected Cash Flow for the first year of operation

e. Working capital gap and means of covering this gap (short term borrowing, cash credit from the bank, public deposits, etc.)

f. Projected Balance Sheet, summarizing the assets, liabilities, investments and retained earnings (reserves) projected at the end of the first year of business

10. Appendix

The appendix contains reference material, lists of sources of information, letters from customers, commitment letters from suppliers, investors, banks, etc, and is generally included in the Appendix. However, any document or other material included in the Appendix must have a reference in the main business plan.

Check your progress 1

1. The 'Business Plan' is one of the most important document to be created by any Entrepreneur and for its' preparation, the consideration should be as following:

   a. The Entrepreneurial angle
   b. The Marketing angle
   c. The investor angle
   d. All of the above
   e. None of the above

1.3 Environmental Analysis – Searching and Scanning

Environmental Analysis refers to the process of assessing external, uncontrollable factors that may affect the business plan. It is usually a part of the Marketing Plan and identifies, locates and analyses factors of risk and opportunity that would affect the business. Environmental Analysis also offers tentative solutions and strategies to tackle the risks identified.

The variables that are generally considered in Environmental Analysis are

a. **Economy**: This covers areas like the trends in GDP, unemployment statistics (area-wise), disposable income, etc. Such data is gathered from government sources, independent studies by economists etc.

b. **Culture:** This covers a gamut of variables from the impact of demographic shifts, attitude trends, cultural responses to safety measures, health, nutrition, environmental awareness, etc. Such information is usually gathered from secondary sources such as newspapers, magazines, independent studies, etc.

c. **Technology:** The plan must study existing technology as well as trends in technology. While it is difficult to predict advances in technology, some linking of the trends can be gathered from resources committed by leading technology companies, an analysis of the time taken for a technology to reach the country within which the business is to operate, etc. For example, if the business is to be situated within India, a look at how long it is taking internet technologies, wireless technologies, mobile phone technology, etc. to reach India will give a reasonable forecast of the trend of technology.

d. **Industry Demand:** This covers aspects as growth or shrinkage of the market entry trends of competitors, changes in consumer needs, etc. Such information usually available from secondary sources such as trade journals, chamber of commerce, etc.

e. **Legal Aspects:** This area is concerned with the existing and future legislation governs the particular business that is to be started. Factors like restrict ownership structure, mandatory procedures, permissions, restrictions on advertising, safety regulations, etc. will affect the setting up of the business as well as the marketing strategy to be adopted. This is therefore another important factor of the environment to be considered.

f. **Competition:** Large competitors would pose a major threat to any fledgling business. Even smaller competitors in sufficient numbers can so fragment

the market that the entry of a newcomer could be very difficult. The entrepreneur must be aware of existing as well as future competition. Even if the business is a new one, offering a never before product or service, there is bound to be competition from persons offering similar products or services. Information about competitors can be gathered from newspapers, trade journals, chambers of commerce, etc.

g. **Raw Material:** Since the manufacturing process begins with the procurement of raw materials, the entrepreneur must pay special attention to the availability of raw materials, the entrepreneur must pay special attention to the availability of raw material seasonal shortages, transportation problems, etc. This information can be gathered from trade journals, chambers of commerce etc.

The above were the external factors that the entrepreneur must take into consideration while assessing the environment. They are often uncontrollable factors and the entrepreneurs have to make contingency plans to circumvent the adverse conditions that may arise due to some of the above factors.

In addition to these external factors, there are often internal factors which, though more within the control of the entrepreneur must be foreseen and fine tuned for better running of the venture.

Some of these internal factors are:

1. **Finance -** As we saw in the section on the business plan finances play a major role in the success of the business. Therefore the entrepreneur must pay close attention to factors like Cash Flow, Sources of Funds, Borrowing, Raising the Capital, etc.

2. **Management -** The management team set up for the running of the business. The entrepreneur must crucial element of the internal environment of the business. The entrepreneur must ensure that there is proper delineation of authority and responsibility, channels of upward and downward communication, etc. The entrepreneur must evaluate and anticipate the need for special technical knowledge among the managers and take steps to ensure that such needs are fulfilled in a planned and organized manner.

3. **Suppliers -** The entrepreneur must evaluate suppliers on criteria such as price, quality, timeliness of delivery, reliability, etc. In some cases, where suppliers are few, the degree of control exercised by the entrepreneur may

be less. In such cases, a plan must be worked out to cater to contingencies like short supply, rise in prices etc.

4. **Company mission -** The Mission Statement of the company is its guideline principle. It gives a definite goal for everyone to work towards. It actually helps define and describe the nature of the business and the means to be used to achieve corporate goals, in addition to define the main goal itself. Therefore, the entrepreneur must pay special attention to these aspects of the internal environment.

In brief, the sources of information on the environment (Environment Scanning) are:

- Family
- Colleagues
- Bankers
- Trade Journals
- Catalogues
- Customers
- Salesmen
- Business Councilors
- Books
- Chambers of Commerce and Guides
- Friends and Acquaintances
- Employees
- Magazines
- Newspapers / Newsletters

Check your progress 2

1. Environmental Analysis is highly desirable before launching any business and they should consider the following factors :

   a. Economy
   b. Industry Demand
   c. Legal Aspects
   d. Competition
   e. All of the above
   f. None of the above

1.4 Identifying Problems and Opportunities

As we have seen before, Entrepreneur is constantly looking for new ideas. They are always lookout for "wish statements", where friends, acquaintances and even strangers might say "I wish I had…", or "I wish this would…" While most entrepreneurs do not have a formal "opportunity spotting mechanism", they often rely on similar sources for ideas. Some of these sources are:

a. Consumers
b. Business Associates
c. Distributors
d. Technocrats
e. Colleagues
f. Friends
g. Acquaintances

For example, consumers may provide feedback to the entrepreneur that a certain product, while good, does not fulfill certain other needs. This may give rise to a completely new product that takes all these needs into consideration. At other times, consumers may express a wish for something totally unrelated to the product, but where the entrepreneur has definite expertise and resources, leading to the development of a new product.

In other cases, business associates may pass on feedback from their own consumers, or from other business associates unknown to the entrepreneur. Thus the opportunity spotting network may be widespread, with needs filtering back to the entrepreneur.

However, merely hearing about a need is not enough. Others hear about needs too, but might not recognize them as opportunities. What sets the entrepreneur apart from the others in his ability to recognize a definite need and to see a way to fulfill this need? It is a coming together of perceived needs and knowledge of one's own expertise in a particular field that can be used to fulfill those needs.

The entrepreneur must also evaluate the opportunity on various bases before he decides to start a business venture to take advantage of the opportunity in question. The cause of the opportunity is important, since different causes give rise to situations with different "windows of opportunity". The Window of Opportunity refers to time period available for creating the business venture. Technological change, market conditions, government regulations, competition, etc. each create different windows of opportunity which the entrepreneur must recognize.

The opportunity must also fit in with the entrepreneur's own goals and personal expertise. If an entrepreneur is personally fired by a particular opportunity, it will spur him to put in the necessary time and effort to cash in on the opportunity. If the entrepreneur is only looking at the monetary rewards that will accrue at the end of setting up the business venture, he will quickly tire of the many steps that must be taken even before the business sees the light of day. Even if he does set up the business, it takes tremendous personal commitment and hard work before the monetary rewards start coming in. If the process itself is not to the entrepreneur's liking, the project is bound to fail.

Having spotted an opportunity, the entrepreneur does not directly rush into production. An analysis called Opportunity Analysis is conducted, to identify the problems associated with the opportunity as well as the conditions that make the opportunity feasible and profitable. Usually, the Opportunity Analysis studies the following:

1. **The Need:** This is the market need than the product/service hopes to fulfill. In most of the cases, this need is fairly obvious. However, in some cases, a certain amount of research is required to identify the need.
2. **Personal Observations:** These are observations and recorded experiences of the entrepreneur himself with regard to the market need identified above.
3. **Social Conditions:** These are the social conditions that lie beneath the market need.

4. **Market Research:** This refers to the data available from secondary sources that shed greater light on the market need. The entrepreneur has to gather all relevant market data to test the feasibility of the proposed venture.

5. **Existing Competition:** It is crucial to ascertain whether competition exists in the market that the entrepreneur wishes to enter. The strength of existing competition is also important, as it will indicate the level of effort necessary to carve a market segment.

6. **Existing Patents:** Often, products that fulfill certain needs may already have been patented and simply be awaited a developer. The entrepreneur must ascertain whether a patent exists for two reasons. Firstly, he could save a lot of time, effort and money if the product has already been developed and patented. Secondly, he avoids litigation and costly curt procedures in future.

7. **International Market Condition:** If a business is to succeed, it must enter as many markets as it can, the international market being the most lucrative. Therefore, the entrepreneur must ascertain the situation in the international market.

8. **Revenue Models:** The entrepreneur must be clear as to how the business will make money. Sometimes, the proposed business may, on the face of it, be just breaking even, but the benefits in terms of recognition and therefore spin off businesses may be greater.

Check your progress 3

1. Entrepreneur is constantly looking for new ideas. And as per the book here are few sources:

   a. Business Associates
   b. Distributors
   c. Technocrats
   d. All of the above
   e. None of the above

2. As per the text that you have just studied one item among the following is not part of 8 options of "Opportunity Analysis", which one:

   a. Price of your chosen offering
   b. The need
   c. Market research
   d. Social condition

1.5 Defining Business Ideas

From the various needs that the entrepreneur comes across, only one or two will actually be turned into a successful enterprise. The entrepreneur spots a need, and then applies his mind to generate ideas to fulfill that need. This is the Business Idea Generation Process. Some of the ways in which an entrepreneur generates business ideas are:

1. **Brainstorming -** Brainstorming is a creative process where the entrepreneur simply puts down ideas without any attempt to evaluate them or check there feasibility. The aim is to generate as many ideas as possible without regard to their workability. i.e. quantity instead of quality. In the course of brainstorming, ideas being to "spark other ideas". Thus, a simple idea leads on to another idea, which may leads on to another, and so forth. When the judgmental aspect is suspended, ideas can flow free and fast, thus increasing the chances of hitting upon a winning idea.

2. **Improving Processes -** In some cases, the entrepreneur may examine the way products and services are currently being produced, and introduce innovations and improvements in the production process. This is also a means of generating business ideas and bringing creativity to the entrepreneurial process.

3. **Expanding a Hobby -** Some entrepreneurs find that they are very good at a particular hobby, and expand this hobby into a business. Some examples are Photography, Interior Designing, Fashion Designing, Card Making, Cookery, Printing, Graphic Designing etc.

4. **Recycling Waste -** With people becoming increasingly concerned about the environment and the negative impact of waste on the quality of life, the conversion of waste into products of value has become a very lucrative business. Some examples are: using waste fiber to process into wood substitutes, recycling plastic waste into household and industrial products etc.

5. **Revamping existing products -** Sometimes, through the use of new technology of by applying old technology more efficiently, existing products can be improved. This becomes a business idea on its own.

Once the process of ideation or idea-generation is complete, the entrepreneur must evaluate the ideas and select the one that has the most

likelihood of success. Some of the criteria that entrepreneurs apply to select ideas are:

i) **Technical competence of the entrepreneur:** The ideas must fit the technical background and understanding of the entrepreneur. This does not mean that the entrepreneur must be an expert in that particular field, but he must have at least a basis understanding of the field and what is required to run the business successfully.

ii) **Availability of raw material:** When raw material is available locally, the idea becomes much more feasible. If raw material has to be procured from distant places, it could create problems in manufacture. Therefore, business ideas that utilize readily available raw materials are far more likely to succeed.

iii) **Uniqueness of the product:** If the product fulfills a definite need and is not currently available in the market, it makes the product far more likely to succeed. For example, motorcycle riders frequently had to struggle to attach their briefcases to the bikes while riding. An entrepreneur then designed the "bungee cord", a pair of elastic ropes with hooks at each end, which could easily be looped through the briefcase handle and then attached to the motorcycle. The product was an instant success.

iv) **Special skills of the entrepreneur:** If the business idea uses the specialized skills of the entrepreneur, whether in manufacturing, marketing or any other aspect, the idea is more likely to succeed.

Thus we see that, while opportunities may abound, it is the entrepreneur who identifies a definite need, generates ideas to fulfill that need, analyses the ideas and finally selects the business idea that is most likely to succeed in fulfilling the need while at the same time proving profitable for the entrepreneur.

Check your progress 4

1. As per the text earlier some of the ways in which an entrepreneur generates business ideas are:

   a. Technical competence of the entrepreneur
   b. Uniqueness of the product
   c. Special skills of the entrepreneur
   d. All of the above
   e. None of the above

1.6 Basic Government Procedures to Be Completed

Government procedures and legal requirements vary with the type of business and the type of organization that the entrepreneur initiates. In general, some of the governmental procedures that need to be followed are:

1. **Permission and Licenses:** Some products require the permission of the government before they can be manufactured and/ or sold. Some examples are arms and ammunition, alcohol, etc. The entrepreneur must find out which permissions are required and apply for them before beginning to manufacture the product.

2. **Excise and other duties:** In some cases, excise duties, sales tax and other duties may be applicable to the product or service. The entrepreneur must ensure that these statutory duties are paid on the products and services handled by the business.

3. **Registration of organizational documents:** Partnership deeds, Society documents, Memoranda and Articles of Association etc., have to be registered with the proper authorities before the business can commence operation. The entrepreneur must ensure that these legal formalities are taken care of before commencing.

4. **Location permissions, Shop Act License etc.:** In some cases, permissions from the local authority must be obtained before a property can be used for a particular business activity. For example, manufacturing operations involving machinery that causes vibrations cannot be started in older buildings. Similarly, pollution and zoning laws are in force, which prohibit the starting of certain types of industries in residential and other areas. For certain types of business, a Shop Act license or its equivalent has to be obtained and the conditions mentioned therein be fulfilled before or soon after starting operations. The entrepreneur must comply with these laws or risk stoppage of his business.

5. **Employee State Insurance:** When the number of employees crosses a certain limit, the owners of the business must take a group insurance policy for the employees.

6. **Provident Fund:** Similarly, the management must deduct the relevant Provident Fund contribution from the employees' salary and deposit this, along with the owner's contribution, into the relevant Provident Fund account.

7. **Individual and Corporate Taxes:** The business must ensure that relevant personal taxes such as Income Tax, Professional Tax, etc., are deducted at source whenever required and deposited into the designated accounts at regular intervals. The business has to ensure that corporate income is correctly assessed and taxes are paid.

Thus, the legal requirements and procedures are a complicated matter that have several variables that change according to the type of business, the form of organization, the product or service being offered, the number of employees, etc. The entrepreneur's best course of acting is to consult the relevant expert, whether it is a Chartered Accountant, Excise Consultant, Sales Tax Consultant, etc.

Check your progress 5

1. As per the reading earlier, one of the following is not a governmental procedures that need to be followed, which one?
   a. Permission and Licenses
   b. Registration of organizational documents
   c. Location permissions, Shop Act License etc.
   d. Excise and other duties
   e. Holding a staff meeting

1.7 Let Us Sum Up

In this unit, you were taken through the process of developing business. Once an Entrepreneur has a business idea, he needs to plan properly for converting that idea into a proper business. In the preceding few pages, you must have understood the importance of planning and documenting the "Business Plan' in a well structured document. The detailing required will definitely help an Entrepreneur in creating and executing a successful venture. This document, you might have realized, is also needed for getting the necessary funding etc. Subsequent chapters will explain those details to you.

It is also important to analyze the different areas, namely economy, competition etc. and you must have gained enough knowledge to deal with it.

A brief exposure was also given to you regarding, different Governmental procedure, which might have to be taken care of for any proposed venture. With all these knowledge a budding Entrepreneur should get equipped to face a real situation better.

1.8 Answers for Check Your Progress

Check your progress 1

Answer: (1-d)

Check your progress 2

Answer: (1-e)

Check your progress 3

Answer: (1-d), (2-a)

Check your progress 4

Answer: (1-a)

Check your progress 5

Answer: (1-d)

1.9 Glossary

1. **Balance Sheet -** A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time.
2. **Shop Act license -** A set of acts by Govt to be followed by any organization.
3. **Feasibility -** It is the state or degree of being easily or conveniently done.
4. **Patent -** It is a set of exclusive rights granted by a sovereign state to an inventor or assignee for a limited period of time in exchange for detailed public disclosure of an invention.
5. **Demographic -** Groups defined by certain criteria.

1.10 Assignment

You are requested to plan for a business and prepare a report on its' environmental analysis.

1.11 Activities

You may prepare a Business Plan for the above business.

1.12 Case Study

Eureka Forbes with their wide range of water purifiers have done an excellent job of "Entrepreneurship". This is what they have mentioned in their website:

"The customer has always been at the centre of our business and we are constantly expanding our ways of reaching out to them to understand their needs and aspirations. Passion for delivering with excellence has always motivated us to come up with high quality products to ensure satisfaction and the wellbeing of the families.

In a similar endeavor, we introduced direct selling in India and pioneered the water and air purification systems, vacuum cleaners and security systems. We have since added channels to enhance our reach and respond effectively to the needs of our customers.

Our Consumer Channel was established to effectively respond to the expectations of customers looking for the means to safer and healthier living. It offers them a range of water purification and home cleaning products through a network that has rapidly spread to encompass over 15,000 dealers across over 1,800 cities and towns across India.

Valuing the special bond it shares with customers, our team puts in extra efforts to maintain and deliver products of unmatched quality. Strict adherence to quality control policies ensures that its products meet the customer expectations in every way. Crafted carefully to meet the needs and suit the lifestyle of modern-day customer base, these home products are extremely convenient to use. Eureka Forbes products for home features the latest technology that simplifies tasks, enhances efficiency levels and saves time.

The comprehensive range of products offered by Eureka Forbes are a perfect blend of personal touch with professional craftsmanship making them stand out."

Discussion questions:

1. What are the reasons for success of Eureka Forbes with their water purifier products?

2. They had used direct marketing. Do you think that was the right approach? Give reasons for your answer.

3. You are also requested to carry out a total study of this water purifier market and plan a new business as their competitor.

1.13 Further Readings

1. Entrepreneurship Development by S. Anil Kumar.
2. Entrepreneurship Development in public Enterprises by Joseph Prokopenko and Igor Pavlin.
3. Entrepreneurship Development in India by Sami Uddin.
4. The Entrepreneurial Venture: readings selected by William Andrews Salhman and Amar Bhide.

UNIT 2: FUNCTIONS OF AN ENTREPRENUER

Unit Structure

2.0 Learning Objectives

2.1 Introduction

2.2 Broad Functions of an Entrepreneur

2.3 Qualities of a True Entrepreneur

2.4 Forms of Business Organization

2.5 Choice of Proper Forms of Organization

2.6 Let Us Sum Up

2.7 Answers for Check Your Progress

2.8 Glossary

2.9 Assignment

2.10 Activities

2.11 Case Study

2.12 Further Readings

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Broad Functions of an Entrepreneur
- The Qualities of a True Entrepreneur
- The different Forms of Business Organization
- The Advantages and Disadvantages of Sole Proprietorship and The Joint Hindu Family Firm
- About Partnership Organization

2.1 Introduction

Exploitation of business opportunity is the main function of an entrepreneur. The free enterprise system is claimed to provide man the greatest possible chance

to use his initiative and individual ability in his own interest. It is further contended that this freedom is essential to the highest degree of economic progress. Each individual basically free to develop his peculiar capacity largely for his own reward is seen as the production and consumption unit par excellence. The driving effort of free individuals, wisely curbed only to prevent license and educated to accept necessary social responsibility, is held to mean the greatest prosperity for the nation.

2.2 Broad Functions of an Entrepreneur

We are now in a position to list the broad functions of an entrepreneur into the following three categories:

1. Innovation
2. Risk-taking
3. Organization and management, including (a) planning of an enterprise; (b) coordination, administration and control; and (c) routine type of supervision.

Risk- bearing means provisions for capital in order to enable the entrepreneur to establish and run the enterprise. An important function of an entrepreneur is to reduce uncertainty in his plan of investment and expansion of the enterprise. Innovation means "doing the new things or the doing of things that are already being done in a new way". It includes new process of production, introduction of new products, creation of new markets, discovery of new and better source of raw materials and finally the creations of a better form of industrial organization. And organization basically implies bringing together the various factors of production. The purpose is to allocate the factor in order to minimize losses and reduce costs in production.

An entrepreneur performs any one or more of these functions at a particular time in an organization

Economists like Cotillion, J.B. Say and others stressed risk-taking as the specific function of an entrepreneur. Marshall recognized organization and management of the enterprise as the important functions of an entrepreneur. According to Schumpeter the primary function of an entrepreneur was never a risk-bearer. While discussing it he stressed that thought the basic function of an entrepreneur was to innovate this function must always appear mixed up with other kinds of activity. He wrote: "Everyone is an entrepreneur only when he actually carries out new combinations and loses that character as soon as he has

built up his business, when he settles down to running it as other people runs their business."

Arthur H. Cole described an entrepreneur as a decision maker and described the following functions of an entrepreneur; (a) The determination of those objectives of an enterprise and the change of those objectives as condition required or made advantageous ; (b) The development of an organization including efficient relations with subordinates and all employees; (c) The securing of adequate financial resource the relations with existing and potential investors; (d) The requisition of efficient technological equipment and the revision of it as new machinery appeared ; (e) The development of a market for the products and the devising of new products to meet or anticipate consumer's demand ; (f) The maintenance of good relations with public authorities and with society at large.

Modern writers have emphasized all the three functions – innovation, risk-taking and organization. In the initial stage of the establishment of an enterprise one may have to bear, risk, and manage innovate, organize and take decision all by on self. He reduces uncertainty in his plan of investment, diversification of production and expansion of the enterprise. He even manages the day –to-day activities of the enterprise. He takes business decisions and works of a manager also. But as enterprise grows, entrepreneurs or group of entrepreneurs deal with more number of workers, more complex and technical problems and more complex relationship with suppliers, customers and government. Entrepreneurial functions are divided into a number of person specialized in their respective fields. Therefore, entrepreneurial functions are filled by a corporate body and not embodied in a single physical person. Every social environment has its own way of filling the entrepreneurial function. For instance if the department of agriculture of the government in many countries including India took steps in revolutionizing the agriculture methods it would be said to have acted as an entrepreneur.

When the organization is big and grows bigger entrepreneurs start making delegation of authorities to subordinate executives. Moreover, the net work of decision making becomes more complex. But regardless of these changes in the form and increase in the complexity of organization, the central functions of the entrepreneur remain the same. The entrepreneur determines alone without any managerial interference in what lines of business is to employ capital and how much is to be employed. He determines the expansion and contraction of the size of the total business and its various branches. There are essential decisions which

are instrumental in the conduct of the business and entrepreneur are at the helm of affairs.

The entrepreneur is in essence an institution which comprises of all the people required to perform various function. The tasks of such people are not only to do with innovations, but also with understanding and implementing the adjustments that are required of the production units, when they expand on account of change in demand and in market conditions. They must do more than merely adjust. They must foresee the opportunities that are inherent or when they arise in a given situation and at times they must be in a position even to make opportunities out of a given situation.

Check your progress 1

1. One of the following statements is not correct, which one?
   a. Economists like Cotillion, J.B. Say and others stressed risk-taking as the specific function of an entrepreneur.
   b. Marshall recognized organization and management of the enterprise as the important functions of an entrepreneur.
   c. According to Schumpeter the primary function of an entrepreneur is to make profit.
   d. Arthur H. Cole described an entrepreneur as a decision maker.
   e. All of the above
   f. None of the above

2.3 Qualities of a True Entrepreneur

With the broad functions of an entrepreneur discussed in the preceding chapter (that of innovations, risk-bearing and organization and management) we may now discuss the main qualities of an entrepreneur. He should posses all such qualities with which he perform any or more of the functions. Besides, an entrepreneur plays an important role in the development of an economy. He must possess some important qualities which are of great importance to the country's rate of economic progress.

An entrepreneur should be one who bears, innovates or imitates and organize the business. As successfully he performs such functions to the extent he justifies his existence. In an economy or in any situation he is expected to combine all factors of production in a manner as to maximize output at minimum cost of production. Whether he performs the various functions effectively is determined by the nature of quality control, cost reduction, improved labor relations, profit earning and the like. All this is possible if the entrepreneur is especially a talented person and he possesses the following main quantity in him:

1. Capacity to assume risk and possessing self-confidence -

The entrepreneur assumes risk and he should have, therefore, self-confidence. He should be anxious to expand and have the willingness to tie up capital and wait for good returns. He is an innovator and also a financier having a dual capacity and he should be therefore, in search of quick and large profits ready to shift investments for better output and result. As an organizer, the entrepreneur guarantees wages to his employees, and interest to those who have lent him capital and intense element of risk. Business game consists of great risks, and rewards are also great when risks are successfully covered. The ability to perform services and the risks involved are inseparable. Therefore, for successful covering the risks, highest order of ability is required. A successful entrepreneur would be one who has tact, patience, and sagacity, power of observation and wisdom and ability of discrimination. He should be mentally alert, gifted with discernment, practically wise, acute-minded, and shrewd and an exceptionally intelligent person. He must be a good judge of human nature and must possess the qualities of leader ship. With the spread of knowledge, the entrepreneurs are increasing both in India and in other developing countries.

2. Technological knowledge, alertness to new opportunities, willingness to accept change and ability to imitate -

The entrepreneur should have a keen desire to change and adopt new technology. In order to become successful he should have perseverance to overcome obstruction, fear and variety of difficulties. He should have the capacity to pick and choose from a large number of associates and subordinates and should be able to wisely delegated authority. At the same time he should be able to wisely delegate authority. At the same time he should have the ability to inspire loyalty.

Technological change is the prime mover in the process of economic development. Historically, inventions and innovation have led the process of growth in advance countries. In underdeveloped countries the search of a new technology should be the prime objective of good entrepreneur. Their success depends to a great deal on their ability to adjust and adapt new conditions and newer technology. Technological knowledge consists of devising new good and new ways of producing existing goods and services. The entrepreneur must be interested in new goods and be prepared to attempt new ways of doing things. They should be interested in changing the pattern of production in the light of resources available to keeping in mind their competitive position in the market and also the quality of their produce. Any dynamic organization needs its ideal men, its creative thinkers, and its people who could plan and change and initiate a productive process or a new product or explore a new market. They should be alert, flexible and able to adapt to changing conditions. Economic growth is a highly dynamic process. With the growth of industry and rise in income of the people, there is a growing demand of goods hitherto not in demand and here lies ability and capacity of the wise entrepreneur who could explore this new demand. They should be alert to new opportunities and willing to incur the necessary risk in exploiting the new situation.

An entrepreneur is interested in initiating and accepting changes. He is expected to discover new combinations involving new product, new methods of production, development of market, and utilization of a new source of productive factors and a new form of organization. In underdeveloped countries there is a dearth of such men. People are not very enthusiastic because the economic environment is unhealthy and timed with uneconomic culture and age long traditions. In developed countries people accept the change as a way of life, which is not the condition in underdeveloped countries. And, that is why, in developed countries entrepreneur are in short supply. Willing to accept change is a remarkable quality of a successful entrepreneur.

In underdeveloped countries entrepreneur should possess the ability of imitation. It is true that conditions in such countries are such that people are not prepared to take risk resulting from innovations, but they should be ready to take risk resulting from innovations, but they should be ready to take up such projects which involve less cost and risk as they are of imitating as against innovating character. They should be able to harmonies new ideas of different innovations to their own organization. Writing on the industrial revolution and industrial innovations, Meier and Baldwin mention: “Although the hope of profits was a

major stimulant to innovation, there were also other prerequisites first, technical knowledge which could be utilized second, entrepreneur who recognized the opportunities, and respond to them ; third, the ability to respond by having adequate finance for the introduction of new techniques. The increasing amount of inventive activity has already been considered, but the role of entrepreneurs and the role of finance now require amplification." The further write:" Schumpeter's hero the 'innovating entrepreneur' played a central part in the rise of modern capitalism. The entrepreneur spirit of the entrepreneur is also emphasized by Somber, who interprets this spirit as a mental attitude that is dominated by the principles of acquisition, competition and economic rationality. Even though the natural environment of the eighteenth century was favorable to growth, there must also have been individuals who were willing to undertake the risks of innovating and who were prompt to do so by an attraction to money."

3. Ability to Marshall Resources -

A true entrepreneur is one who has the ability to mobilize resources in the best possible manner for achieving the business objective. He should be one who is able to reduce the cost of production to the minimum without reducing the quality of the product. Harrison writes: "A dynamic organization needs its ideal men, its creative thinkers, its people who can plan and initiate changes. The organizational ability is probably the most critical skill needed for industrial development on a large scale. The organizational builder must be able to harness the new ides of different innovators to the rest of the organizational. He must be able to select and develop person who can properly manage and control a labor force. He task is to stimulate initiative and enthusiasm in the accomplishment of the objectives of the organizational. He must be able to multiply himself by effectively delegating responsibilities to others. Indeed, the ability to build organization is perhaps the most precious of all entrepreneurial skills and thus those who can achieve success in this very critical area may be the ones who nearly fulfill the role of the true entrepreneur.

4. Ability of organization and administration -

The ability of building organization is one of the most critical skills needed for industrial development of a country. The organizer must be able to harvest the new ideas to the best in his organization. He must be able to select and develop persons who can properly manage the affairs. The entrepreneur must have the

ability of selection, training and development of the persons composing the labor force. He must have confidence to provide sufficient incentive for work. He should have the ability to raise the productivity of labor. He should know the technique of scientific management. He requires the employment of specialized personnel and investment of line on the part of members of the line organization. Even more important, he requires high level of education, experience and training among the members of the managerial organization.

If we look towards the developed countries of the world we find them equipped with all kinds of technological skill and in possession of trained and talented entrepreneur. When we go through their historical growth we find that there is long list of entrepreneur who was instrumental in introducing new methods, new products, and new markets new forms of industrial organization. Although such people were drawn from all strata, they formed a sociological group having common characteristics. They were men who valued business as a means and sign of achievement; they were people who appreciated the possibility of innovations and they were people who tried to overcome the resistances and obstacles standing in the way of doing new things. Their motive was to increase profit and improve efficiency by reducing cost. They were the great figures of the industrial revolution in England, who earned their reputation as innovators and organizers. They fulfilled in one person the functions of capitalist, financer, manager, merchant and salesman.

A study of European entrepreneur in the nineteenth century at time of industrial revolution further reveals that a typical entrepreneur was found more self-centered than others. He believed in breaking-up the old traditions and establishing new traditions. Such an entrepreneur was found highly ambitious. He had the desire of establishing a kind of private kingdom, a dynasty. He had the will to conquer, the impulse to fight and succeed and a tendency to prove he superior to others.

A true entrepreneur, besides possessing functional qualities mentioned above, must possess the broad personality contours which help him in developing initiative and drive to accomplish such tasks which he decides from time to time. In the early period an economist like J.B Say observed that an entrepreneur must possess the following special qualities; he must have “judgment, perseverance, and knowledge of the world as well as of business. He is called upon to estimate, with tolerable accuracy the importance of specific product, the probable amount of demand, and the means of its production: at another, buy or order the raw material, collect laborers, find consumers, and give at all times a rigid attention to

order and economy, in a world, he must possess the art of superintendence and administration."

In connection with a recent study of entrepreneurs, James J. Berna stressed the following qualities of a good entrepreneur.

a. He is an enterprising individual. He is energetic, resourceful, alert to new opportunities, able to adjust to changing conditions and willing to assume risks involved in changes.

b. He is interested in advancing technologically and in improving the quality of product.

c. He is interested in expanding the scale of his operations, and he reinvests to this end. James Berna further writes: "In the writer's opinion, these are the basic criteria which must be used in evaluating entrepreneur's performance in an under-developed country. They sum up, first of all, what is usually implied the phrase "spirit of enterprise". It is difficult to conceive of a first-rate industrial entrepreneur who is not adaptable to change anxious to grow larger and improve technologically."

Classification

In a study of American agriculture, Clarence Danh of has classified entrepreneur in the following manner. This classification gives us an idea that, at the initial stage of development, entrepreneur has less initiative and drive and as development proceeds they become more innovating and enthusiastic. And similarly when entrepreneur are shy and humble the environment is underdeveloped and similarly when entrepreneurs are innovating, business environment becomes healthy and developed.

There are four categories of entrepreneurs

1. Innovating entrepreneurs
2. Imitating entrepreneurs
3. Fabian entrepreneurs
4. Drone entrepreneurs

1. **Innovating entrepreneurship** is characterized by aggressive assemblage of information and the analysis of result deriving from novel combinations of factors. Men in this group are generally aggressive in experimentation who exhibited celerity in putting attractive possibilities into practice. Such an entrepreneur is one who sees the opportunity for introducing a new

technique or a new commodity or a new market. He may raise money to launch an enterprise, assemble the various factors, choose top managers and set organization that introduces new market, and re-organizes the enterprise. Innovating entrepreneurs are such who are very commonly found in developed countries. In underdeveloped countries, on the other hand, their number is very small. A country with little or no industrial tradition can hardly produce innovating entrepreneurs. Such entrepreneurs can work only when a certain level of development is already achieved, and people look forward to change and progress.

2. **Imitative entrepreneurship** is characterized by readiness to adopt successful innovation inaugurated by innovating entrepreneurs. Imitative entrepreneurs are also revolutionary entrepreneurs with the difference that they do not innovate the changes themselves; they just imitate techniques and technology innovated by others. Such entrepreneurs are particularly important in underdeveloped countries because the contribute significantly to the development of such economies, such entrepreneurs are most suitable for the underdeveloped regions because in such countries people prefer to imitate the technology, knowledge and skill already available in more advanced countries.

3. **Fabian entrepreneurship** is characterized by very great caution and skepticism in practicing any changes. Such entrepreneurs have neither will to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealing is determined by customs, religion tradition and past practices. They are not much interested in taking risk and they try to follow the footsteps of their predecessors.

4. **Drone entrepreneurship** is characterized by a refusal to adopt use opportunities to make changes in production. Such entrepreneurs may even suffer losses but they do not make changes in production methods.

The reason of the backwardness of the underdeveloped countries lies in the fact that they are deficient in innovating and imitating entrepreneur when they are found in abundance in developed countries. Men are needed who can imitate the technologies and products to the particular conditions prevailing in such countries. And at times there is need of changing and adjusting the new technologies to their special conditions. Such countries primarily need imitators who are responsible for transforming the system with the limited resources they possess. James Berna writes:" The importance of these humbler entrepreneurs who "exploit possibilities as they present themselves and mostly on a small" must not be under-estimated. In

the first place, such adaptation requires no mean ability. It often involves what has aptly been called "subjective innovation", that is the ability to do things which have not been done before by the particular industrialist, even though, unknown to him, the problem may have been solved in the same way by others." Speaking on the importance of imitating entrepreneur in underdeveloped countries, he further writes; "He is, perhaps rather pedestrian figure by western standards; an adaptor and imitator much more than a true innovator; a man who has much more in common with Marshall's organizer of the factors of production than Schumpeter's creative disturber…but in a poor country attempting to industrialize potent changes-producing figure nonetheless."

