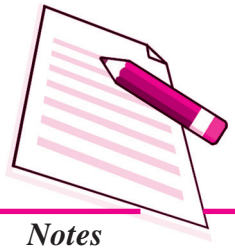

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17

FINANCIAL MANAGEMENT

You know that every business unit whether it is an industrial establishment, a trading concern or a construction company needs funds for carrying on its activities successfully. It requires funds to acquire fixed assets like machines, equipments, furnitures etc. and to purchase raw materials or finished goods, to pay its creditors, to meet its day-to-day expenses, and so on. In fact, availability of adequate finance is one of the most important factors for success in any business. However, the requirement of finance, now-a-days, is so large that no individual is in a position to provide the whole amount from his personal sources. So the businessman has to depend on other sources and use various ways to raise the necessary amount of funds. In the previous lessons you learnt about the sources and methods of raising funds. You know that the process of raising funds require considerable amount of time and cost. This has its own costs. Hence, every businessman has to be very careful not only in assessing the firm's requirement of finance but also in deciding on the forms in which funds are raised and utilised. In this lesson, you will learn about the process of estimating the firm's **financial requirement** and deciding on the **pattern of finance**.

OBJECTIVES

After studying this lesson, you will be able to:

- state the objectives of financial management.
- understand the meaning of different types of financial decisions.
- state the meaning and objectives of financial planning;
- explain the concepts of fixed and working capital;
- identify the determinants of fixed and working capital;

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- explain the meaning and importance of capital structure;
- identify the determinants of capital structure and
- explain the meaning and factors in determining dividend.

17.1 OBJECTIVES OF FINANCIAL MANAGEMENT

The main objective of financial management is to maximize the wealth of shareholders. The other important objectives of financial management are:

1. To provide maximum returns to the owners on their investment.
2. To ensure continuous availability of sufficient funds at reasonable cost.
3. To ensure effective utilisation of funds.
4. To ensure safety of funds.

Decisions Relating to Investment, Financing and Dividend

1. **Investment Decision :** This decision involves careful selection of assets in which funds have to be invested. Decision relating to investment in fixed assets [capital budgeting] and decision relating to investment in current asset [working capital] are considered here.

   Investment decisions are influenced by cash flow, risk involved, technological changes etc.

2. **Financing Decision :** This decision relates to the proportion in which funds are raised from various sources. Factors like cost of fund, risk involved, control, cash flow etc. are considered before taking financial decision. In financing decision the firm has to decide the ratio of owned funds and borrowed funds. Owned funds consists of equity share capital, preference share capital and retained earnings. Borrowed funds include debentures, loans and public deposits etc.

3. **Divided Decision :** This decision is concerned with appropriation of earned profits. This profit of the firm can be retained in the business or can be distributed to the share holders as dividend. A company has to decide how much profits should be distributed as dividend and how much should be retained for future business growth. Factors affecting dividend decision are cash flow position, stability of earnings, growth opportunities etc.

INTEXT QUESTIONS 17.1

1. A company plans to buy a latest machine which operates on new technology in order to replace an old and outdated machine. Identify the type of decision involved

   a) Investment decision b) Financial decision

   c) Dividend decision d) All of the above

2. A company decided to distribute a portion of the profits earned in the previous years among its shareholders. Identity the type of decision involved.

   a) Financial decision b) Investment decision

   c) Dividend decision d) All of the above

3. A company assured the funds required to execute an expansion programme. Identify the decision made by the company.

   a) Financial decision b) Investment decision

   c) Dividend decision d) None of the above

17.2 FINANCIAL PLANNING

You know that planning is a systematic way of deciding about and doing things in a purposeful manner. When this approach is applied exclusively for financial matter, it is termed as financial planning. In connection with any business enterprise, it refers to the process of estimating a firm's financial requirements and determining pattern of financing. It includes determing the objectives, policies, procedures and programmes to deal with financial activities. Thus, financial planning involves:

(a) estimating the amount of capital to be raised;

(b) determining the pattern of financing i.e., deciding on the form and proportion of capital to be raised;

(c) and formulating the financial policies and procedures for procurement, allocation and effective utilisation of funds.

After knowing what is financial planning let us now learn its objectives.

17.2.1 Objectives of Financial Planning

The main objectives of financial planning are:

(a) To ascertain the amount of fixed capital as well as the working capital required in a given period.

(b) To determine the amount to be raised through various sources using a judicious debt-equity mix.

(c) To ensure that the required amount is raised on time at the lowest possible cost.

(d) To ensure adequate liquidity so that there are no defaults in payments and all contingencies (any unforseen expenditure) are met without difficulty.

(e) To ensure optimal use of funds so that the business is neither starved of funds nor has unnecessary surplus funds at any point of time.

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17.2.2 Essentials of a Sound Financial Plan

While preparing a financial plan for any business unit, the following aspects should be kept in view so as to ensure the success of such exercise in meeting the organisational objectives.

(a) **The plan must be simple :** Now-a-days you have a large variety of securities that can be issued to raise capital from the market. But it is considered better to confine to equity shares and simple fixed interest debentures.

(b) **It must take a long term view :** While estimating the capital needs of a firm and raising the required funds, a long-term view is necessary. It ensures that the plan fully provides for meeting the capital requirement on long term basis and takes care of the changes in capital requirement from year to year.

(c) **It must be flexible :** While the financial plan is based on long term view, one may not be able to properly visualise the possible developments in future. Not only that, the firm may also change its plans of expansion for various reasons. Hence, it is very necessary that the financial plan is capable of being adjusted and revised without any difficulty and delay so as to meet the requirements of the changed circumstances.

(d) **It must ensure optimal use of funds :** The plan should provide for raising reasonable amount of funds. As stated earlier, the business should neither be starved of funds nor have surplus funds. It must be strictly need based and every rupee raised should be effectively utilised. There should be no idle funds.

(e) **The cost of funds raised should be fully taken into account and kept at the lowest possible level :** It must be ensured that the cost of funds raised is reasonable. The plan should provide for a **financial mix** (combination of debt and equity) that is most economical in terms of cost of capital, otherwise it will adversely affect the return on shareholders' funds.

(f) **Adequate liquidity must be ensured :** Liquidity refers to the ability of a firm to make available the necessary amount of cash as and when required. It has to be ensured in order to avoid any embarrassment to the management and the loss of goodwill among the investors. In other words, the investment of funds should be so planned that some of these can be converted into cash to meet all possible eventualities.

17.2.3 Importance of Financial Planning

1. It helps to estimate accurate requirement of funds.
2. It facilitates in developing a sound capital structure which gives maximum returns to shareholders.

3. It helps in proper utilisation of funds.
4. It tries to avoid the shortage of funds and surplus of funds.
5. It provides policies and procedures for coordinating different departments of an enterprise.
6. It acts as a basis to control the financial activities of an organisation.
7. It helps to face unforeseen financial situations in the business.

INTEXT QUESTIONS 17.2

1. Define 'Financial Planning' in your own words.
2. Which of the following are not the essential characterstics of financial planning?
   (a) Simplicity
   (b) Liquidity
   (c) Abudant availability of funds
   (d) Flexibility
   (e) Concentration on long term needs only
   (f) Economy
3. State whether the following are objectives of financial planning, by writing 'Yes' or 'No'.
   (a) Determining the requirement of fixed and working capital . ( )
   (b) Determining the sales output. ( )
   (c) To ensure the timely availability of funds. ( )
   (d) To determine the quantity of production. ( )
   (e) To raise funds at the lowest possible cost. ( )

17.3 TYPES OF CAPITAL REQUIREMENT

The capital requirement of any business unit can be broadly divided into two categories: (a) fixed capital requirement, and (b) working capital requirement. In order to ascertain the amounts of such requirements for any business, one must understand the exact nature of fixed and working capitals and also the various factors that influence their requirement.