Check your progress 2

1. An entrepreneur is especially a talented person and is expected to possesses the following main quantity in him:
   a. Capacity to assume risk and possessing self-confidence ;
   b. Ability to Marshall resources ;
   c. Ability of organization and administration.
   d. All of the above
   e. None of the above
2. One of the following is not "four categories of entrepreneurs", which one.
   a. Innovating entrepreneurs
   b. Imitating entrepreneurs
   c. Smart entrepreneurs
   d. Drone entrepreneurs

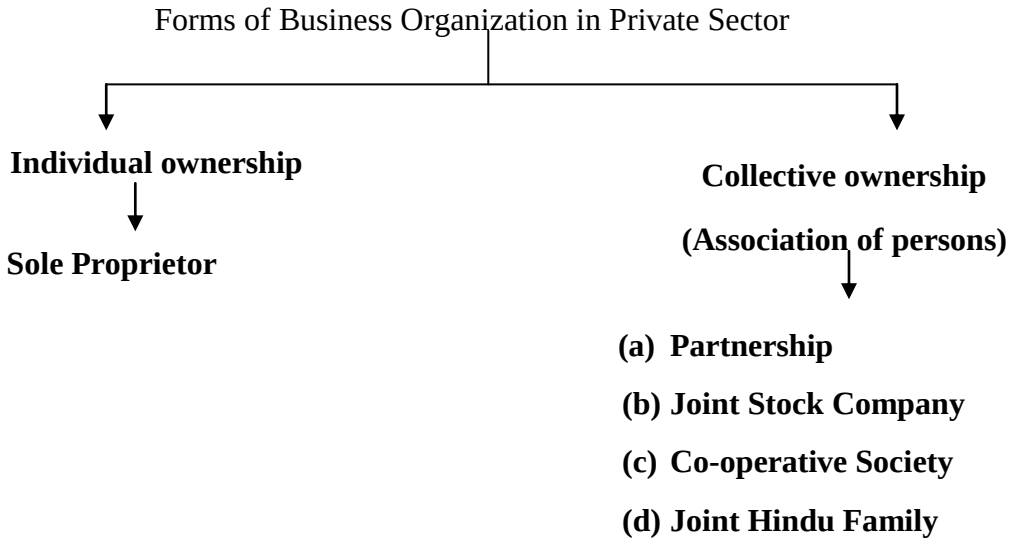
2.4 Forms of Business Organization

The sole object with which all business concerns are started is to make profit by the use of capital, by the employment of labor, by utilizing materials and by producing or disposing of commodities. All these factors of production share the profits obtained by their joint efforts. Such a concern can be started either by one person or by a group of persons in the private sectors or by Government or

other public bodies in the public sector. From this point of view, there are four main forms for a business unit. If only one person starts the business, we call that business sole proprietorship, and group of persons start the business, that either partnership business or Joint Stock Company or co-operative form of organization. For business purposes, therefore, the chief forms of ownership organizations are:

1. Individual or sole proprietorship
2. Partnership
3. Joint stock company
4. Co-operative society

Besides, these Hindu Joint Families also undertake business in India, although this form is fast losing ground as a form of business organization. Also, these above forms of organization are used essentially for business firms in the private sector.



Though a business enterprise may be owned by the above forms of organization, usually one form is more suitable than others for the particular enterprise. The choice will depend upon the considerations such as the type of the product, capital requirement, State control, legal requirements, competitive conditions in the chosen industry level of taxation, ownership privileges and so on.

Ideal Form of Organization

Before studying the features, merits and demerits of the various forms of organization, it is desirable to know some of the characteristics, which make for

an ideal form of business organization. The characteristics of an ideal form of organization are found in varying degrees in different forms of organization. The businessman, while choosing the form of organization for his business, will have to decide the form of organization with reference to the following ideals.

1. Ease of Formation

The entrepreneur must be in a position to establish the business without much difficulty and the formation process should not be time-consuming and should involve little expenses and minimum legal formalities.

2. Ease of Raising Capital

If a concern requires a huge amount of capital, the preconditions necessary for attracting capital from the public are: (a) safety of investment (b) fair return on investment, and (c) transferability of investment.

3. Limit to Liability

The firm might be organized either on the principle of limited liability or unlimited liability. But from the point of view of risk, it is better to have limited liability. This means that the entrepreneur's liability is limited only up to the amount of capital agreed to be contributed by him whereas unlimited liability means the personal assets of the owner will be held liable for the debts of the business.

4. Direct Relationship between Ownership, Control and Management

A good form of organization must also have a feature of associating the owner with the management of the firm. This means that the responsibility for management or control of management must be in the hands of owners. If the owners have no control in the management; the firm may not be organized efficiently.

5. Continuity of Stability

Stability is necessary both from the point of view of the entrepreneur and society. Uninterrupted existence enables the entrepreneur to formulate long-term plans for the prosperity of the concern. From the point of view of society, the stability of the firm ensures continuous employment and uninterrupted supply of their economic needs.

6. Flexibility of Operation

Flexibility and adaptability to the changes is another ideal of a good form of organization. Changes may take place either in the market conditions or in the condition of the supply of various factors of production. Sometimes, the State's policy towards the industry may be changed or there may be a change in the management policies. The nature of organization should be such as to be in a position to adjust to the changes without much difficulty.

7. Lighter Tax Liability

All the forms of organization are subject to the levy of taxes by the State. But as taxes are levied on different basis, some forms of organization may liable for high rate of taxation while some others may be taxed at the low rate. Hence, other things being equal, the ideal form of organization is one which is liable to low rate of taxation.

8. Freedom from State Regulation

As the State has been evincing keen interest in the economic activity of the nation, the business enterprise is being controlled by the State. This involves the spending of much time and money by the entrepreneur in observing all the rules and regulations. Hence, keeping in view the peculiar requirements of an enterprise, the entrepreneur must select such a form of organization on which the State exercises minimum control.

9. Retention of Business Secrets

The entrepreneur will also have to ensure that the form of organization chosen by him allow vital secrets to be retained without being leaked out to the competitors.

Check your progress 3

1. One of the following is not 'collective ownership', which one?

   a. Partnership
   b. Joint stock company
   c. Co-operative society
   d. Sole proprietorship
   e. None of the above

2.5 Choice of Proper Forms of Organization

The various characteristics of an ideal form of organization discussed above cannot be taken into account singly. Rather they are to be weighed against each other in the light of the requirements of the enterprise proposed to be started. Some requirements which guide entrepreneurs in making this choice are:

1) Nature of business - Trading, manufacturing, commercial or service.
2) Expected life span of business.
3) Requirements of capital for the business and the available sources of finance.
4) Expected volume of business.
5) Area of operations - whether local, national or international.
6) Extent of government control and the freedom desired by the entrepreneurs.
7) Legal formalities for establishing and organizing the business.
8) Rights and responsibilities (including personal liability) of the owners.
9) Opportunities and requirements for decision making.
10) Tax advantage under different type of organization.

Of the various factors discussed above in the choice of a proper form of organization for a business, the most important is that of raising the requisite amount of capital. Limited liability is the next important factor. The other factors are relatively less important. Nevertheless, the factors discussed above are to be weighed against each other and a form of organization which will provide the maximum net gain has to be decided. The distinguishing features of each form of organization with their respective merits and limitations are discussed below:

A. Sole Proprietorship

A sole partnership (or one-man business or sole trader or individual proprietorship or individual entrepreneurship) is a form of business organization in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is entitled to receive all the profit and assumes all the risks of ownership.

Leading Features

The following are the essential features of a sole proprietorship:

a. The business is owned singly by an individual.

b. The business is controlled by single person.

c. The individual assumes all the risks to which the business is exposed.

d. The individual has an unlimited liability. His personal assets can be used for the payment of business liabilities.

e. The business firm is not a separate legal entity from the sole proprietor.

f. No legal formalities are necessary to set up the business as such but there may be legal restrictions on a particular type of business. For example, no individual can start or run a bank or an insurance company; he may do so without any legal formalities. But in some cases a license may be necessary, e.g. if he wants to start a restaurant, license from the health department of the municipal corporation will be required.

g. He has almost unlimited freedom of action and decides everything for the firm without fear of any opposition, but of course, at his own risk. To sum up, the proprietor is his own master in this form of organization.

h. That there may be employees makes no different. He may instead take the help of the member of the family.

Evaluation

As capital is limited the liability of the entrepreneur is unlimited, this form of organization is all right for a small-scale business. This is obvious from the discussion of its merits and limitations given below.

Advantages

The following are the advantages of sole proprietorship:

i. **Ease of Formation:** It is easy to form a sole proprietorship as no legal formalities or other complicated procedure is required to be followed. Men with limited means can start an independent business and get themselves self-employed. The cost of starting this type of organization is also negligible.

ii. **Incentive:** All the profits of the business belong to one person and this gives great incentive to the owner to take personal interest in his business and manage it most efficiently.

iii. **Freedom of Action:** In matters of business dealing the sole proprietor can take his own decisions and there is none to question his authority. This type of freedom of action promotes initiative and self-reliance.

iv. **Quick Decision:** As there is no need to consult any other person, the sole proprietor can take prompt decisions. Promptness in business matters can result only when the entire responsibility of business lies with the proprietor.

v. **Flexibility:** As quick decision can be taken, the sole proprietor can adapt himself to the changing situation with comparative ease. Further, flexibility is facilitated by the little capital and small-scale operation which can be adjusted to the new situation with ease.

vi. **Personal Touch:** As only one man is dealing with the business, the proprietor can come into close contact with the customers and he can earn goodwill by attending to the customers' demands promptly and satisfactorily.

vii. **Business Secrecy:** In this type of business, it is easy to maintain the secrecy of business. Any change he wants to make regarding business methods or policies can be done without the knowledge of others. Maintaining business secrecy is very important in competitive business.

viii. **Social Desirability:** From the social point of view, sole proprietorship is desirable as it ensures that too much wealth does not concentrate in a few hands. It may be one of the ways in which equitable distribution of wealth is ensured. Further, the principle of unlimited liability of the proprietor ensures sufficient responsibility to the society.

Disadvantages

Some of the disadvantages of sole proprietorship are:

i. **Limited Resources:** In this type of concern, the resources are very limited, s only one person is responsible for the business, and the capital is limited to his capacity. If the business needs expansion, it cannot take place as the amount of capital that can be paid is restricted by the extent of his personal credit.

ii. **Limited Managerial Ability:** The managerial ability is also limited. While running business many problems arise, and it may not be possible for one person to solve them. Again, the sole proprietor may not be an expert in performing every function like purchasing, selling, accounting, and correspondence. He may be an expert in accounts but not in purchases. There are very few people who are experts in every field.

iii. **Unlimited Liability:** All the personal properties of the proprietor are liable to an unlimited extent for the debts of the business. This is a very serious handicap to the owner and this discourages the expansion of business even when there are prospects of earning profits.

iv. **Uncertain Future:** This kind of business also suffers from an uncertain future. If the sole trader dies, his business may come to an end. Long period stability which is a condition precedent to progress cannot be achieved with this form of business.

v. **No Economies of Large Scale and Specialization:** Because of the small size, sole trader cannot secure economies of large scale manufacturing, buying and selling. Further, as the degree of specialization is very small, the benefits of specialization or services of experts cannot be obtained.

vi. **Suitability:** From the above account of advantages and disadvantages of sole proprietorship, it is clear that this form of business organization is most suitable where:

Capital required is small,

Risk involved is relatively not high,

Nature of business affairs is simple of character and requires quick decision,

The personal contact with the customers has great importance, and Where special regard has to be shown to the tastes and fashions of customers

The retail shops, professional firms, household and personal service concerns are mostly started by individual proprietors. Thus, the individual proprietorships are continuing to exist in spite of the development of bigger organizations like partnership, firm and Joint Stock Company.

B. The Joint Hindu Family Firm

In India a large number of businesses are carried on in the shape of Joint Hindu Family (JHF) firms which are in essence individual entrepreneurs possessing almost all the advantages and limitations of sole proprietorship. A JHF comes into existence by the operation of law. If the business set up by a person is carried on by male members of his family after his death, it is a case of JHF. Except in Bengal where dayabhaga system of Hindu law is prevailing, in the rest of India mitakshara system of inheritance is in operation according to which three successive generations in the male line simultaneously inherit the ancestral property from the moment of their birth. Thus son, grandson and great-grandson become joint owners of ancestral property by reason of their birth in the family. They are called coparceners-in-interest. The Hindu Succession Act, 1956, has extended the line of coparcenary interest to female relatives of the deceased coparcener or male relative claiming through such female relatives. The family business is included in heritable property and is thus the subject of coparcenary interest. Under the dayabhaga law the male heirs become members on the death of the father.

The business is ordinarily managed by the father or other senior member of the family and he is called Karta or Manager; other members have no right of participation in the management. The Karta has control over the income and expenditure of the family and he is the custodian of the surplus, if any. The other members of the family cannot question the authority of the Karta and their only remedy is to get the family dissolved by mutual agreement. If the Karta has misappropriated the funds of the business, he has to compensate the other coparceners to the extent of their share in the joint property. The Karat can borrow funds for conduction the business but the other coparceners are liable only to the extent of their shrew in the business. In other words the liability of the Karta is unlimited.

A Joint Hindu Family can enter into partnership with others. But outsiders cannot become members of the Joint Hindu Family. The death of a member does not dissolve the business of the family. Dissolution of the Joint Hindu Family is possible only through mutual agreement. The male adult members can demand partition of the property of the Joint Hindu Family. On separation, a coparcener has no right of asking for previous accounts.

Advantages

Some of the advantages of Joint Hindu Family Firm are as follows:

1. Every coparcener is guaranteed a 'bare subsistence' irrespective of the extent of his contribution to the business.
2. There is scope for younger members of the family to get the benefit of knowledge and experience of elder members of the family.
3. Members of the family are taught to work not only for their own benefit of entire family without being selfish.
4. Members of the family who are sick, unemployed, old and bodily infirm, windows and orphans are looked after by the other members of the family with due care.
5. This form of organization provides an opportunity to develop virtues of discipline, self sacrifice and co-operation.
6. Benefits of 'division of labor' can be secured by assigning the work to members of the family as per their specialization.
7. As Karta enjoys full freedom in conducting family business, he can take quick business without interference by others.
8. As the liability of Karta is unlimited, he takes maximum interest in business in order to manage it on the most efficient lines.

Disadvantages

As against the above advantages, the Joint Hindu Family Firm suffers from the following disadvantages:

1. There is no encouragement to work hard and to earn more, because members who work hard are not properly rewarded and the benefit of their hard work is shared by all co-partners irrespective of the work turned out by them.
2. As Karta takes the responsibility to manage the firm, the other members of the family may become lazy and inactive.
3. The Karta exercises full control over the entire business, and other co-partners have no right to interfere in the management of business and by this, the initiative and enterprise of individuals are hampered.

4. Generally, the views of the younger members of the family may not be approved by the elder members of the family. This leads to conflict between old and young members of the family and this may result in the partition of business.

5. As Karta enjoys full freedom in conduction the business and as other co-partners have no right to interfere with the Karta in respect of conducting business, he may misuse this freedom for his personal benefits.

Evaluation

This form of business organization is losing ground with the gradual end of the joined Hindu family system. It is being replaced either by sole proprietorship or partnership firm.

C. Partnership Organization

To become a successful businessman one must possess adequate capital, knowledge and experience of business, technical skill, knowledge of accounting, purchasing and selling methods, etc. But generally it is difficult to find a person possessing all the qualities required for the success of the business. One may possess capital, but may be lacking experience in business or vice versa. Hence there arises the need for formation of partnership business where two or more persons join together of whom some may have adequate capital and some other may be experts in other fields like purchasing, selling accounting etc.

Definition

In India, the partnership organization is governed by the Partnership Act 1932. Section 4 of the Act defines partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of the acting for all". Persons who enter into partnership are individually called partners and collectively a firm and the name under which business is carried on is called the 'firm name'.

Essential Characteristics

The definition of partnership given above contains the following elements:

a. Partnership is relationship between certain persons.

b. Who have entered into an agreement?

c. For carrying on business for gain.

d. For sharing the profits derived from the business, and

e. Which is carried on by all the people's party to the agreement or any of them acting for all?

All the elements stated above must be present before a group of persons constitute a partnership. The essential characteristics of partnership are explained below:

Plurality of Persons

For constituting a partnership there must be an association of two or more persons. But the maximum number of persons in the case of banking business is 10 and in the case of other business 20. The maximum number is laid down as such for association by the Companies Act, 1956

Contractual Relationship

The partnership is the result of an agreement, express or implied, between persons who form the partnership. The Indian Partnership Act clearly states that the relation partnership arises from contract and not from status. Two persons may be considered partners in the commercial and legal sense unless they enter into an agreement for the same Likewise a joint Hindu family firm is not a partnership.

Profit Motive

The primary motive of partnership contract is mutual gain or profit. But if the manager of a firm is given a share in profits, he is not to be treated as a partner, because other elements of partnership are not satisfied.

Existence of Business

If an agreement is made between two or more persons for a social or charitable cause it is not partnership. Partners while agreeing to share the profit of business, also undertake to share its losses, if any.

Principal-agent Relationship (implied agency)

The partnership business should be carried on by all or by any one of the partners acting for all the partners. This implies that the partners not only own the business, but also manage it. Though the partners have a right to take part in the management, it may not be possible for all the partners to take part. If any one partner manages the business, he does it on behalf of the others. The relation between partners is one of agency so that every partner binds the other partner by an act in the name of the partnership firm and in the ordinary course of its

business. In other words, three is mutual agency. Each partner is the agent of the other partners and each is the principal. For this reason it is sometimes stated that the law of partnership is an extension of the law of agency.

Other Legal Characteristics of Partnership Organization

Certain other important legal characteristics of partnership organization are worth mentioning. They are:

Unlimited Liability

The liability of each partner of firm is unlimited in respect of the firm's debts. The liability of partners is joint and several, and therefore even one of the partners can be called upon to pay the debts of the firm in case the firm's assets are insufficient.

No Separate Legal Entity

The partnership firm has no independent legal existence apart from the persons who constitute it.

Utmost Good Faith

A partnership agreement is based on mutual confidence and trust of the partners. The partners must, therefore, be just and honest towards the other partners. They must disclose all facts and render true accounts relating to the business of the firm and not make any secret profits.

Restriction on Transfer of Interest

No partner can transfer his share to an outsider without the consent of all other partners.

Unanimity of Consent

No change may be made in the nature of the business without the consent of all the partners.

Dissolution

In the following cases, the dissolution of partnership takes place:

1. By the expiry of the term of the partnership.
2. By the completion of a particular adventure, and/or
3. By the death, retirement or insolvency of a partner.

Registration of firm

The Partnership Act provides for the registration of partnership with the Registrar of Firms appointed by the Government. The Act does not make it compulsory for partnership to be registered, nor does it imposes any penalty for non-registration. But the Act imposes certain disabilities on the partners of an undersigned firm so as to make registration very desirable. It lies down that an unregistered firm will not be able to enforce its claims against third parties if the suit is for more than Rs.100. No partner of an unregistered firm can file a suit to enforce his right under the partnership deed. Third parties can however file suits against the firm and the partners. Also non registration of a firm does not affect the following:

a) The right of a partner to sue for dissolution of the firm or for accounts of, and his share in the dissolved firm.

b) The power of an official assignee to realize the property of an insolvent partner.

c) The rights of a firm or its members have no place of business in India.

d) Suits not exceeding Rs.100.

e) Suits arising otherwise than under a contract for instance a suit against a third party for infringement of trademarks of the firm.

Kinds of Partners

In a partnership organization, there are different kinds of partners. They are classified as follows:

i) **Active Partner:** There are some partners who contribute not only capital to the partnership business but also take active part in the management of the business, and they are called active partners.

ii) **Sleeping Partners or Dormant Partners:** In partners contribute only capital does not participate in the management of the business they are called sleeping or dormant partners. Though they do not participate in the business, it does not preclude them from their liability to the third parties.

iii) **Nominal Partners:** Sometimes, person lends their names and credit to the partnership firm but neither contributes any capital nor takes active part in the management of the business. Such partners are called nominal partners. They are partners in name only and are not entitled to the direct benefits of partnership. Legally they are regarded as partners and are liable for all the

debts for which their names and credit are used.

iv) **Partners in Profits Only:** If a person is entitled to a certain share of profits without being liable for the losses he is known as partner in profits only. He will not be allowed to take part in the management of the business, but will be liable to third parties for all the acts of the partnership.

v) **Partner by Estoppels:** If any person behaves in such a way that others consider him to be a partner, he will be held liable to those persons who have been misled and lent finance to the firm on the assumption that he is a partner. Such a person is known as partner by estoppels. He is not a true partner of the firm and also is not entitled to any share in the profits of the firm.

vi) **Minor Partners:** A minor also can be admitted into a partnership firm. But, as he cannot enter into a contract, he cannot be a full-fledged partner. The liability of a minor partner is limited to the extent of his share in the firm. Within six months after attaining majority, he has to give public notice stating whether he will continue as partner or not. If he fails to announce within the prescribed period, he will be treated as having decided to continue as a partner. If he chooses to continue as a partner or deeded to be a partner, his liability will become unlimited, with effect from date of original admission of the benefits of partnership.

Advantages of Partnership Organization

The following are the advantages of general partnership organization:

1. **Ease of Formation:** Like the sole proprietorship, a partnership can be formed without expense and legal formalities. Even registration is not compulsory.

2. **Larger Resources:** When compared to sole proprietorship, resources are more and hence the scale of operation can be increased if necessary. The talents, managerial abilities and power of judgment of two or more persons are combined in partnership and this facilitates better organisation of business.

3. **Great Interest in the Business:** The partners take more interest in the business as they are owners and as profit from the business depends on the efficiency with which they manage it.

4. **Quick Decision:** As partners meet very often, can be taken regarding business policies and by this the firm would be in a position to take advantage of changing business conditions.
5. **Flexibility:** As partnership is free from legal restriction on its activities, the line of business can be changed at any time. If it is a company, its object cannot be changed without the sanction of Central Government.
6. **Lighter Risk:** In the case of Sole Proprietorship, all the losses will have to be borne by only one person, but in partnership, the losses are shared among the partners and hence this is lighter risk.
7. **Protection to Minority:** The minority interest is well protected by law. In the case of important matters like change in nature of the business and other matters of policy, unanimity is necessary. Even in ordinary matters where unanimity is necessary, a dissatisfied partner may withdraw and dissolve the firm.
8. **Influence of Unlimited Liability:** The principle of unlimited liability helps the firm to secure additional funds for the business, as the financiers are assured of refund of their amounts. Further, the partners will be careful in their business dealings because of the fear of their personal properties being liable under the principle of unlimited liability.
9. **Better Public Relation:** As the size of the business is not very big and as the partners themselves look after the business, there is great scope to develop cordial relation with the employees, customers and others and this would help the business in many ways.

Disadvantages

1. **Great Risks:** As the liability is joint and several, any one of the partners can be upon to pay all the debts of the firm. This affects not only the capital contributed by him but also his personal properties. Further, as every partner has a right to take part in the management of the firm, any misjudgments or faults by one of them would bring disaster to the other partners.
2. **Lack of Harmony:** As every partner has equal voice in the management, everyone would try to assert his position and this might lead to internal friction and misunderstanding crops and as a result, the business may be very much affected and may come to an end.

3. **Limited Resources:** As the number of partners cannot be more than 10 in the case of banking business and 20 in the case of any other business, there is a limit to the amount of capital that can be raised. This is a great handicap of partnership, particularly where a business which requires more or fixed capital outlay obviously calls for some other forms of business organization.
4. **No Legal Entity:** The partnership has no independence existence apart from the persons, who compose it, i.e., it is not a legal entity.
5. **Lack of Public Confidence:** As no legal regulations are followed at the time of its formation and enjoy as there is no publicity of its affairs, a partnership may not enjoy public confidence.
6. **Lack of Stability:** There is instability in the life of partnership, because the death, retirement and insolvency of a partner can affect the continuity of business. Even any single partner, if he is dissatisfied with the business can bring about dissolution of partnership. Hence, a business which requires a long period for establishment and consolidation is unit for being organized as a partnership firm.
7. **Suitability:** The above drawbacks suggest that partnership organization tends to be useful only for comparatively small business, such as retail trade, moderate sized mercantile houses, professional services or a very small manufacturing business. However, as compared to a sole proprietorship, partnership is bigger in size and operation and is well suited for business units of medium size.

Check your progress 4

1. One of the following is not an advantage of Partnership Organization, which one?
   a. Ease of Formation
   b. Quick Decision - as partners meet very often, quick decisions can be taken regarding business
   c. Limited liability
   d. All of the above
   e. None of the above

2.6 Let Us Sum Up

In this unit possibly, you got an opportunity to learn broad functions of Entrepreneur, this knowledge is useful in your journey on the path of learning the subject Entrepreneurship. You can try and relate this to the characteristics known Entrepreneurs. This will possibly improve your learning. Also try to relate his/her qualities and match with your learning from this unit.

The unit also tried to explain the different possible forms of ownership, namely

- Sole Proprietorship,
- Partnership,
- Joint Hindu Family Firm,
- Co-operative Firm,
- Joint Stock Company etc.

Not only an attempt was made to make you understand about them but also advantages and disadvantages of all these models were explained in details. It is expected that with this inputs, you can understand under what situation each type of ownership makes more sense.

2.7 Answers for Check Your Progress

Check your progress 1

Answers: (1-c)

Check your progress 2

Answers: (1-d), (2-c)

Check your progress 3

Answers: (1-c)

Check your progress 4

Answers: (1-d)

2.8 Glossary

1. **Stimulate -** To rouse to action or increased activity.
2. **Perseverance -** Persistence in doing something despite difficult.
3. **Fabian -** An organization of socialists aiming to achieve socialism by gradual rather than revolutionary means.
4. **Drone -** In a technological context, is an unmanned aircraft.
5. **Skepticism -** a sceptical attitude; doubt as to the truth of something.

2.9 Assignment

Please visit a Company registration office and write the process for registration of a firm.

2.10 Activities

Study the shops and establishment act and list out the main 10 points, which one has to observe for opening a restaurant in any city.

2.11 Case Study

Please study the Business Plan that you have already made. Now after reading this unit, you have also gained some knowledge about the different possible ownership patterns. Decide, what type of ownership is best suited for your proposed business. Give justification for your decision and also list out the disadvantages for the proposed type of ownership and list the precautions that you need to take to safeguard your proposed business.

2.12 Further Readings

1. Entrepreneurship Development by S. Anil Kumar.
2. Entrepreneurship Development in public Enterprises by Joseph Prokopenko and Igor Pavlin.
3. Entrepreneurship Development in India by Sami Uddin.

UNIT 3: PROJECT MANAGEMENT

Unit Structure

3.0 Learning Objectives

3.1 Introduction

3.2 Project Management

3.3 History of Project Management

3.4 The Traditional Triple Constraints

3.5 Project Control Variables

3.6 Project Management Tools

3.7 Project Feasibility

3.8 Estimating and Financing Funds Requirements

3.9 Let Us Sum Up

3.10 Answers for Check Your Progress

3.11 Glossary

3.12 Assignment

3.13 Activities

3.14 Case Study

3.15 Further Readings

3.0 Learning Objectives

After learning this unit you will be able to understand:

- The Concept of Project Management
- The Traditional Triple Constraints
- The Project Control Variables And Project Management Tools
- About Project Feasibility
- The estimating and financing funds requirements

3.1 Introduction

In addition to the Business Plan, which is basically meant to be used as a marketing tool for the venture for investors, bankers, government entities etc, the entrepreneur usually makes a more detailed Project Feasibility Plan to be used as an internal tool to ensure the success of the venture. The feasibility Report is a detailed expansion of the Business Plan, containing SWOT (Strengths, Weaknesses, Opportunities & Threats) Analysis, marketing feasibility, technical feasibility, etc., to be used as a guide for the venture in its crucial formative years.

In addition, the entrepreneurs also arrange for funds from various lend institutions. It is important for the student of management to be aware of these institutions and to have a comprehensive idea of the types, tenures and limits of funds available from such institutions.

3.2 Project Management

Project Management is the discipline of planning, organizing, and managing resources to bring about the successful completion of specific project goals and objectives. A project is a finite endeavor—having specific start and completion dates—undertaken to create a unique product or service which brings about beneficial change or added value. This finite characteristic of projects stands in sharp contrast to processes, or operations, which are permanent or semi-permanent functional work to repetitively produce the same product or service. In practice, the management of these two systems is often found to be quite different, and as such requires the development of distinct technical skills and the adoption of separate management philosophy, which is the subject of this article.

The primary challenge of project management is to achieve all of the project goals and objectives while adhering to classic project constraints—usually scope, quality, time and budget. The secondary—and more ambitious—challenge is to optimize the allocation and integration of inputs necessary to meet pre-defined objectives. A project is a carefully defined set of activities that use resources (money, people, materials, energy, space, provisions, communication, motivation, etc.) to achieve the project goals and objectives.

Check your progress 1

1. The 'Entrepreneur' needs to know the concepts of 'Project Management" as well and the reasons are:
   a. To achieve all of the project goals and objectives
   b. To manage the classic project constraints—usually scope, quality, time and budget.
   c. All of the above
   d. None of the above

3.3 History of Project Management

As a discipline, project management developed from different fields of application including construction, engineering, and defense. In the United States, the forefather of project management is Henry Gantt, called the father of planning and control techniques, who is famously known for his use of the Gantt chart as a project management tool, for being an associate of Frederick Winslow Taylor's theories of scientific management and for his study of the work and management of Navy ship building. His work is the forerunner to many modern project management tools including the work breakdown structure (WBS) and resource allocation.

The 1950s marked the beginning of the modern project management era. Again, in the United States, prior to the 1950s, projects were managed on an ad hoc basis using mostly Gantt Charts, and informal techniques and tools. At that time, two mathematical project scheduling models were developed: (1) the "Program Evaluation and Review Technique" or PERT, developed by Booz-Allen & Hamilton as part of the United States Navy's (in conjunction with the Lockheed Corporation) Polaris missile submarine program; and (2) the "Critical Path Method" (CPM) developed in a joint venture by both DuPont Corporation and Remington Rand Corporation for managing plant maintenance projects. These mathematical techniques quickly spread into many private enterprises.

At the same time, technology for project cost estimating, cost management, and engineering economics was evolving, with pioneering work by Hans Lang and others. In 1956, the American Association of Cost Engineers (now AACE International; the Association for the Advancement of Cost Engineering) was formed.

In 1969, the Project Management Institute (PMI) was formed to serve the interest of the project management industry. The premise of PMI is that the tools and techniques of project management are common even among the widespread application of projects from the software industry to the construction industry.

Definitions

- **Project Management -** Body of Knowledge as defined by the Project Management Institute — PMI): Project management is the application of knowledge, skills, tools and techniques to project activities to meet project requirements.
- **Project management methodology -** The planning, monitoring and control of all aspects of the project and the motivation of all those involved in it to achieve the project objectives on time and to the specified cost, quality and performance.
- **Project -** A temporary endeavor with a finite completion date undertaken to create a unique product or service. Projects bring form or function to ideas or needs.

Job description

Project management is quite often the province and responsibility of an individual project manager. This individual seldom participates directly in the activities that produce the end result, but rather strives to maintain the progress and productive mutual interaction of various parties in such a way that overall risk of failure is reduced.

Check your progress 2

1. One of the following statements is not correct, which one?
   a. PERT, developed by Booz-Allen & Hamilton as part of the United States Navy's (in conjunction with the Lockheed Corporation) Polaris missile submarine program;
   b. 1930s marked the beginning of the modern project management era.
   c. Henry Gantt, called the father of planning and control techniques, All of the above
   d. In 1969, the Project Management Institute (PMI) was formed.

3.4 The Traditional Triple Constraints

The Project Management Triangle:

The time constraint refers to the amount of time available to complete a project. The cost constraint refers to the budgeted amount available for the project. The scope constraint refers to what must be done to produce the project's end result. These three constraints are often competing constraints: increased scope typically means increased time and increased cost, a tight time constraint could mean increased costs and reduced scope, and a tight budget could mean increased time and reduced scope.

Project objectives

Project objectives define target status at the end of the project, reaching of which is considered necessary for the achievement of planned benefits. They can be formulated as S.M.A.R.T.

- Specific,
- Measurable (or at least valuable) achievement,
- Achievable (recently Acceptable is used regularly as well),
- Relevant and
- Time terminated (bounded).

The evaluation (measurement) occurs at the project closure. However a continuous guard on the project progress should be kept by monitoring and evaluating.

Check your progress 3

1. One of the following is not an item of "S M A R T" , which one:
   a. Specific,
   b. Measurable (or at least valuable) achievement,
   c. Achievable (recently Acceptable is used regularly as well),
   d. Regular and
   e. Time terminated (bounded).

2. Introducer of a new good, of a new method of production, the opening of a new market

   a. Owner of land or capital

   b. Working with a team of people to cultivate land etc.

   c. All of the above

   d. None of the above

3.5 Project Control Variables

Project Management tries to gain control over variables such as risk:

Potential points of failure: Most negative risks (or potential failures) can be overcome or resolved, given enough planning capabilities, time, and resources. According to some definitions (including PMBOK Third Edition) risk can also be categorized as "positive--" meaning that there is a potential opportunity, e.g., completes the project faster than expected.

Customers (either internal or external project sponsors) and external organizations (such as government agencies and regulators) can dictate the extent of three variables: time, cost, and scope. The remaining variable (risk) is managed by the project team, ideally based on solid estimation and response planning techniques. Through a negotiation process among project stakeholders, an agreement defines the final objectives, in terms of time, cost, scope, and risk, usually in the form of a charter or contract.

To properly control these variables a good project manager has a depth of knowledge and experience in these four areas (time, cost, scope, and risk), and in six other areas as well: integration, communication, human resources, quality assurance, schedule development, and procurement.

Ref: http://www.rl.ac.uk/ppdstudentships/lecture11_tyndel.ppt

Project development stages

Regardless of the methodology used, the project development process will have the same major stages: initiation, planning or development, production or execution, maintenance and controlling, and closing.

a. **Initiation:** The initiation stage determines the nature and scope of the development. If this stage is not performed well, it is unlikely that the project will be successful in meeting the business's needs. The key project

controls needed here are an understanding of the business environment and making sure that all necessary controls are incorporated into the project. Any deficiencies should be reported and a recommendation should be made to fix them.

b. **Planning and design:** After the initiation stage, the system is designed. Occasionally, a small prototype of the final product is built and tested. Testing is generally performed by a combination of testers and end users, and can occur after the prototype is built or concurrently. Controls should be in place that ensures that the final product will meet the specifications of the project charter.

c. **Executing:** Executing consists of the processes used to complete the work defined in the project management plan to accomplish the project's requirements. Execution process involves coordinating people and resources, as well as integrating and performing the activities of the project in accordance with the project management plan. The deliverables are produced as outputs from the processes performed as defined in the project management plan.

d. **Monitoring and Controlling:** Monitoring and Controlling consists of those processes performed to observe project execution so that potential problems can be identified in a timely manner and corrective action can be taken, when necessary, to control the execution of the project. The key benefit is that project performance is observed and measured regularly to identify variances from the project management plan. In this stage, auditors should pay attention to how effectively and quickly user problems are resolved.

e. **Closing:** Closing includes the formal acceptance of the project and the ending thereof. Administrative activities include the archiving of the files and documenting lessons learned. Closing phase consists of two parts:

- **Close project -** to finalize all activities across all of the process groups to formally close the project or a project phase
- **Contract closure -** necessary for completing and settling each contract, including the resolution of any open items, and closing each contract applicable to the project or a project phase.

Check your progress 4

1. For successful project management there are five phases, as listed below one of them is not in the right place, which one?

   a. project initiation stage;

   b. project execution or production stage;

   c. project planning or design stage;

   d. project monitoring and controlling systems;

   e. Project completion stage.

3.6 Project Management Tools

Project management tools include

- Financial tools
- Cause and effect charts
- PERT charts
- Gantt charts
- Event Chain Diagrams
- RACI diagram
- Run charts
- Project Cycle Optimization
- List of project management software
- Participatory Impact Pathways Analysis (An approach for developing common understanding and consensus amongst project participants and stakeholders as to how the project will achieve its goal)

Project management associations

Several national and professional associations exist which have as their aim the promotion and development of project management and the project management profession.

Check your progress 5

1. Some of tools for Project management are :

   a. Cause and effect charts
   b. PERT charts
   c. Gantt charts
   d. All of the above
   e. None of the above

3.7 Project Feasibility

A. Technical Feasibility

Technical feasibility refers to the feasibility of the units to produce the required quantity of units to make the business viable. In the case of service ventures, the technical feasibility refers to the feasibility of the service center to handle the volume of service operations required to sustain the business and make it profitable.

1. **Size of the Unit:** Size of the land, floor space etc. are important considerations in determining the output of the proposed unit. The size of the unit will also influence the layout of the production process and the use of technology. Location of the business

   The physical location of the production and marketing units are crucial in determining the success of the business. The proper location of the unit ensures that it is close to the sources of raw materials as well as close to labor and the first point of sale.

2. **Layout:** Layout of the actual plant can be critical in ensuring smooth production and minimal operation and maintenance cost. The layout plan is crucial, since once installed it can be extremely difficult, if not impossible, to change the location/orientation of machinery conveyor systems etc. Lighting and ventilation

3. **Manufacturing Process:** The entrepreneur must ensure that the manufacturing process utilizes the latest technology and techniques so that it can manufacture the required quantity quickly and cheaply.

4. **Inventory Control:** The next important aspect of technical feasibility is the control of inventory of both, raw material, as well as finished products. Inventory control involves the determining of quantities of raw materials and finished goods at site as well as in transit. Proper inventory control

offers several advantages like continuous availability of raw materials and work-in-progress, economies of scale, i.e. quantity discounts on large orders and efficient use of transportation etc.

Here you must also understand an important item called EOQ. Factors that affect the Economic Order Quantity, or EOQ (the most efficient quantity of stock to be re-ordered) are:

a. Total cost

b. Inventory carrying cost (ICC), the cost of storing and maintaining inventory at site or in go downs

c. Order-Processing cost, the cost of actually placing the order (telephone calls, Purchase Orders, envelopes, stamps etc.)

The formula for determining the EOQ is

$Q = \sqrt{(2\,CS)/I}$

Where Q = EOQ

C = Annual usage in units

S = Order Cost per order

I = Inventory Carrying Cost per annum

Another important aspect of Inventory Control is the ABC analysis of the units to be carried. ABC analysis refers to the analysis of the cost of carrying each unit of inventory. It is usually found that a small percentage of units lock up a major share of the capital, while the bulk of the units lock up smaller shares of capital.

5. **Purchase Policy:** This is another major factor, in the technical feasibility. The right purchase policy consists of buying the right materials in the right quantity, of the right quality, at the right time and place and from the right source.

B. Financial Feasibility

Financial feasibility refers to the cash flow of the proposed business. The entrepreneur must be able to forecast Fixed Capital and Working Capital requirements and plan ahead to ensure that capital is available whenever required.

Steps in Financial Planning are -

a. Determination of the Capital/structure

b. Forecasting quantities of finance, pattern of financing and timing of floating corporate securities.

The various elements of the Financial Plan are -

a. Fixed Capital

b. Working Capital

c. Credit Policy

d. Debt-Equity ratio

Finance is of two kinds, Long-term and Short-term. Long-term finance is required for purchase of fixed assets such as land, building, machinery, etc. Short-term finance is required to meet the daily cash requirements of the business such as purchase of raw material, payment of utility bills, wages and salaries etc.

Long-term Finance is sourced from the following -

a. Owner's Capital (equity)

b. Term loans from financial institutions

c. Loans and deposits

d. Hire-purchase and leasing facilities

e. Seed Capital, Venture Capital, Margin Money etc. from government institutions and

f. Other sources, such as IDBI's Bill Rediscounting Scheme

Short term Finance is sourced from -

a. Working Capital borrowings from banks

b. Loans and Deposits

c. Creditors

d. Customer Deposits

C. Marketing Feasibility

Marketing Feasibility refers to the estimation of demand and supply and the means to satisfy the demands. Marketing feasibility begins with the analysis of the benefits that customers would receive from the proposed product / service.

D. Personnel Feasibility

Personnel Feasibility refers to the feasibility of hiring, retaining, compensating, motivating and promoting the required personnel to run the unit. Personnel feasibility also takes into consideration various legal aspects that govern the hire, compensation and firing of personnel at various levels in the organization. Some of the important legal aspects that the entrepreneur must consider are, Industrial Dispute Act, The Payment of Wages Act, Payment of Gratuity Act, Employees State Insurance Act & The Indian Trade Union Act etc.

E. Management Feasibility

Another important aspect of the new venture is the management feasibility of the venture. The entrepreneur must ensure that he has right personnel, with the right qualifications and experience, to manage the enterprise.

Check your progress 6

1. One of the below is not correct, which one?

   The formula for determining the EOQ is $Q = \sqrt{(2\,CS)/I}$

   Where

   a. Q = EOQ

   b. C = Annual usage in units

   c. S = Order Cost per order

   d. I = Interest

   e. None of the above

3.8 Estimating and Financing Funds Requirements

The entrepreneur has also to estimate the funds required by the venture and plan ahead to identity the sources from where those funds will be taken. The following aspects need to be covered.

a. **Cost Estimate of the Venture:** The entrepreneur must estimate the upfront cost of the venture such that the picture of the cost emerges.

b. **Financial Structure:** The entrepreneur must ensure that aspects like the debt equity ratio falls within the norms set by the RBI as well as industrial norms for similar ventures. Currently, the debt equity ratio is fixed at 1:5:1 for large and medium projects and 3:1 for small scale industries.

c. **Profits:** The entrepreneur must estimate the profits and ensure that they are adequate to sustain and grow the business. The profits must cover the repayment of loans taken as well as contingency funds, reserve funds etc., which will help the business absorb fluctuations in the market situation.

Stages of Venture Capital Funding

Venture Capital funding goes through various stages, the main ones being:

- Early Stage Finance
- Second Stage Finance, and
- Later Stage Finance

Let us study these stages in some detail

Early Stage Finance

1. **Seed Finance:** This refers to the financing of the initial product development enabling the entrepreneur to prove the feasibility of a project and qualify for start-up capital. It is the riskiest type of venture capital investment.

2. **Start-up Finance:** This forms the bulk of most venture capital projects. Start-up finance refers to finance given to organizations that are less than one year old. Failure rate of such organizations is one in three, but the risks to venture capitalists are still lesser in this case than in the case of seed finance.

3. **First Stage Finance:** This is the stage at which the organization has a fully functional management team and a marketable product. While a safer bet than seed finance or start-up finance, this form of finance also has its own

risks, such as competition, risk of obsolescence and defection of key personnel.

Second Stage Finance

Second Stage Financing refers to the additional injection of funds for the expansion of an enterprise that is already in business, having built up a client base and growing stocks of inventory as well as account receivables. While safer than first stage financing, it is usually resorted to by companies that are still not making a profit due to internal or external factors.

Later Stage Finance

1. **Third Stage Finance:** Also referred to as Mezzanine Finance, this refers to finance given for capacity expansion and setting up proper distribution channels so as to enable the unit to reach optimal production to enjoy benefits of scale. Venture Capitalists tend to invest in some companies at this stage to hedge investments in other companies at prior stages.
2. **Replacement Capital:** Also called Money-Out Deal, this refers to the purchase of shares from existing shareholders so as not to disturb the capital structure of the business. This may occur when some shareholders wish to exit their holdings due to a need for cash or a dispute with the management.
3. **Turn around Finance:** This form of financing is used to turn around companies that are bankrupt or on the verge of bankruptcy and need finance for restructuring so as to generate profits.
4. **Management Buy-Out/Buy-In:** A Management Buy-Out refers to a situation where the management team takes over the ownership of the unit with the help of the Venture Capitalist. A Management Buy-In refers to a situation where outsiders take over the ownership, leaving the management team intact.

Venture Capital may be in the form of Equity, Quasi Equity instruments or normal debt. Equity refers to the buying of shares in the venture. Venture capitalists prefer to be minority shareholders, but reserve some rights to appoint nominees on the board of directors, examine the books of accounts, etc. In the case of Quasi Equity instruments, the participation is in the form of loans, but the servicing of the loan may be linked to the performance of the venture. In the case of normal debt, loans are advanced to meet short term obligations. However, normal debt usually constitutes only a small part of the capital structure for venture capitalists.

Check your progress 7

1. One of the following statements is not correct, which one?

   a. First Stage Finance- This is the stage at which the organization has a fully functional management team and a marketable product.

   b. Venture capital companies mobilize savings and channelize them into enterprises with innovative and untried business ideas, but which may lack a proven track record.

   c. Short term loans are provided for purchase of equipment and machinery as well as for the purchase of land, to meet the cost of construction, preliminary expenses and margin money for working capital requirements.

3.9 Let Us Sum Up

In this unit, the Project Management aspect has been explained in detail. As a management student you must be aware of the importance of a good project management requirement to help an Entrepreneur in his proposed venture. To make your understanding better not only the process of project management but its historical development has also been dealt in the previous unit.

The next item which was dealt was Finance, which is the most critical resource for any Entrepreneurship venture. After reading the unit, you must have not only understood how check the financial feasibility but also how to manage finance better. An attempt was also made to explain types of funding requirements and sources etc.

3.10 Answers for Check Your Progress

Check your progress 1

Answer: (1-c)

Check your progress 2

Answer: (1-b)

Check your progress 3

Answer: (1-d)

Check your progress 4

Answer: (1-a)

Check your progress 5

Answer: (1-d)

Check your progress 6

Answer: (1-d)

Check your progress 7

Answer: (1-c)

3.11 Glossary

1. **Market Segmentation -** It is a marketing strategy which involves dividing a broad target market into subsets of consumers, businesses, or countries who have, or are perceived to have, common needs, interests, and priorities, and then designing and implementing strategies to target them.
2. **Profit and Loss Statement -** A financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time - usually a fiscal quarter or year.
3. **Bill Rediscounting -** It is a short-term negotiable debt instrument for a second time. Banks may rediscount these short-term debt securities to assist the movement of a market that has a high demand for loans.
4. **Debt-Equity ratio -** A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.
5. **Statistical Quality Control (SQC) -** This refers to the use of statistical methods in the monitoring and maintaining of the quality of products and services.

3.12 Assignment

Visit the website of at least 3 financial institutions as mentioned in the above text and find out their roles in funding for any business.

3.13 Activities

For the Business Plan already made, please carry out the following:

1. Estimate the funding requirements.
2. Assume the projected sales to work out the revenue and cost.
3. Prepare a monthly cash flow, Profit & Loss statement for one year.

3.14 Case Study

Tasty burger

Background

Entrepreneur Mr. Rao opened his first restaurant on New Delhi's Chandni Chowk in 2011. It was originally called 'Relish' but a year later he changed the name of the restaurant to 'Tastyburger' as he wanted it to be more fun. He says Tastyburger is a dedication to the humble burger and a desire to bring people really good food, really fast. He wants Tastyburger to focus on using the best quality ingredients to prepare the best possible burgers – a restaurant where the food does the talking.

Growth

In 2015 Mr. Rao wanted to expand and so he opened another Tastyburger near to New Delhi's well-known shopping area, Princes Street .

With this new restaurant his aim was to provide burgers quicker, cheaper and in a way that enabled the customer to eat them as they were intended – with their hands. Some of the burgers were re-designed to enable Tastyburger to offer better value portions and to get the food to customers quicker, allowing people to have a faster, slicker and more enjoyable experience whilst still giving them time to enjoy the BIG burger experience.

The future

After the success of Tasty burger Mr. Rao now wants to grow further but is not sure how to expand or change the business.

Choose one of the following themes/options and develop a simple business proposal that Tasty burger can take forward:

a) Identify another location in New Delhi for Tasty burger.

b) Alter Tasty burger's pricing and promotion policies to compete with other fast-food businesses.

c) Identify sources of finance to allow Tasty burger to expand.

Once you have chosen what option to focus on you could research and present it by -

1. choosing and selecting appropriate information from at least two sources (primary and secondary)
2. preparing a simple business proposal, based on your research findings
3. presenting your business proposal to others (e.g. this could be your class, practitioners, managers of the business you are using as an example), using a method suitable for the option you have chosen
4. making a suggestion as to the likely success of your proposal

3.15 Further Readings

1. Entrepreneurship Development by S. Anil Kumar.
2. Entrepreneurship Development in public Enterprises by Joseph Prokopenko and Igor Pavlin.
3. Entrepreneurship Development in India by Sami Uddin.
4. The entrepreneur: an economic theory by Mark Casson.

Block Summary

In this block at attempt was made to make you understand the process of creating an Entrepreneurial venture by explaining you the business planning process, environmental analysis process etc. An exposure was also given on various regulatory needs. Once that was explained, the forms of business organizations were explained and guidance were also given to select the right form of organizations for any business. After this the knowledge of project management, funding management etc. were also given so that you are totally aware of the needs while planning for an Entrepreneurial venture. After reading this block you must have understand the following:

- To plan and create an Entrepreneurial Venture
- Develop more and better understanding of an Entrepreneur
- Decide the type of organization, which is most suited for any business
- And also how to manage the process of creating an Enterprise/Business

Block Assignment

Assume you are the CEO of a Financial Institutions and the business plan that you have already made are given to you. Study the plan and critically analyze the different feasibility of the proposed venture.

Short Answer Questions

1. Explain in brief the elements of a Business Plan.
2. Write a brief description of Venture in a Business Plan
3. What is (a) Marketing Plan and (b) Financial Plan
4. Write briefly the importance of an Introductory Page in a Business Plan.
5. Discuss the broad functions of entrepreneurs.
6. Explain the qualities of an entrepreneur.
7. Write short notes on;
    a) Partnership
    b) Unlimited Liability
    c) Partnership Organization
    d) Joint Hindu Family Firm
    e) Advantages of sole proprietorship
    f) Industrial Disputes Act
    g) Management Feasibility
    h) Finance from Commercial Banks
    i) Role of ICICI and IDBI in financing a project

Long Answer Questions

1. What is environmental analysis with reference to Entrepreneurship?
2. How does the Entrepreneur go about defining the Business Idea?
3. What are the basic governmental procedures to be complied with in starting an entrepreneurial venture in India?
4. Discuss the categories of entrepreneurs in detail.

Entrepreneurial Venture, Entrepreneur Functions and Project Management

5. What are the forms of organization? Discuss the merits and demerits of each form
6. What is Technical Feasibility with reference to Project Management?
7. Explain how an Entrepreneur goes about projecting the Personnel Feasibility of his project.
8. Explain in detail the process of Venture Capital funding.

Enrolment No. ☐

1. How many hours did you need for studying the units?

Unit No	1	2	3	4
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	_____
Language and Style	☐	☐	☐	☐	_____
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	_____
Conceptual Clarity	☐	☐	☐	☐	_____
Check your progress Quest	☐	☐	☐	☐	_____
Feed back to CYP Question	☐	☐	☐	☐	_____

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
Jyotirmay' Parisar, Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

ENTREPRENEURSHIP

PGDBA-201



BLOCK 3:
ENTREPRENEURSHIP DEVELOPMENT AND SOCIAL RESPONSIBILITIES OF BUSINESS ENTREPRENEURS

स्वाध्याय : परमं तपः

Dr. Babasaheb Ambedkar Open University

ENTREPRENEURSHIP



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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

ENTREPRENEURSHIP

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Dr. Babasaheb
Ambedkar
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BLOCK 3: ENTREPRENEURSHIP DEVELOPMENT AND SOCIAL RESPONSIBILITIES OF BUSINESS ENTREPRENEURS

UNIT 1

ENTREPRENEURSHIP DEVELOPMENT AND GOVERNMENT

UNIT 2

SOCIAL RESPONSIBILITIES OF BUSINESS ENTREPRENEURS

BLOCK 3: ENTREPRENEURSHIP DEVELOPMENT AND SOCIAL RESPONSIBILITIES OF BUSINESS ENTREPRENEURS

Block Introduction

Entrepreneurship is possibly the most desirable aspect in today's human society. It acts as a catalyst for growth of economy or society. Successful entrepreneurs have been treated as heroes, while those who failed were possibly ridiculed by the society. Hence, the study of this subject is quite interesting. Under this study an attempt can be made to understand how did the process developed over years and an analysis can also be made to find out the reasons for the success or failure. It may be also noted that the skills which makes a successful entrepreneur can also be applied for success in a non-business situation as well, for example, while running a team in any organization. Hence, it is very important to learn this subject. In this block we will also discuss the role of Entrepreneur in our society and also the regulatory aspects.

Unit 1 will help you to learn the basics of the Entrepreneurship development under regulations. What are the duties of Entrepreneur and what kind of assistance available. Unit 2 will help you to know more about the Business Entrepreneur, in terms of his roles in fulfilling the social obligations. This has become more important now and hence you need to study this as well.

Block Objective

After learning this block, you will be able to understand:

- The Role of Various Government Bodies and Various Agencies in Promoting Entrepreneurship.
- About Business Development Service Providers for Micro Enterprise & Micro Finance.
- The Meaning of Social Responsibility of Business and realize the Social Responsibility of Business under changing scenario.
- The Characteristics of Social Responsibilities of Business.
- The Social Responsibilities Strategies.
- The Social Responsibilities of Business towards Different Groups & business ethics.

Block Structure

Unit 1: **Entrepreneurship Development and Government**

Unit 2: **Social Responsibilities of Business Entrepreneurs**

UNIT 1: ENTREPRENUERSHIP DEVELOPMENT AND GOVERNMENT

Unit Structure

1.0 Learning Objectives

1.1 Introduction

1.2 Role of Various Government Bodies in Promoting Entrepreneurship

1.3 Introductions to Various Incentives Subsidies and Grants

1.4 Role of Various Agencies in Entrepreneurship Development

1.5 Business Development Service Providers for Micro Enterprise & Micro Finance

1.6 Let Us Sum Up

1.7 Answers for Check Your Progress

1.8 Glossary

1.9 Assignment

1.10 Activities

1.11 Case Study

1.12 Further Readings

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- Introduce Various Incentives Subsidies and Grants
- About the small industrial services institute.
- About the Entrepreneurship Development Institute of India (EDII)

1.1 Introduction

The government has instituted several bodies to help in the creation, financing and running of businesses, ranging from medium to small and tiny industries. The development of these sectors has always been an integral part of

the planning process in India. With the new liberalization policy, these sectors are now facing increased competitions, and entrepreneurs need to know of the various institutions and bodies that offer help to medium, small and tiny industries.

1.2 Role of Various Government Bodies in Promoting Entrepreneurship

Small Scale Industry in India is governed by the Ministry of Small Scale Industries. The Ministry has been playing a major role in the development of the small scale sector through its various programs. For example, the Department of Small Scale and Agro Rural Industries, which functions under the Ministry, has been conducting various developmental programs. Towards this end, it has formulated a citizen's charter with the following mission statement.

"To support the SSI by way of an advocacy role, provide services to support SSI growth and to organize programs through government and NGOs that provide assistance to the small-scale sector, from undertaking surveys and market research to arranging funding, training programs, etc." Let us first examine the role of the government in promoting entrepreneurship in India.

The importance of these sectors can be seen from the fact that, as in March 2000 Small Scale industries were providing employment to more than 187 lakh people, with a turnover exceeding Rs.27, 00,000 crores and export earnings of almost Rs.44,000 crores. With these sectors thus forming such a crucial part of the economy, it is also in the nation's interest for the government to encourage and aid such enterprises.

Some of the general incentives and facilities are:

1. **Fiscal Incentives** - Full exemption of excise duty for small scale industries with a turnover of up to Rs.50 lakhs and concessional duty for small scale industries with a turnover of between Rs.50 lakh and Rs.100 lakhs.
2. **Reservation of Products** - 836 products have been reserved for manufacture exclusively by small scale units.
3. **Government Purchase** - Price and purchase preference by government for products manufactured in the small scale sector.
4. **Training** - Infrastructural support to Entrepreneurship Development Institutes.

5. **Joint Programs** - Joint programs have been set up with the State Bank of India and Small Industries Development bank of India for modernization and technology up gradation in certain sectors.
6. **NGO** - Industrial associations and voluntary agencies are given assistance in setting up facilities to help local entrepreneurs.
7. **Seminars** - Seminars and programs on aspects like vendor development, quality, etc. are organized.
8. **ISO Certification** - Special assistance is given to SSIs to enable them to improve their systems and thus be able to apply for ISO certification. Financial assistance is also available for small enterprises to acquire ISO-9000 certification.
9. **Credit Policies** -
    a. Priority in lending to SSIs by banks
    b. Concessional rate of interest for loans upto Rs.2 lakhs for SSIs
    c. Specialized SSI branches in specific areas
    d. Delegation of authority to branch heads to sanction loans for small industries
    e. Sample surveys to determine if small units were getting adequate credit.

Role of Central Government

The Central Government has set up several bodies to aid in the growth of the Small Scale Sector.

The various bodies that fall under the jurisdiction of the Central Government are:

SSI Board

The Small Scale Industries Board is the apex advisory body, set up to aid in the development of the small scale sector by coordinating and inter-linking the other bodies and institutions working in the sector. The board was constituted to advise the government on issues pertaining to the Small Scale sector. The board is constituted of representatives from the Central Government, State Government, Reserve Bank of India, State Bank of India, etc. The representatives from standing committees entrusted with the task of ideating ways and means to provide financial, marketing and other assistance to small scale industries.

Small Industries Development Organization (SIDCO)

The Small Industries Development Organization (SIDCO) is a nodal organization working under the Ministry of Small Scale Industries. It helps in laying down the policies of the central government.

It has the following organizations working under its jurisdiction.

- Small Industries Service Institute (SISI)
- Branch level institutions
- Extension centers
- Regional training centers
- Field testing stations Tool rooms
- Central Footwear Training Institute (CFTI)
- PPDC
- NISIET
- NIESBUD
- EDI
- Entrepreneurship Development and management training
- Extension and training services
- Skill Development
- EDIs
- Preparation of product profiles
- Plant modernization studies
- Testing services
- Sub-contract exchanges
- Tool rooms
- Marketing support
- Data collection and feasibility studies
- Employment under Prime Ministers Rojgar Yojna (PMRY) also encourages the entrepreneurs by giving three national awards every year to SIDCO outstanding SSI entrepreneurs in the country.

We shall study the working of various agencies mentioned above in their respective sections later in this chapter.

Role of State Government

Directorate of Industries

The Directorate of Industries is the executive agency for the promotional and development of the village and small industries sector. It acts under the overall guidance of SIDCO, and performs both, regulatory and developmental functions. The directorates of Industries operate through a network of District Industrial Centers (DIC) at the district level, industrial officers at the sub-divisional level and extension officers at the block level.

The Directorate of Industries is the executive agency for the promotion and development of the village and small industries sector. It acts under the overall guidance of SIDO and performs both, regulatory and developmental functions. The directorate of Industries operates through a network of District Industrial Centers (DIC) at the district level, industries officers at the sub-divisional level and extension officers at the block level.

The main bodies that fall under the jurisdiction of the Directorate of Industries are:

- District Industries Centers
- State Finance Corporations (SFCs)
- State Industrial Development Corporation / State Industrial Investment Corporation (SIDC / SSIC)
- Small Scale Industries Development Corporation (SSIDC)

We shall study the working of some of these agencies in their respective sections later in this chapter.

Check your progress 1

1. Some of the general incentives and facilities provided by Government to Entrepreneurs are:
   a. Fiscal Incentives
   b. Reservation of Products
   c. Government Purchase
   d. All of the above
   e. None of the above
2. There are special Credit Policies for Entrepreneurs, such as :
   a. Priority in lending to SSIs by banks
   b. Concessional rate of interest for loans up to Rs.2 lakhs for SSIs
   c. Specialized SSI branches in specific areas
   d. All of the above
   e. None of the above
3. The 'Entrepreneur' is assisted by SIDCO by providing many kinds of assistance. They have a number of Institutes under them to help as listed below. However, one of them is incorrect, which one?
   a. Small Industries Service Institute (SISI)
   b. IDBI
   c. Field testing stations Tool rooms
   d. Central Footwear Training Institute (CFTI)

1.3 Introductions to Various Incentives Subsidies and Grants

Export Oriented Units

Export Oriented Units refer to units that produce goods and services for export to other countries. The Export-Import (EXIM) Policy of the Government of India lays down the meaning, entitlements and duties for EOUs and other export

related bodies in the EXIM Policy 2002-03. These aspects are covered in chapter 6 of the policy, relevant portions of which are given below.

EXIM Policy 2002-2003

[Selected readings from chapter 6 of EXIM Policy 2002-03]

EXPORT ORIENTED UNITS (EOUs), UNITS IN EXPORT PROCESSING ZONES (EPZs), ELECTRONICS HARDWARE TECHNOLOGY PARKS (EHTPs) NAD SOFTWARE TECHNOLOGY PARKS (STPs)

Eligibility

(Covered in section 6.1 from Chapter-6 of EXIM Policy 2002-2003)

The Section: Units undertaking to export their entire production of goods and services may be set up under the Export Oriented Unit (EUO) Scheme or Software technology Park (STP) Scheme. Such units may be engaged in manufacture, services, repair, remarking, reconditioning, re-engineering including making of gold / silver / platinum jewellery and articles thereof, agriculture, including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry, sericulture and granites and may export all products except restricted and prohibited items of exports in ITC (HS). Units for generation / distribution of power may also set up in EPZs. No trading units shall be permitted.

Meaning: Only manufacturing, repairing, servicing and remaking units qualify to be set up under the schemes outlined above. Trading units are not permitted.

Export and Import of goods

(Covered in section 6.2 of EXIM Policy 2002-2003)

The Section: A EUO / EHTP / STP unit may export goods and services including agro-products, party processed jewelry, sub—assemblies and components. It may also export by products, rejects, waste scrap arising out of the production process.

Meaning: New products and services as well as by products, waste and scrap may be exported.

The Section: A EUO / EPZ / EHTP / STP unit may import without payment of duty all types of goods, including capital goods, as defined in the policy, required by it for its activities as mentioned in paragraph 6.1 above or in connection therewith, provided they are prohibited items of imports in the ITC

(HS). The units shall also permit to import goods required for the approved activity, including capital goods, free of cost or on loan from clients.

Meaning: All types of goods required for the activity of the unit may be imported free of import duty. Even free samples, etc., will not attract any import duty.

Second hand Capital Goods

(Covered under Section 6.3 of EXIM Policy 2002-2003)

Second hand capital goods may also be imported without payment of duty.

Application and Approvals

((Covered in Section 6.7 of EXIM Policy 2002-2003)

The Section - Section 6.7 (a) only project having an investment of not less than Rs. 50 lakhs and above in plant and machinery shall be considered for establishment under EUOs scheme. (This shall however not apply to existing units and units in EPZ / EHTP / STP / Agriculture / Floriculture / aquaculture / animal husbandry / information technology, services and such other sectors as may be decided by the BOA).

Meaning - Units set up in the scheme must have a minimum investment of Rs. 50 lakhs in plant and machinery, except in certain sectors such as agriculture, floriculture, IT, etc.

The section - Section 6.7 (b) In other cases, approval may be granted by the Board of Approval (BOA) set up for this purposes as notified and indicated at Appendix 14-B.

Meaning - Units that do not meet the criteria set in Section 6.7 (a) may still be permitted to set up, provided they take approval from the Board of Approval through the given procedure.

The Section - Section 6.7 (c) Proposals requiring industrial licenses may be considered by the Board of Approval on a case basis.

DTA Sale of finished products / rejects / waste / scrap / remnants and by-products Section 6.8 states that the entire production must be exported, except for rejects, waste scrap and remnants that meet certain criteria. Such items may be sold within India on payment of certain duties. In case such items are destroyed (with the permission or customs authorities), no duties are payable.

Export through status holder

Covered in Section 6.10 of EXIM Policy 2002-2003)

An EOU / EPZ / EHTP / STP unit may export goods manufactured by it through a merchant exporter / status holder recognized under this Policy or EUO / EPZ / EHTP / STP / SEZ unit.

Samples

(Covered in section 6.11 of EXIM Policy 2002-2003)

Procedure for export / supply of samples by STP / EUO / EPZ / EHTP units is given in paragraph 6.11 of the handbook Vol-I.

Entitlement for supplies from the DTA

(Covered in section 6.12 of EXIM Policy 2002-2003)

(a) Supplies from the DTA to EUO / EPZ / EHTP / STP units will be regarded as "deemed exports" and the DTA supplier shall be eligible for the relevant entitlements under paragraph 8.3 of this policy besides discharge of EP if any, on the supplier. In addition the EUO / EPZ / EHTP / STP units shall be entitled to the following:

1. Reimbursement of Central Sales Tax.
2. Exemption from payment of Central Excise Duty on all goods as per entitlement under paragraph 6.2 of the policy.
3. Reimbursement of Central Excise Duty on all goods as per entitlement under paragraph 6.2 of the policy.
4. Reimbursement of Duty paid on fuels procured from domestic oil companies, by the Development Commissioner of the concerned Zone as per the rate of Drawback notified by the Directorate General of Foreign Trade from time to time.

(b) Supplier of cut and polished diamonds, precious and semi-precious stones, synthetic stones and processed pearls from DTA to EOU/EPZ units shall be eligible for grant of Replenishment Licenses at the rates and for the items mentioned in Appendix-13 of the handbook (Vol.1).

The entitlements under paragraph (a) (1) and (2) above shall be available provided the goods supplied are manufactured in India.

In addition to the above sections, there are several sections that deal with issues like sub-contracting, export through exhibition, etc.

Fiscal and Tax Concession

The government offers a wide range of concessions to investors in India to promote industrial growth and exports. The important concessions include

- Deduction of preliminary and pre-operative expenses in setting up a project
- Complete tax exemption for profits from exports.
- Full or part exemption of foreign exchange earnings on construction projects, hotels and tourism related services, royalties, commissions etc.
- Five year tax holidays within the first eight years of commercial operations for 100% EOUs and units in FTZs.
- Tax exemption for income from export of computer software or technical services.
- Deduction of 30% of gross total income for 10 years for new industrial undertakings established by companies.
- Deduction of capital research and development expenditure. Tax holiday for profits from new power projects for first five years of operation.
- Five year tax holiday for entrepreneurs who builds maintains and operate infrastructure facilities in areas of highways, expressways, new bridges, airports, ports and rapid mass transport system.

Taxation – Incentives, Rebates and Allowances – General Tax Incentives

In each section of Personal Tax (income tax), Indirect taxes (sales, excise & customs duty) and the corporate taxes there are certain rebates given to the tax payer if he fits in the prescribed criteria. These concessions or Tax Holidays as they call are meant to attract more and more people to pay tax. These rebates also mean less 'pinch' on the pockets and a good fast growth of economy.

General Tax Incentives

The government offers many incentives to investors in India with a view to stimulating industrial growth and development. The incentives offered are normally in line with the government's economic philosophy, and are revised regularly to accommodate new areas of emphasis. The following are some of the important incentives offered, which significantly reduce the effective tax rates for the beneficiary companies:

1. Five year tax holiday for:
   - Power projects.
   - Firms engaged in exports.
   - New industries in notified states and for new industrial units established, in electronic hardware / software parks.
   - Export Oriented Units and units in Free Trade Zones.
   - As of 1994-95 budget firms engaged in providing infrastructure facilities, can also avail of this benefit.
2. Tax deductions of 100 per cent of export profits.
3. Deduction of 30 percent of net (total) income for 10 years for new industrial undertakings.
4. Deduction of 50 per cent on foreign exchange earnings by construction companies, hotels and on royalty, commission etc. earned in foreign exchange.
5. Deduction in respect of certain inter-corporate dividends to the extent of dividend declared.

Check your progress 2

1. The EXPORT ORIENTED UNITS (EOUs), can avail various benefits, some of them are listed below.
   a. Deduction of preliminary and pre-operative expenses in setting up a project
   b. Complete tax exemption for profits from exports.
   c. Five year tax holidays within the first eight years of commercial operations for 100% EOUs and units in FTZs.
   d. All of the above
   e. None of the above

1.4 Role of Various Agencies in Entrepreneurship Development

A. **District Industries Centre (DIC)**

The District Industrial Centers come under the Directorate of Industries, a State level organization. At the district level, the District Industrial Centre (DIC) identifies the potential entrepreneurs and helps them by providing consultancy and technical guidance to select the project and machinery, trade and activity, sources of raw materials, and marketing. The entrepreneurs are trained through various institutions. Subsidies are sanctioned to units whose capital investment does not exceed Rs.5 lakhs and the subsidy amount (10 to 15%) does not exceed Rs.75, 000. This subsidy is provided only after the starting of the unit.

B. **Small Industries Service Institute**

The primary objective of SISIs, of which there are 28 in India, is the promotion and development of small scale units. SISIs offer a wide range of services for prospective and existing entrepreneurs through a team of technical management and economic experts. The major categories of services provided are:

- Technical Consultancy: Counseling and guidance in selection of product, process and all aspects of setting up new units.
- Preparation of project profiles/project reports.
- ISO 9000 certification consultancy and training, Processing subsidy claims
- Modernization, quality improvement and cost reduction.
- In-plant study and sick unit study for revival.
- Diversification and new product development, productivity improvement.
- Pollution control and effluent treatment.
- Energy conservation and energy management.
- Capacity assessment and enlistment with National Small Industries Corporation.
- Management consultancy for SSIs.

C. **Entrepreneurship Development Institute of India (EDII)**

EDI has empowered the creation of several training programs in specific areas, adding greatly to the creation of several training programs in specific areas, adding greatly to the creation and growth of entrepreneurs in India.