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17.3.1 Fixed Capital

Fixed capital represents the requirement of capital for meeting the permanent or long-term financial needs of the business. It is primarily used for acquiring the fixed assets like land and buildings, plant and machinery, office equipment, furniture and fixtures etc. Fixed capital is required not only while establishing a new enterprise but also for meeting expansion requirement in the existing enterprises. The amount of such requirement can be assessed by preparing a list of fixed assets needed by the business unit and ascertaining their prices from the market.

It may be noted that investment in fixed assets is a long-term commitment and the amount so invested cannot be withdrawn quickly. Hence, the funds for such requirement are always provided from owners' fund or raised by issuing shares and debentures and taking long-term loans from financial institutions.

17.3.2 Factors Determing Fixed Capital Requirement

In order to assess the fixed capital requirement for any business enterprise, one must be fully conversant with the factors that influence such requirement. These factors are summarised as follows:

(a) **Nature of business :** The amount of fixed capital requirement is determined primarily by the nature of business the firm is engaged in. Such requirement, for example, is very large in case of industrial establishments, shipping companies, public utilities, etc. which involve heavy investment in plant and machinery. The trading concerns (wholesalers and retailers) do not require much investment in the fixed assets.

(b) **Type of products :** It is not only the nature of business which determines the requirement of fixed capital but also the type of product involved. A firm manufacturing simple products like soap, toothpaste, stationery, etc. requires small amount of fixed capital as against the firms producing items like steel, cement, automobiles, etc.

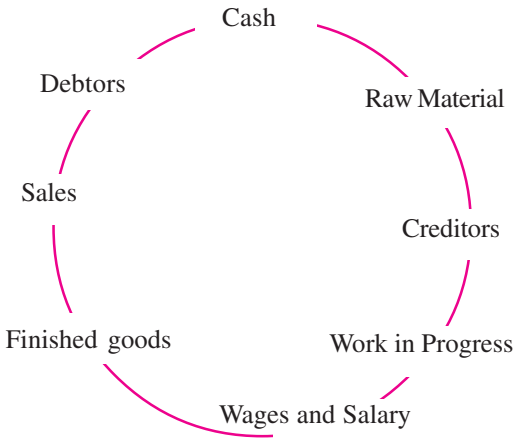
(c) **Size of business :** A firm working on a large scale requires heavy investment in fixed assets as it has to establish large production capacity. Hence, its fixed capital requirement is larger than a firm which is operating on a small scale.

(d) **Process of Production :** A firm which goes in for an automatic plant requires larger amount of fixed capital as compared to the firm which selects semi-automatic plant or depends more on manual labour for production of goods. Similarly, if a firm decides to buy most of the components needed for its products from the market rather than producing these in its own factory, it would need less fixed capital as compared to the one which manufactures each component (part) on its own. This is specially true of those automobile and machinery producers who simply act as assembling units.

(e) **Method of acquiring fixed assets :** The fixed assets, specially machinery and equipment, can be acquired either on cash basis (instant payment) or on installments or leasing basis. Apparently, a firm which acquires such assets on cash basis needs larger amount of fixed capital as compared to the firm which decides to acquire it on installment or lease basis.

17.3.3 Working Capital

Working capital represents the amount of funds invested in current assets like debtors, stock-in-trade and cash required for meeting day-to-day expenses, paying wages/ salaries to its work-force and clearing dues of its creditors. It is also known as **circulating capital** because most of the amount invested in current assets is continuously recovered through realisations of debtors and cash sale of goods, and is re-invested in current assets. It keeps on revolving from cash to current assets and back again to cash as shown in the working capital cycle here.



Working Capital Cycle

It should be noted that a part of working capital is of a permanent nature because depending on the volume of business certain amount of cash, debtors and stock-in-trade shall always be maintained by every firm. This part of working capital is known as **permanent or fixed working capital** and must always be financed through long-term sources. The remaining part of the working capital requirement varies from period to period on account of fluctuations in the volume of business and is called **fluctuating or variable working** capital. This part of working capital is usually financed through short-term sources like bank overdraft, trade creditors, bills payable, etc.

17.3.4 Factors Determing Working Capital Requirement

Adequate working capital is very necessary for maintenance of liquidity and running the business smoothly and efficiently. However, the amount of working capital required varies from business to business and from period to period. The various factors that influence such requirement are as follows:

(a) **Nature of Business :** The working capital requirement of the manufacturing companies is usually high as they require huge stock-in-trade (inventories) and the amount of their debtors is also expected to be large because of the credit sales involved. As against this, the public utilities like electricity and telephone companies

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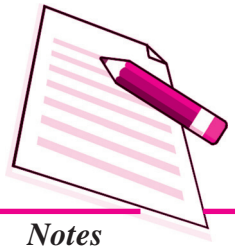
and the concerns like hotels, restaurants, etc. can manage with small amount of working capital as most of their transactions are undertaken on cash basis and their inventory needs are low.

(b) **Size of Business :** The size or volume of business plays a major role in determining the amount of working capital requirement of every firm. Obviously, larger the volume of business, larger would be the amount of working capital need. This is because, as their inventory requirement will be large and so also the amount of their debtors.

(c) **Length of Production Cycle :** Length of production cycle refers to the time period involved in converting raw-material into finished goods. Longer the length of such period, larger will be the requirement of working capital and vice versa. The length of production cycle, however, depends upon the type of product being manufactured and the nature of technology used. For example, in case of products like cars and cotton textiles, the production cycle is much longer than in case of items like stationery, detergents, etc. Therefore working capital requirement is large for car companies and textile mills. Similarly, the firms using updated technology may have shorter production cycles and hence their requirement of working capital may not be large.

(d) **Inventory Turnover Rate :** Inventory turnover rate refers to the speed at, or the time period within which finished stock is converted into sales. There is a high degree of correlation between the amount of working capital required and the inventory turnover rate. A firm having high inventory turnover rate needs less working capital as against a firm which has low inventory turnover rate. It is so because the firm with high rate can manage with less investment in stock. Take the case of a retailer dealing in fast moving items like groceries and cosmetics with a high turnover rate. Its investment in stock is bound to be much less than a retailer who is dealing in slow moving items like readymade garments or electronics goods.

(e) **Credit Policy :** The firms which provide liberal credit facility to their customers need more working capital as compared to those firms which observe strict credit terms and are efficient in realisation of their debts. It is so because when customers enjoy longer period of credit, a larger amount of firm's funds get tied up with debtors. This results in higher requirement of working capital. However, if such a firm also enjoys liberal credit facility from its suppliers, it can manage with lower amount of working capital. But, this may not be true in all cases.



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(f) Seasonal Fluctuations : The firms that are engaged in manufacturing products like ceiling fans or woollen garments, the demand of which is limited to a specific period of the year, require higher amount of working capital not only during the peak period but also during off season. This is so because they may be left with a good amount of unsold goods which is kept in stock for sale during the next season.

There is no denying the fact that the firms dealing in consumer durables or items involving long production period or wide seasonal fluctuations require large amount of working capital. But, with proper planning and efficient management of inventories and debt collection exercise, the firms can drastically reduce their working capital requirement.

INTEXT QUESTIONS 17.3

1. Mention any two factors that determine Fixed Capital requirement.
2. State whether we require 'more' or 'less' working capital in the following cases:
   (a) A company manufacturing Iron & steel.
   (b) A bread manufacturing company having high inventory turnover.
   (c) A large size business enterprise making toys.
   (d) A company manufacturing furnitures against orders only.
   (e) A company manufacturing of coolers/refrigerators.
3. Match the items in column A with column B.