Some of the areas in which programs have been initiated are:

- Entrepreneurship In Education
- Micro Finance & Micro Enterprise Development
- Performance And Growth Of Existing Entrepreneurs
- Performance Improvement Of Entrepreneurship Development (Ed)
- Entrepreneurship Environment And Support System
- Strategic International Programs.

Designed to fill the lacunae in the existing educational system, EDI tries to prior independent thinking, creativity, a spirit of innovation and motivation for setting challenging and achievable goal. The Institute tries to inculcate a spirit of enterprise the present generation as a way to promote entrepreneurship and new enterprise culture as a solution to the problems of unemployment, under-employment and disguised unemployment.

The EDI has designed and successfully implemented several national and international training programs and workshops for the academic community and for the youth.

The major programs under this thrust area are:

- Faculty Development Programs (FDP) in Entrepreneurship for Teachers.
- Summer Camp on Entrepreneurial Stimulation for Children.
- Summer Camp on Entrepreneurial Adventure for Youth.
- Post-Graduate Diploma in Business Entrepreneurship and Management (PGDBEM).

Micro Finance & Micro Enterprise Development

The Institute is engaged in rural development, poverty alleviating and employment generation through promotion of micro and small enterprises. This is being done in collaboration with t large number of NGOs. The institute is also addressing the credit needs of the trained potential rural entrepreneurs and

regularly organizes training programs on Micro Credit Delivery System (MCDS) Management, for strengthening the partner NGOs in the area of micro-finance.

To strengthen NGOs through building their managerial capabilities, the institute has also launched programs on Sustainability of NGOs through better management. It also provides a platform to NGOs and Bankers for interaction with the objective of facilitating access of the poor to credit.

The following are major programs under this thrust area:

1. Workshop of Heads of NGOs / VOs on Rural Entrepreneurship Development (RED) Strategy.
2. Trainers' Training Programs for Extension Workers of NGOs on Rural Entrepreneurs Development.
3. Workshop on Informal Micro Credit Delivery System.
4. Training Programs on Management of Micro Credit Delivery System.
5. Training Programs for Capacity Building of NGOs.
6. Programs and Growth of Existing Entrepreneurs

Small and medium enterprises in India are often unable to face the challenges of liberalization and globalization. Government can no longer provide them with protection barriers and incentive mechanisms to ensure their survival and growth. Anticipating the need for management strategy and growth oriented awareness and competencies, the EDI has initiated Performance Improvement Programs (PIPs), focusing on functional management inputs and strategic techniques.

Some of the programs initiated are:

1) Succession Planning for Entrepreneurial Continuity (SPEC)
2) Performance Improvement Programmed (PIP) for Existing Entrepreneurs
3) Small Industry Management Assistant Programmers (SIMAP)
4) Growth-cum-Business Counseling Program.
5) Internationalization of SME business operations.
6) Entrepreneurship Program

Performance Improvement of Entrepreneurship Development Institutions and Entrepreneurship Development Programs Fully cognizant of the fact that 'Entrepreneurship Development' is the main activity to be carried out by a large

number of Entrepreneurship Development (ED) organizations, programs conceptualized and designed by the EDI address the need to train the trainer-motivators of these organizations through training techniques, updated information and documentation. The Institute regularly organizes trainers' meets and chairmen / chief executives' meet to foster linkages among trainers and chief executives of the ED organizations to facilitate experience sharing.

EDI has also supported the creation of Centers for Entrepreneurship Development (CED) and Institutes of Entrepreneurship Development (IEDs) in several states of the country with a view to institutionalizing ED activities.

Besides, in order to recognize the significant contribution of Entrepreneur Trainer-Motivators (ETMs) in the field of ED, EDI has instituted the 'Entrepreneur Trainer-Motivators Award' at a national level.

The core programs under this thrust areas are:

1. Diploma in Business Entrepreneurship and Management
2. Entrepreneurship Development Programs (EDP)
3. National Trainers' Course (NTC)
4. Functional Trainers' Program on Entrepreneur Selection, Motivation, Counseling & Communication
5. National Trainers' Convention
6. Best Entrepreneur Trainer-Motivator (ETM) award

Entrepreneurship Environment and Support System

The support system and institutional mechanism often make or break an enterprise. Entrepreneurship environment and support systems therefore seek to sensitize officials of support organizations to issues like the unique needs of entrepreneurs, the need to upgrade their own knowledge, etc., in order to remove major irritants in emergence and growth of SMEs.

Further, in order to reduce the dependence of women on low technology and low investment projects and help them make space for themselves amidst male dominance in entrepreneurship, training programs and workshop on gender issues are designed for trainer motivators and support system officials to make them favorably inclined towards the needs of women entrepreneurs.

Some of the programs offered are:

1. Effective Business Counseling Programmed for Extension Officers
2. Workshop for Sensitizing Support System for Promoting Micro Enterprises
3. Focused Behavioral Event Interview (FBEI) Training Programmed
4. NGO Bankers Interface
5. Gender and Enterprise Development (GED)
6. Training Programmed on Project Appraisal and Entrepreneur Assessment

Strategic International Programs

The EDI has extended its services across continents in response to the global responsibility vested in it by leading international institutions, including the United Nations Industrial Development Organization (UNIDO), the Commonwealth Secretariat, and the International Labor Organization (ILO), the World Bank, the SAARC and governments of many developing countries. EDI has been called upon to initiate customized programs and projects a view to sharing its expertise in Entrepreneurship Development and New Enterprise Creation. The Institute offers the following programs for the international participants:

- Entrepreneur Trainer Motivators Programs
- Industrial Project Preparation and Appraisal (IPPA)
- Computer model for Feasibility Analysis and Reporting (COMFAR)
- Faculty Development Program (FDP) in Entrepreneurship for Teachers
- Post Graduate Diploma in Business Entrepreneurship and management (PGDBEM)
- Trainers Training Programs for Extension Workers of NGOs on Rural Enterprise Development
- Training Programmed on Management of Micro Credit Delivery Systems
- Training Programmed for Capacity Building of NGOs
- Performance Improvement Programmed (PIP) for Existing Entrepreneurs
- Growth-cum-Business Counseling Programmed
- Entrepreneurship Programmed
- Open Learning Program in Entrepreneurship (OLPE)

- Entrepreneurship Development Programs (EDP)
- Focused Behavioral Event Interview (FBEI) Training Programmed

National Institute of Entrepreneurship and Small Business Development (NEISBUD)

This institute was set up as society on July 6th, 1983 under the Societies Act, 1860. It is an apex body for the coordination and overseeing of activities of various institutions engaged in entrepreneurial development. The Institute is responsible for the development of syllabi for training various groups, the creation and provision of training manuals and the lending of support to various governmental and non-governmental agencies engaged in Entrepreneurship Development Programs. Towards this end, the Institute also provides "Train-the-Trainer" programs for motivators, trainers and mentor Entrepreneurs.

Niesbuds programs are largely funded by the government and help organizations that are directly or indirectly involved in entrepreneurship development activities. The Institute is constantly revising and updating its programs to match the rapidly changing entrepreneurial climate and thus keep entrepreneurs on the cutting edge of modern business practices and opportunities.

Members of the faculty are drawn from senior and experienced professionals specialized in entrepreneurial development, motivation, project identification, finance, small industry management, women entrepreneurship, etc. The Institute has conducted a large number of courses for different target groups. The training programs are specially formulated to cater to the unique needs of the target groups and course content and methodology is constantly updated to reflect current business challenges. The institute also conducts tailor-made courses for organizations and agencies depending on their specific requirements.

National Entrepreneurship Development Board (NEDB)

The National Entrepreneurship Development Board (NEDB) is the apex body for Entrepreneurship development in the country. It devises and recommends to the Government, shames for promotional of Entrepreneurship for encouraging self-employment in small scale industries and small business. The board also recommends suitable facilities and incentives for Entrepreneurship training. The board may appoint comities for specific purposes and also invites persons to the meeting of the Board, as and when necessary.

NEDB was set up by the government with the following objectives:

1. To seek to evolve a ten years perspective plan of recourses development and support services required by micro, tiny, small and medium scale Entrepreneurs to lead a national drive by the concerned governmental agencies both Central and State Government, R&D institutions, Entrepreneurship promoting institutions and all others interested in supporting the cause of Entrepreneurship and Entrepreneurial ventures.
2. To articulate priorities and design and monitor the implementation of action plans thereby helping the area to cope with the business environment of 21st Century.
3. To identify & remove entry barriers for potential Entrepreneurs (first generation and new Entrepreneurs).
4. To focus on existing Entrepreneurs in micro, tiny and identify and remove constraints to survivals, growth and continuously improve performance.
5. To facilitate the consolidation, growth and diversification of existing Entrepreneurial venture in all possible ways.
6. To support skill up gradation and renewal of learning processes among practicing Entrepreneurs and managers of micro, tiny small and medium enterprises.
7. To sensitizes to support agencies in the area of Entrepreneurship about the current requirement of growth.
8. To act as catalyst to institutionalize Entrepreneurship development by supporting and strengthening state level institutions for Entrepreneurship development as most Entrepreneurship related activities take place at the grass root level and removing various constraints to their effective functioning.

Check your progress 3

1. The Entrepreneurship Development Institute of India (EDII) conducts a number of program and some of them are as following. One of them is not correct, which one?
   a. Managing partnership
   b. Micro Finance & Micro Enterprise Development

c. Performance And Growth Of Existing Entrepreneurs

d. Performance Improvement Of Entrepreneurship Development (Ed)

e. None of the above

1.5 Business Development Service Providers for Micro Enterprise & Micro Finance

Rationale

Micro-enterprise and micro-finance development have emerged as major strategies to combat the twin issues of poverty and unemployment that continue to pose a major threat to the polity and economy of both the developed and developing countries. While micro-finance, as a means to empower poor, has been quite successful in many countries, the utilization of credit for adequate income and employment generation is a cause of concern for most of the stakeholders. The missing link is that micro-enterprise and micro-finance, more often than not, have been dealt with in isolation without any synergy between the two.

The micro businesses need an enormous range of services. The issues and debates in Business Development Services (BDS) for micro enterprise and micro finance sector have raised a few important issues like: roles of Micro Enterprise and Micro-finance promoting institutions, BDS's relation to local economic development, ascertaining sustainability of BDS and so on.

Guidelines to Entrepreneurs for Approaching Different Agencies

For Selection of Industry

1. Small Industries Service Institutes
2. Indian Investment Centre, Parliament Street, new Delhi-110001
3. Ministry of Industrial Development, Government of India.

For registration

1. Director of Industries
2. Small Industries Service Institutes

For Factory accommodation

1. Director of Industries (state government)

For Machinery, raw material and technical knowledge

1. Small Industries Service Institutes.
2. National Small Industries Corporations
3. State Small Industries Corporations
4. Chief Controller of Imports and Exports, New Delhi
5. Development Commissioner, Small Scale Industries Organization, New Delhi
6. Director of Industries
7. Chief Controller of Imports and Exports, and its Post offices
8. Council of Scientific and Industries Research, New Delhi or its National Laboratories
9. National Research Development Corporation.
10. Small Industries Extension Training Institute, Hyderabad
11. The Inventions Promotion Board, New Delhi.

For Finance

1. State Finance Corporations
2. State directors of Industries
3. State Bank of India and its subsidiaries
4. Commercial Banks
5. State Industries and Investments Corporation
6. National Small Industries Corporation
7. Industrial Credit and Investments Corporations of India
8. Small Industries Service Institutes

For Marketing etc

1. Small Industries Service Institutes
2. Indian Standards Institution
3. Directors of Industries
4. National Small Industries Corporation, New Delhi
5. State Small Industries Corporations
6. Chief Controller of Imports and Export, New Delhi
7. Directorate of Export Promotion, Udyog Bhavan, New Delhi
8. Export Promotion Councils
9. State Trading Corporation Of India
10. India Institute of Foreign Trade, New Delhi
11. Minerals and metals Trading Corporation of India

Check your progress 4

1. The 'Entrepreneur' can seek finance from a number of agencies as listed below. However, one of them is incorrect, which one?
   a. The Inventions Promotion Board, New Delhi.
   b. State Finance Corporations
   c. State directors of Industries
   d. State Bank of India and its subsidiaries
   e. Working with a team of people to cultivate land etc.
   f. All of the above
   g. None of the above

1.6 Let Us Sum Up

In the earlier units the importance of Entrepreneurship for the economy and society was explained. This fact has now been acceptable to all Governments and India is no exception. Hence in this unit you were exposed to the various

organizations, which has been setup to help Entrepreneurs in their effort. There is a now a Ministry of Small Scale Industries. The Ministry has been playing a major role in the development of the small scale sector through its various programs.

State Governments have also extended their helping hands with support to Entrepreneurs and you must have now a fair idea after reading the earlier unit.

Since many Entrepreneurs start with a small venture and hence special coverage has also been given to micro-finance.

Hope after reading this unit, you have received a fair knowledge on this important aspect of Entrepreneurship.

1.7 Answers for Check Your Progress

Check your progress 1

Answers: (1-d), (2-d), (3-b)

Check your progress 2

Answers: (1-d)

Check your progress 3

Answers: (1-a)

Check your progress 4

Answers: (1-a)

1.8 Glossary

1. **Psychographic** - It is the study of personality, values, opinions, attitudes, interests, and lifestyles.
2. **Primary source** - A primary source is a document or physical object which was written or created during the time under study.
3. **Secondary sources** - It is the information that has been gathered by researchers and recorded in books, articles, and other publications.
4. **Creditors** - A person or company to whom money is owing.

5. **Hire-purchase -** The term hire purchase originated in the U.K., and is similar to what are called "rent-to-own" arrangements in the United States. Under a hire purchase contract, the buyer is leasing the goods and does not obtain ownership until the full amount of the contract is paid.
6. **Margin Money -** Borrowed money that is used to purchase securities. This practice is referred to as "buying on margin".
7. **Bankruptcy -** A legal proceeding involving a person or business that is unable to repay outstanding debts.

1.9 Assignment

Visit the websites of at least 3 Government organizations which are listed above and find out the kind of help you might get for your proposed business. Make a comparison to find out the best option.

1.10 Activities

Visit any Branch of State Bank of India and meet the Manager responsible for loans to SSI. Find out the process and write a report on your findings.

1.11 Case Study

1. Please visit the following website:
2. Case study on "Bowzo: a Case Study in Engineering Entrepreneurship ".
3. Please list your leanings from the case study.

1.12 Further Readings

1. Entrepreneurship Development by S. Anil Kumar.
2. Entrepreneurship Development in public Enterprises by Joseph Prokopenko and Igor Pavlin.
3. Entrepreneurship Development in India by Sami Uddin.
4. The entrepreneur: an economic theory by Mark Casson.

UNIT 2: SOCIAL RESPONSIBILITIES OF BUSINESS ENTREPRENEURS

Unit Structure

2.0 Learning Objectives

2.1 Introduction

2.2 Meaning of Social Responsibility of Business

2.3 Changing Views of Managements Responsibility

2.4 The Social Responsibility of Business Involves Ethics

2.5 Characteristics of Social Responsibilities of Business

2.6 Need for Assumption of Social Responsibilities

2.7 Social Responsibilities Strategies

2.8 Social Responsibilities of Business towards Different Groups

2.9 Business Ethics Core Responsibilities of Entrepreneurial Performance

2.10 Let Us Sum Up

2.11 Answers for Check Your Progress

2.12 Glossary

2.13 Assignment

2.14 Activities

2.15 Case Study

2.16 Further Readings

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- The Meaning of Social Responsibility of Business
- The Changing Views of Managements Responsibility
- The Social Responsibility of Business
- The Need for Assumption of Social Responsibilities

- The Social Responsibilities of Business towards Different Groups
- The Business Ethics Core Responsibilities of Entrepreneurial Performance

2.1 Introduction

Business depends on society for the needed inputs like money, men and skills; Business also depends on society for market where products may be sold,

Thus, business depends on society for existence, sustenance and encouragement, and being so many dependants, business has definite responsibility towards society.

2.2 Meaning of Social Responsibility of Business

Social responsibility of business means the obligation of business enterprises to make decisions and follow lines of action which are desirable in terms of the objectives and values of society. Decisions may affect environment, consumers and the community.

Social responsibility is thus an obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interests.

Every decision the businessman takes have social implications. It could be opening new branch, closure of existing branch, replacement of men by machines, lying off employees, sub-contracting. Society is affecting in one way or the other.

Social responsibility is not new to our country. In olden days, whenever famine, floods, etc. occurred, leading businesses of the area would provide food and other assistance to the needy. The Tatas are a common example.

Check your progress 1

1. The expansion of CSR under the subject Entrepreneurship means :

   a. Company, Sales & Revenue
   b. Corporate Social Responsibility
   c. Company Services Revenue
   d. None of the above

2.3 Changing Views of Managements Responsibility

There have been changes in attitudes of managements in taking social responsibility in the past century. Let us examine these:

Phase I. Profit maximizing management - This derives strength from Adams Smiths "Wealth of Nations", entrepreneurs produce what people want and they want profit. They produce more for self-interest to earn more profit and benefit all. Thus, competition will bring down prices. "What is good for business is good for country."

The classical economic doctrine of maximizing profit was against corporate social responsibility.

Phase II. Trusteeship management - it began with diffusion of corporate ownership as shareholders. So managers are not only to maximize profits, but also serve as trustees of employees, stockholders, suppliers, customers and public at large. They emphasized concern for the interest of others as well as one's own. The change in society's attitudes and expectations is reflected in the socio-economic model of business. This model views business as a sub-system of society.

Phase III. Quality-of-Life Management (QOL) - The values of QOL management contrast with both the profit maximize and the trustee manager. Now the essential equation becomes "what is good for society is good for our company". While accepting profits as essential, the QOL management would neither produce nor sell unsafe or shoddy goods.

It also considers government as a partner in a joint effort to solve society's problems.

Modern View

Peter Drucker argued that management should assume social responsibility. It is thus important for management to consider the impact of every business policy and action upon society. It has to consider the actions are likely to promote the public good, to advance the basis beliefs of society, and to contribute to its stability, strength and harmony.

Drucker observed that managements to consider demands made by the society on the enterprise. It is for management to convert these demands from threats into opportunities with least damage to the enterprise. Here focus is on "quality of product and customer service."

Now the feeling is, in addition to making profit, business should help solve social problems.

Check your progress 2

1. The Entrepreneurship as per Peter Drucker stated the following about Management:
   a. It should assume social responsibility.
   b. To consider the impact of every business policy and action upon society.
   c. In addition to making profit, business should help solve social problems.
   d. All of the above
   e. None of the above

2.4 The Social Responsibility of Business Involves Ethics

The social responsibility of business involves ethics which must be reflected in the philosophy of business organization. To be effective, a sound ethics must be recognized by top management and reflected in the policies of the firm. Members should voluntarily accept it.

Right leadership, integrity, proficiency, commitment to social values of a manager can change the expected behavior of individuals.

Top management commitment, leadership, examples are crucial to corporate ethics / culture. This commitments is communicated in many ways such as- speeches, directives, company publications, policy statements and most important, actions. Top management should establish clear policies that encourage ethical behavior.

Management must assume responsibility for disciplining wrong doers.

Companies should provide mechanism for 'whistle blowing' as a matter of policy. Any employee becomes aware of unethical behavior should be encouraged to report incident to his superior.

Managements should give training / orientation programs explaining their organizations code of ethics. By offering course in business ethics in MBA

programs helps in creating conscientious managers with a morally responsible approach to business.

"The concept of social responsibility of business is two way traffic". Business renders services to the society and thereby enhances its well-being. At the same time, it owes its very existence to society. It is influenced by the economic, social and political frame-work in which it operates. The mutual dependence requires it to take care of certain social obligations and make it function under the overall control and discipline of society. The trade unions, consumers association, shareholder bodies have by their actions have brought about a big change in the outlook of businessmen. They have begun to appreciate the human relations approach and have accepted the principle of better conditions of work for better morale of workers. They have started providing more details regarding working of their organization to shareholder, selling goods cheaper to increase their sales, better quality of production to build up their own image, higher wages and better conditions of work to increase the efficiency of workers, etc. it is now increasingly recognized that business cannot discharge efficiently its long run responsibilities to owners unless it behaves responsibly towards employees, consumers, government and the public at large. "Acceptance of large measure of responsibility towards the community is therefore, good business as well as good citizenship". According to Owen D. Young, "Consumers have right to demand that a concern so large not only do its business honestly and properly, but further that it shall meet its public obligations and perform its public duties in a world, vast as it is, and that it should be a good citizen".

According to the old view if a particular business was utilizing as efficiently as possible the resources at its disposal in producing the requisite goods and services, it was acting in a socially responsible manner. But the modern concept of social responsibility has enlarged very much the extent of its scope. The operations of business enterprises affect a wide spectrum. The resources they make use of are not limited to those if the proprietors and the impact of their operations is felt also by many a people who are in no way connected with enterprises. The shareholders, the suppliers of resources, the employees, the local community and society at large are affected by the way an enterprise functions. According to Guider, "Industry in the twentieth century can no longer be regarded as a private arrangement for enriching shareholders". It has become a joint enterprise in which workers, management and consumers, the locality; government to K.R Andrews social responsibility may be taken to mean," intelligent and objective concern for the welfare of the society that restraints

individual and corporate behavior from ultimately destructive activities". H.R. Bowen is of the view that "a businessman has an obligation to pursue those policies to make those decisions or to follow those lines of actions which are desirable in terms of objectives and values of our society". The business is expected to recognize and understand the aspirations of the society and determine to contribute to its achievements. If the corporation has to function effectively it has to be accountable to the public at large. The declaration issued by the international seminars on social responsibility of business held in India in 1965 co-related the Gandhi concept of trusteeship with the social responsibility of business. Gandhiji advocated that private property should be used for the common good.

There has been growing acceptance of the plea that business should be socially responsible in the sense that the business enterprise which makes use of the resource of society and depends on society for its functioning should discharge its duties and responsibilities in enhancing the welfare of the society of which it is an integral part. The Sachar Committee in its report submitted to the government in August 1978 observes "in the development of corporate ethics we have reached a stage where the question of responsibility of business to the community can no longer be scoffed at or taken lightly. The corporate sector does not function in isolation. The company must behave and function as a responsible member of society like any other individual. It cannot share moral values nor can it ignore actual compulsions".

According to Prof. Keith Davis, social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with minimum requirements of law, because this is what any good citizens would do. Social responsibility goes one step further. It is a firm's acceptance of a social obligation beyond the requirements of law. Philanthropic activities are different from social obligations. The former being purely voluntary have to be distinguished from social responsibilities, which are obligatory not strictly enforceable by law.

It is wrong to think that there is any conflict between profit objective and social obligations. It is a very significant social obligation of business to manage itself most efficiently and profitably. Profit is necessary to fulfill social obligation and is a symptom of good business health.

Profit is essential for the survival as well as for growth of business. It is also needed to earn prestige to innovate and introduce new ideas and techniques to assess a manager's performance and development, to provide better conditions of work for the workers and so on. A business suffering from losses cannot continue

for long and its closure may hit the various sections of society adversely. Accordingly to Peter Drucker, "The problem of any business is not maximization of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss." And therefore, profit is to be earned and loss is to be avoided. Besides, the moment profits are misused either for individual satisfaction or to exhort society by establishing monopolies, hording of goods, acquiring of political power for selfish gains, etc they become a curse to the society.

The profit maximization objective of business suffers from several serious shortcomings. It encourages concentration of economic power in a few hands. Those who acquire economic power also wiled political power. Concentration of economic power and political power in hands of selected few enables them to misuse it against public interest. They are able to influence government policies to their own advantage. Irresponsible power elites perpetuate their control over industry.

Family dominated managements do not allow professional management to grow and workers' and consumers' exploitation continues unabated. The environment is polluted and the quality of life goes down. Opportunities for better living and self development are reduce to the minimum.

According to Urwick, "Profit earning cannot be the objective of a business any more than eating is the objective of living". The first love of good management should be to efficiently utilize and conserve corporate resources to produce economic wealth and bring about economic welfare. Management must, along with earning profits, protect the legitimate rights and interest of shareholder, workers, customers and the community as a whole. Nothing can be a bigger offence than to increase one's profits by evasion of taxes by selling substandard or under weighed goods to the consumers by forcing workers to work under inhuman conditions, etc. No one can be allowed to earn profit by acting in a manner, which is inconsistent with the socio-economic policies and philosophy of the government. Management while earning profits cannot be negligent to the indirect adverse effect of its activities on the society such as the problem of pollution, unemployment, ill health deteriorating working conditions, etc.

Business must take care of the feeling, attitudes and relations among the people who work for it. Business must satisfy legal requirements and continue to follow customary practices regarding its social obligations.

The conflicts of profit motive and social obligation arise only when business begins to act contrary to the ideology and general values of society. No one shall object to the profits of a business so long as it continues to fulfill its legitimate social obligations.

Check your progress 3

1. One of the following statement is not correct, which one ?

   Introducer of a new good, of a new method of production, the opening of a new market

   a. According to Urwick, "Profit earning cannot be the objective of a business any more than eating is the objective of living".

   b. According to Prof. Keith Davis, social responsibility begins where the law ends.

   c. Gandhiji advocated that private property should not be used for the common good.

   d. None of the above

2.5 Characteristics of Social Responsibilities of Business

After studying some of the definitions of social responsibilities of business certain characteristics of these responsibilities emerge clearly.

1) There is no conflict between individual interests and various obligations towards the different sections of the community the workers, consumers, suppliers and the society at large. Maximization of profit cannot be allowed beyond a certain limit if it goes contrary to the interests of society. There should be perfect harmony and co-ordination between individual profit and social obligations

2) Social responsibilities apply to both private sector and public sector businesses. Their responsibilities connect individual responsibilities with social aspects.

3) The social responsibilities treat business as social institution whose organization and functions must be carried on to fulfill the objectives, hopes and ambitions of the society.

4) These responsibilities emphasize the all round development of various sections of persons connected with business. They also accept the Gandhi an ideas of social justice and trusteeship concept.

5) The concept of social responsibilities of business is a two-way traffic. This means if the business is socially responsible to discharge its duties in enhancing the welfare of the society, the society also owes its responsibility towards business.

6) These responsibilities are closely connected with the ethical and moral values and ethical standards.

7) These responsibilities are not static and rigid but elastic. Society is dynamic. These ideas and values are undergoing changes. Business environment affect the moral and ethical values, which are constantly changing and undergoing modifications.

The social responsibilities of business towards different sections of the society include those towards

Owners (Shareholder)

Itself,

Employees,

Consumers,

Suppliers,

Competitive institutions, creditors, and

The society at large

1. Responsibilities towards the Shareholder –

The shareholders are the real owners of the company. The responsibility of the company to them is a primary one. Needless to say, to provide dividend the company should earn a sufficient profit. Adequate reserves should be built up so that it will be able to declare a reasonable dividend during the lean period as well. If the company continuously suffers losses, not only will it be unable to pay dividends but value of its shares will it be unable to pay dividends but the value of its shares will also fall and result in the erosion of the shareholders, a capital. Hence, to discharge its responsibilities to the shareholders, a company shall earn sufficient profit. If the company fails to cope with changes in a changing and

dynamic world, its position will be shaken and the shareholder's interests will be affected. By growth, innovation and diversification, the company should consolidate and improve and help strengthen the share prices. The shareholders are interested not only in the protection of their investment and the return on it but also in the image of the company. It shall therefore, be the Endeavour of the company to ensure that its public image is such that the shareholder can feel proud of their company.

2. Responsibilities to the Employees –

The success of on organization depends to a very large extent on the morale of the employees and their wholehearted co-operation. Employee morale depends to a large extent on the discharge of the company's responsibilities to them and the employer-employee relations.

3. Responsibilities to Consumers –

It has been widely recognized that customer satisfaction shall be the key to satisfying the organizational goals. Among the important responsibilities of the business to the customer are:

(a) To improve the production and reduce price and also to improve quality and smoothen the distribution system to make goods easily available to the consumer.

(b) To do research and to improve the quality of products and introduce better and new products.

(c) To supply goods at reasonable prices where there is a seller's market and to provide the required after sales services;

(d) To ensure that the product has no adverse effect on the health of the consumers; and

(e) To avoid misleading the consumers by improper advertisement or otherwise.

4. Responsibilities to the Community –

A business has lot of responsibility to the community around its location and to the large. These responsibilities include;

a) Taking appropriate steps to prevent environmental pollution and to preserve the ecological balance;

b) Rehabilitating the population displaced by the operation of the business if any;

c) Assisting in the over-all development of the locality;

d) Talking steps to conserve scare resources and developing alternatives wherever possible; and

e) Improving the operations of the business and contributing to research and development.

Other Responsibilities

In addition to the aforesaid basic responsibilities several others gradually attract attention of progressive managements. For instance

a) Cultural responsibility ;

b) Moral responsibility ;

c) Responsibility for the private enterprise system ;

d) Responsibility for good government ;

e) Responsibility to co-operate in the achievement of the social-economic programs of the government.

It should be the Endeavour of the businessman to continuously remind themselves that their business entity in functioning within the framework of the society and is governed by the aforesaid responsibilities

a) Cultural Responsibility - Cultural patterns are not static and differ society to society. Companies, like individual and other institutions, function under the influence of the cultural environment in which they operate. They have the added responsibility of consciously conducting themselves in such a way that they respect and value the cultural spirit of the society. "This culture responsibility is not just inherent values that lend uniqueness to any environment".

b) Moral Responsibility - Moral Responsibility is narrower in scope. It is more direct and deeper and internal to the business entity. It governs the organization interactions with groups such as suppliers, customs distributors, employees, shareholder and the government. "Moral code" in

such interactions comes essentially from within as an urge to be consistent and harmonious in all interactions. This consistency of actions lends balance, coherence the essence of moral Responsibility

c) **Responsibility for the Private Enterprise system -** The free enterprise system is being harped upon almost continuously by the government, educators, press, its political enemies and public opinion. Thus, no conscientious management can consider that its organization is something a part from the mainstream. Such a management is also responsible for the continuity of the system, which enables the company to flourish.

The vulnerability of free enterprise lies in the area of profit or loss. Profit is the lifeblood of any enterprise. Any attempt to weaken or destroy the ability of the business to make adequate profit should be prevented by all reasonable and legal means. For this it is necessary for the management to understand the development in the legislative field and to comprehend what such measures as prices changes notifications and abridgement of the right to meet the lower price of a competitor would mean to economic freedom. Voice may be raised in legal as well as public forums against legislation affecting profit directly and substantially.

Those who have limited comprehension of profit may call profit-making a 'sin'. There are four kinds of sins that an enterprise can commit:

i) Unpardonable sin,

ii) Unfortunate sin,

iii) Myopic sin, and

iv) Glorious sin.

i) **Unpardonable sin** is the sin of making loss and draining the valuable scare resources of the society.

ii) **Unfortunate sin** is the sin of slow and painful death where a concern is run with no regard to current surplus so as to make provision for replacement of assets. The resources will be eaten up over a period of time. This is like living on past bank balance with no concern for its replenishment.

iii) **Myopic sin** is the sin of business expansion with no concern for efficiency, for the resources is blocked in such careless and growth-less expansion, the economy of the society is strained.

iv) **The glorious sin** is the sin of making profit so as to preserve and expand resources of the society through sustained growth.

The attack should not be on the size of surplus but on the deposition of the surplus, i.e., the way it is disposed off. As long as the surplus is channeled into productive economic activity a positive service to the society is performed as against the eating up of resources through making losses.

Private sector has a vital role to play in our national economy. There cannot be progress without healthy competition, adequate profits and their canalization into productive economic activities. It is the responsibility of the corporate managements not only but also takes all reasonable steps to make it self-sustained to the extent possible.

d) Responsibilities for good government -

The government looms constantly larger in the affairs of business. The corporate sector in particular tends increasingly to look to the government for assistance in solving financial and other problems. Demands for expanded and new public services multiplying day by day which if not fulfilled and tackled properly, will certainly affect production, sales and aspects of business. The concern of the corporate managements for a good government is therefore, unavoidable and justified. The business community has a special responsibility to exam the policies of government continuously.

Responsibility to co-operate for the success of the socio economic program of the government –

All democratic countries face a two-fold problem. Firstly to promote industrial development within their boundaries and secondly to achieve certain social-economic objectives. The state has therefore, to think of putting certain restraints and curbs on private enterprise. Undue concentration of wealth and economic power in few hands is regard as being detrimental to public good. It gives rise to the possibility that those having economic power may manipulate the political processes to acquire more wealth and power to the democratic countries today, suitable legislation has been enacted to keep the monopolies within control and discourage restrictive trade practices.

India is a mixed economy where the public and private sectors are assigned specific roles. The two sectors are expected to supplement the work of each other. It is indeed, obligatory on the part of the private corporate sector to co-operate for the success of socio-economic programs of the government. It may be helped by faithfully striving to achieve the goals set for it in the plan document generating

enough resources and employment opportunities, contributing to the public exchequer, etc.

Enlightened industry has now come to realize that good community relations are desirable and important. Most of us have now also come to realize that in conducting a profitable business operation, good community relations are no longer just desirable and important but they are vital for the survival of the business. Industry has four responsibilities to the community.

1. Living right and being a good neighbor.
2. Providing support-moral, personal and financial to those institutions and causes which :
   a) Make ours a better town in which to live and work, and
   b) Are traditionally bound to our way of life and which are thus a means of preserving it.
3. Communicating in a manner, which to live and work, which not only will explain sell out own company but will serve as a convincing and powerful voice raised on behalf of the entire business community.
4. Providing leadership for our corporate citizens and for our communities.

Each of these responsibilities calls for its own planned program and individual approach but each will be interwoven.

Check your progress 4

1. The 'Entrepreneur' is also expected to carry out the following responsibilities:
   a. Cultural responsibility ;
   b. Moral responsibility ;
   c. Responsibility for the private enterprise system
   d. All of the above
   e. None of the above

2.6 Need for Assumption of Social Responsibilities

1. The institution of business exists only because it performs invaluable services for society which gives business its character.
2. A business organization, would in its own self-interest, like a better community in which to conduct its business. For this it would implement special programs for social welfare.
3. It is also necessary to establish public image for business organization to secure more customers, better employees and higher profit.
4. To avoid government regulations and controls it is also necessary for business to restrict its flexibility of decision making. The failure of business to assume social responsibilities voluntarily invites the government to interface and regulate.
5. It is also essential to avoid misuse of national resources and economic powers.
6. This is also essential to avoid class conflicts. Industrial peace is necessary for more production and welfare of community.

Thus, the need for social responsibilities arises from the viability of the business itself, to fulfill long run self-interest, to establish better putter public image, to avoid government regulation or control, to avoid misuse of national resources and economic power, to avoid class conflicts and to convert restraints into resources and economic power.

Some relations for business to discharge social responsibility are as under:

1. Public Expectations from Business have changed. It is argued that business exists because it satisfies the needs of society. If business at any time fails to live up to societies expectations, it may become extinct.

   If business wishes to remain viable in the long-run, it must respond to societies needs and give society what is wants. Business has debts which it owes to society as duty-of gratitude.
2. Society creates better environment for business. A firm which is more responsive to improvement of community quality of life will get better community in which to conduct business. Getting manpower will be easy, crime will be less.
3. Public image is improved if firm supports social goals. It may gain more customers, better employees.

4. Before government stretches its long arms, business should discharge its obligations to society. Otherwise society will force government to make laws / regulations.
5. Balance of responsibility with power is a must. Business has vast social power and it affects economy and social problems. So equal amount of social responsibility is required.
6. Business has vast pool of resources (men, talents, money, functional and professional expertise, etc.) and is in better position to work for social goals.
7. Other institutions have failed to handle social problems, so society is turning to business.
8. Prevention is better than cure. If business delays dealing with social problems, it may have to deal with more serious social breakdowns, therefore, business has moral responsibility.
9. Citizenship argument. Corporations are citizens and citizens have civic duties and responsibilities, corporations must discharge these voluntarily.

Check your progress 5

1. As per the text above one of the statement is not correct, which one :
   a. Public Expectations from Business have changed. It is argued that business exists because it satisfies the needs of society.
   b. Business is expected to make profit and need not bother about society, which will be taken care of by others.
   c. Public image is improved if firm supports social goals. It may gain more customers, better employees.
   d. Before government stretches its long arms, business should discharge its obligations to society. Otherwise society will force government to make laws / regulations.

2.7 Social Responsibilities Strategies

Business responses to social responsibility tend to fall within four degrees / categories.

a. Social opposition. This view is taken by the business which feels they have no obligation to society in which they have no obligation to society in which they operate. When they are caught for any offence, they cover it up by denying it. For Example: M.S. Shoes for price rigging of shares.

b. Social obligation. Companies have firm believed that they have obligation to obey the laws, e.g. install safety equipment required by the law.

c. Social response position is taken by some companies that meet their social obligation as laid by law, e.g. and they will go beyond the legal requirement, if benefits out-weight the costs.

d. Social contribution is the position taken by companies which believe that they have deep obligation to serve society. They are responsible citizen and are eager to contribute to the improvement of society.

The approach to social responsibilities is explained in the figure below.

Figure: Approaches to Social Responsibility

	Degree of Social Responsibility		
Social Contribution	Social Response	Social Obligation	Social Opposition

Ackerman's Model of Social Responsibility

Kobert Ackerman suggests that representatives should be the goal of corporate Endeavour. He described three stages through which companies pass in developing response to social issues.

Phase I. Awareness stage: Corporations top managers learn of a social existing problem. CEO merely acknowledges the problem.

Phase II. Planning Action Stage: Hires specialist or consultant to prepare plan for dealing it.

Phase III. Implementation Stage: While resolving the problem, there is integration of policy into ongoing operations. Managements commit resources and organizational commitment is obtained at all levels.

Example: It has been suggested that women who use computer stand higher chances of having problem pregnancies. Management responsive to this problem may well be the only responsible for taking course of action.

Business as Responsible Person

Business plays a very significant role in economy, social, political and technological affairs. So business owes responsibilities to all segments of society.

Wealth of a country is to a great extent controlled by business. This gives business and its executives "enormous power" to affect the lives of employees, consumers, shareholders, etc.

Business is a part of the total environment in which we live, being influenced by it, while being a force in influencing it. The relationship between business and its environment is one of mutual benefit. Both of them from and give to various segments. Only through such a relationship can a business survive and prosper.

Modern business has acquired a sense of social responsibility to society in general and to its different segments in particular. The objective of business is to balance the conflicting claims of 'stakeholders'. Business is not to confine to productive or commercial activities as its social concern, but it has to take into account social problems which arise due to its activity. Social and ethical considerations must equally concern the business.

Why business should assume social responsibility

There are five broad reasons:

1. **Responding to demands of society -**

   As business gets larger, the public takes more interest in it, as it has greater impact on the community. Managers respond to public opinion so as to maintain public image of their company.

   If an organization does not respond, the society will either force it to do so through laws or society may no longer permit it to survive, e.g. safety of products, etc. The original purpose of corporations was to serve the public good.

2. **Longer-run self-interest of business -**

   For example, (a) Concern for employees can harmonies with company's best interest, (b) Responsibilities to shareholders for attracting investment and (c) Avoiding environmental pollutions.

3. **Moral justification -**

   Business now tends to participate in the development of better world.

4. Ethical behavior and generation of profits for shareholders is not incompatible.

5. All stakeholders have a "stake" in companies because they can be harmed, if a company behaves unethically.

Government has enacted number of laws to check these practices and to bring in an element of ethics into business. Government will continue to intervene by enacting legislation and impose penalties for unethical practices.

Whatever is Legal is Ethical?

This is to judge the business activities exclusively from the point of view of law. For example, though maximization of profit is one primary goal of an organization, but charging unfair prices or exploitation of workers are considered as unethical practices.

Some unethical practices in business are:

- Piracy of products and copy rights.
- Deceptive advertising.
- Bribery, payment of kickbacks, corruption, candles
- Employee theft.
- Sexual harassment.
- Discriminatory personnel policies, favoritism in promotions, compensation etc.
- Black – marketing.
- Production of unsafe products.
- Exploitation of environment by manufacturers.
- Giving confidential information/secrets to competitor by employees, and

- Under invoicing.

Such acts, which indirectly create moral stress and impair the ability of competent managers to act with total integrity, improved managerial ethical decision-making and moral performance, can lead to both increased profitability and desirable organizational order.

Check your progress 6

1. As per the reading above you would have found that some unethical practices to be avoided in business are:
   a. Piracy of products and copy rights.
   b. Deceptive advertising.
   c. Bribery, payment of kickbacks, corruption, candles
   d. Sexual harassment
   e. All of the above
   f. None of the above

2.8 Social Responsibilities of Business towards Different Groups

In this chapter we have attempted to present social responsibilities of business for various interest groups. These can be divided under two broad categories:

1. Internal interest groups.
2. External interest groups.

Various interest groups who have stake in the business are:

Internal Interest Groups

1. Responsibilities toward owner

It is to be ensured that owners, share-holders, partners get fair dividend or a fair return on the capital invested. Fair return has to be more than bank rate and it should be reasonable.

Further share-holders expect security of investment and share in capital appreciation as bonus shares.

2. Responsibility towards Employees

The traditional concept of "master-servant relationship" has to change to the concept of "partnership' between labor and management.

The major areas of relationship are:

a) **Wages -** These should be need-based and productivity-related.

b) Salaries for managerial personnel are to be linked to responsibilities. Ceiling on managerial remuneration by government to be adhered to. Besides it is to be seen there are not much disparities between wages of employees and salaries of managerial personnel.

c) **Relationship between employers and employees -** There are various lapses on the part of employers which include :

- Unsympathetic treatment to employees by supervisors
- Favoritism in promotions etc
- Lack of communication between managers and workers
- Lack of communication between management and workers
- Lack of appreciation of meritorious achievements and no condemnation of neglect and lethargy
- Delay in settling grievances/disputes with employees.
- Lapses on part of employees, i.e. indiscipline in carrying out orders.
- Lack of desire by employees to improve efficiency.
- Role of politically inspired trade unions frequent strikes, gheraos etc.

d) Industrial legislation, i.e. laws relating to employees to be followed strictly.

e) **Welfare of employees:** employer to provide health, safety, working condition and welfare measures for conducive work environment.

External Interest Groups

1. Responsibility towards Consumers and Community

- The consumer and the community are ultimate judges of business and its products. So it has to be ensured.
- Products meet the needs of consumers.
- Prices are reasonable. There is no hoarding-cornering of products to raise prices.
- After sale service is available,
- Quality and standards (ISI, Agmark) are adhered.
- Consumer associations are to be vigilant and to report falling of standards.

2. Businessmen's Responsibilities towards Government

- Employer has to be law abiding, follow laws relating to trade, factories and labor.
- To pay his dues and taxes fully and honestly.
- Not to corrupt public servants.
- Avoid adulteration.

Indian Scene – Business as a Responsible Person

Indian socio-economic environment have lent an added significance to the concept of business as a "responsible person".

1. Indian government has been committed to socialistic pattern of society, in which private interest is to be subordinated to national consideration.
2. The Constitution of India provides for economic and social justice.
3. Tate financial institutions contribute to a great part of the financial needs of business.
4. Emergence and development of professional management is wedded to the fulfillment of socio-economic objectives.
5. There is growing public awareness and consciousness about the role of business in maintaining environmental protection and cleanliness.
6. Growth of trade unions for protection of employee's interests.
7. Emergence of consumer protection agencies/forums.

These factors contribute towards corporate social responsibility.

Many large enterprises in India have emphasized their social responsibility in their annual reports, e.g. TISCO, ITC, SAIL, BHEL, ONGC, etc. have developed neighborhood projects. The Sachar Committee (1978) appreciated that some enlightened business houses are contributing to solve problems of rural development, environmental protection, and control of pollution and provision of clean water. They are recognizing social responsibility as development of corporate ethics.

To conclude, by being more socially responsive, business may avoid further regulations which limit the freedom of business.

It has to be realized that the future of business depends on its ability and willingness to respond to the changing expectations of society. Corporations must present themselves as being committed to social causes. A global company has to develop global sensitivity.

The corporations are now doing 'social audit', i.e. presenting additional objectives and comprehensive information about organization's social performance which reflect social responsibilities. Some areas covered in social audit are i.e.:

a. Social benefits to the staff – various facilities etc.

b. Social benefits to the community-local taxes paid to panchayat, municipality, environmental improvements, and generation of job potential.

c. Social benefits to the public-taxes paid and follow the duties towards government**.**

Check your progress 7

1. The corporations are now doing 'social audit', as a part of CSR, one of the areas listed below is not correct, which one?

   a. Total salaries paid to its employees.

   b. Social benefits to the staff – various facilities etc.

   c. Social benefits to the community-local taxes paid to panchayat, municipality, environmental improvements, and generation of job potential.

   d. Social benefits to the public-taxes paid and follow the duties towards.

2.9 Business Ethics Core Responsibilities of Entrepreneurial Performance

According to Peter Pratley (The Essence of Business Ethics), it is important to define core moral responsibilities at a minimal level. By accepting an outspoken commitment to these responsibilities, TQM can gain a lot. The core moral responsibilities are three-fold.

First of all, the corporation is committed to its original and basic moral core responsibility: that is, producing goods and services that are functional and safe for the individual consumer. On top of this perennial cornerstone of business, other core activities now have to be added.

The second moral commitment therefore concerns the larger environment; environmental core and reduction of resource depletion.

Finally, the third accepted responsibilities refer to the quality of the corporation itself as a moral community: At a minimum level this implies the absence of certain abuses.

These three core moral responsibilities for business organizations aim at guaranteeing a minimum of moral excellence. They are linked with an idea of normative entrepreneurial performance and encapsulate what the public may at least expect from an entrepreneur committed to quality management.

These three entrepreneurial responsibilities also imply a redefinition of corporate objectives. It pushes the meaning of the famous separatist expression ‘mind your own businesses in a quite opposite direction. Corporate mission statements that include these moral responsibilities enlarge the matters for which the public may hold business accountable for by insisting on safe and reliable customer relationships, environmental care and humane working conditions.

The entrepreneur should gain this broader perspective as the corporation commits itself to wider human objectives, especially in relation to our common future. Although industry will go through even more stringent reductions of employee numbers in the future, certain minimum standards of working conditions should be agreed upon by all those committed to quality goods. This statement is a moral appeal for legal means and voluntary covenants to enforce respect for minimum labour rights.

To summaries our discussion:

1. The corporation producing quality products and services accepts specific moral responsibilities. At a minimum level, there are three such corporate responsibilities:
   a. Consumer care, expressed by satisfying demands for case of use and product safety:
   b. Environmental care; an
   c. Care for minimum working conditions.
2. Corporations should not remain mute about their moral performance and commitments. A balanced presentation of one's corporate response in face of specific moral concerns can create a basis of understanding with one's own employees as well as with the concerned public. Communicate the priorities you have in your commitment to quality management by a sophisticated use of moral talk."

Check your progress 8

1. As per the Corporate Social Responsibilities, at a minimum level, there are three such corporate responsibilities as listed below. However there are four listed, pick the one which is not correct:
   a. Consumer care, expressed by satisfying demands for case of use and product safety:
   b. Maximize profitability to help economy
   c. Care for minimum working conditions.

2.10 Let Us Sum Up

As you might have by now understood the importance of Entrepreneurship towards the growth of economy and society in general. And hence various institutes both in Government and others have been extending support for the growth and success of Entrepreneurship. At the same time Entrepreneurs do also need to understand their social responsibility. This means the obligation of business enterprises to make decision and follow lines of action which are desirable in terms of the objectives and values of society. Decisions may affect environment, consumers and the community. In this unit this important aspect has

been dealt with fair amount of details. Hope after reading this unit, you have understood this important aspect very well.

In this unit we have attempted to present social responsibilities of business for various interest groups. (namely, Internal interest groups & External interest groups).

You possibly now understand that business is not to confine to productive or commercial activities as its social concern, but it has to take into account social problems which arise due to its activity. Social and ethical considerations must equally concern the business.

2.10 Answers for Check Your Progress

Check your progress 1

Answer: (1-b)

Check your progress 2

Answer: (1-d)

Check your progress 3

Answer: (1-c)

Check your progress 4

Answer: (1-d)

Check your progress 5

Answer: (1-b)

Check your progress 6

Answer: (1-e)

Check your progress 7

Answer: (1-a)

Check your progress 8

Answer: (1-b)

2.11 Glossary

1. **Liberalization** - It refers to a relaxation of previous government restrictions, usually in such areas of social, political and economic policy.
2. **Cognizant** - aware (usually followed by of).
3. **Behavioral** - manner of behaving or acting.
4. **Catalyst** - a substance that causes a chemical reaction to happen more quickly.
5. **Micro-finance** - It refers to a variety of financial services that target low-income clients.
6. **Effluent treatment** - is the process of removing contaminants from wastewater.
7. **Doctrine** - a particular principle, position, or policy taught or advocated.
8. **Ethics** - Moral principles that govern a person's behaviour or the conduct.

2.12 Assignment

Do you agree with the core responsibilities of entrepreneurial performance of business ethics? Explain your view with specific examples.

2.13 Activities

You are requested to visit the website of at least 2 major corporate in India and find out the evidence of their evidence of fulfillment of social responsibilities. You might have to read their Annual Reports as well.

2.14 Case Study

Most of the reputed corporate bodies in India, have adopted corporate social responsibility in their business practice. Tata is one of them. Please read about it in this site:

After careful reading, please write down your analysis about their role if meeting the social obligations.

2.16 Further Readings

1. The Social Responsibility of Business by Joel. B. Haynes and Paul. L. Wilkens.
2. Social Responsibility of Business: two points of view by James. C. Worthy and Theodore Levitt.
3. Social responsibilities of Business Corporations by Committee for Economic Development.

Block Summary

Historically Entrepreneurship becomes a highly desirable process for today's society. And hence various Governmental bodies were formed to assist Entrepreneur. It was considered to be a catalyst for the growth of not only society but also economy. In fact many authors believe that Entrepreneurs are also responsible for most of the technological inventions etc. which has helped mankind to reach where they are today. In this block under Unit 1 you must have learnt the various forms of support and assistance, which Entrepreneurs can expect.

In this unit Entrepreneurship process included responsibility towards the society, which are not only desirable but also a must under regulation.

After reading this block you must have understood the following:

- Explain the Role of Various Government Bodies and Various Agencies In Promoting Entrepreneurship
- Learn about Business Development Service Providers for Micro Enterprise & Micro Finance
- Comprehend the Meaning of Social Responsibility of Business and realize the Social Responsibility of Business under changing scenario
- List the Characteristics of Social Responsibilities of Business
- Analyze the Social Responsibilities Strategies
- Explain Social Responsibilities of Business towards Different Groups & business ethics.

Block Assignment

Write Short Notes on:

1. Small Industries Services Institute
2. NIESBUD
3. NEDB
4. DIC
5. SIDO
6. Business ethics
7. Social responsibilities strategies
8. Legality and ethics
9. Internal interest groups.
10. External interest groups.

Long questions

1. What are the general incentives and facilities offered by the government in encouraging Entrepreneurship in India?
2. Explain the role of the Central Government in developing Entrepreneurship in India.
3. Explain the role of the State Government in developing the Indian Entrepreneur.
4. What are Export Oriented Units? Briefly explain how the EXIM Policy governs the setting up of EOUs.
5. Enumerate some of the Fiscal and Tax concessions available to entrepreneurs in India.
6. What is the role of the EDH in developing the Entrepreneur in India?
7. Explain the Social Responsibility of a business.
8. Discuss business as a responsible person.
9. Explain the Social Responsibility of business entrepreneurs, its meaning and changing views of management's responsibility.

Enrolment No. ☐

1. How many hours did you need for studying the units?

Unit No	1	2	3	4
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	
Language and Style	☐	☐	☐	☐	
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	
Conceptual Clarity	☐	☐	☐	☐	
Check your progress Quest	☐	☐	☐	☐	
Feed back to CYP Question	☐	☐	☐	☐	

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
Jyotirmay' Parisar, Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.

MARKETING MANAGEMENT

PGDBA-202



BLOCK 4:
DISTRIBUTION MANAGEMENT, SALES PROMOTION AND ADVERTISING, SERVICES MARKETING

Dr. Babasaheb Ambedkar Open University
Ahmedabad

MARKETING MANAGEMENT



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Research Organization
Pune

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ROLE OF SELF INSTRUCTIONAL MATERIAL IN DISTANCE LEARNING

The need to plan effective instruction is imperative for a successful distance teaching repertoire. This is due to the fact that the instructional designer, the tutor, the author (s) and the student are often separated by distance and may never meet in person. This is an increasingly common scenario in distance education instruction. As much as possible, teaching by distance should stimulate the student's intellectual involvement and contain all the necessary learning instructional activities that are capable of guiding the student through the course objectives. Therefore, the course / self-instructional material are completely equipped with everything that the syllabus prescribes.

To ensure effective instruction, a number of instructional design ideas are used and these help students to acquire knowledge, intellectual skills, motor skills and necessary attitudinal changes. In this respect, students' assessment and course evaluation are incorporated in the text.

The nature of instructional activities used in distance education self-instructional materials depends on the domain of learning that they reinforce in the text, that is, the cognitive, psychomotor and affective. These are further interpreted in the acquisition of knowledge, intellectual skills and motor skills. Students may be encouraged to gain, apply and communicate (orally or in writing) the knowledge acquired. Intellectual-skills objectives may be met by designing instructions that make use of students' prior knowledge and experiences in the discourse as the foundation on which newly acquired knowledge is built.

The provision of exercises in the form of assignments, projects and tutorial feedback is necessary. Instructional activities that teach motor skills need to be graphically demonstrated and the correct practices provided during tutorials. Instructional activities for inculcating change in attitude and behavior should create interest and demonstrate need and benefits gained by adopting the required change. Information on the adoption and procedures for practice of new attitudes may then be introduced.

Teaching and learning at a distance eliminates interactive communication cues, such as pauses, intonation and gestures, associated with the face-to-face method of teaching. This is particularly so with the exclusive use of print media. Instructional activities built into the instructional repertoire provide this missing interaction between the student and the teacher. Therefore, the use of instructional activities to affect better distance teaching is not optional, but mandatory.

Our team of successful writers and authors has tried to reduce this.

Divide and to bring this Self Instructional Material as the best teaching and communication tool. Instructional activities are varied in order to assess the different facets of the domains of learning.

Distance education teaching repertoire involves extensive use of self-instructional materials, be they print or otherwise. These materials are designed to achieve certain pre-determined learning outcomes, namely goals and objectives that are contained in an instructional plan. Since the teaching process is affected over a distance, there is need to ensure that students actively participate in their learning by performing specific tasks that help them to understand the relevant concepts. Therefore, a set of exercises is built into the teaching repertoire in order to link what students and tutors do in the framework of the course outline. These could be in the form of students' assignments, a research project or a science practical exercise. Examples of instructional activities in distance education are too numerous to list. Instructional activities, when used in this context, help to motivate students, guide and measure students' performance (continuous assessment)

PREFACE

We have put in lots of hard work to make this book as user-friendly as possible, but we have not sacrificed quality. Experts were involved in preparing the materials. However, concepts are explained in easy language for you. We have included may tables and examples for easy understanding.

We sincerely hope this book will help you in every way you expect.

All the best for your studies from our team!

MARKETING MANAGEMENT

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Dr. Babasaheb
Ambedkar
Open University

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MARKETING MANAGEMENT

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BLOCK 4: DISTRIBUTION MANAGEMENT, SALES PROMOTION AND ADVERTISING, SERVICES MARKETING

Block Introduction

It is said that marketing is the gateway of an ocean of opportunities for your firms today. No wonder, personalization has become the contextualization. Marketing is nothing but tailored projection of your products and services to deal with person's specific relevant wants, needs and habits. The young generation is well-educated, choosy and cautious while buying anything. Marketing is the best way of goal-setting for the organizations. Technology has opened up new doors for marketers looking to engage audiences online. This is an amazing time to be a marketer. You must concentrate on digital and modern style of marketing than following stereo-typed one.

This particular block consists of basically four units. They are: Distribution Management, Sales Promotion, Advertising, and Services Marketing. These are core elements of marketing process and help you in designing the policy framework. There must be proper coordination, timely communication and effective execution among all of these departments of the organization. One should ensure that every single team-member toils the soil to achieve the common goal set by the company by keeping ego, attitude, and jealousy aside. You should talk in 'We' rather than 'I'. Motivation, leading by example, modesty, problem-solving skills will make the real difference between your firm and others before the customers. Advertising, promotion, distribution and marketing all interdependent and supplementary to each other like the ingredients of a tasty recipe.

The author is delighted to inform you that the concepts are logically arranged keeping the needs of students in mind which are easy to remember and apply in the daily life. The objectives help you to understand what is expected from you as a practicing manager or corporate professional of tomorrow's world. Updated and recent research study-based inputs are provided from the industry in the Indian context to correlate faster. There're comparisons, correlations, process

charts, decision-trees to show the link between each segment. The examples shared are unique enough helping to solve the probable future queries, doubts of the students. The activities will make your sessions interactive. There's provision of extra-reading to give you beyond syllabus inputs. The glossary will enable you to comprehend new terms from various units.

Block Objectives

After learning this block, you will be able to understand:

- The notion of 'Distribution Management'.
- The different aspects of Sales Promotion.
- The scope of sales promotion in organizational growth.
- The world of advertising.
- Service marketing.
- The contribution of service marketing to the world economy.

Block Structure

Unit 1: Distribution Management

Unit 2: Sales Promotions

Unit 3: Advertisement

Unit 4: Services Marketing

UNIT 1: DISTRIBUTION MANAGEMENT

Unit Structure

1.0 Learning Objectives

1.1 Introduction

1.2 Distribution Management: Meaning and Definition

1.3 Types of Channels of Distribution

1.3.1 Channels of Distribution Related to Industrial Products

1.3.2 Channels of Distribution Related to Consumers Goods

1.4 Functions of Channels of Distribution

1.4.1 Helpful in Price Determination

1.4.2 To Manage Finance

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1.4.4 Promotional Activities

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1.4.6 Matching of Demand and Supply

1.4.7 Other Functions

1.5 Importance of Decision Relating to the Channels of Distribution

1.6 Factors Affecting the Selection of Channels of Distribution

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1.6.2 Factors Related to Product

1.6.3 Factors Related to Market

1.6.4 Factors Related to Middlemen

1.6.5 Environmental Factors

1.6.6 Selection of a Particular Channel

1.7 Let Us Sum Up

1.8 Answers for Check Your Progress

1.9 Glossary

1.10 Assignment

1.11 Activities

1.12 Case Study

1.13 Further Readings

1.0 Learning Objectives

After learning this unit, you will be able to understand:

- Meaning and Definition of Distribution Management.
- Types of Channels of Distribution.
- Functions of Channels of Distribution.
- Importance of Decision Relating to the Channels of Distribution.
- Factors Affecting the Selection of Channels of Distribution.

1.1 Introduction

This unit is focused on purely the area of distribution management. You will study the types and channels of distribution. In addition, the functions of these channels in promotion, pricing, and bridging the gap between the demand and supply of goods and services will be covered. It is surprising to check whether there's any relationship between decision and distribution. You will be guided on how to choose the channels of distribution with the help of factors which vary from one to another like product, market and middlemen. The purpose of this unit is to describe the functional areas where supply chain collaboration will essentially be effected. In other words, it is in this functional area of distribution management where this study will focus on how collaboration in the supply chain can influence customer service value. Therefore, this chapter will describe and 'define' the scope of where collaboration for the purpose of this dissertation will take place. This introduction to distribution management will be followed by discussions on distribution strategy and an explanation of a distribution plan. Manufacturer's problems can usually be divided into two parts: production and distribution.

1.2 Distribution Management: Meaning and Definition

We don't find any uniformity in terms of unique and standard definitions of distribution management. However, many of the management gurus and experts have tried to define it in the best possible manner. It can be stated as below:

- Distribution management is one of the core elements of marketing mix.
- Distribution management is being capable of collecting, organizing, displaying and analyzing real-time product or service delivery.
- It is an important branch of marketing management.
- Distribution management serves as a link among several departments within the organization and also from producer to end-user.

We will see the different definition of the term 'Channels of Distribution' by many eminent authors. Some are given as follows:

1. According to William J. Stanton, "A channels of distribution (sometimes called a trade channel) for a product is the route taken by the title as it moves from the producer to the ultimate consumer or industrial user".
2. According to Cundiff, Still and Govani, "Marketing channels are the distribution networks through which producer's products flow to the market".
3. According to Philip Kotler, "Every producer seeks to link together the set of marketing intermediaries that best fulfill the firm's objectives. This set of marketing intermediaries is called the marketing channel (also trade channel or channel of distribution)".
4. According to Richard Buskirk, "Distribution channels are the systems of economic institutions through which a producer of goods delivers them into the hands of their users".
5. According to Prof. McCarthy, "Any sequence of institutions from the producer to the consumer including none or any number of middlemen, is called a Channel of Distribution".

Conclusion of analytical study is that a channel of distribution is a chain through which producer transfers the ownership of his goods and services to his consumers. Middlemen, agents of distribution and distribution chains are also the terms for channels of distribution.

Manufacture attempts best possible quality at minimum possible cost of goods and services; and this is only a half-success of a manufacturer. When he makes these goods and services available at proper time and place, then success is completed. Not only to produce have the goods and services of bested quality at minimum cost but also important, rather more important that these goods and services must be made available to the consumers at proper time and places. Since ultimate object of every manufacturer is to earn maximum profits through maximum sales. This can be achieved when the goods and services are rightly distributed to their consumers. There are may be different ways to distribute goods and services. And this ways are called as channels of distribution.

A channel of distribution covers the gap between a manufacturer and consumers.

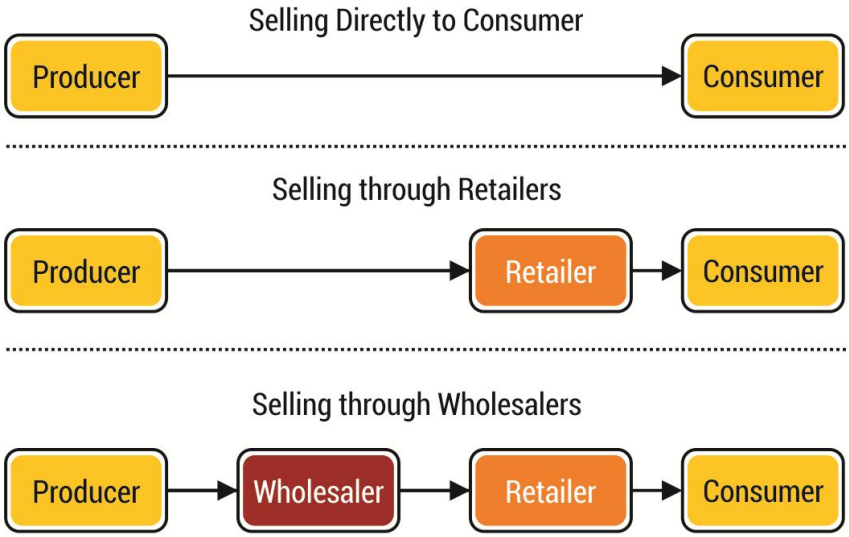


Fig 1.1 Distribution gap between a manufacturer and consumers

Check your progress 1

1. Marketing channels are the distribution networks through which producer's products flow to the market. Definition given by
   a. William J. Stanton
   b. Cundiff, Still and Govani
   c. Philip Kotler
   d. Richard Buskirk

1.3 Types of Channels of Distribution

Resellers

They are either organisations or people who generally purchases or takes ownership of products from the marketing company with the intention of selling to others. If a marketer utilises multiple resellers within its distribution channel strategy, the collection of resellers is termed a Reseller Network. They can further classify in several sub-categories including:

- **Retailers:** Who sell products directly to final consumers?
- **Wholesalers:** Organisations that purchase products from suppliers (e.g., manufacturers or other wholesalers) and in turn sell these to other resellers, such as retailers or other wholesalers.
- **Industrial Distributors:** Firms that work mainly in the business-to-business market selling products obtained from industrial suppliers.

Specialty Service Firms

These are organisations that help with the exchange of products without taking ownership of the product. They include:

- **Agents and Brokers:** Bring suppliers and buyers together in exchange for a fee.
- **Distribution Service Firms:** Offer services aiding in the movement of products such as assistance with transportation, storage and order processing.
- **Others:** This category includes firms that provide additional services to aid in the distribution process such as insurance companies and firms offering transportation routing assistance.

The channels of distribution may be broadly divided into two parts:

- Channels of distribution related to industrial products.
- Channels of distribution related to consumer products.

The details in this regard are as follows:

1.3.1 Channels of Distribution Related to Industrial Products

A manufacturer of industrial goods may use any one of the following channels of distribution for the distribution of his products:

1. The goods may directly be distributed by a manufacturer.
2. A manufacturer may take the help of agents to distribute his goods to the buyers.

   Producer—Agents—Industrial Users
3. A producer of industrial goods may take the help of wholesalers for the distribution of his goods.

   Producer—Wholesalers—Industrial Users
4. Industrial goods may be distributed to their users through two middlemen also. These middlemen may be wholesalers or distributors and selling agents.

   Producer—Wholesalers—Distributors—Agents—Industrial

1.3.2 Channels of Distribution Related to Consumers Goods

A producer of consumer goods may use any of the following channels of distribution:

1. A producer of consumer goods may distribute his products direct to his consumers.

   Producer—Consumer
2. A producer may take the help of middlemen for the distribution of his products. Middlemen may be a retailer or an agent.

   Producer—Retailer—Agents—Consumers
3. A manufacturer may choose to distribute his goods with the help of two middlemen. These two middlemen may be wholesaler and retailer.

   Producer—Wholesalers—Retailers—Consumers
4. A manufacturer may distribute his goods to his consumers with the help of three middlemen. These middlemen may be agents, wholesalers and retailers.

   Producer—Agent—Wholesaler–Retailers—Consumers
5. A producer of consumer goods may also decide to distribute his goods to his consumers through four middlemen. These middlemen may be distributor,

agent, wholesaler and retailer. This is the longest channel of distribution.

Producer—Distributors—Agents—Wholesalers—Retailers—Consumers

Check your progress 2

1. "A channels of distribution (sometimes called a trade channel) for a product is the route taken by the title as it moves from the producer to the ultimate consumer or industrial user". given by

   a. William.J.Stanton. c. Mc.Donald.

   b. Peter.F.Drucker. d. Mc.Carthy.

2. Firms that work mainly in the business-to-business market selling products obtained from industrial suppliers.

   a. Industrial Distributors. c. Retailer.

   b. Wholesaler. d. Seller.

3. "Any sequence of institutions from the producer to the consumer including none or any number of middlemen, is called a Channel of Distribution".

   a. William.J.Stanton. c. Mc.Donald.

   b. Peter.F.Drucker. d. Prof. Mc.Carthy.

1.4 Functions of Channels of Distribution

Distribution, being an arm of effective management has various functions to perform. They can be explained in the following way: Some of the important functions of Channels of Distribution are as follows:

1.4.1 Helpful in Price Determination

Channels of distribution plays important role in determining the price of products because they are in direct touch with consumers. They can estimate paying capacity of consumers for a product. Hence, to determine the price of his products, the manufacturer must invite the suggestions of middlemen.

1.4.2 To Manage Finance

Since manufacturers have limited financial resources, middlemen help manufacturers in making adequate financial resources available. They purchase the goods produced by manufacturers and make the payment for that and help in solving the financial problems of manufacturers.

1.4.3 To Make the Process of Distribution Easy

It is not possible for a producer of consumer goods, to be in direct touch with all the consumers. Therefore, it is not very practical for a producer to distribute his goods to his consumers directly. Channels of distribution help producers in this view. They distribute the goods produced by producers at right time and right place to the right consumer.

1.4.4 Promotional Activities:

Channels of distribution help the producers in the distribution of goods and services as well as in promoting the sales of these producers. Wholesalers advertise for the goods and retailers help in increasing the sales by adopting the measures of sales promotion. Retailers display the goods in their showrooms to attract consumers.

1.4.5 Helpful in Communication:

Consumers' habits, tastes, nature and attitudes keep on changing frequently. In the light of these changes, it becomes essential for every producer to make necessary change in his products. Thus, channels of distribution play an important role in communicating the needs of consumers to the manufacturers and policies of manufacturers to the consumers. It increases the sales of manufacturers.

1.4.6 Matching of Demand and Supply:

Collection of goods and services from many producers is important function of middlemen which help consumers to select from among a large number of alternatives. In the words of Wore Alderson, "The goal of marketing is the matching of segments of demand and supply. Thus, the middlemen play the game of matching demand and supply of goods and services in a market".

1.4.7 Other Functions:

Other functions of channels of distribution may be:

- To stabilise the prices.
- To help in forecasting the demand for a product.
- To help in marketing research.
- To help in production activities.

Check your progress 3

1. Channels of distribution plays important role in determining the _____ of products because they are in direct touch with consumers

   a. Product. c. Services.

   b. Price. d. Goods.

2. Channels of distribution help the _____in the distribution of goods and services as well as in promoting the sales of these producers

   a. Producers. c. Customers.

   b. Sellers. d. Supplier's

3. The goal of marketing is the matching of segments of demand and supply.

   a. Wore Alderson. c. William.J.Stanton.

   b. Peter.F.Drucker. d. Mc.Carthy

1.5 Importance of Decision Relating to the Channels of Distribution

Distribution channels often require the support of others in order for the marketer to reach its target market. There are many factors preventing companies from handling their own distribution. Companies do not require assistance of certain channel members, for many marketers, some level of channel partnership is needed. For example, marketers who are successful without utilising resellers to sell their product may still need assistance with certain parts of the distribution process.