(a)	Fixed capital	(i)	Short term finance
(b)	Public utilities	(ii)	Working capital requirement
(c)	Permanent working capital	(iii)	Long-term finance
(d)	Goodwill	(iv)	Telephone company
(e)	Fluctuating working capital	(v)	Intangible fixed asset
(f)	Length of production cycle	(vi)	Fixed working capital

17.4 CAPITAL STRUCTURE

The financial requirement of a firm can be met through **ownership** capital and/or **borrowed** capital. The **ownership** capital refers to the amount of capital contributed by the owners. In case of a company, it refers to the amount of funds raised by issuing shares. The main characteristic of the ownership capital is that its contributors are

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entitled to get dividend out of earnings after the payment of interest and taxes. Hence, the rate of return on such capital depends upon the level of profits earned, and, if there are no profits, no dividend may be paid.

Borrowed capital, on the other hand, refers to the amount of funds raised through long term loans and debentures on which its contributors are entitled to a fixed rate of interest which has to be paid at regular intervals (half-yearly or yearly) irrespective of the profits earned. There is also a commitment that the principal amount shall be repaid on maturity. However, it is still considered advantageous to finance business activities through borrowed capital because if the rate of earnings from the planned business investment is expected to be better than the rate of interest on the borrowed funds, it shall ensure higher returns on owners' funds. Let us take an example and understand this concept more clearly.

Capital Structure

	Illustration - 'A' Total Capital Rs. 50 lakh (Rs. 20 lakh owners fund + Rs. 30 lakh borrowed fund)	*Illustration - 'B' Total Capital Rs. 50 lakh (Rs. 50 lakh owners fund + no borrowed fund)*
Earnings before interest and tax (EBIT)	10,00,000	10,00,000
Less : Interest @ 10% on borrowed fund	3,00,000	—
Profit/Earnings after interest but before tax	7,00,000	10,00,000
Less : Tax on profit @ 40%	2,80,000	4,00,000
Profit after tax (PAT)	4,20,000	6,00,000
Return on owners' funds $\left(\frac{\text{PAT}}{\text{Owners'funds}} \times 100\right)$	$\frac{4,20,000}{20,00,000} \times 100 = 21\%$	$\frac{6,00,000}{50,00,000} \times 100 = 12\%$

Suppose the total investment in a business is Rs. 50 lakh, to which owners contribute Rs.20 lakh and the remaining amount of Rs.30 lakh is funded through loans at 10% interest per annum. Assuming expected annual earnings before interest and tax are Rs. 10 lakh (20% on total investment) the profit after payment of interest but before tax will be Rs.7 lakh (Rs.10 lakh –Rs.3 lakh). Let us assume that the tax is payable on profits

at the rate of 40%, the profit after tax will be Rs.4.20 lakh (Rs.7 lakh-Rs.2.80 lakh tax) and the return on owners' funds will be 21% . Now, suppose the whole amount of required investment of Rs.50 lakh is contributed by the owners and no loan is taken. Since no interest is payable, the amount of tax will be Rs.4 lakh (40% on Rs.10 lakh) and the profit after tax Rs.6 lakh (Rs.10 lakh – Rs.4 lakh tax). This shall result in 12% return on owner's funds. Thus, you observe that owners get higher return when a part of capital required is funded by borrowings. This is called **'Trading on Equity or Leverage Effect'**. But, there is also an element of risk in using borrowed funds because when the profits decline, interest being a fixed charge, the return on owners' funds is likely to decline. This implies that dependence on borrowings should be kept within reasonable limits. Therefore, most companies generally plan to raise the required amount of long-term funds by using a judicious mix of ownership capital (called equity) and borrowed capital (called debt). **The mix of equity and debt actually used by a company for meeting its requirement of capital is known as its capital structure.** Thus, the term capital structure refers to the make up of a firm's capital in terms of the planned mix of different kinds of long-term funds like equity shares, preference shares, debentures and long term funds. So capital structure involves two basic decisions :

(a) The type of securities to be issued or raised; and

(b) The relative proportion of each type of security.

17.4.1 Factors Determining the Capital Structure

You have learnt that the mix of debt and equity used (called the capital structure) for meeting the capital requirements of a company affects the rate of return on owners' capital (shareholders' funds). This in turn, determines the earnings per equity share (EPS) and has its effect on the market value of company's shares. Hence, the choice of an appropriate capital structure becomes a very important decision for the finance manager of any company. He should make this decision on the basis of reliable data and after careful analysis of all the factors that influence this choice. Following are the factors that should be kept in view while deciding on the choice of an appropriate capital structure.

1. **Expected earnings and their stability :** If the expected earnings, in terms of rate of return on the amount to be invested are sufficiently large, use of debt is considered quite desirable. Not only that, the stability of earnings should also be taken into account because if the firm is engaged is business activities in which sales and profits are subject to wide fluctuations, it will be risky to use higher proportion of debt. In other words, if there is an element of uncertainty about the expected earnings it is considered better to rely more on equity share capital. However, with assured prospects of rising earnings, there should be greater reliance on debt so as to take advantage of leverage effect.

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2. **Cost of debt :** If the rate of interest on borrowings is lower than the expected rate of return on capital employed, then debt may be preferred. With lower cost of debt financing, the overall cost of financing is reduced and the return on equity capital will be higher, as explained earlier.

3. **Right to manage the business :** You know that the debentureholders and preference shareholders do not have much say in management of the company. This authority lies primarily with the equity shareholders who have the voting rights. Hence, while deciding on the mix of equity and debt, the promoters/existing management of the company may also take into account the possible effect of raising funds through equity shares on the right to control the business. In order to retain their right to control the affairs of the company, they may prefer to raise additional funds mainly through debentures and preference shares.

4. **Capital market conditions :** The conditions in the capital market also influence the capital structure decision. At times capital market is so depressed that the investors are unwilling to subscribe to shares. In such a situation, it is considered better to rely on debt or defer the decision till a favourable market condition is restored.

5. **Regulatory norms :** While deciding on the capital structure, the legal constraints like the limit on debt-equity ratio should also be kept in view. At present, such limit is 2:1 in most cases. This implies that at any point of time, the debt should not be more than twice the amount of share capital. This limit keeps on changing with changing economic environment and varies from industry to industry.

6. **Flexibility :** The planned capital structure should be flexible enough to raise additional funds without much difficulty. The company should be able to raise additional capital in the form of debt or equity whenever required. But if the company's capital structure has too much debt, then the lenders may not be able to give more loan to the company. In a such a situation it may be forced to raise the funds only through shares for which the capital market condition may not be conducive. Similarly, when on account of declining business and lack of other investment opportunities the funds need to be refunded, it may not be possible to do so if the company has heavily relied on equity shares which cannot be redeemed easily. Hence, to ensure an element of flexibility, it is better if the firm relies more on redeemable securities that can be paid off if necessary and, at the same time, have some unused debt raising capacity so that future financial needs can be fully taken care of without much difficulty.

7. **Investors' attitude towards investment :** While planning the capital structure of a company one must bear in mind that all investors do not have the same attitude towards their investment. Some are highly conservative who prefer safety

to return. For such investors, debentures are considered most suitable. As against this, there are some who are interested in high return on their investments and are ready to take the risk involved. Such investors prefer equity shares. Then, there are many who are willing to take a limited risk provided the return is better than the rate on secured debentures and bonds. Preference shares are most suitable for this category of investors. In order to attract all categories of investors, it is considered more desirable to issue different types of securities specially when the amount of capital requirement is large.

Looking at the above considerations, it can be safely concluded that an appropriate capital structure is one which:

(a) ensures maximum return on equity by making use of the leverage effect within reasonable limits of the risk involved;

(b) caters to all types of investors by using a judicious mix of different types of securities;

(c) has the necessary flexibility to make required reduction or addition to funds, according to changed conditions;

(d) involves minimum risk of dilution in control of the company affairs by the existing group of shareholders; and

(e) fully keeps in view the legal constraints and the prevailing capital market conditions.

To sum up, the most judicious capital structure is one that minimises the cost of funds and maximises the shareholders wealth. In financial management terminology, such a capital structure is called **optimal capital structure.**

INTEXT QUESTIONS 17.4

1. Why do you need flexibility in capital structure?

2. Which of the following are characteristics of an appropriate capital structure? Indicate, by writing YES or NO in the space provided. Rewrite the statements where your answers is NO.

   (a) It involves a judicious mix of different types of securities.

   (b) It involves dilution of control of existing shareholders.

   (c) It caters to exclusively to the wealthy investors.

   (d) It ensures minimum return on equity.

   (e) It keeps in view the legal constraints.

   (f) It has rigidity and firmness and does not change with changed conditions.

Notes

17.5 DIVIDEND

You know that in every business unit the amount of profit earned (or loss incurred) during a financial year is ascertained and distributed among its owners. In case of a proprietary concern, the whole amount of profit or loss so ascertained is added to proprietor's capital and whatever amount is withdrawn by him is termed as drawings and is deducted from his capital. Similarly, incase of a partnership firm the profit or loss is distributed among the partners in their agreed profit sharing ratio and included in their capital. Whatever amount is withdrawn by the partners is deducted from their respective capitals as drawings. In case of a company, however, it is dealt with differently. First of all we work out the operating profits (called PBIT – Profit before interest and tax). Then deduct the amount of interest on loans therefrom and arrive at the amount of profits before tax (PBT). Then we deduct the amount of tax on the company's profits as per rules and ascertain the profit after tax (PAT). This is the amount of profit which is available for distribution among the shareholders. As a matter of practice and financial prudence, the whole amount of profit earned by the company is never distributed to the shareholders. A substantial part of it, is retained for meeting company's future financial needs. The amount of profits so retained is called **'retained earnings'** and the amount profit distributed to the shareholders is called as **'dividend'**. It may be noted that the dividend paid to preference shareholders is called 'preference dividend' and the dividend paid to equity shareholders is called 'equity dividend'.

17.5.1 Factors Affecting Dividend Decisions

The dividend to preference shareholders is paid at fixed rate and paid on priority basis i.e., before making payment to equity shareholders. The dividend to be paid to equity shareholders is the real issue involved in dividend decision by the management of any company. Such a decision is guided by the following factors:

1. **Financial needs of the company :** While deciding the amount of dividend to be paid, the management must take into account the financial needs for normal growth of its business, the expansion activities, the repayment of long term debt, etc. Even otherwise, the company must retain a part of profits for long term solvency and meeting future contingencies.

2. **Liquidity requirement :** The payment of dividend involves out flow of cash. At times, a company may have high profits but not much cash. In such a situation, it may not declare high rate of dividend. Even otherwise, liquidity requirement for ensuring timely payment of all dues and debts has to be kept in view while determining the rate of dividend. Such a consideration is of greater importance in case of a growing concern whose liquidity needs may be large on account of its expansion activities and growing working capital requirement, and therefore, they would prefer low payout.

3. **Access to capital market :** A company which, by virtue of its record of profitability and timely repayment of debt, has better access to capital market i.e., it can successfully raise funds by issuing shares and debentures through the capital market, may pay higher dividends. But, if a company does not have easy access to capital markets because of its weak financial position or low profitability record, it cannot afford to pay high dividends. However, when capital market condition is unfavourable most companies shall adopt a conservative dividend policy.

4. **Expectations of shareholders :** The equity shareholders normally look forward to appreciation to their capital rather than higher rate of dividend. But, some shareholders like retired persons or employees do look forward to dividend as a source of their regular income. So, the companies cannot ignore such segment and pay low dividend or skip it even when there are high profits. A reasonable payout is always welcome. In fact, the companies which skip payment of dividend or pay too low rate of dividend as a matter of practice, are rated low in the capital market as the shareholders suspect their management's intentions.

5. **Tax policy :** In our country, dividends have been taxable in the hands of shareholders. Hence, the companies prefer to pay low amount of dividend and issue bonus shares to the shareholders from time to time as these are not taxable until these are sold. If these are sold after 12 months, the sale proceeds are regarded as long term capital gain and taxed at a lower rate. However, of late, the government has changed its policy of taxation of dividends. The dividends are not taxable in the hands of shareholders. But the company has to pay some additional tax (12.5%) on the distributed part of its profits. So, the companies have now become liberal in the matter of dividend distribution.

6. **Investment opportunities and growth prospects :** When a company has adequate profitable investment opportunities and growth prospects, it may prefer to retain more profits and pay low rate of dividends so as to serve the shareholders in a better way in long run. Of course, in the absence of such possibilities, companies prefer payment of higher dividend and avoid idle cash with them.

7. **Legal constraints :** Sometimes, the government prescribes certain limits on the dividend payout which has to be kept in view while deciding on the rate of dividend to be paid. Similarly, at times the long term fund providers may put some restrictions on the dividend payout as part of their agreement. The companies have to adhere to such limits. In any case, the Company Law has provided certain rules to be followed while deciding on the amount to be distributed as dividend. For example, capital profits are not to be used for distribution of dividend normally; a banking company has to transfer certain percentage of profit to a statutory reserve which is not available for payment of dividend, and so on. These have to be duly abided while determining the amount to be distributed as dividend.

Notes

INTEXT QUESTIONS 17.5

1. Give the full form of the following abbreviations.

   (a) PAT (b) PBT (c) PBIT

2. List any five factors affecting the dividend decision of a company.

3. State the meaning of the following terms in the space provided.

   (a) Dividend

   (b) Retained Earnings

   (c) Preference Dividend

   (d) Equity Dividend

WHAT YOU HAVE LEARNT

- Adequate and proper financing is quite important for success in any business. While the overall managerial activity of handling finance is called 'Financial management', the process of estimating the financial requirement, determining the pattern of financing and formulating financial policies and procedures is termed as 'Financial planning'. To achieve the objectives of financial planning effectively, it must be ensured that the financial plan is simple, takes a long-term view, has the necessary flexibility to meet changing financial needs of the organisation, provides for reasonable amount at the lowest possible cost, and takes care of the liquidity requirement of the company.

- The firm's capital requirement can be broadly divided into fixed capital and working capital requirements. Fixed capital represents the requirement of capital for permanent or long-term financial needs of the business. Such requirement depends upon the nature of business, size of business, product involved, type of production process adopted, method of acquiring the fixed assets such as cash basis, installment payment method or lease basis. Fixed capital is funded through long-term sources of finance.

- Working capital represents the amount of funds required for financing current assets. A part of the working capital requirement is of a permanent/fixed nature which has to be funded through long-term sources. But the major part of working capital is fluctuating in nature which varies with fluctuations in the volume of business from time to time and is funded through short term sources like bank overdraft,

suppliers' credit, etc. The working capital requirement is determined by the nature of business, size of business, length of production cycle, inventory turnover rate, firm's credit policy for its customers and seasonal fluctuations.