Decisions relating to channels of distribution need to be made about type and number of channel of distribution for a particular product, number of channels to be used for distributing a particular product, the cost of distributing a product through these channels and changes to be made in the present channels of distribution. The success of marketing efforts of an enterprise depends largely upon the accuracy and correctness of these decisions. Ultimate object of every business and industrial enterprise is to earn maximum profits through maximum sales. This object can be achieved, only if the goods and services produced by the enterprise are made available to their consumers at right time and place. It is not possible for any producer to distribute all the goods and services produced by him to the consumers. He cannot keep himself in constant touch with the changes in the needs and wants of consumers. He cannot provide personal services to all the consumers. He cannot come to know their problems.

For these reasons, he has to depend upon the services of middlemen for the distribution of his products to his consumers. Channels of distribution solve all these problems of manufacturers. They make the goods and services available at the right time and place in right quantity. Thus, it is very much desirable that a product must be distributed to its consumers through channels of distribution.

A decision of channels of distribution is an important decision to be taken by an enterprise. The decision must be based upon a careful and critical study of all the relevant factors. Efforts should be made not to change a decision very frequently.

Check your progress 4

1. Distribution channels often require the support of others in order for the _____to reach its target market.

   a. Marketer. c. Distributor.

   b. Seller. d. Customers.

2. Ultimate object of every business and industrial enterprise is to earn _____profits through _____ sales.

   a. Minimum; maximum. c. Maximum; maximum.

   b. Maximum; minimum. d. Minimum; minimum.

1.6 Factors Affecting the Selection of Channels of Distribution

The marketer needs to consider many factors when establishing a distribution system. Some factors are directly related to marketing decisions, relationships affects others factor that exist with members of the channel.

Marketing Decision Issues

Distribution strategy can be shaped by how decisions are made in other marketing areas.

Product Issues

Product's nature often dictates the distribution options available: especially, when the product requires special handling. For instance, Different shipping arrangements needed for different product (e.g., fragile product and tough or durable products, such as steel beams).

Promotion Issues

Distribution decisions are affected by the type of promotional activities, needed to sell the product to customers. For products needing extensive salesperson-to-customer contact such as automobile purchases, the distribution options are different from for products where customers particularly require no sales assistance (i.e., bread purchases).

Pricing Issues

Product pricing affects due to inclusion of resellers in a marketer's distribution strategy, since each member of the channel expects to make a profit for its contribution to the sale of the product. As channel members increases the selling price also increases eventually. In this case the marketer may explore other distribution options.

There may be many channels of distribution for a product and a manufacturer has to select any one or more of these channels. Selection of a particular channel is a decision upon which the success of all the marketing efforts of an enterprise depends. Therefore, a particular channel must be selected, only after a careful study and consideration of all the relevant factors.

Factors affecting the selection of channels of distribution can be divided into five parts.

- Factors related to the manufacturer.
- Factors related to the product.
- Factors related to the market.
- Factors related to the middlemen.
- Factors related to the environment.

1.6.1 Factors Related to Manufacturer

Following are the factors related to manufacturer, which affect the selection of a channel of distribution:

- **Financial resources:** If the manufacturer has enough financial resources, he may sell his products directly to the consumers, but if he does not, he must decide to distribute his products with the help of middlemen.
- **Marketing experience and managerial ability:** If the enterprise has sufficient marketing experience and managerial ability, the decision may be taken for distributing products direct to the consumers. If there is a lack of marketing experience and managerial ability, the enterprise must decide to distribute its products with the help of middlemen.
- **Reputation and Goodwill:** If a manufacturer enjoys a good reputation in the market and his products are popular among consumers, he has a wide choice because every middleman wants to sell the products of such manufacturer. Manufacturer can take advantage of goodwill of middlemen and can select the channel of distribution to enjoy high reputation.
- **Size of the enterprise:** If the enterprise is large with sufficient financial resources, marketing experience and managerial ability, it may select any channel of distribution. It may also decide to distribute its products to the consumers directly. Otherwise, the manufacturer will have to depend upon the experience and ability of middlemen.
- **Desire to control:** A short channel of distribution suits a manufacturer, who wants complete control over all the marketing activities. If on the other hand, the manufacturer has no such desire; he may decide a long channel of distribution.

1.6.2 Factors Related to Product

Following are the factors related to product, which effect the selection of channel of distribution:

- **Perishability of product:** Products with a short shelf life must be distributed within shortest possible time via shortest channel of distribution. If the product can be stored for some time, longer channel of distribution may also serve the purpose.
- **Ordered products:** If a manufacturer produces goods only according to orders, he usually distributes these products directly to his consumers. If a manufacturer produces goods according to standards, he may decide for distributing these goods through a long channel.
- **Price per unit:** Usually the channel of distribution for distributing the goods of low price unit is generally long and that for the goods of high price unit is generally short.
- **Weight:** Goods of high weight are generally distributed directly by the manufacturers while lightweight goods are distributed through a long channel of distribution.
- **Technical nature of product:** For technical goods, the manufacturer needs to provide after-sale-services to the consumers. Hence, such products must be supplied directly by the manufacturer or through shortest possible channel of distribution.

1.6.3 Factors Related to Market

Following are the factors related to market, which affect the selection of a particular channel of distribution:

- **Number of consumers:** If the number of consumers of a product is limited, it must be distributed through short channel of distribution. However, if the number of consumers of a product is very large, it must be distributed through a long channel of distribution, so that it may be made available in all the segments of the market at all the times.
- **Regional concentration:** If the consumers of a product are concentrated over a particular region, it can be supplied by the manufacturer himself or it can be distributed through a short channel of distribution. On the other hand, if the consumers of a product are scattered all over the country, product must

be distributed through a long channel of distribution.

- **Order size:** If the consumers buy the product in large quantities, the manufacturer may decide to distribute it directly to them. But if the product is bought by the consumers in small quantities, the manufacturer will have to arrange to supply the product, at all the places and at all the times. Thus, such a product is distributed through a long channel of distribution.
- **Nature of market:** If the product is industrial, it can be distributed directly by the manufacturers to the industrial users. On the other hand, consumer goods are generally supplied to the consumers through middlemen.
- **Policies of competitors:** The enterprise should follow its competitors' mode of operation. If most of the competitors are distributing their products through middlemen, the enterprise should also decide to do so. If the competitors are supplying their goods directly to the consumers, the enterprise may also decide to do so.

1.6.4 Factors Related to Middlemen

Following are the factors related to middlemen, which affect the selection of a particular channel of distribution:

- **Availability of desired middlemen:** If desired middlemen of desired experience and capability are available in the market, the manufacturer may determine to distribute his products through such middlemen. If, on the other hand, desired middlemen are not available for a particular product, the manufacturer will have to supply it directly.
- **Sales possibilities:** If it is expected that the sales of a product can be increased when distributed through middlemen, the manufacturer may take the help of these middlemen. If the increase in sales is not expected through middlemen, the manufacturer may decide to distribute his products directly.
- **Cost consideration:** If the cost of distribution of a product through a channel of distribution is within the range of enterprise, a decision may be taken to adopt it; otherwise, it is better to distribute the goods directly.
- **Marketing policies and strategies:** Sometimes, a manufacturer adopts a channel of distribution for distributing his products because of his marketing policies and strategies to do so. Main reason for such decision may be to get the advantage of goodwill of middlemen.

- **Services provided by middlemen:** A manufacturer should select a channel of distribution, which may meet his requirements. So, a channel must be selected for the services it provides.

1.6.5 Environmental Factors

Some environmental factors also affect the selection of channels distribution for a product. In the market condition of slump, a channel of distribution must be selected with a view to provide goods and services to the consumers at lower rate. In addition to this, some legal restrictions also affect the-selection of a channel of distribution. The channel selected by the enterprise must also meet social expectation. The sensitivity is a major factor to be considered.

1.6.6 Selection of a Particular Channel

Success of a product in a market depends largely upon the channel through which it is being distributed. The decision of selection of a particular channel of distribution is a difficult task because there are many alternative channels available for the distribution of a product and every channel has its own merits and demerits. No channel is free from limitations and no channel can be regarded as most suitable channel for every product. A channel may be very effective and very successful for distributing a particular product but the same channel may fail in achieving its objects in case of another product. Therefore, it is a very important and sensitive decision to select a particular channel for the distribution of a product. A manufacturer must carefully consider all the relevant factors, before taking a final decision in this regard; financial resources, managerial ability, marketing experience, characteristics of product, situation of competition, policies of competitors, buying behaviour of consumers, social expectations and government policies are the most important factors to be considered by a manufacturer in this regard. After this, he must study respective merits and demerits of all the channels of distribution available for a particular product. Final decision in this regard must be based on such study. The process of selection of a particular channel of distribution for a particular product does not end with the selection of a desired channel. Analytical study of the performance of the channel must also be made, in order to evaluate the effectiveness of the channel. If it is felt at any stage that the channel is unable in achieving desired results, the decision may be taken to change it.

Check your progress 5

1. Products with a short shelf life must be distributed within shortest possible time via shortest channel of distribution is known as

   a. Perishability of product. c. Tangibility of product.

   b. Intangibility of product. d. None of the above.

2. Distribution decisions are affected by the type of _____activities, needed to sell the product to customers.

   a. Promotional. c. Both of the above.

   b. Non Promotional. d. None of the above.

1.7 Let Us Sum Up

This unit has wrapped most of the key elements in distribution management. You began to learn them by standard definitions. There are different channels of distribution based on industrial products and consumer goods. The functions of the channels of distribution ensure coordination and communication in production activity, the ease of doing business, pricing stability, forecasting, linking demand and supply. The success of marketing efforts of an enterprise depends largely upon the accuracy and correctness of these decisions. Ultimate object of every business and industrial enterprise is to earn maximum profits through maximum sales. It was essential to know what kind of issues may come across on different levels like manufacturing, product, market, middlemen and environment. It has increased the level of awareness for you in managing the channel of distribution in achieving organizational goal in stipulated time.

1.8 Answers for Check Your Progress

Check your progress 1

Answers: (1-b)

Check your progress 2

Answers: (1-a), (2-a), (3-d)

Check your progress 3

Answers: (1-b), (2-a), (3-a)

Check your progress 4

Answers: (1-a), (2-c)

Check your progress 5

Answers: (1-a), (2-a)

1.9 Glossary

1. **Distribution -** The marketing and carrying of products to customers.
2. **Stereo-typed -** Traditional.
3. **Industrial goods -** A category of stock which is primarily used in the production of other goods. (E.g. cement, metal etc.).
4. **Consumer goods -** Goods to be bought and used directly by consumers, rather than manufacturers.
5. **Goodwill -** The established reputation of a business regarded as a quantifiable asset and calculated as part of its value; cooperative attitude.

1.10 Assignment

1. What is physical distribution management? Explain various elements involved in distribution.

1.11 Activities

Group Discussion topics:

a. The role of distribution in marketing mix.

b. Impact of distribution channel on image of product.

c. the challenges in designing marketing mix strategies for a small sized car priced at Rs.1 lac for the Indian market.

1.12 Case Study

Free Flights Promotion Ends in Disaster

The Hoover Company's attempts to sell more vacuum cleaners by offering an incentive of free flights has become a legendary disaster in the field of sales promotions. An examination of the case is useful for highlighting some of the problems of planning, implementing, and monitoring sales promotions.

During the early 1990s, Hoover was faced with a period of economic recession in which discretionary expenditure on consumer durables was held back. In these conditions, most vacuum sales were replacements for worn out machines or first-time buys for people setting up home. The challenge was to increase the sales of machines bought to upgrade existing equipment.

The company came up with the idea of offering free airline tickets to America for anybody buying one of its vacuum cleaners. For many people, a holiday in the USA may have been perceived as an unnecessary and unaffordable luxury during a period of recession, but one that might be justified if it came free with the purchase of an 'essential' vacuum cleaner.

The immediate result of the sales promotion was to boost the company's sales of vacuum cleaners to more than double the level of the previous year. So far so good, but then serious problems set in. The first problem occurred when Hoover could not satisfy demand for its vacuum cleaners and had to resort to paying its staff overtime rates of pay in order to increase supply. It should be remembered that the initial objective of the promotion was to utilize existing spare capacity rather than adding to that capacity. The company had carried out insufficient research prior to launching its incentive. Had it done so, it may have reached the conclusion that the incentive was too generous and likely to create more demand than the company could cope with.

A second problem occurred during subsequent periods when sales fell to below their pre-incentive levels. Many people had simply brought forward their purchase of a vacuum cleaner. Worse still, many people had bought their cleaner simply to get the free tickets, which at £70 for a cleaner with a free £250 ticket made sense. These people frequently disposed of their cleaner as they had no need for it. The classified ads of many local newspapers contained many adverts for 'nearly new, unused' vacuum cleaners at discounted prices and this further depressed sales of new machines once the sales promotion had come to an end.

A third and more serious problem occurred when large numbers of buyers tried to use their free flight vouchers. All sales promotions are based on an assumption of take-up rates, which can be as low as 5-10 per cent. Anything

higher and the cost of the incentives actually given away can wipe out the benefits arising from increased sales. In this case, Hoover had carried out insufficient pre-testing of the sales promotion in order to assess the likely take-up rate and was surprised by the actual take-up which subsequently occurred. In an attempt to control costs, the company became notorious for its attempts to 'suppress' take-up of free flights. Many claimants complained that telephone lines were constantly busy and, when they did get through, they were offered the most unattractive flights possible. It was reported that claimants from the south-east of England were only offered flights departing from Scotland and those from Scotland only offered flights from London, done to reduce the attractiveness of the free offer. These activities attracted high levels of coverage in the media and left a once highly respected brand as one with a perception of mistrust. Five years after the initial debacle, the Hoover Holiday Pressure Group continued to be an awkward reminder for the company.

The free flights promotion eventually cost Hoover a reported £37 million in redemption charges, without bringing about any long-term growth in sales. With appropriate pre-testing, these costs could have been foreseen. Worse still, the company's brand image had been tarnished in a way that would take many years-if ever-to recover from.

Case Study Review Questions:

1. What are the inherent problems for a company such as Hoover in assessing the effectiveness of sales promotion activity?
2. Identify a programme of research that Hoover could have undertaken in order to avoid the costly failure of its free flights promotion.
3. What alternative methods of promotion might have been more suitable to achieve Hoover's objective of utilizing spare capacity during a period of economic recession?

1.13 Further Readings

1. Elements of Distribution, Peter J. Goodridge, McGraw-Hill Education, 1980.
2. Marketing Planning & Strategy 6th Edition, S. C. Jain, Thomson Business Information, 2002.

UNIT 2: SALES PROMOTIONS

Unit Structure

2.0 Learning Objectives

2.1 Introduction

2.2 Promotions

2.2.1 Need for Promotional Activities

2.2.2 Objectives of Promotional Activities

2.3 Promotion Mix or Tools of Promotion

2.3.1 Types of Promotion- Promotion Mix

2.4 Meaning and Definition of Sales Promotion

2.4.1 Types of Sales Promotion

2.4.2 Characteristics of Sales Promotion

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2.4.4 Importance of Sales Promotion

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2.6 Let Us Sum Up

2.7 Answers for Check Your Progress

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2.9 Assignment

2.10 Activities

2.11 Case Study

2.12 Further Readings

2.0 Learning Objectives

After learning this unit, you will be able to understand:

- The need for Promotional Activities.
- Objectives of Promotional Activities.
- Promotion Mix or Tools of Promotion.
- Meaning and Definition of Sales Promotion.
- Characteristics of Sales Promotion.
- Objectives of Sales Promotion.
- Importance of Sales Promotion.
- Main Tools of Sales Promotion.
- Media of Advertising and publicity.

2.1 Introduction

You have great privilege to learn on sales promotion. It is another important milestone after effective marketing. It requires seamless efforts for sales executive to work days and nights together to promote the sales activities which should be visible enough in the market. This unit is focused on the need and objectives of promotional activities. They will prevent you from any possible deviation in future. You will come across the tools of promotion which are also called as 'promotion mix'. To understand the depth and market expectation, you are supposed to study the salient characteristics of sale promotion. After all, every single student will have a natural question, "Why do we need to study the concept sales promotion?" You will get an answer to this question in this unit only. Point-wise logical sequence is followed to give you an implied meaning with common interpretation expected from industries.

2.2 Promotions

To reach a target audience and to achieve specific organizational objectives with certain message promotion is a form of corporate communication which uses several methods. Therefore, all organisations in all type of industries engage in some form of promotion. Multinationals secure high-profile celebrities as

corporate spokespersons to the owner of a one-person enterprise passing out business cards at a local business persons' meeting.

Promotion may be defined as, "the co-ordination of all seller—initiated efforts to set up channels of information and persuasion to facilitate the sale of goods or service or the acceptance of an idea". Promotion is telling and selling where we push forward our ideas to gain approval and acceptance.

In addition, individual promotions must also work together, to coordinate general promotion decisions with other business areas. Communication marketers attempt to develop a unified promotional strategy involving the coordination of many different types of promotional techniques is the concept of Integrated Marketing.

The main purpose for the marketer who employs several promotional options to reach objectives for the product is to employ a consistent message across all options. For instance, by discussing the benefits of product which are discussed in television advertisement so that customer will receive the same information.

Promotion is the fourth major important component of company's total marketing mix. It intends to inform, persuade and influence people. Promotion activity is basically an exercise in communication. Communication is necessary in exchange activities. The best products with good package, fair price, etc. cannot be sold unless buyers know it. This job of bringing the products to the notice of the consumers is done by promotion.

Marketers need to understand that an effective promotional strategy requires fitting the promotions with other marketing activities, such as product, distribution, pricing, target markets.

Accordingly, promotion decisions should be made with an appreciation for how it affects other areas of the company. Taking everything into account, success of a promotional strategy requires input from others in impacted functional areas.

Consumer markets: Fast-moving consumer goods, consumer durables, coordinated marketing mix to achieve objectives.

Organisational markets: Differences from consumer markets, adding value through service, industrial, non-profit making, government, re-seller.

Services: Differences of services from physical products, intangibility, ownership, inseparability, perish ability, variability, the 7Ps, strategies, service elements of physical product marketing, tangible and intangible benefits.

International markets: Globalisation, the EC, benefits and risks, market attractiveness, strategies.

2.2.1 Need for Promotional Activities

Promotion is the final element in the marketing mix. The manufacturer has to take effective steps in meeting the consumer in the market after taking the decision relating to the nature of products, its price and its distribution. Even the most useful and want-satisfying product will be a failure in the market if they are not known to the consumers. Therefore, it becomes essential to make the customers know from where, how, when and at what price the product would be available. As the distance between producers and consumers increases and as the number of potential consumers grows, promotional activities are necessary.

Secondly, there is stiff competition among the manufacturers. Therefore, promotional activities are necessitated.

Thirdly, large-scale production can be achieved only with methods of large scale selling, which is possible only through the promotional activities.

Fourthly, when there is an imperfect market condition, product cannot be easily sold based on product-differentiation. In such a situation, only the promotion activities draw the attention of consumers.

2.2.2 Objectives of Promotional Activities

Promotional activities convince customers to make to act in favour of the marketer and remain a loyal long-term customer. In case of not-for-profit markets, it is important to increase donations, utilise more services, change attitudes or change behaviour, so they tend to get customer for this purpose (e.g. AIDS awareness campaigns).

- **Demand objectives:** The idea of promotion is to create, stimulate, influence and maintain demand for a product. Promotion is responsible for demand creation.
- **Communication objectives:** It creates awareness by providing information to consumers and retailers about product features, where the products can be obtained and what the products are capable of doing or achieving brand preferences.

- **Specific/Performance objectives:** It gives specific information about a product and influences the consumer's decision of purchasing.

Check your progress 1

1. _____ is telling and selling where we push forward our ideas to gain approval and acceptance

   a. Promotion. c. Price.

   b. Product. d. Place.

2. _____is the fourth major important component of company's total marketing mix.

   a. Product. c. Price.

   b. Promotion. d. Place.

2.3 Promotion Mix or Tools of Promotion

The elements of the promotion mix are:

- **Sales Promotion:** Short-term incentives to encourage the purchase and sale of a product.
- **Personal selling:** Oral presentation in conversation with one or more prospective purchasers for making sales.
- **Advertising:** Any paid form of promotion of ideas and non-personal presentation, goods or services by an identified sponsor.
- **Public relations:** Building good relations with the clients of company by obtaining favourable response.
- **Publicity:** It is a non-personal stimulation of demand, which is not paid for.

2.3.1 Types of Promotion—Promotion Mix

Following are the four major methods of promotion:

- **Advertising**: Delivers the marketer's message paid promotions often using mass media outlets. Computer technology and the Internet services have increased the options that allow customers to provide quick feedback.

- **Sales Promotion**: Customers may receive incentives to respond or undertake some activity under special short-term techniques
- **Public Relations (publicity)**: The news media, a favourable mention of the marketer's company or product without direct payment to the publisher of the information is done by using third-party sources.

Personal Selling: This includes face-to-face or via telephone, online via video conferencing or text chats. This involves personal contacts between company representatives and people (members of a company buying centre).

Direct Marketing: Direct marketing is a form of advertising which allows various business and other non-profit organizations to communicate directly to the customer, with the help of various modern techniques that can include cell phone text messaging, email, interactive consumer websites, online display ads, database marketing, fliers, catalogue etc.



Fig 2.1 Marketing Mix.

Check your progress 2

1. Short-term incentives to encourage the purchase and sale of a product

   a. Personal Selling. c. Advertising.

   b. Sales Promotion. d. Publicity.

2. _____is a form of advertising which allows various business and other non-profit organizations to communicate directly to the customer,

   a. Advertising. c. Publicity.

   b. Direct Marketing. d. Personal Selling.

2.4 Meaning and Definition of Sales Promotion

Sales promotion includes special short-term techniques to persuade consumers of a target market to respond or undertake certain activity. In return, marketers offer something of value to those responding generally in the form of lower cost of ownership for a purchased product, (e.g., lower purchase price, money back) or the inclusion of additional value-added material, (e.g., something more for the same price).

Sales promotions are different from advertising. For instance, a television advertisement mentioning a contest awarding winners with a free trip to Goa may give the contest the appearance of advertising. While the delivery of the marketer's message through television media is certainly labelled as advertising, the contest is considered a sales promotion.



Fig 2.2 Sales promotion label

Sales promotion means and includes all the activities that are performed by a producer, a dealer or a businessman to increase his sales. Main purpose of sales promotion activities is to encourage and persuade the consumers to buy a particular product. The term 'Sales Promotion' has been defined by many eminent authors. Some of the important definitions are as follows:

According to A.H.R. Delens, "Sales Promotion means any steps that are taken for the purpose of obtaining or increasing sales".

According to Philip Kotler, "Sales Promotion encompasses all the tools in the marketing mix whose major role is persuasive communication.''

According to Mason and Rath, "Sales Promotion consists of those activities that are designed to bring a company's goods or services to the favourable attention of consumers".

According to L.K. Johnson, "Sales Promotion consists of all those activities whose purpose is to supplement, to co-ordinate and to make more effective the

efforts of the sales force of the advertising department and of the distributors and to increase the sales and otherwise stimulate consumers to take greater initiative in buying".

According to American Marketing Association, "Those marketing activities, other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as displays, shows and exhibitions, demonstrations and various non-recurrent selling efforts not in the ordinary routine".

According to William J. Stanton, "Sales Promotion is an exercise in information, persuasion and influence".



Fig 2.3 Sales promotion label

On the basis of analytical study of above definitions, it can be concluded that sales promotion includes all these activities (except advertising, publicity and personal selling), which attract both the distributors and consumers towards goods and services of the enterprise, so that the sales of the enterprise may increase.

2.4.1 Types of Sales Promotion

Sales promotion can be classified based on the primary target audience to whom the promotion is directed. These include:

- **Consumer Market Directed**: Possibly the most well-known methods of sales promotion are those intended to appeal to the final consumer. Consumers are exposed to sales promotions nearly every day. Many buyers are conditioned to look for sales promotions prior to making purchase decisions.
- **Trade Market Directed**: Marketers use sales promotions to target all customers, including partners, within their channel of distribution. Trade promotions are initially used to entice channel members to carry a

marketer's products and, once products are stocked, marketers utilise promotions to strengthen the channel relationship.

- **Business-to-Business Market Directed:** A small, but important, sub-set of sales promotions are targeted to the business-to-business market. While these promotions may not carry the glamour associated with consumer or trade promotions, B-to-B promotions are used in many industries.



Fig 2.4 Sales Promotion

2.4.2 Characteristics of Sales Promotion

On the basis of above definitions, following characteristics of sales promotion may be enumerated:

- Sales promotion does not include advertising, personal selling and publicity.
- Sales promotion activities are generally performed at certain times. Thus, these are not regular activities, as display fairs and exhibitions, demonstrations, seasonal discount free-gift, etc.
- Sales promotion helps in selling and it makes advertisements and personal selling easy and effective.
- Sales promotion encourages dealers and distributors to sell the product more.
- Sales promotion encourages consumers also to buy the product.

2.4.3 Objectives of Sales Promotion:

Sales promotion is a medium used to achieve the five major promotional objectives:

- **Building Product Awareness**: this medium is effective in exposing customers to products for the first time and can serve as key promotional

components. To build the product awareness sales promotion techniques own advantage of capturing customer information while exposing promotion. This is how sales promotion can be effective as customer information gathering tool and later be used as part of follow-up marketing efforts, for example as sales lead generation.

- **Creating Interest**: Marketers realise that sales promotions are very potent in creating interest for a product. Interest creation is the most important use of sales promotion. An appealing sales promotion can significantly increase customer traffic to retail outlets in retail industry. Internet marketing is also an example of Interest creation. One more way to create interest is allowing customer to experience a product (products for free or at low cost).
- **Providing Information**: providing information to access product information on trial basis or fee-based online free service for several days. This helps to move customer to action.
- **Stimulating Demand**: It can be done by lowering the cost of ownership to the customer. This helps in stimulating the sales. Because building product awareness and convincing customer to purchase the product is important.
- **Reinforcing the Brand**: After purchasing the product, mostly for additional purchase or to promote the sales. Many companies, including airlines and retail stores, reward good or 'preferred' customers with special promotions (e.g., email 'special deals' and surprise price reductions at the cash register).

2.4.4 Importance of Sales Promotion:

Importance of sales promotion may be divided into three parts for convenience of study:

1. Advantages to manufacturers.
2. Advantages to middlemen.
3. Advantages to consumers.

1. Advantages to manufacturers

Sales promotion is very beneficial to the manufacturers. Important advantages of sales promotion available to manufacturers may be enumerated as follows:

- It helps in creating the demand for new products
- It helps in getting new customers for the existing products
- It helps in increasing the demand of existing customers
- Since it increases the sales of a product, scale of production increases and higher scale of production helps in reducing the cost per unit;
- It helps in encouraging and stimulating the middlemen to take more and more interest in the sale of product
- It helps in maintaining the demand for the product during the season
- It helps in communicating new use of the product to the consumers
- It helps in facing the competition successfully
- It helps in increasing the goodwill of the enterprise
- It helps in the achievement of pre-determined marketing objectives of the enterprise.

2. Advantages to middlemen

Sales promotion is beneficial not only to the manufacturers but also to the middlemen. Advantages of sales promotion available to the middlemen may be as under:

- It helps in selling the product; actually it supplements the work of a salesman
- It helps in increasing the sales of the middlemen
- It becomes very convenient for the middlemen to sell the product to the consumers for which sales promotion measures are adopted by the producers
- It increases the goodwill of the middlemen
- It helps in increasing the profits of middleman
- It offers many monetary as well as non-monetary incentives to the middlemen.

3. Advantages to consumers

Advantages of sales promotion available to the consumers may be enumerated as follows:

- Sales promotion gives the knowledge of new products available in market to the consumers.
- It gives the information of new uses of existing products to the consumers.

- Distribution of free samples to consumers provides an opportunity to them to use and test the product.
- Many schemes of sales promotion provides goods and services to the consumers at reduced prices.
- It provides an opportunity to the consumers to participate in competitions.
- It improves the standard of living of consumers. It is a source of education to the consumers.

2.4.5 Main Tools of Sales Promotion

Main tools of sales promotion, also known as methods of sales promotion may broadly be divided into two parts:

1. Consumers' promotion methods
2. Dealers' promotion methods

1. Consumers' Promotion Methods

Consumers' promotion methods of sales promotion are the methods, which directly encourage consumers to buy the product in more and more quantity.

These methods may be as follows:

- **Distribution of free sample:** The producer distributes free sample of the product to the consumers.
- **Discount coupons:** A discount coupon is a certificate, which enables a consumer to get a certain discount on the purchase of a particular product.
- **Free gift:** The producer announces that a free gift will be given to the consumers on the purchase of a particular product in a particular quantity.
- **Reduction in price:** The producers or dealers announce heavy reduction in the prices of products; generally on some specific occasions or festivals.
- **Trade fairs and exhibitions:** In India, various fairs and exhibitions are organised at different levels in different parts.
- **Contest and competitions:** Some producers organise a competition for marketing their product to make it popular and to increase its sales.
- **Special prizes:** Every purchaser of the product is given a prize coupon during a certain period. All the coupons distributed during this period are put into a box and a lottery is drawn. Thus, this scheme also samples the

consumers to purchase and use the product.

- **Cheap bargain:** Under this method, producers announce that with the purchase of a particular product, another product will be given at very cheap rate.
- **Demonstration:** Under this method of sales promotion, producers arrange to demonstrate the products before consumers so that they may know about the product and decide to purchase it. Such demonstration may be arranged at retail stores, in fairs and exhibitions, festivals or even door-to-door basis.
- **Decoration and display at the shop:** Under this method, goods are decorated and displayed at the shop in the manner that it may draw the attention of public passing there from. It encourages them to come to the shops, enquire about these goods and buy them.
- **Money back guarantee:** Under this method of sales promotion, producers guarantee that if their product does not meet certain standards, the consumers can return the product and get their money back. This method develops faith and confidence among the consumers about the goods they purchase.
- **After-sale-service:** After-sale-service is an important tool of sale promotion. Under this method, producers give a guarantee to the consumers that they will maintain the product in proper condition during a certain period and if during this period, consumers feel any problem, they can get it removed free of cost. It develops faith among the consumers about the quality of product.

2. Dealers' Promotion Methods:

Dealer promotion methods include all the methods, which are adopted with a view to encourage the dealers and distributors to purchase and resell the product in more and more quantity. Dealer promotion methods include the following methods:

a. **Advertisement allowance or advertisement materials:** Under this method of sales promotion, producers give advertisement allowance or advertisement materials to their distributors and dealers and thus, they encourage their dealers and distributors to advertise for their products.

Advertisement materials supplied by producers to their dealers and distributors may be:

- Diaries.
- Calendars.

- Literature.
- Sign boards.
- Packing bags.
- Posters.

b. **Quantity discount:** Under this method of sales promotion, producers give some discount to their dealers and distributors on the purchase of goods in some certain quantity. It encourages them to purchase the products in large quantity.

c. **Incentives to salesmen:** Under this method, producers announce some incentives to their salesmen, so that may take maximum interest in the sale of product. For this purpose, some prize may be fixed if salesmen achieve their pre-determined targets.

d. **Suitable credit policy:** Under this method, producers allow credit to their dealers and distributors for a certain period. This enables them to purchase the goods in large quantity.

e. **Meetings and seminars:** Under this method, producers organise meetings and seminars and invite all their dealers and distributors to attend such meetings and seminars. At these meetings and seminars, all the problems of middlemen are discussed and solved.

f. **Commission:** Under this method, producers announce that a special commission will be paid to the middlemen if they achieve pre-determined sales targets for them. Higher rate of commission may also be fixed on higher sales.

g. **Training:** Under this method, producers train their selling force so that they may make more and more sales of product easily and smoothly.

h. **Free gifts:** Under this method, producers give free gifts to their dealers and distributors. Such gifts go on increasing with the increase in the quantity at purchases by these dealers and distributors.

Check your progress 3

1. Sales promotion does not include advertising, personal selling and publicity

   a. True.

   b. False.

2. According to_____"Sales Promotion is an exercise in information, persuasion and influence".

   a. Peter.F. Drucker. c. William.J. Stanton.

   b. Mc. Carthy. d. Mc. Donald.

2.5 Meaning and Definition of Personal Selling

While these methods of promotion provide many advantages, at the same time they each share one major disadvantage—non-personal form of communication. Furthermore, whether a company is in manufacturing or retailing, sells services or goods, is a local start-up or a large multi-national, is a non-profit or is out to make a profit, in all probability, at some point, they will need to rely on personal contact with customers. In other words, they need to promote using personal selling.

Personal selling is widely misunderstood, unfortunately. For example, many customers think salespeople has characteristics that include being arrogant, manipulative, greedy and aggressive. While many marketers think that salespeople are out to just make a quick sale meant to increase their income and that they always do this by making unethical deals undermining the attempt of marketer to build strong brands.

While there are few salespeople who fit in these descriptions, today the most successful salespeople are one who works hard to understand the needs of their customers with the ultimate goal of ensuring that needs of customer get satisfied at a high level. More significantly, personal selling holds functional role in the promotional activities of a large number of organisations. The fact is money spent to support the selling function in one company is more than spending on advertising in the business market.

Personal selling means the performance of actual selling activity. Personal selling is quite direct and personal. Personal selling involves oral conversation between seller and buyer for making sales. Ultimate purpose of personal selling is

to sell the goods to their ultimate buyers by bringing right goods and services into contact with the right customers. Therefore, personal selling is said to be the 'Backbone of Marketing'. The term 'Personal selling' has been defined as under:

Richard Buskirk, "Personal selling consists of contacting prospective buyers of product personally".

William J. Stanton, "Personal selling consists in individual personal communication, in contrast to mass relatively impersonal communication of advertisings sales promotion and other promotional tools".

American Marketing Association, "Oral presentation is a conversation with one or more prospective purchaser for the purpose of making sales".

2.5.1 What is Personal Selling?

A promotional method in which one party (e.g. salesperson) uses skills and techniques for building personal relationships with another party is a personal selling, here both parties obtain value. Sales person obtain value by getting financial rewards of sale while the customer obtain value by getting the benefits obtained by consuming the product. Selling is sometime simply use to deliver the information.



Fig 2.5 personal selling

The promotional method often occurs through face-to-face meetings or via a telephone conversation or online chatting which involves personal contact.

In marketing jobs, mainly employees are in sales position. In the US alone, the US Department of Labour estimates that over 14 million or about 11% of the

overall labour force is directly involved in selling and sales-related positions. In worldwide there may be 100 million. Those who are not directly into selling, the promotional techniques used in selling are also part of the day-to-day activities of many. For example, top corporate executives, whose job title is CEO or COO, are continually selling their company to major customers, stock investors, government officials and many other stakeholders, benefits they get for their company are same as front-line salesperson.