- The main objective of financial management is to maximise the wealth of shareholders.
- Investment decision is concerned with careful selections of assets in which funds will be invested by the firm.
- Financial decision specify the ratio of owned funds and borrowed funds.
- Dividend decision decide how much profits to be distributed as dividend and how much to retain for expansion activities.
- Financial planning is helpful in avoiding problem of shortage and surplus of funds, effective utilisation of funds, coordination and control of funds.
- Financial planning decides how much to spend and on what to spend.
- Financial planning is helpful in developing a sound capital structure, estimating accurate requirement of fund, effective utilisation of fund, in avoiding shortage of funds and surplus of funds, provides policies for different departments and control financial activities.
- The financial requirement of a firm can be met through ownership capital (equity) and/or borrowed capital (debt). The firms normally use a judicious mix of debt and equity in order to ensure a higher return on owners' funds. Such a mix is termed as the 'Capital structure' of the firm. The choice of an appropriate capital structure is determined by a host of factors. They are: (1) expected earnings and their stability, (2) cost of debt, (3) effect on right to control, (4) capital market, (5) regulatory norms, (6) flexibility, and (7) investors' attitude towards investment.
- Dividend refers to the amount of profits distributed by a company to its shareholders. The amount of profit to be distributed as dividend and the amount of profit to be retained by the company for meeting its future financial requirement is determined by factors like future financial needs of the company, liquidity requirement, company's access to capital market, expectations of the shareholders, tax policy, investment opportunity and growth prospects and legal constraints, if any.

KEY TERMS

Capital structure Fixed capital DividendFinancial mix Retained earning

Trading on equity Working capital cycle Working capital

Notes

TERMINAL EXERCISE

Very Short Answer Type Questions

1. Define the term 'Dividend'.
2. What is meant by 'Optimal Capital Structure'?
3. State the meaning of Financial Management.
4. What is meant by Financial Planning?

Short Answer Type Questions

5. State any four objectives of financial planning.
6. Explain any two factors that are taken into consideration while determining the fixed capital requirement of a company.
7. Do you advocate distribution of whole amount of profits earned by a company as dividends? Support your view with reasons.
8. Describe any two determinants of capital structure.
9. What is meant by 'Trading on Equity'?
10. Briefly describe the objectives of Financial Management.
11. What do you mean by Investment Decision?

Long Answer Type Questions

12. What is meant by 'Financial Planning' ? Explain any four requisites of a sound financial plan.
13. How does raising of long term funds through debt affect the return on shareholders' funds? Explain with an example.
14. What is meant by 'dividend'? State the factors that affect dividend decision.
15. How do you assess the amount of working capital required by a business unit? Describe in brief.
16. Explain the decisions involved in financial management.
17. Explain briefly the importance of financial planning.

ANSWERS TO INTEXT QUESTIONS

17.1 1. (a) 2. (c) 3. (a)

17.2 2. (c) and (e)

3. (a) Yes (b) No (c) Yes (d) No (e) Yes

17.3 2. (a) More (b) Less (c) More (d) Less (e) More

3. (a) (iii) (b) (iv) (c) (vi) (d) (v) (e) (i) (f) (ii)

17.4 2. (a) Yes

(b) No – It involves minimum risk of dilution in control by existing shareholders.

(c) No – It caters to all types of investors

(d) No – It ensures maximum return on equity

(e) Yes

(f) No – It has the necessary flexibility to make required reduction or addition to funds, according to changed conditions.

17.4 1. (a) Profit After Tax (b) Profits Before Tax

(c) Profit Before Interest and Tax

2. (a) Financial needs of the company (b) Liquidity

(c) Access to capital market (d) Tax policy

(e) Legal constraints

3. (a) Amount of profit distributed to shareholders.

(b) The part of profit retained in the company to meet the company's future financial needs.

(c) Dividend paid to preference shareholders.

(d) Dividend paid to equity shareholders.

DO AND LEARN

Pick up any 10 items/products that you see/use, for example, sugar, furniture, cooler etc. List them and analyse whether each of them require huge or less working capital for production and why?

S. No.	*Product*	*More/Less Working Capital*	*Reasons*
1.			
2.			

Notes

3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

ROLE PLAY

Mr. K. Gandhi was the director of Alter Ltd. He was very upset when the finance manager Mr. R. Khanna presented the financial report of the company before him.

Mr. Gandhi : What is this Mr. Khanna?

Mr. Khanna : Sir, to be honest, this is the real position of the firm. Our firm as of today is over-capitalised.

Mr. Gandhi : When we started this company four years back it was having normal/proper capitalisation.

Mr. Khanna : May be sir, but it is not so now?

Mr. Gandhi : What makes you say that?

Mr. Khanna : Sir, in the first place our returns on investment is not justified.

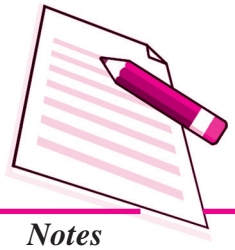
Mr. Gandhi : What do you mean by that?

Mr. Khanna : Sir, the other firms in the industry are earning average return of 10% and ours is only 8%.

Mr. Gandhi : What else?

Mr. Khanna and Mr. Gandhi discussed the causes, effects and remedies of over-capitalisation.

You are required to continue the above conversation by assuming a role for yourself and one for your friend.



Notes

18

INDIAN FINANCIAL MARKET

You are fully aware that business units have to raise short-term as well as long-term funds to meet their working and fixed capital requirements from time to time. This necessitates not only the ready availability of such funds but also a transmission mechanism with the help of which the providers of funds (investors/ lenders) can interact with the borrowers/users (business units) and transfer the funds to them as and when required. This aspect is taken care of by the financial markets which provide a place where or a system through which, the transfer of funds by investors/lenders to the business units is adequately facilitated.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the concept and functions of financial markets;
- state the nature and importance of money market;
- state the nature and types of capital market;
- distinguish between capital market and money market;
- explain the nature and functions of a stock exchange;
- state the advantages of stock exchanges from the points of view of companies, investors and society as a whole;
- state the limitations of stock exchanges;
- explain the concept of speculation and distinguish it from investment;
- outline the stock exchanges in India; and
- describe the nature of regulation of stock exchanges in India and the role of SEBI.

Notes

18.1 FINANCIAL MARKET

We know that, money always flows from surplus sector to deficit sector. That means persons having excess of money lend it to those who need money to fulfill their requirement. Similarly, in business sectors the surplus money flows from the investors or lenders to the businessmen for the purpose of production or sale of goods and services. So, we find two different groups, one who invest money or lend money and the others, who borrow or use the money.

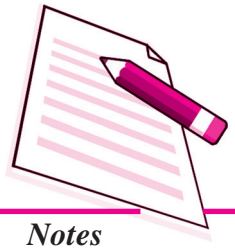
Now you think, how these two groups meet and transact with each other. The financial markets act as a link between these two different groups. It facilitates this function by acting as an intermediary between the borrowers and lenders of money. So, financial market may be defined as 'a transmission mechanism between investors (or lenders) and the borrowers (or users) through which transfer of funds is facilitated'. It consists of individual investors, financial institutions and other intermediaries who are linked by a formal trading rules and communication network for trading the various financial assets and credit instruments.

Before reading further let us have an idea about some of the credit instruments.

A **bill of exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument. To clarify the meaning let us take an example. Suppose Gopal has given a loan of Rs. 50,000 to Madan, which Madan has to return. Now, Gopal also has to give some money to Madhu. In this case, Gopal can make a document directing Madan to make payment up to Rs. 50,000 to Madhu on demand or after expiry of a specified period. This document is called a bill of exchange, which can be transferred to some other person's name by Madhu.