2.5.2 Advantages of Personal Selling

One key advantage personal selling has over other promotional methods is that it is a two-way form of communication. In personal selling, salesperson make customer to understand the initial message, even if customer does not understand how product works, salesperson can make him understand. This cannot be done in non-personal forms of promotion, (a radio advertisement).

This personal selling is the most effective promotional method for building relationships with customers because there is direct communication with customer. This is important for company to sell their high value product or sell low value product of large quantity. Such purchases take considerable amount of time and require the input of many people at the purchasing company.

Customer who are not reachable through other methods, personal selling is effective and the most practical promotional option to reach customer. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

2.5.3 Disadvantages of Personal Selling

Possibly the biggest disadvantage of selling is the degree to which this promotional method is misunderstood.

A second disadvantage of personal selling is the high cost in maintaining this type of promotional effort. Costs incurred in personal selling include:

- **High cost-per-action (CPA):** CPA can be an important measure of the success of promotion spending, the money spent to support a sales staff (i.e., sales force) can be steep because it involves person-to-person contact. This cost is incurred, whether a sale is made or fails which includes compensation (e.g. salary, commission and bonus), providing sales support

materials, allowances for entertainment spending, office supplies, telecommunication, etc. Due to this selling is not a practical option for selling products that do not generate a large amount of revenue.

- **Training Costs:** Sales staff need to be extensively trained on product knowledge, industry information and selling skills. Training cost may include travel, hotel, meals and training equipment and their salaries

A third disadvantage is that personal selling job turnover in sales is often much higher than other marketing positions. Mainly salespeople leave job because of geographic territory. So company has to recruit and train staff frequently.

2.5.4 Objectives of Personal Selling

Personal selling is used to meet the five objectives of promotion in the following ways:

- **Building Product Awareness**: To educate customers on new product offerings is major task for salespeople. In fact, salespeople serve a major role at industry trades, where they discuss products with show attendees. However, building awareness is also important in consumer markets.
- **Creating Interest**: The personal selling involves person-to-person communication, creating interest goes hand-in-hand with building product awareness as sales professionals can often accomplish both objectives during the first encounter with a potential customer.
- **Providing Information**: salespeople receive large amount of sales support including brochures, research reports, computer programs and many other forms of informational material from organisation. Salespeople's conversation focus on product information.
- **Stimulating Demand**: The main objective of personal selling is to convince customers to make a purchase.
- **Reinforcing the Brand:** Regular and frequent meetings with customer help to build long-term relationship. This requires regular communication with a customer, which again help customer to strengthen their knowledge about product.

Check your progress 4

1. C.P.A. stands for _____.

   a. Cost per action
   c. Both of the above
   b. Cost per annum.
   d. None of the above

2. According to _____, "Personal selling consists of contacting prospective buyers of product personally".

   a. Richard Buskrik
   c. William.J. Stanton
   b. Mc.Carthy
   d. Mc. Donald

2.6 Let Us Sum Up

In this unit you have studies that personal selling is an impersonal communication of advertisings sales promotion and other promotional tools. It is the most effective promotional method to build rapport with customers through direct communication with them along with creation of value chain system. Such purchases take considerable amount of time and require the input of many people at the purchasing company. You have learnt that promotion is nothing but an effective presentation of your products, services to the prospective buyers. You came to know the various promotional methods like face-to-face meetings or via a telephone conversation or online chatting which involves personal contact. Personal selling and promotion go hand-in-hand to run the sales activities smoothly and without any defect. It was indeed interesting to study the advantages and disadvantages of personal selling with pros and cons.

2.7 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-b)

Check your progress 2

Answers: (1-b), (2-b)

Check your progress 3

Answers: (1-a), (2-c)

Check your progress 4

Answers: (1-a), (2-a)

2.8 Glossary

1. **Encompass -** Include, cover.
2. **Literature -** (Here, company documents in terms of manuals, pamphlets, brochures etc.
3. **Commission -** The amount of money paid to sell something upon mutual agreement.
4. **Discount -** Selling something at reduced cost than it appears to be. The reduction may be in terms of quantity or value.
5. **Allowance -** A sum of money paid regularly to a person to meet needs or expenses.
6. **Middleman -** A person, trader or an intermediary who buys from producers/ manufacturers and sells to retailers or consumers.
7. **Dealer -** An individual or entity, when it acts as a principal and stands ready to buy and sell for its own. (E.g. securities firm, car dealer.)
8. **Stimulate -** Inspire, motivate.
9. **Rapport -** Strong bonding, connection.

2.9 Assignment

Discuss the importance of promotion in marketing mix.

2.10 Activity

Business Model Plan:

Form the group of 5-7 students each. Give a suitable name to your group from business point of view. Prepare different promotional sales plan for various

sector like Insurance, Banking, Education, Art & Craft, etc. Present it before the class. Share the feedback to each other group.

2.11 Case Study

Tensator the Innovator

Tensator is a small company which until a few years ago was not known for its innovation. The company's Sales and Marketing Director Terry Green stated that 'I'm a very firm believer that innovation doesn't need to be revolutionary. There's nothing my company has done that couldn't be done by anyone else'.

Tensator is a light engineering business which manufactured the Constant Force Spring, a device used in the manufacture of car seat belts throughout Europe. Although the company continues to produce this product for this market, it is now far more successful in the production of more recently introduced new product lines.

When Green joined the company in 1989, he realized that there was much more potential for the company. In 1978 it had put forward plans for the use of the Constant Force Spring in the production of queuing barriers for supermarkets and banks, etc. 'We hadn't done much with it', recalled Green, 'even though there was a feeling it could be developed further'. He persuaded the company to focus on this new product idea.

Research was undertaken where customers, current and potential, were asked to give opinions on the viability of such a product and how it could improve on the products that were currently available. The market research proved to be invaluable. 'It was hardly rocket science, but it made us realize that what matters is what the customer wants to buy', noted Green.

As a result of the company's research and development, Tens barrier was launched. By 1996, the product was being exported to thirty-six countries and accounted for £3 million turnover. This was a dramatic improvement on the sales generated by the original product which was developed in 1978 and which had now become just a small part of the company's turnover.

There are now a variety of Tens barriers in a variety of shapes and forms. There is a bolt-down barrier and a special checkout version which incorporates an electronic movement sensor to prevent theft. These and other innovations were developed very proactively. 'It's so easy once you realize that the key is to talk to your customers about how you can find solutions to their problems.'

Tens at or launched thirteen new products in the years 1995 and 1996. Total turnover had risen more than threefold since 1988 to £10 million, with employee numbers only rising over the same period from 120 to 200. Green makes the point, 'Innovation is about the successful implementation of new ideas, it's as simple as that. It's not necessarily about coming up with new inventions. It boils down to pretty basic stuff. It's about tweaking the way you do things rather than jettisoning one big idea for another'.

Case Study Review Questions

1. Why do you think the new application of the Constant Force Spring is more successful than its predecessor?
2. To what extent is the above a good example of product portfolio planning?
3. Where do you think the new product is in its life cycle? Give reasons for your answer.

2.12 Further Readings

1. 'Sales Promotion Essentials' by Don Schultz.
2. "Sales Promotion: How to Create, Implement, and Integrate Campaigns That Really Work" by Roddy Mullin, Julian Cummins

UNIT 3: ADVERTISEMENT

Unit Structure

3.0 Learning Objectives

3.1 Introduction

3.2 Meaning and Definition of Advertising

3.3 Objectives of Advertising

3.4 Media of Advertising

3.5 Publicity

3.6 Advertising as Communication Process

3.7 Creation of Advertisement

3.8 Comparative Advertisement

3.9 Essentials of Good Advertisement

3.10 Assessment of Advertisement

3.11 Testing of an Advertisement

3.12 Advertising Agency

3.13 The Task of an Advertisement Agency

3.14 Let Us Sum Up

3.15 Answers for Check Your Progress

3.16 Glossary

3.17 Assignment

3.18 Activities

3.19 Case Study

3.20 Further Readings

3.0 Learning Objectives

After learning this unit, you will be able to understand:

- The concept of advertising
- Media of advertising

- Advertising as communication process
- Assessment & Testing of Advertisement
- How to create an effective advertisement
- The role & function of advertising agency

3.1 Introduction

In this unit, you will get an opportunity to become a creative, innovative advertiser. To do this, you will have to go through different aspects of this wonderful art like what is meant by advertising in real way, which are the most appealing and effective mediums to advertise the products keep in the accessibility in mind. You will study the process of communication reaching to the customers. In addition, it is important for you to know how to assess and test your advertising as you might have spent thousands/lakhs of rupees. No entrepreneur in the world will reject the significance of an advertisement for his products or services. The world of advertising works on the principle of 'know, like, trust and need'. There are various reasons as to understand why you should always be cautious about advertisement. To get hands-on experience and develop practical-minded approach, it is recommended that you should learn various functions of an advertising agency.

3.2 Meaning and Definition of Advertising

Main purpose of every business and industrial enterprise is to earn maximum profits through making maximum sales and the object of maximising sales cannot be achieved unless and until the enterprise adopts sales promotion measures. Any activity, which is performed with the object of promoting sales, is called sales promotional activity. Such activities are advertising, sales promotion and personal selling Advertising and sales promotions are indirect methods and personal selling is direct method of sales promotion.

Advertising is commonly understood to communicate about a product or service. But it is not correct and complete to understand so. Actually, advertising includes all the activities performed by an enterprise to present the goods and services to the consumers and to motivate them to buy these goods and services. The term 'Advertising' or 'Advertisement' has been defined by some eminent authors as under:

American Marketing Association, "Any paid down non-personal presentation and promotion of ideas, goods or services by business firms identified in the advertising message intended to lead to a sale immediately or eventually".

William J. Stanton, "Advertising consists of all the activities involved in presenting to a group, a non-personal oral or visual, openly sponsored message regarding a product or service or idea, this message is called an advertisement, is disseminated through one or more media and is paid for by the identified sponsor".

Richard Buskirk, "Advertising is a paid form of non-person's presentation of ideas, goods or services by an identified sponsor".

Wheeler "Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducing people to buy".

Wood, "Advertising is causing to know, to remember, to do".

Advertising is "any paid form of communication intended to inform and/or influence one or more people". Jermy Bullmore, Chairman of J. Walter Thompson.

Thus, the basic advertising objective is to inform, to persuade and to remind the target audience.

Check your progress 1

1. Advertising is "any paid form of communication intended to inform and / or influence one or more people".

   a. Richard Buskirk
   c. Richard Buskirk
   b. Jermy Bullmore
   d. William J. Stanton

3.3 Objectives of Advertising

To inform:

- Telling the market about a new product.
- Suggesting new uses for a product.
- Informing the market of a price change.
- Explaining how the product works.
- Describing available services.

- Correcting false impressions reducing consumer's fears.
- Building the company image to persuade.

To persuade:

- Building brand preference.
- Encouraging switching to your brand.
- Changing customer's perception of the product attributes.
- Persuading customers to purchase now.
- Persuading customers to receive a sales call.

To remind:

- Reminding consumers that the product may be needed in the near future.
- Reminding them where to buy it.
- Keeping it in their minds during off seasons.
- Maintaining its top of mind awareness.

Advertising can guarantee one trial, but superior advertising cannot save an inferior marketing plan or rescue a bad product—at least not for long—but inferior advertising can destroy an excellent plan or product. It is therefore, important for an advertising professional to understand how marketing works.

Products have both tangible and intangible characteristics. Advertising plays a part in communicating these to the customer.

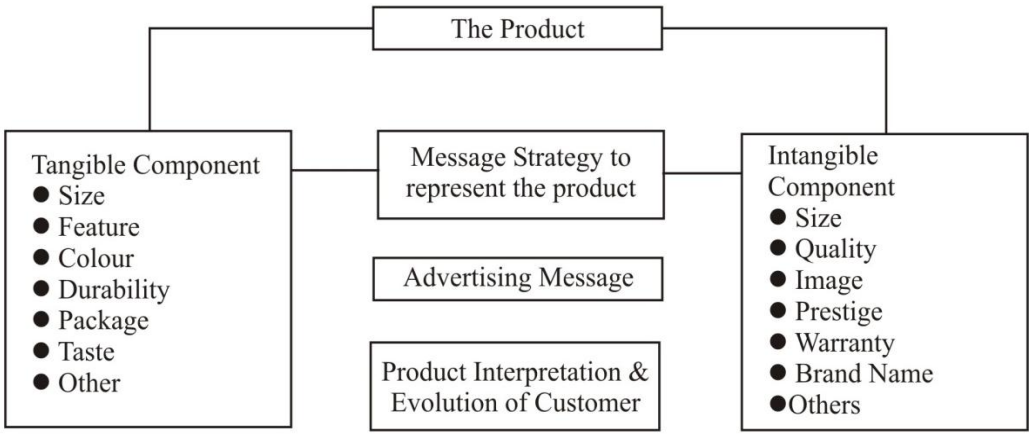


Fig 3.1 Role of advertising in communicating about the product.

Advertising helps in improving and changing a product's position. Product positioning is the image that the product projects in the minds of the customers in relation to other products sold by the company and competitive products. Without advertising, a great deal of the incentive for product development will be missing.

It helps to educate concerns about new products or to convey sales promotion inducements for trials in the introduction stage of the product life cycle. In the growth stage, the role of advertising is to create brand loyalty, whereas in the maturity stage, advertising plays a role in protecting and reinforcing the brand equity. In the decline stage, advertising is normally reduced or eliminated altogether if it cannot revive.

Check your progress 2

1. "Advertising is a paid form of non-person's presentation of ideas, goods or services by an identified sponsor". definition given by

   a. Richard Buskrik
   c. William.J. Stanton.
   b. Mc. Carthy.
   d. Mc. Donald.

2. Brand name is _____ characteristic of a product.

   a. Intangible.
   c. Both of the above.
   b. Tangible.
   d. None of the above.

3. Which of the following is NOT an objective of an advertisement?

   a. To persuade.
   c. To educate.
   b. To inform.
   d. None of the above.

4. Which of the following statement/s is inappropriate to advertising?

   a. It is any form of personal communication.
   b. It is any form of non-personal communication to inform and influence.
   c. It is any paid form of communication to educate the customers.
   d. It is any form of paid non-personal presentation of ideas, goods or services.

3.4 Media of Advertising

Media of advertisement means any object or any device, which is used to communicate the message, either written or oral, to the potential consumers. For the convenience of study, means of advertisement may broadly be divided into four parts:

1. Press advertising.
2. Outdoor or mural advertising.
3. Advertisement by mail.
4. Other media.

1. Press Advertising

Press is considered the most popular media of advertisement these days. It is also considered the cheapest and the best media because of its wide circulation. Press advertising may be divided in two forms; Newspapers and magazines. Newspapers and magazines have become an essential part of our day-to-day life. The details regarding press advertising are as follows:

- **Newspapers advertisement:** All the advertisements made through newspapers, are called Newspapers advertisements. A newspaper may be of national level, state level or district level. It may be daily, weekly or fortnightly and in any language.
- **Magazines or journals advertisements:** When an advertisement is published in a magazine or a journal, it is called magazine or journal advertisement.

2. Outdoor or Mural Advertising

Outdoor advertisements are the advertisements, which attract the customers when they are out of their home. These advertisements are displayed on roads or otherwise. This is the oldest form of advertising but it is equally common even these days. This is used very widely and very often. Actually, this form of advertising is complementary to press advertisement. It is adopted with the object to remind the consumers of the product again and at all the times and places. This method is very useful for the products that need a wide appeal.

3. Direct Mail Advertising

Direct mail advertising means the form of advertising, in which the advertiser sends personal message in writing through post to some selected persons. This is also called 'Advertising through Letter Box.' J.W.W. Cassels defined Direct Mail. Advertising as, "Direct Mail Advertising is using the letter box to tell the right people about right goods at right time in right way".

Salient features of direct mail advertising:

- The advertisement messages are prepared in writing.
- These messages are addressed directly to some selected persons.
- The message may be different for different persons

4. Other Media of Advertising

Some other forms of advertising may be explained as under:

a. **Fairs and exhibitions:** In India, various fairs and exhibition are organised in different parts at different times. By taking part in this fairs and exhibitions, businessmen and manufacturers can display their goods. Since these fairs and exhibitions are visited by a large number of persons, businessmen and manufacturers get good opportunity of advertising their goods.

b. **Cinema:** Cinema is considered the cheapest and the most popular medium of entertainment these days. Advertisers get their cinema slides prepared and these slides are played in the beginning and during interval.

c. **Radio and television:** Radio and television have become very common these days. Advertisement through radio and television is becoming more and more popular these days. The reality is that the producers feel it a grace to advertise their products through these media. Advertisement through television is getting more and more craze these days. Advertisement through these media may be in the form of a message or sponsored programme. Advertisement through these media has proved its success in creating, increasing and maintaining the demand of the products.

d. **Loudspeakers:** Under this form of advertising, a rickshaw or a Tonga or a car, etc. is hired. A loudspeaker is placed on it and the message is

announced in different localities of the city.

e. **Sky writing:** Under this method of advertising, some words are written in the sky with the help of a special gas by airplanes. These words stay in the sky for some seconds. This method is not popular in our country.

f. **Free samples:** Under this method, some samples packing are prepared and distributed among consumers. These samples provide an opportunity to the consumers to use these samples and then adopt these products.

g. **Competition:** Some producers announces a competition in it, consumers are required to reply some questions and to give a slogan about the product. They are also required to send some wrappers or cartoons or cash memo that may prove that they have purchased the product. It increases the sales of the product.

h. **Other means:** Other means of advertising may be sale at reduced prices, trade discount, free gift with a purchase of certain value or certain quantity, window display, etc.

Check your progress 3

1. _____are the advertisements, which attract the customers when they are out of their home.

   a. Outdoor Advertisements.

   b. Press Advertising.

   c. Direct mail Advertising.

   d. None of the above.

2. Outdoor Advertisements is also known as

   a. Mural Advertisements.

   b. Press Advertising.

   c. Direct mail Advertising.

   d. None of the above

3.5 Publicity

Publicity is the intended attempt to manage the public's perception of a subject. The subjects of publicity include people, politicians and performing artists, goods and services organisations of all kinds and works of art or entertainment.



Fig 3.2 Publicity

From a marketing perspective, publicity is one component of promotion. The other elements of the promotional mix are advertising, sales promotion and personal selling promotion. But the publicist cannot wait for the news to present opportunities rather they must also try to create their own news or opportunity. Examples of this include:

- Art exhibitions.
- Event sponsorship.
- Arrange a speech or talk.
- Make an analysis or prediction.
- Conduct a poll or survey.
- Issue a report.
- Take a stand on a controversial subject.
- Arrange for a testimonial.
- Announce an appointment.
- Invent then present an award.
- Stage a debate.
- Organise a tour of your business or projects.
- Issue a commendation.

Main advantages of publicity are low cost and credibility. New technologies such as weblogs, web cameras, web affiliates and convergence (phone-camera posting of pictures and videos to websites) are changing the cost-structure. The disadvantages are lack of control over how your releases will be used and frustration over the low percentage of releases that are taken up by the media.

Check Your Progress 4

1. _____ is component of promotion.

   a. Publicity. c. Publication.

   b. Public. d. Politics.

2. Art exhibitions is an example of _____.

   a. Publicity. c. Personal Selling.

   b. Advertisement. d. Sales Promotion.

3.6 Advertising as Communication Process

Today's world has become a small village. We are so connected with each other that we don't realize we stay and communication from any corner of the world. After all, it's the magic of 'internet'. Communication has revolutionised the structure and nature of the business than ever. It is the time when you must think about 'speed'. Most of the global business giants look at India as 'the land of business opportunities'. It has several reasons. First, India is 2nd largest country in the world in population (around 17.5% of the world population). Secondly, it has huge scope in domestic market as well. Naturally, big corporate houses aim to increase their market share in India day-by-day. The 'Make In India' campaign has also created positive sentiments among the investors and entrepreneurs dreaming to make India as 'a manufacturing hub'. In this sense, they have to concentrate on marketing their products and services both in our country and abroad in an effective manner. Here, advertising is considered as a communication process.

Communication is one of the core functions of any business enterprise. Advertising is the most powerful tool to reach to the target customers. It has various objectives (to inform, to persuade, to influence etc.). You can easily influence the prospective end-users with the help of advertising. No wonder, it is

the first priority of positioning and repositioning your products and services. Advertisement as a communication process can be explained better with the help of following figure:

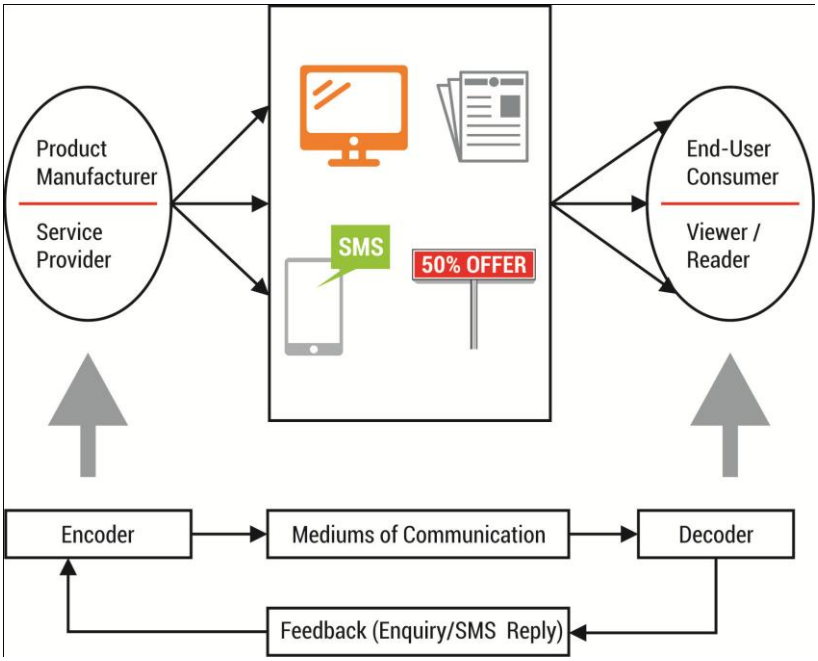


Fig 3.3 Advertisement as Communication Process

The above picture gives you a crystal-clear picture of advertising as a communication process. The product manufacturers and service providers encode the concrete message of advertisement along with specific features. Hence, they are called as the 'encoders' of communication process. They have complete freedom to choose the right, quick and effective medium of communication in terms of accessibility. Television, Radio, Newspapers, Mobile SMS (Short Messaging System), Promotional Calls, Hoardings are some of the best and competitive channels preferred by business owners. The end-user or the consumers receive the message. They decode (interpret) it. When the customers give an enquiry call, reply to previous message, it is treated as a feedback. Here, the process of communication is completed. The cost of advertisement is based on the medium of communication i.e. print or digital media.

Check your progress 5

1. Publicity is more beneficial as it has _____ cost and _____credibility.

   a. High; low.
   c. High; high.
   b. Low; high.
   d. Low; low.

2. When you interpret the message from an advertisement, it is called as _____ of communication.

   a. Encoding. c. Both.

   b. Decoding. d. Noise.

3. The Consumer Right does not indicate _____.

   a. Freedom of choice of the product.

   b. Freedom to decide the price of any product.

   c. Freedom to decide the range of price.

   d. Right to complain about defective product.

   e. All of the above.

3.7 Creation of Advertisement

It is very crucial to create an advertisement which wins the minds of viewers or readers easily. You need to work as 'an advertising guru' at this stage. There are a lot of factors which impact on the making of an advertisement. The following aspect will give you full-proof solid base to develop your thinking pattern.

1. **Title and Subtitle (Product Name):** You should primarily focus on the unique and memorable name of the product. It should be easy to remember but somewhat fashionable which attracts people in no time.
2. **Eye-catching Tagline:** It is also called as slogan. Remember, your tagline will showcase the branding of your product or service. It should appeal and grab the attention of viewers or readers.
3. **Remarkable Design:** Designing is a part of strategic planning. You must develop lateral thinking, formatting, layout etc. Special effects, relevant pictures, background, iconic images will matter a lot in designing an advertisement.
4. **Careful Market Study:** Research is the need of time. The ever-changing market dynamics will compel you to update and include the expected changes in your business performance.
5. **Product Features:** You should make a list of the product features based on the priority. Making your product a killer competitor in the market is

difficult but not impossible thing. You can introspect and brainstorm with your team to find out the Unique Selling Points (USP) of product.

6. **The art of selling the dreams:** You need to understand the psychology of potential customers. The acute requirement will enable you to design the framework of an advertisement. The comfort level, value addition, peace of mind, safety and hygiene is common factors applicable while buying any product or service. Extra features amalgamated with affordability are always preferred in the market.

7. **Know Your Customer (KYC):** It is the prerequisite of any successful business owner to know his customers. Database management, Personal Relations (PR), family background, financial capacity, perception about your company/product is important aspects to be covered in this for marketing purpose. The same data can be reutilized for other products as well.

8. **Etymology:** One cannot afford to ignore in choosing accurate word with sensible meaning. Product statement, pronunciation, tone, logical structure, presentation style, speed will decide the future of product positioning. You should avoid using complex or technical terms which difficult to understand.

9. **Cross-Cultural Intelligence (CCI):** The local setting, regional context, historical and cultural importance, geographical conditions, dialects play an important role in the success of the advertising products. One should to own the product. India is known for 'Unity in Diversity'.

10. **Cost-Management:** If you think about India as a market place, you will observe that middle class has highest share of population as compared to elite or backward class. Being a creator of an advertiser, you should target such class to increase your sales target. This is simply because they are crores in number. However, it is equally important to manage the product cost and make it available in budget of a common man.

11. **Choice of Brand Ambassador:** Most of the time, film-stars, celebrities and sportspersons are given first preference as the brand ambassadors of the various products. For example, Salman Khan is the brand ambassador of Coca-Cola products. The tagline, "Aaj Kuch Tufani Karte Hai!" appealed the youngsters.

12. **Special Offers:** Bumper Dhamaka!!, Monsoon Sale!! Sabse Saste Teen Din!! are familiar to you. These are seasonal advertisements to promote sales campaign on a wider scale. The digital marketing strategies are also gaining importance in these days. 'The Deal of the Day' help you to finish limited stock in less time. The companies like Amazon, Snapdeal, OLX are leading in this field. They have innovative strategies of campaigning. E-Commerce is booming in India.



Fig 3.4 Special Offer Logo

Check your progress 6

1. The factors which impact on the making of an advertisement
   a. Title and Subtitle (Product Name)
   b. Eye-catching Tagline
   c. Remarkable Design
   d. All of the above

3.8 Comparative Advertisement

Comparative advertisement is one of the most effective ways for competition management. Every company has its own style of advertising products or services based on cost, time, brand, frequency etc. When any product is compared with the competitor or existing brands on various metrics, it is called as comparative advertisement. Here, the comparison may be direct, indirect, implicit or explicit. It has own merits and demerits too. However, if there's healthy competition, the end-user has certain benefits of comparative advertisement. The below points will underline the scope of business opportunities in the world of advertisement. The best example will be Advertisement of 'Colgate' Vs 'Pepsodent'.

1. **Legal Implication:** This is somewhat challenging when you think to go for comparative advertisement as an effective option of product positioning. You should abide all trade policies as per the acts in terms of trademark, registration, copyrights etc.
2. **Accuracy:** Vague and general comparison will lose the interest of the customers. It may cause the damage to your brand as well. So, accurate facts, figures will convey concrete and expected message.
3. **Sell your products, don't sell yourself:** Every organization has its own values, business ethics. You should maintain the minimum standards. Sometime, over-excitement may spoil the branding of products. After all, selling by hooks or crook should not be the case.
4. **Validity:** The comparative advertisement should be data-driven. You should be ready with empirical evidences. Authenticity should be first preference. Valid comparison will convince the customers naturally.
5. **Objectivity, not subjectivity:** Before you launch your product in the market, research-based feasibility survey is carried out in the target areas. Here, data collection and interpretation must be objective. Premature evaluation, prejudices, data manipulation will cause failure of product positioning.
6. **Value Chain System:** It is always worth to run any business from long-term point of view. You ought to emphasize on creating the value chain system and then maintain it for future prospects. It is important not only to meet the customer expectations but also to exceed them from time to time.
7. **Comparison of products in price, quality standards, offers:** Comparative advertisement is designed with different perspectives. Its nature keeps on changing. The objective of advertisement will play a major role here. It is possible to compare two product of different brands side-by-side in terms of price range, quality and service excellence and best offers available.
8. **Helpful for Customer in Decision-Making:** Many times, the customers are confused as to decide which product is best for them. In this sense, readily available comparative advertisements enable them to analyse both products from third point of view. For example, Rajesh wishes to purchase a new car. Here, he has cutting-edge advantage to realize the experience of 'Test-Drive' from both car manufacturers along with salient features.
9. **Right To Information:** In the above example, if Mr. Rajesh is still not satisfied with product features shown in the advertisement, He can also seek

an expert opinion to clarify his doubts. It is also possible to visit the website of the company to know more about the products.

10. **Survival of the fittest in the market:** Every business owner look for increasing the profit margin. It is mandatory to provide timely and quality service that created utmost good faith for customers. Only best will survive.

11. **Variety of choices:** The customer is given great exposure on wide range of variety of products. Limited product range will create monopoly in the market. Choices in terms of colour, post-sale service, guarantee, and warrantee should be taken care. For example, mobile manufacturing companies.

12. **Conducive for New Ventures:** New venture business owners or entrepreneurs have no / less knowledge of market circumstances. On the other hand, they have to compete with existing brands. Brand management is the challenging factor for them initially. Comparative advertisement gives a golden opportunity to open the gateways of new world.

Check your progress 7

1. The first step of creating an advertisement would be:

   a. Product features. c. Market research.

   b. Cost-Management. d. Special offers.

2. An advertisement with a tagline like "Proud To Be An Indian!" highlights _____.

   a. Product name. c. Cross-cultural intelligence.

   b. Brand ambassador. d. All of the above.

3. Comparative advertisement should ideally intend _____.

   a. Products comparison. c. Superior-inferior comparison.

   b. Direct -indirect comparison. d. Only A & B.

4. Your advertisement should emphasize on _____.

   a. Subjectivity. c. Validity.

   b. Objectivity. d. A & C.

3.9 Essentials of Good Advertisement

1. **Empathy:** It simply means putting ourselves in others' shoes. Thinking from customer's point of view. The research study will give you different lacunas of existing products. It is your turn to work on it and provide better options for them with soothing experience.



Fig 3.5 Essentials of Good Advertisement

2. **Assertiveness:** Business is mixture of ups and downs. Sometimes, you may have to face critical challenges like economic slowdown, stringent government reforms and others. Still, you should convey positive message to your customers through the advertisement and persist on serving the best.

3. **The art of Communication:** You must follow certain principle of communication while preparing the roadmap of advertisement. They are concreteness, clarity, courtesy, conciseness, completeness, correctness).

4. **Emotional Intelligence:** To purchase any product, a customer should have both money and willingness. An effective advertisement influences easily. However, one should consider the psychology, age group, likes & dislikes of customers. You should be able to 'connect' with them emotionally.

5. **Product Information:** Both incomplete and overloaded information will have negative impact on sale. Therefore, only required information should be shared with the audience. Here, oversimplification must be avoided. For example, the trailer of a movie.

6. **Sensitivity:** It is very essential to avoid any controversial phrase, word or topic which will hurt public sentiments in terms religion, region or language as such. It may happen in case of comparative advertisement. One might showcase his product as the most superior against other as if of no use.

7. **Less Is More:** Publishing advertisement involves monetary gains. Hence, the duration of advertisement, the channels of communication and frequency must be kept in mind. Be specific.

8. **Receiver-Centred Approach:** This is with specific context of communication preference. Accessibility has pivotal importance. Simple, lucid style will appeal common person.

9. **The Power of Influencing:** An advertisement should not be purely entertainment. Kindly remember you have business-minded attitude. Dale Carnegie has written an interesting book, "How To Win Friends and Influence People." It will give you kaleidoscopic view on the power of influencing others.

10. **Competitiveness:** Every product has two values i.e. Prestige Value and Utility value. Your advertisement should concentrate on both values. It is somewhat challenging. However, not impossible again.

11. **Creativity / Out-of-the-box-Thinking:** The famous mobile manufacturing company 'Samsung' has interesting tagline, "What Is Next?" It keeps arresting the minds of customers to wait and watch for next product. It gives assurance of technology advancement with some exceptional features. Here, one should note that fostering the culture of creativity is not limited to advertisement but also applicable in every business segment.

12. **Resource Management:** It is one of the core managerial functions for an advertiser. You should have well-defined and meticulous plan. Managing cost, coordination among team-members, graphic designing, skilful use of advanced technology, project management are basic requirements of which will make your advertising as blueprint of success.

Check your progress 8

1. Following are the essentials of good advertisement
   a. Empathy
   b. Assertiveness
   c. The art of Communication
   d. d. All of the above

3.10 Assessment of Advertisement

One should learn to interpret the voice of customer. Before, during and Post-Sales comparison. The most effective lead generation comes from the careful combination of many tactics. However, I personally believe that there's no single strategy to assess the impact on the masses. At the same time, I would recommend three ways for assessment. They are knowing (product, process), liking (people relations), and trusting (through referrals & mouth publicity). The below table will help you to clear the picture in nutshell.

Toll-Free No.	Phone Orders, Enquiry Calls, Recordings.
Print Advertisement	Gift Vouchers, coupons.
Online Advertisement	No. of hits / clicks on company websites or social media homepage, Rating of products by viewers, Comments, Posts.No. of downloading product documents.
Mouth Publicity	No. of visitors to the Company Showroom/ outlets / customer service centre.
Customer Feedback	Appreciation or Complaints through oral, written, technical communication.

Check Your Progress 9

1. 'Less is more' means_____.
   a. Use of less words in the advertisement.
   b. Saving money.
   c. Being economical & choosy with selection of words.
   d. All of the above.
2. The book, "How to Win Friends and Influence People" is written by _____.
   a. Donald Carnegie.
   b. Dale Carney.
   c. Dale Carnegie.
   d. Donale Karney.

3. How will you assess the online advertisement?

   a. Through customer calling.

   b. Gift vouchers.

   c. Phone orders.

   d. No. of hits/ company website visitors, rating of stars.

   e. All of the above.

4. Customer feedback may be _____.

   a. Positive; negative.

   b. In form of appreciation or complaints.

   c. Through oral & written communication.

   d. In form of technical; non-technical communication.

   e. All of the above.

3.11 Testing of Advertisement

The below shown figure will help you to understand the gist of how to test an advertisement.



Fig 3.6 Testing an advertisement.

1. **Benchmark Waves:** First of all, you need to set some standard, concrete, measurable benchmarks aligned with the organizational goals. After then, it is feasible to track the results on quarterly, half-yearly or annual consistently. It is also called as 'longitudinal tracking'. You have choice to define the duration of tracking.
2. **Market Surveys:** This is another and feasible way of testing an advertisement. You can simply visit the shops, stores, outlets and ask the feedback to the shop owners about your products. Meeting the customers directly and knowing what exactly they feel is an interesting but sometimes tedious task. You need to design standard questionnaire for the same. Data should be authentic enough to derive the conclusions. It can be outsourced to a third party if you are ready to pay.
3. **Random Personal Interviews:** This is possible especially when your company has its own outlets. For example, 'Peter England' is a clothing brand, you can have few questions to be asked for the customers when they come for shopping. However, you should be careful about time.
4. **Focus Group Discussions:** As a sales manager, you should always understand what problems exist before your sales team. Focus group discussions help you to identify the challenges and work on them to overcome as soon as possible. Your interactions with the team members will show that you are serious in the efforts and expectations. Decision-making, conflict resolution, product or process training requirement, idea generation are the outcomes through focus group discussions.
5. **Different Softwares:** This is the age of technology. You should always think on how to make use of advanced systems, softwares, applications for your business. This will save the time, energy. You will be able to take quick decisions after data compilation. It will also bring transparency in daily performance management. For example, dashboard updates.

Check your progress 10

1. The features of testing an advertisement are
   a. Benchmark Waves
   b. Market Surveys
   c. Both a & b

3.12 Advertising Agency

The success of advertisement campaign depends on the inputs by advertising agency. It is completely up to them to what extent they can go. These agencies have hand-on market experience to present the ideas in the unique manner. They are capable of transforming the vision of company into reality through the tool of creative advertisement pulling the crowd of people like anything. Their clients could be non-profit making organizations, corporations, government agencies and businesses. Full-service, creative, specialized, in-house, interactive, media buying, social media, digital are some of the types of advertising agencies. You will sometimes see that these agencies are dedicated to special fields, sectors like healthcare, education, information technology, media and entertainment etc.

It is equally important for the advertisement agencies to work on the channels of communication through which the client expects to reach to the end-user. It will decide the nature of design of advertisement. For example, the advertisement on radio will be different than on television or newspaper. This is because some of the channels of communication are audio, video or both audio-visual. It is recommended that impact factor should be your priority. Secondly, one should define the nature of advertisement i. e. if it is classified advertisement or comparative advertisement.

Check your progress 11

1. The success of advertisement campaign depends on the inputs by advertising agency

   a. True

   b. False

3.13 The Task of an Advertising Agency

The advertising agencies perform a number of tasks on regular basis as per the requirement from their clients like government, non-governmental organizations, corporate houses or small and medium entrepreneurs. Let's understand what types of tasks are carried out by them. It can be explained with the help of figure:

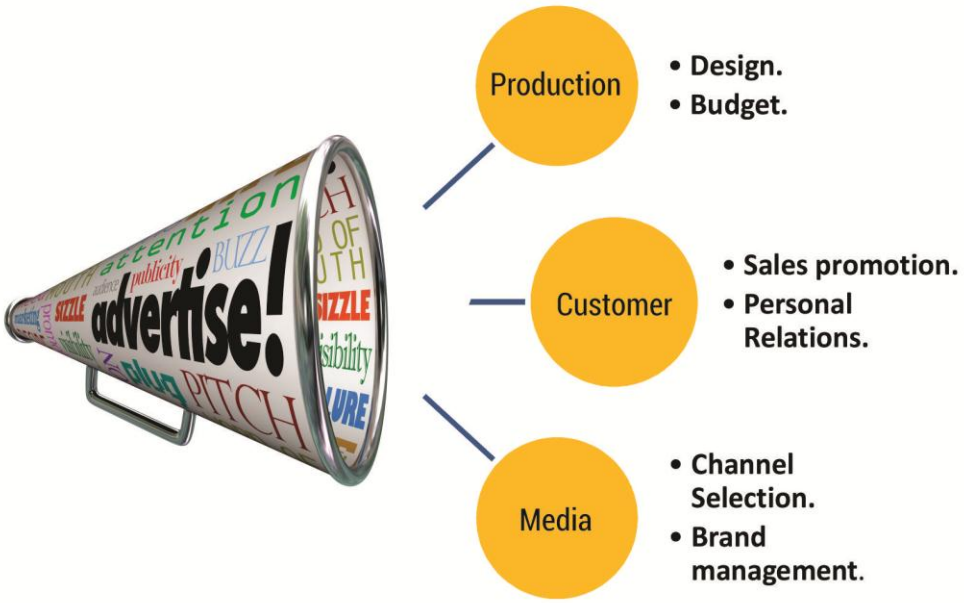


Fig 3.7 The Tasks of advertising agency.

2. **Production:** This task is dealt with the layout, design, special effects, background setting, content development, It is challenging for the advertising agency to prepare an effective advertisement within the approved cost. Here, your role is more about strategic planner. You should never compromise in terms of quality standards.

3. **Customer:** We all agree that the advertising campaign is for the customers and not for the organization. Here, customer-centric approach, empathy, their expectations, the products features & its competitiveness are to be considered under this segment.

4. **Media:** Media plays pivotal role in planning and the execution of advertisement. The choice of media i.e. electronic, print, digital will vary from one advertisement to another in this respect. The accessibility and reaching to the customer are detrimental factors.

Check Your Progress 12

1. _____ are generally in the quarterly, half-yearly or annual form.

   a. Market Survey.
   c. Personal Interviews.
   b. Benchmark Waves.
   d. All of the above.

2. In order to understand the lacuna's of the sales team, you will opt for _____.

   a. Focus group discussions. c. Benchmark Waves.

   b. Systems, software. d. A & B.

3. Full-service, creative, specialized, in-house, interactive, media buying, digital are _____ of advertising agency.

   a. Types. c. Both.

   b. Tasks. d. None.

4. The financial provision comes under _____-related task of advertisement department.

   a. Production. c. Customer.

   b. Media. d. All of the above.

5. To maintain the identity of an organization is _____ function of the advertising agency.

   a. Production. c. Customer.

   b. Media. d. All of the above.

3.14 Let Us Sum Up

All the above discussion shows that the world of advertising is wonderful at the same time challenging. It gives you an excellent opportunity to showcase your products and services in the best possible manners to maximum customers. Advertising will be in great demand because of certain reasons: to remind people about your products, brand management, market share, product value proposition, sales promotion, competitive analysis. Advertising is the portion of your business responsibilities that rejuvenates and draws new life (revenue) into the process. In this block, you have studied the concept of advertisement from multi-dimensional points of view such as objectives, media, and essentials of advertisement. You have gained knowledge as to how to prepare the standard and unique that will attract hundreds of people in no time. It was also significant to assess and test the advertisement on different parameters. Finally, the role and functions of advertising agencies have made you professionally smart to get ready and grab many opportunities waiting in this field with diverse skill-sets. The life-like, familiar examples enlarge your world of experience. In short, practical application

of these concepts is expected after studying such interesting block from management students.

3.15 Answers for Check Your Progress

Check your progress 1

Answers: (1-b)

Check your progress 2

Answers: (1-a), (2-a), (3-d), (4-a)

Check your progress 3

Answers: (1-a), (2-a)

Check your progress 4

Answers: (1-a), (2-a)

Check your progress 5

Answers: (1-b), (2-b), (3-b)

Check your progress 6

Answers: (1-d)

Check your progress 7

Answers: (1-c), (2-c), (3-d), (4-d)

Check your progress 8

Answers: (1-d)

Check your progress 9

Answers: (1-c), (2-c), (3-d), (4-e)

Check your progress 10

Answers: (1-c)

Check your progress 11

Answers: (1-a)

Check your progress 12

Answers: (1-b), (2-d), (3-a), (4-a), (5-b)

3.16 Glossary

1. **Advertising -** The placement and purchase of announcements and persuasive messages, in time or space, in any of the mass media by business firms, non-profit organisations.
2. **Social advertising -** The advertising designed to education or motivates target audiences to undertake socially desirable actions.
3. **Etymology -** It is the study of the source of the word.
4. **Dale Carnegie -** A famous American writer of various books on personality development and corporate trainings.
5. **Make In India -** A campaign initiated by Hon. Prime Minister Narendra Modi to make India as 'a manufacturing hub' on the world map providing numerous job opportunities to Indian youths.
6. **Focus Group Discussions -** Formal way of interactive session in professional environment to discuss certain issues. (E.g. System problem in operations management).
7. **Rejuvenate -** Revive, refresh, renew, restore.

3.17 Assignment

1. State the essentials of good advertisements with the points you have studied.
2. What do you mean by advertising agency? Discuss the various functions of advertising agencies contributing to achieve the organizational goal

3.18 Activities

Group Activity:

Form the learning teams of 3-5 students each. Define the products for each team like jewellery, clothing, footwear, wristwatch, bike, android cell phone, sunglasses, tablet, shampoo, anti-virus protector etc. Identify the product features, add your creativity, give special audio-visual effects and present it before the class. Ask the rating to test the effectiveness of your advertisement.

3.19 Case Study

If you study the average rainfall in Maharashtra in the last ten years, you will observe that there's drastic change observed in the climate. The arrival of monsoon which was previously in the first week of June every year; now it has been delayed month by month like July, August. Surprisingly, the year 2015 is marked as less rainfall than the average too. Unfortunately, Maharashtra is ranking first in the toll of the farmers' suicide. The bureaucracy and the government are busy in using them for their own sake. We don't have advanced technologies that can have closely forecasting like developed countries. In this sense, increasing ground table level of water is need of the time.

Review questions:

1. If you are an advertiser, how would you create an advertising focusing on water conservation?
2. Which initiatives the current government has taken for the same.
3. Think of various tasks as an advertiser.
4. How would you assess the effectiveness of your advertisement?
5. What will the channels of advertisement to reach to the masses?

3.20 Further Readings

1. "Dynamics of International Advertising; by Peter Lang.

UNIT 4: SERVICES MARKETING

Unit Structure

4.0 Learning Objectives

4.1 Introduction

4.2 Services: A Definition

4.2.1 The Sources of Growth

4.2.2 Characteristics of Service Industries

4.3 Marketing Mix: Remixed for Services

4.3.1 Modified Marketing Mix for Services

4.4 People in Services

4.4.1 Physical Evidence in Services

4.5 Process in Services

4.6 Let Us Sum Up

4.7 Answers for Check Your Progress

4.8 Glossary

4.9 Assignment

4.10 Activities

4.11 Case Study

4.12 Further Readings

4.0 Learning Objectives

After learning this unit, you will be able to understand:

- Sources of Growth of Services Marketing.
- Characteristics of Service Industries.
- Marketing Mix: Remixed for Services.
- Modified Marketing Mix for Services.
- About People in Services.
- Physical Evidence in Services.

4.1 Introduction

Marketing management has two core aspects: product marketing and service marketing. As compared to product marketing, service marketing is more challenging and requires passion, expertise as well as when we measure them based on visibility ground. Products can be visible, hence the customers can 'feel' it, experience it while purchasing unlike services. For example, a test drives of a four-wheeler car. Till now, you have studied product marketing by and large. However, if you observe the major business share is captured by service industry as of today in India. This unit emphasizes on the sources of the growth, remixed for services, modified marketing mix to cope up with the changing dynamics of market conditions. You will come to know what are the physical evidences to be considered in the services. It is imperative to be aware of people and process involved in the service marketing.

4.2 Services: A Definition

Managing the evidence' refers to the act of informing customers that the service encounter has been performed successfully. It is best done in subtle ways like providing examples or descriptions of good and poor service that can be used as a basis of comparison. The underlying rationale is that a customer might not appreciate the full worth of the service if they do not have a good benchmark for comparisons.

Marketing based on relationship and value is known as service marketing, which may be used to market a service or a product.

There are several major differences between marketing a service-based business and a goods-based business.

- In a service-based business, the buyer purchases are intangible.
- The service may be based on the reputation of a single person.
- It is more difficult to compare the quality of similar services.
- The service cannot be returned.

Service Marketing mix adds 3 more P's, that is, people, physical evidence and process service, while follow-through is also very important for a venture to be successful. Service marketing also includes the services cape referring to but not limited to the aesthetic appearance of the business from the outside, the inside and the general appearance of the employees themselves. Service Marketing has

been relatively gaining ground in the overall spectrum of educational marketing, as developed economies move farther away from industrial importance to service oriented economies.

It is not easy to define exactly what is meant by the service sector. One of the main points of the market concept is that a firm's offering goes far beyond the physical product offering into a broader array of need satisfactions. This means that firms must recognise that everyone in business sells some element of service. Some definitions:

Those separately identifiable and essentially intangible activities, which provide want-satisfaction and are not necessarily tied to the sale of another service or a product or. To produce a service, may or may not require the use of tangible goods. However, when such use is required, there is no transfer of the title (permanent ownership) to these tangible goods.

The service is the object of marketing, that is, the company is selling the service as the core of its market offering.

A service is the action of doing for someone or something. It is largely intangible (i.e. not material). You cannot touch, see, taste, hear or feel it. The nature of services is generally inseparable, intangible, perishable, homogenous and variable.

Even using this definition, organisations, individuals and offerings vary enormously in scale and type of offering.

4.2.1 The Sources of Growth

A number of factors have contributed to the growth in the service sector. In consumer markets increased discretionary income and additional leisure time have stimulated the demand for education, grooming, travel and entertainment.

In industrial and business markets, the growing complexity of the environment, along with specialisation and fierce competition, has created new service markets. Government has faced demands from articulate and powerful groups for action in specific areas. At the same time, broad economic and social movements have forced government action. For example, the importance of geographical mobility among the workforce and the growth of the nuclear family in modern industrial society have transferred many roles, e.g. caring for the elderly, onto the state. There is every evidence that these forces will continue in the future.

4.2.2 Characteristics of Service Industries

There are five basic differences between a service industry and a product industry. Services are usually heterogeneous, intangible, inseparable, perishable and not owned by the buyer. It is the combination of these five factors, which creates the particular context, in which the service company develops its marketing policies.

1. Heterogeneity-

Services are usually designed around the specific requirements of the individual customer. For example, an insurance company will quote for each person a policy based on their specific industry, goods, prospects, even location, albeit using a fixed formula. There is an element of this in some product marketing, notably in industrial markets, but here, there is usually a fair degree of standardisation e.g. by machine capacity or specific industry types.

2. Intangibility-

You cannot touch, taste, smell or take apart to examine the working of a service.

A lawyer's services cannot be evaluated in this way; nor can a hotel, club, consultant or barber. The opinions or attitudes of others can of course be obtained, but the 'trial' element is lacking. Even when free or low-price trials are offered, e.g. by car hire firm, the trial will not be the same as the actual offering; for example, the car may be different or the staff may change.

3. Inseparability-

Production of the service and consumption occur at the same time. This concept is particularly important in the realm of personal services. It limits the scope to which dealers, distributors or agents can be effectively used and places considerable emphasis on the skill and attitudes of those involved in selling. For example, in Britain, very few bank managers would see themselves as salesman, but to a considerable extent that is their job. They are selling credit, financial services or advice to customers. Like all salesmen, they select their buyers (for creditworthiness) when selling; the bank manager's service and consumption of the offering occur at the same time (although of course the credit may be over a much longer period). This is an area, in which progress has been made by service companies trying to combine a degree of standardisation with opening up new

markets. Insurance brokers, travel agents and some franchise operations achieve this very effectively.

4. Perishability-

Services cannot be stocked or held over; hotel rooms left vacant one night do not add to the following night's capacity. This creates massive problems when demand fluctuates, as in the case of some utilities, e.g. British Telecom. To cope with peak demand, massive capacity, much of it idle during the rest of the day or night, is needed. A variety of policies have to be developed to cope with this inability to store for more than a very short time, e.g. differential prices, promotion of evening use. It has even been proposed that private telephones or home extensions could be distributed free (although it has been suggested that unless some form of time lock (stopping peak hour use) could be installed, these would merely serve to amplify the trends).

5. Lack of ownership-

In a service industry, access to or use of a facility does not mean that the customer obtains ownership of it. The hotel room, car, telephone or computer service is hired only for a period and ultimately, the possession reverts to the firm offering the service. For example, 'This card remains the property of the issuing Bank.' or 'This card is the property of American Express Company.' Payment is for the use of, access to or hire of items. This does create some overlap with product markets, notably when an item is purchased but a warranty is attached.

Check your progress 1

1. Services are usually designed around the specific requirements of the individual customer.

   a. True.

   b. False.

2. Services cannot be stocked or held over; hotel rooms left vacant one night do not add to the following night's capacity.

   a. True.

   b. False.

4.3 Marketing Mix: Remixed For Services

Neil H. Borden used the phrase 'marketing mix' first. In the context of manufacturers, he suggested twelve marketing mix variables. Since then the concept of marketing has been subject to refinements. The most popular 4Ps framework is suggested by McCarthy with the marketing mix variables—Product, Place, Promotion and Price. Since the marketing mix tools originated from the study of the manufacturers, that is, the organisations engaged in production and marketing of goods - which is more oriented to deal with goods marketing situations. However, service characteristics are radically different from goods; and so are the challenges in their marketing.

Therefore, the conventional marketing mix needs to be modified and broadened.

4.3.1 Modified Marketing Mix for Services

Service characteristics add new dimensions to a marketing situation that is faced by the services manager.

"Marketing seems to be overwhelmingly product-oriented. However, many service-based companies are confused about the applicability of product marketing and more than one attempt to adopt product marketing has failed". The goods-services differences are not superficial and do not permit success just by minor modifications in the conventional marketing mix. The scenarios within which the services manager has to function differ, often sharply, from those faced by the goods manager.

It is wrong to imply that services are just like products except for intangibility. However, such wax-like logic as "apples are just like oranges, except for their ampleness", does not stand the heat of nuts-and-bolts marketing. The challenges encountered by the services manager, like consistency in quality, managing customer-provider interface, missing inventory, intangibility of offer, absence of patent protection, necessitate skills that are not generally possessed by a goods manager. The conventional marketing mix classifications are different than activities in service marketing. Moreover, many marketing tools and concepts used by goods marketers hold goods in services with importance and some change in focus. A framework of seven Ps for services has been proposed on basis of service characteristics and activities in service firms. The supplementary authorised Ps in this framework refers to activities that are essential to meet the challenges posed by intangibility, service provider-customer interaction and customer involvement in

service consumption and production. It is described as follows:

- Product: Service core, levels, additional services, branding;
- Price: Price discounts, terms of payment;
- Place: Location, channels of distribution, coverage;
- Promotion: Advertising, promotions, publicity;
- People: Customer-provider relationship, training, culture, skills, attitudes;
- Physical: Ambience, appearance, equipment, machines, evidence buildings, physical facilities;
- Process: Activity sequence, quality management, customer participation, delivery process.

The 7'p of marketing includes Product, Price, Place, Promotion, Physical Evidence, Process and People.

Up to some extent, managing services are more complicated than managing products. Products can be standardised but to standardise a service is far more difficult, as there are more input factors—people, physical evidence, process to manage then with a product.

Check your progress 2

1. Service core, levels, additional services, branding are elements of products.

   a. True

   b. False

2. 7'p of marketing do not includes Product, Price, Place, Promotion, Physical Evidence, Process and People.

   a. True

   b. False

4.4 People in Services

The importance of people in the organisations cannot be undermined. In the goods manufacturing organisations, the personnel perform their duties in the factories, away from customers. In services, the personnel work in service factories but with a difference, that is, here they come in contact with the customers in the course of production and consumption of services.

Personnel are the Key to Service Experience

Generally, goods customers are divorced from the factories. There may be a distance of space or time. In services, on the other hand, the customers have to come in contact with the service providers. This physical proximity and interaction is often the key to the service experience. A service firm may possess all necessary competencies to produce the right kind of service. However, in the absence to appropriate interpersonal experience, the customer would have a negative perception of the overall service quality. It is, therefore, essential that a great amount of attention be paid to personnel in service business.

Often, service firms develop technical competencies of the personnel and invest a lot of money in the facilities that are essential to produce services. In spite of such efforts, these firms fail to provide satisfactory customer service because of their inability to manage customer-personnel encounter. It is because of these reasons that uncaring salesmen, rude bank employees, discourteous service people in restaurants, unwelcoming receptionists, indifferent beauticians and hairdressers are found in service organisations. What is therefore required is to go beyond the traditional notion of training of employees. Service marketers need to develop a high level of inter-personal skills and customer-oriented attitude in employees for the simple reason that employees in services are the key to the service experience. "Employee behaviour is often an integral part of the service product. This is not true in a manufacturing operation, where employee behaviour may affect product quality, but is not a part of the product".

4.4.1 Physical Evidence in Services

Physical evidence is yet another marketing tool available to the service marketer. The service firms must consciously make efforts to manage the physical evidence associated with their services; it is crucial for winning service customer because the customer judges the service quality through the process of deduction.

1. Why must it be managed?

The goods marketers have discovered the potential of packaging. Many marketers call packaging the fifth P. From being a passive function, packaging is increasingly coming to be used as a marketing tool. It works as a 'silent salesman'. Proper product package can and does, attract customer attention, describe the product features, give the consumer confidence and make a favourable overall impression. It is for its versatility that packaging is assuming a greater role in product strategy of consumer goods marketers. The total marketing efforts is visually represented by product package. The judgement and evaluation of customer are usually based on the product packaging. For service physical evidence is important same way the produce package is to a product.

The product itself being intangible in services, the need is to make it tangible as far as possible. This way, physical entities can be successfully employed to explain the service product and its distinctive qualities. Because the potential customers create impressions about the service organisations based on physical evidence, it becomes absolutely necessary that the marketer manages the physical evidence in a way that support the proposed position and image of the organisation (e.g., building, furniture, equipments, stationery and brochures).

Many service marketers, who continue to look at service operations through product-oriented glasses, fail to realise the marketing potential of physical evidence. Their unilateral efforts to improve service product fail to make impact in the market because the physical evidence continues to communicate the opposite image. A service firm's advertising, service facilities, decor, atmosphere, layout or employee uniforms are tangible and must consistently reflect and reinforce one image. "Because of product marketing's biases, service marketers often fail to recognise the unique forms of evidence that they can normally control and fail to see that they should be part of marketing's responsibilities".

2. Proper Service Environments

Service environment refers to the context in which the service is performed. It consists of small and big elements required in the creation of service facility, including building, floor, floor covering, land, equipment, furniture fittings, indoor plants, supplies, furnishings signs, etc. The creation of service environment must not be left to chance. The designing service environment should be a deliberate exercise because it has tremendous power to communicate about the nature of service product.

The environment is important because it has the capability of sending silent messages. The interior design of the office may send signals about prosperity, modernity, tradition and innovation. Grindlays Bank changed its interior to a new, non-bank-like design to suggest pleasure in banking. It is due to the critical role that service environment plays in creating and communicating the corporate image that the demand for exterior, interior, graphic and layout designers is increasing.

Check your progress 3

1. Physical evidence is yet another _____ tool available to the service marketer

   a. Marketing. c. Human Resources.

   b. Finance. d. None of the above.

2. Service environment refers to the context in which the _____ is performed.

   a. Service. c. Goods.

   b. Product. d. None of the above.

4.5 Process in Services

Service production and delivery involves a process of operations performed, utilising materials, equipment's and personnel. The process by which the service is produced and delivered is critical to the success of service operations. In fact, services are essentially processes that are marketed. An airline markets the process of transportation and a restaurant's product is the process of meal preparation. Service marketers differ from the goods counterparts in that the process is inseparable from the customer. In goods, the process of manufacture takes place in factories in the absence of customer. However, the service customer often visits service factories and becomes a part of the production process.

Because of inseparability of production and consumption, the customer is subject to direct experience of production process. The design implementation and control of service process is critical to the service experience.

The service manager generally is confronted with a challenge of making a choice of appropriate service production and delivery process. It is a very critical question. The answer to this lies in the implication that a particular process would have on the cost of operations, customer service and quality of service product.

Check your progress 4

1. Service production and delivery involves a process of operations performed, utilising materials, equipment's and personnel

   a. True

   b. False

2. An airline markets the process of transportation and a restaurant's product is the process of meal preparation

   a. True

   b. False

4.6 Let Us Sum Up

The author has ensured that the core concept of 'service marketing' is defined and discussed in detail. The characteristics of service industries made you capable to clarify the difference between manufacturing and service industries in their nature of business requirement. You have studied how modified marketing mix works in the current scenarios for the customers. It was a great experience for you to know who all are the people involved in services, what skills they possess to get command over this sector. When we discussed about people, naturally it was mandatory for you to learn the variety of processes services as well. The salient characteristics of service industry helped you to understand the growing demand of service sector and contribution to the GDP of India. Today's economy is knowledge-based, hence the service sector has huge potential to grow and create employment opportunities to thousands or lakhs of young job-seeks across the globe.

4.7 Answers for Check Your Progress

Check your progress 1

Answers: (1-a), (2-a)

Check your progress 2

Answers: (1-a), (2-b)

Check your progress 3

Answers: (1-a), (2-a)

Check your progress 4

Answers: (1-a), (2-a)

4.8 Glossary

1. **Marketing mix -** The mix of controllable variables that the firm/library uses to reach desired use/sales level in target market, including price, product, place and promotion.
2. **Promotion mix -** The various communication techniques such as advertising, personal selling, sales promotion and public relations/product publicity available to the marketer to achieve specific goals.
3. **Service(s) -** Products such as a bank loan or home security or library loans, those are intangible or at least substantially so.
4. **Heterogeneity -** Of various kinds, full of variety in nature.

4.9 Assignment

Explain characteristics of services marketing.

4.10 Activities

'Group Discussion' on the role, relevance and responsibilities of sales personnel in the following situation.

- Salesmen selling medical equipment (capital goods)
- Salesmen selling space (publications)

4.11 Case Study

Complacency Can Be the Biggest Enemy of Retailers

"There's no need to ask the price - it's a penny" was the proud claim of Marks and Spencer a hundred years ago. From the start, it had developed a unique position in its market - an emphasis on low price, wide range and good quality. Over time, the Marks and Spencer position has been steadily developed, along with its profitability. By the 1990s it looked unstoppable as a retailer, as it progressively expanded its product range from clothing to food, furnishings and financial services. The world seemed to be waiting for M&S to exploit, and despite disappointing starts in the US and Canada, it developed steadily throughout Europe and the Far East. Then, just like any star who has been put on a pedestal, the media began to savage the company. After a sudden drop in profits and sales during 1998, critics claimed that the company had lost its position in the market place. It appeared to be like a super tanker, ploughing straight ahead with a management that had become much less adaptable to change than its nimbler competitors.

Many observers had commented on the fact that the company did not have a marketing department until 1998. Marketing, at least in terms of advertising the brand, had become so important to its competitors, but had never been high on Marks & Spencer's agenda. According to Media Monitoring Services, M&S's total media spending between Dec 1997-Nov 1998 was just £4.7 million, almost a drop in the ocean compared to the spending of Sainsburys (£42.1m); Tesco (£27.5m); and Woolworths (£21.5m). While other retailers had worked hard on building a brand image, M&S has relied on the quality of its stock to do the talking. The argument was that everyone knew what they were getting with M&S underwear or shirts - good quality at fair, but not cheap, prices. Similarly with food, M&S's offering was about quality rather than price. M&S believed its customers knew what the brand stood for and advertising was much less important than ensuring that it could obtain the right products at the right price.

In 1998, M&S looked to marketing to help turn around its performance, describing its new marketing division for UK retail as "a significant development in our retailing philosophy". Many suspected that M&S's conversion to marketing had been encouraged by the example set by the star of modern retailing, Tesco. There are many similarities between the problems facing M&S and those which Tesco faced a decade previously. In the early 1990s Tesco was a brand which looked like it had seen better days. The retailer's format was tired, its stores poorly laid out and the positioning of the company was still based on its founder's

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principle of 'pile it high and sell it cheap'. Its arch-rival, Sainsbury's, was regarded as the more upmarket store for the middle classes, who shopped for quality food in a more pleasant environment. Since then, Tesco had innovated with improved store designs, petrol stations, coffee shops, a new fascia, the Tesco Club card and 24-hour store opening. The list of Tesco's marketing initiatives seemed to be unstoppable, in an attempt to keep one step ahead of its competitors.

In contrast, M&S had failed to keep pace with customer service. In many issues of retail development, such as out-of-town shopping centres, Sunday opening and loyalty cards, it had lagged behind its main competitors. While it has stood still, the likes of Tesco and Sainsbury's marched ahead until there was no longer much that felt exceptional about the M&S shopping experience. Analysts argued that M&S had failed to make its store layouts help shoppers bring clothing together to make outfits. In a typical M&S store, all jackets would be located in one area and all cardigans in another, for example. Its competitors had made much greater progress in bringing together co-ordinated sets of clothing which would encourage shoppers to spend more. M&S has also been criticized for making things difficult for customers by not accepting payment by major credit cards.

In response to its current troubles, the newly created marketing department of M&S launched its first national campaign for retail towards the end of 1998. The ads followed an initial attempt at regional TV advertising earlier in the year, which the company was said to be very pleased with. The newly appointed Chief Executive claimed "It's not that people don't like what we're selling, but that we haven't got the message across. There are an awful lot of people who love us for our knickers, but they don't love our home furnishings because they don't even know they are there." Many critics thought the problems were much more deep-seated and blamed the store's problems on the fact that its autumn fashions were seen as dull and uninspiring, and out of touch with consumers' preferences. Greater authority was pledged to the marketing department when it came to new product design.

In response to its pledge to listen to what its customers wanted, new designers were brought in to try and give the company's ranges more sparkle. The company even though the previously unthinkable by proposing to stock manufacturers' own branded products, instead of relying entirely on M&S's own label products. If customers wanted to obtain variety at M&S, the new thinking was that the company must adapt and offer it. Another area identified for development was direct marketing of fashion products - an area where the

company had begun to lag behind its rivals who had developed interactive web sites.

Serious questions remained about the company. How quickly could it change in response to its changed environment? The company had not been known for speedy decision making, so probably a major structural overhaul was essential before it could get down to the serious business of adapting to customers' changing needs. Also, there was a great danger of changing the company's position too far and too fast, thereby alienating its traditional customers without gaining sufficient new ones. As a warning of how not to change, M&S's rival Laura Ashley had repositioned itself so radically from its original format that it now failed to gain the support of any major group. M&S had itself tried to become more fashion conscious during the mid-1980s with similar effect, and had to make a hasty retreat to its traditional, more staid image.

Case Study Review Questions

1. What do you understand by positioning, and what tools are available to Marks and Spencer to give it a positioning advantage?
2. There has been a lot of debate about whether the existence of a marketing department can actually be harmful to services companies because it absolves everybody else of marketing responsibilities. What then, do you make of M&S's decision to introduce a marketing department?
3. What are the dangers to M&S of moving its market position too far and too fast? How can it try to alleviate these problems?

4.12 Further Readings

1. Essence of Services Marketing, Adrian Payne, Phi Learning Pvt. Ltd, 2005.
2. Marketing: Principles and Practice, Dennis Adcock, Al Halborg, Caroline Ross, Financial Times/ Prentice Hall, 2001.
3. Marketing: A Case Study Approach, D.R. Stokes, Thomson Learning, 1997.
4. Services Marketing, Valarie Zeithaml, Mary Jo Bitner, Dwayne Gremler, McGraw-Hill/Irwin, 2005.
5. Service Marketing: Text and Cases, Harsh V. Verma, Pearson, 2007.
6. Services Marketing, Helen Woodruffe, Financial Times/ Prentice Hall, 1998.

Block Summary

This block has covered many key elements of marketing management making you smarter and knowledgeable in terms of service excellence. You were given an exposure to study various tools, strategies, techniques and metrics from international management gurus. The service sector is growing like anything in India. For example, Information Technology, Banking, Insurance etc. Major cities like Mumbai, Pune, Hydrabad, Chennai, Banglore, Noida are covered with these or another service sectors. Hinjewadi Phase-I, Phase-II and now Phase-III has made Pune as 'IT hub' on the business map of the world. Healthcare, Law, Finance, Hospitality, Travel and Tourism and many more sectors have contributed to create the job opportunities in India and the world. However, distribution. Management, sales promotion, advertising and services marketing have equal contribution in revenue generation and organizational development. They are interlinked with each other strongly. One cannot afford to turn a deaf ear to any of them. Integration, strategic planning, financial provision, trained manpower, advanced technology and ability to convert your dreams will prove that 'Sky is the limit' for you in terms of job opportunities, stability and growth.

Practical application, situational learning, research-based studies, hands-on working experiences from corporate industry helped the author to convey the right and timely message to design such interesting block in an interactive manner. After all, the purpose of education should be to apply the learning in day-to-day life and meet the expectations of the industries. I am sure you will be in a position to lead your life with high quality standards and contributing to the business world of tomorrow. This block has made you corporate professional marketer with full of valuable insights which will require every now and then at workplace.

Block Assignment

Short Answer Questions

Write short notes on

1. Importance of distribution channel.
2. Channel selection.
3. Types of channel of distribution.
4. Functions of channels of distribution.
5. Factors affecting the selection of channels of distribution.
6. Importance of advertising.
7. Below the line advertising.
8. Direct marketing.
9. Sponsorship.
10. Publicity
11. People in services marketing mix.
12. Importance of processes in service marketing.
13. Perceived value of service and image of service.
14. Definitions of service.
15. Product marketing.
16. Sales promotion.
17. Objectives of personal selling.
18. Types of Sales promotion.
19. Trade market.
20. Business-to-Business Market.

Long Answer Questions

1. State the relevance between the sales promotion and advertising with the relevant examples.
2. Discuss the scope of communication and coordination sales promotion and distribution management with the points you have studies.

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3. Analyze the various implications involved in comparative advertising by supporting various market issues you have observed (e.g. Pulsar and Gulsar; India and China-made cell phones etc.)
4. Why should today's firms opt for online marketing than the traditional one? Mention your views on the merits and demerits of them from cost, accessibility, impact factor perspectives.
5. Explain the factors to be considered while making a channel selection.
6. Discuss the role of advertising in today's marketing.
7. Discuss the various marketing mix relating to services.
8. What is sales promotion? Explain the salient features of sales promotion.
9. Why sale promotion is so important? Discuss with the help of point you have studied with suitable examples.
10. Describe consumer promotion methods & dealer's promotion methods as the main tools of sales promotion.

Enrolment No. ☐

1. How many hours did you need for studying the units?

Unit No	**1**	**2**	**3**	**4**
Nos of Hrs				

2. Please give your reactions to the following items based on your reading of the block:

Items	Excellent	Very Good	Good	Poor	Give specific example if any
Presentation Quality	☐	☐	☐	☐	_____
Language and Style	☐	☐	☐	☐	_____
Illustration used (Diagram, tables etc)	☐	☐	☐	☐	_____
Conceptual Clarity	☐	☐	☐	☐	_____
Check your progress Quest	☐	☐	☐	☐	_____
Feed back to CYP Question	☐	☐	☐	☐	_____

3. Any Other Comments

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Education is something which ought to be brought within the reach of every one.

- Dr. B. R. Ambedkar

Dr. Babasaheb Ambedkar Open University
'Jyotirmay Parisar', Opp. Shri Balaji Temple, Sarkhej-Gandhinagar Highway, Chharodi,
Ahmedabad-382 481.