A **promissory note** is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument. Suppose you take a loan of Rs. 20,000 from your friend Jagan. You can make a document stating that you will pay the money to Jagan or the bearer on demand. Or you can mention in the document that you will pay the amount after three months. This document, once signed by you, duly stamped and handed over to Jagan, becomes a negotiable instrument. Now Jagan can personally present it before you for payment or give this document to some other person to collect money on his behalf. He can endorse it in somebody else's name who in turn can endorse it further till the final payment is made by you to whosoever presents it before you. This type of a document is called a Promissory Note.

Let us now see the main functions of financial market.



Notes

(a) It provides facilities for interaction between the investors and the borrowers.

(b) It provides pricing information resulting from the interaction between buyers and sellers in the market when they trade the financial assets.

(c) It provides security to dealings in financial assets.

(d) It ensures liquidity by providing a mechanism for an investor to sell the financial assets.

(e) It ensures low cost of transactions and information.

18.2 TYPES OF FINANCIAL MARKETS

A financial market consists of two major segments: (a) Money Market; and (b) Capital Market. While the money market deals in short-term credit, the capital market handles the medium term and long-term credit.

Let us discuss these two types of markets in detail.

18.3 MONEY MARKET

The money market is a market for short-term funds, which deals in financial assets whose period of maturity is upto one year. It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc. These financial instruments are close substitute of money. These instruments help the business units, other organisations and the Government to borrow the funds to meet their short-term requirement.

Money market does not imply to any specific market place. Rather it refers to the whole networks of financial institutions dealing in short-term funds, which provides an outlet to lenders and a source of supply for such funds to borrowers. Most of the money market transactions take place on telephone, fax or Internet. The Indian money market consists of Reserve Bank of India, Commercial banks, Co-operative banks, and other specialised financial institutions. The Reserve Bank of India is the leader of the money market in India. Some Non-Banking Financial Companies (NBFCs) and financial institutions like LIC, GIC, UTI, etc. also operate in the Indian money market.

18.3.1 Money Market Instruments

Following are some of the important money market instruments or securities.

(a) **Call Money :** Call money is mainly used by the banks to meet their temporary requirement of cash. They borrow and lend money from each other normally on a daily basis. It is repayable on demand and its maturity period varies between one day to a fortnight. The rate of interest paid on call money loan is known as call rate.

Notes

(b) **Treasury Bill :** A treasury bill is a promissory note issued by the RBI to meet the short-term requirement of funds. Treasury bills are highly liquid instruments, that means, at any time the holder of treasury bills can transfer or get it discounted from RBI. These bills are normally issued at a price less than their face value; and redeemed at face value. So the difference between the issue price and the face value of the treasury bill represents the interest on the investment. These bills are secured instruments and are issued for a period of not exceeding 364 days. Banks, Financial institutions and corporations normally play major role in the Treasury Bill market.

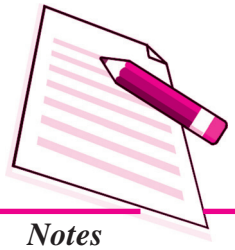
(c) **Commercial Paper :** Commercial paper (CP) is a popular instrument for financing working capital requirements of companies. The CP is an unsecured instrument issued in the form of promissory note. This instrument was introduced in 1990 to enable the corporate borrowers to raise short-term funds. It can be issued for period ranging from 15 days to one year. Commercial papers are transferable by endorsement and delivery. The highly reputed companies (Blue Chip companies) are the major player of commercial paper market.

(d) **Certificate of Deposit :** Certificate of Deposit (CDs) are short-term instruments issued by Commercial Banks and Special Financial Institutions (SFIs), which are freely transferable from one party to another. The maturity period of CDs ranges from 91 days to one year. These can be issued to individuals, co-operatives and companies.

(e) **Trade Bill :** Normally the traders buy goods from the wholesalers or manufactures on credit. The sellers get payment after the end of the credit period. But if any seller does not want to wait or in immediate need of money he/she can draw a bill of exchange in favour of the buyer. When buyer accepts the bill it becomes a negotiable instrument and is termed as bill of exchange or trade bill. This trade bill can now be discounted with a bank before its maturity. On maturity the bank gets the payment from the drawee i.e., the buyer of goods. When trade bills are accepted by Commercial Banks it is known as Commercial Bills. So trade bill is an instrument, which enables the drawer of the bill to get funds for short period to meet the working capital needs.

18.4 CAPITAL MARKET

Capital Market may be defined as a market dealing in medium and long-term funds. It is an institutional arrangement for borrowing medium and long-term funds and provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issue various securities such as shares debentures, bonds, etc. In the present chapter let us discuss about the market for trading of securities.



Notes

The market where securities are traded is known as Securities market. It consists of two different segments namely primary and secondary market. The primary market deals with new or fresh issue of securities and is, therefore, also known as **new issue market**; whereas the secondary market provides a place for purchase and sale of existing securities and is often termed as **stock market** or **stock exchange**.

18.4.1 Primary Market

The Primary Market consists of arrangements, which facilitate the procurement of long-term funds by companies by making fresh issue of shares and debentures. You know that companies make fresh issue of shares and/or debentures at their formation stage and, if necessary, subsequently for the expansion of business. It is usually done through private placement to friends, relatives and financial institutions or by making public issue. In any case, the companies have to follow a well-established legal procedure and involve a number of intermediaries such as underwriters, brokers, etc. who form an integral part of the primary market. You must have learnt about many initial public offers (IPOs) made recently by a number of public sector undertakings such as ONGC, GAIL, NTPC and the private sector companies like Tata Consultancy Services (TCS), Biocon, Jet-Airways and so on.

18.4.2 Secondary Market

The secondary market known as stock market or stock exchange plays an equally important role in mobilising long-term funds by providing the necessary liquidity to holdings in shares and debentures. It provides a place where these securities can be encashed without any difficulty and delay. It is an organised market where shares, and debentures are traded regularly with high degree of transparency and security. In fact, an active secondary market facilitates the growth of primary market as the investors in the primary market are assured of a continuous market for liquidity of their holdings. The major players in the primary market are merchant bankers, mutual funds, financial institutions, and the individual investors; and in the secondary market you have all these and the stockbrokers who are members of the stock exchange who facilitate the trading.

After having a brief idea about the primary market and secondary market let see the difference between them.

18.5 DISTINCTION BETWEEN PRIMARY MARKET AND SECONDARY MARKET

The main points of distinction between the primary market and secondary market are as follows:

1. **Function :** While the main function of primary market is to raise long-term funds through fresh issue of securities, the main function of secondary market is to provide continuous and ready market for the existing long-term securities.

Notes

2. **Participants :** While the major players in the primary market are financial institutions, mutual funds, underwriters and individual investors, the major players in secondary market are all of these and the stockbrokers who are members of the stock exchange.

3. **Listing Requirement :** While only those securities can be dealt within the secondary market, which have been approved for the purpose (listed), there is no such requirement in case of primary market.

4. **Determination of prices :** In case of primary market, the prices are determined by the management with due compliance with SEBI requirement for new issue of securities. But in case of secondary market, the price of the securities is determined by forces of demand and supply of the market and keeps on fluctuating.

18.6 DISTINCTION BETWEEN CAPITAL MARKET AND MONEY MARKET

Capital Market differs from money market in many ways. Firstly, while money market is related to short-term funds, the capital market is related to long term funds. Secondly, while money market deals in securities like treasury bills, commercial paper, trade bills, deposit certificates, etc., the capital market deals in shares, debentures, bonds and government securities. Thirdly, while the participants in money market are Reserve Bank of India, commercial banks, non-banking financial companies, etc., the participants in capital market are stockbrokers, underwriters, mutual funds, financial institutions, and individual investors. Fourthly, while the money market is regulated by Reserve Bank of India, the capital market is regulated by Securities Exchange Board of India (SEBI).

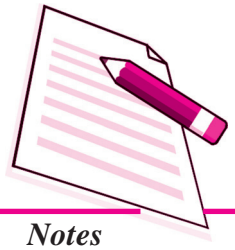
INTEXT QUESTIONS 18.1

1. Define financial market.

2. Complete the table given below.

   (a) Distinction between Primary Market and Secondary Market.

Points of Difference	Primary Market	Secondary Market
1. Function	(i)	To provide continuous and ready market for existing long-term securities.
2. Participants	Financial Institutions, mutual funds, underwriters and individual investors.	(ii)



Notes

3. Listing Requirement	Listing is not required for dealing in the primary market.	(iii)
4. Determination of Prices	(iv)	Prices are determined by forces of demand and supply and keep on fluctuating.

(b) Differentiate between Money Market and Capital Market.

Point of Distinction	Money Market	Capital Market
1. Time period / Term		
2. Instrument dealt in		
3. Participants		
4. Regulatory body		

18.7 STOCK EXCHANGE

As indicated above, stock exchange is the term commonly used for a secondary market, which provide a place where different types of existing securities such as shares, debentures and bonds, government securities can be bought and sold on a regular basis. A stock exchange is generally organised as an association, a society or a company with a limited number of members. It is open only to these members who act as brokers for the buyers and sellers. The Securities Contract (Regulation) Act has defined stock exchange as an " association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities".

The main characteristics of a stock exchange are:

1. It is an organised market.
2. It provides a place where existing and approved securities can be bought and sold easily.
3. In a stock exchange, transactions take place between its members or their authorised agents.
4. All transactions are regulated by rules and by laws of the concerned stock exchange.
5. It makes complete information available to public in regard to prices and volume of transactions taking place every day.

Notes

It may be noted that all securities are not permitted to be traded on a recognised stock exchange. It is allowed only in those securities (called listed securities) that have been duly approved for the purpose by the stock exchange authorities. The method of trading now-a-days, however, is quite simple on account of the availability of on-line trading facility with the help of computers. It is also quite fast as it takes just a few minutes to strike a deal through the brokers who may be available close by. Similarly, on account of the system of scrip-less trading and rolling settlement, the delivery of securities and the payment of amount involved also take very little time, say, 2 days.

18.7.1 Functions of a Stock Exchange

The functions of stock exchange can be enumerated as follows:

1. **Provides ready and continuous market :** By providing a place where listed securities can be bought and sold regularly and conveniently, a stock exchange ensures a ready and continuous market for various shares, debentures, bonds and government securities. This lends a high degree of liquidity to holdings in these securities as the investor can encash their holdings as and when they want.

2. **Provides information about prices and sales :** A stock exchange maintains complete record of all transactions taking place in different securities every day and supplies regular information on their prices and sales volumes to press and other media. In fact, now-a-days, you can get information about minute to minute movement in prices of selected shares on TV channels like CNBC, Zee News, NDTV and Headlines Today. This enables the investors in taking quick decisions on purchase and sale of securities in which they are interested. Not only that, such information helps them in ascertaining the trend in prices and the worth of their holdings. This enables them to seek bank loans, if required.

3. **Provides safety to dealings and investment :** Transactions on the stock exchange are conducted only amongst its members with adequate transparency and in strict conformity to its rules and regulations which include the procedure and timings of delivery and payment to be followed. This provides a high degree of safety to dealings at the stock exchange. There is little risk of loss on account of non-payment or non-delivery. Securities and Exchange Board of India (SEBI) also regulates the business in stock exchanges in India and the working of the stock brokers.

   Not only that, a stock exchange allows trading only in securities that have been listed with it; and for listing any security, it satisfies itself about the genuineness and soundness of the company and provides for disclosure of certain information on regular basis. Though this may not guarantee the soundness and profitability of the company, it does provide some assurance on their genuineness and enables them to keep track of their progress.

4. **Helps in mobilisation of savings and capital formation :** Efficient functioning of stock market creates a conducive climate for an active and growing primary market. Good performance and outlook for shares in the stock exchanges imparts buoyancy to the new issue market, which helps in mobilising savings for investment in industrial and commercial establishments. Not only that, the stock exchanges provide liquidity and profitability to dealings and investments in shares and debentures. It also educates people on where and how to invest their savings to get a fair return. This encourages the habit of saving, investment and risk-taking among the common people. Thus, it helps mobilising surplus savings for investment in corporate and government securities and contributes to capital formation.

5. **Barometer of economic and business conditions :** Stock exchanges reflect the changing conditions of economic health of a country, as the shares prices are highly sensitive to changing economic, social and political conditions. It is observed that during the periods of economic prosperity, the share prices tend to rise. Conversely, prices tend to fall when there is economic stagnation and the business activities slow down as a result of depressions. Thus, the intensity of trading at stock exchanges and the corresponding rise on fall in the prices of securities reflects the investors' assessment of the economic and business conditions in a country, and acts as the barometer which indicates the general conditions of the atmosphere of business.

6. **Better Allocation of funds :** As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises and they avail of the greater potential for growth. Financial resources of the economy are thus, better allocated.

18.7.2 Advantages of Stock Exchanges

Having discussed the functions of stock exchanges, let us look at the advantages which can be outlined from the point of view of (a) Companies, (b) Investors, and (c) the Society as a whole.

(a) To the Companies

(i) The companies whose securities have been listed on a stock exchange enjoy a better goodwill and credit-standing than other companies because they are supposed to be financially sound.

(ii) The market for their securities is enlarged as the investors all over the world become aware of such securities and have an opportunity to invest

(iii) As a result of enhanced goodwill and higher demand, the value of their securities increases and their bargaining power in collective ventures, mergers, etc. is enhanced.

(iv) The companies have the convenience to decide upon the size, price and timing of the issue.

(b) To the Investors

(i) The investors enjoy the ready availability of facility and convenience of buying and selling the securities at will and at an opportune time.

(ii) Because of the assured safety in dealings at the stock exchange the investors are free from any anxiety about the delivery and payment problems.

(iii) Availability of regular information on prices of securities traded at the stock exchanges helps them in deciding on the timing of their purchase and sale.

(iv) It becomes easier for them to raise loans from banks against their holdings in securities traded at the stock exchange because banks prefer them as collateral on account of their liquidity and convenient valuation.

(c) To the Society

(i) The availability of lucrative avenues of investment and the liquidity thereof induces people to save and invest in long-term securities. This leads to increased capital formation in the country.

(ii) The facility for convenient purchase and sale of securities at the stock exchange provides support to new issue market. This helps in promotion and expansion of industrial activity, which in turn contributes, to increase in the rate of industrial growth.

(iii) The Stock exchanges facilitate realisation of financial resources to more profitable and growing industrial units where investors can easily increase their investment substantially.

(iv) The volume of activity at the stock exchanges and the movement of share prices reflect the changing economic health.

(v) Since government securities are also traded at the stock exchanges, the government borrowing is highly facilitated. The bonds issued by governments, electricity boards, municipal corporations and public sector undertakings (PSUs) are found to be on offer quite frequently and are generally successful.

18.7.3 Limitations of Stock Exchanges

Like any other institution, the stock exchanges too have their limitations. One of the common evils associated with stock exchange operations is the excessive speculation. You know that speculation implies buying or selling securities to take advantage of price differential at different times. The speculators generally do not take or give delivery and pay or receive full payment. They settle their transactions just by paying the difference in prices. Normally, speculation is considered a healthy practice and is necessary for successful operation of stock exchange activity. But, when it becomes excessive, it leads to wide fluctuations in prices and various malpractices by the vested interests. In the process, genuine investors suffer and are driven out of the market.

Another shortcoming of stock exchange operations is that security prices may fluctuate due to unpredictable political, social and economic factors as well as on account of rumours spread by interested parties. This makes it difficult to assess the movement of prices in future and build appropriate strategies for investment in securities. However, these days good amount of vigilance is exercised by stock exchange authorities and SEBI to control activities at the stock exchange and ensure their healthy functioning, about which you will study later.

18.8 SPECULATION IN STOCK EXCHANGES

The buyers and sellers at the stock exchange undertake two types of operations, one for speculation and the other for investment. Those who buy securities primarily to earn a regular income from such investment and possibly make some long-term gain on account of price rise in future are called investors. They take delivery of the securities and make full payment of the price. Such transactions are called investment transactions.

But, when the securities are bought with the sole object of selling them in future at higher prices or these are sold now with the intention of buying at a lower price in future, are called speculation transactions. The main objective of such transactions is to take advantage of price differential at different times. The stock exchange also provides for settlement of such transactions even by receiving or paying, as the case may be, just the difference in prices. For example, Rashmi bought 200 shares of Moser Baer Ltd. at Rs. 210 per share and sold them at Rs. 235 per share. He does not take and give delivery of the shares but settles the transactions by receiving the difference in prices amounting to Rs. 5,000 minus brokerage. In another case, Mohit bought 200 shares of Seshasayee Papers Ltd. at Rs. 87 per share and sold them at Rs. 69 per share. He settles these transactions by simply paying the difference amounting to Rs. 3600 plus brokerage. However, now-a-days stock exchanges have a system of rolling settlement. Such facility is limited only to transactions of purchase and sale made on the same day, as no carry forward is allowed.

Rolling Settlement: Earlier trading in the stock exchange was held face-to-face (called pit-trading) without the use of computers and the advanced computer software as it is today. In those times, transactions were settled (i.e., actual delivery of shares, through share certificates, by the seller and payment of money by the buyer) in the stock exchange, only on a fixed day of the week, say on a Saturday, or a Wednesday irrespective of which day of the week the shares were bought and sold. This was called 'Fixed Settlement'.

Today, with the electronic / computer based system of recording and carrying out of share transactions, stock exchanges go in for 'rolling settlement'. That means, transaction are settled after a fixed number of days of the transaction rather than on a particular day of the week. For example, if a stock exchange goes in for 'T+2' days of rolling

settlement, the transaction is settled within two working days of occurring of the transaction, 'T' being the day of the transaction. In T+7' days of rolling settlement, the transaction is settled on the 7th day after the transaction. This is facilitated through electronic transfer of shares, through Dematerialised Account or Demat Account i.e., the share does not have a physical form of a paper document, but is a computerised record of a person holding a share, and through transfer of money electronically or through cheques payment is settled.

Though speculation and investment are different in some respects, in practice it is difficult to say who is a genuine investor and who is a pure speculator. Sometimes even a person who has purchased the shares as a long-term investment may suddenly decide to sell to reap the benefit if the price of the share goes up too high or do it to avoid heavy loss if the prices starts declining steeply. But he cannot be called a speculator because his basic intention has been to invest. It is only when a person's basic intention is to take advantage of a change in prices, and not to invest, then the transaction may be termed as speculation. In strict technical terms, however, the transaction is regarded as speculative only if it is settled by receiving or paying the difference in prices without involving the delivery of securities. It is so because, in practice, it is quite difficult to ascertain the intention.

Some people regard speculation as nothing but gambling and consider it as an evil. But it is not true because while speculation is based on foresight and hard calculation, gambling is a kind of blind and reckless activity involving high degree of chance element. Not only that, speculation is a legal activity duly recognised as a prerequisite for the success of stock exchange operations while gambling is regarded as an evil and a punishable activity. However, reckless speculation may take the form of gambling and should be avoided.

INTEXT QUESTIONS 18.2

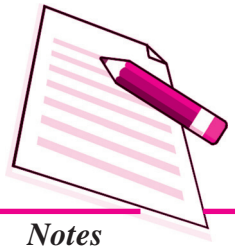
1. Enumerate the main characteristics of a stock exchange.

2. Identify which the following statements about stock exchanges are 'True' or 'False'. If the statement is 'False', rewrite it in the correct form.

   (a) Stock Exchange provides a ready market for sale and purchase of gold and silver.

   (b) In the stock exchange, transactions take place between companies and their shareholders directly.

   (c) Stock exchange transactions facilitate flow of funds from less profitable to more profitable enterprises.



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(d) It becomes difficult for investors to raise loans from banks against collateral of their holdings in securities traded at the stock exchange.

(e) Speculation is the same thing as gambling.

3. State two limitations of stock exchanges.

18.9 STOCK EXCHANGES IN INDIA

The first organised stock exchange in India was started in Mumbai known as Bombay Stock Exchange (BSE). It was followed by Ahmedabad Stock Exchange in 1894 and Kolkata Stock Exchange in 1908. The number of stock exchanges in India went upto 7 by 1939 and it increased to 21 by 1945 on account of heavy speculation activity during Second World War. A number of unorganised stock exchanges also functioned in the country without any formal set-up and were known as kerb market. The Security Contracts (Regulation) Act was passed in 1956 for recognition and regulation of Stock Exchanges in India. At present we have 23 stock exchanges in the country. Of these, the most prominent stock exchange that came up is National Stock Exchange (NSE). It is also based in Mumbai and was promoted by the leading financial institutions in India. It was incorporated in 1992 and commenced operations in 1994. This stock exchange has a corporate structure, fully automated screen-based trading and nation-wide coverage.

Another stock exchange that needs special mention is Over The Counter Exchange of India (OTCEI). It was also promoted by the financial institutions like UTI, ICICI, IDBI, IFCI, LIC etc. in September 1992 specially to cater to small and medium sized companies with equity capital of more than Rs.30 lakh and less than Rs.25 crore. It helps entrepreneurs in raising finances for their new projects in a cost effective manner. It provides for nation-wide online ringless trading with 20 plus representative offices in all major cities of the country. On this stock exchange, securities of those companies can be traded which are exclusively listed on OTCEI only. In addition, certain shares and debentures listed with other stock exchanges in India and the units of UTI and other mutual funds are also allowed to be traded on OTCEI as permitted securities. It has been noticed that, of late, the turnover at this stock exchange has considerably reduced and steps have been afoot to revitalise it. In fact, as of now, BSE and NSE are the two Stock Exchanges, which enjoy nation-wide coverage and handle most of the business in securities in the country.

18.10 REGULATIONS OF STOCK EXCHANGES

As indicated earlier, the stock exchanges suffer from certain limitations and require strict control over their activities in order to ensure safety in dealings thereon. Hence, as early as 1956, the Securities Contracts (Regulation) Act was passed which provided

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for recognition of stock exchanges by the central Government. It has also the provision of framing of proper bylaws by every stock exchange for regulation and control of their functioning subject to the approval by the Government. All stock exchanges are required to submit information relating to its affairs as required by the Government from time to time. The Government was given wide powers relating to listing of securities, make or amend bylaws, withdraw recognition to, or supersede the governing bodies of stock exchange in extraordinary/abnormal situations. Under the Act, the Government promulgated the Securities Regulations (Rules) 1957, which provided *inter alia* for the procedures to be followed for recognition of the stock exchanges, submission of periodical returns and annual returns by recognised stock exchanges, inquiry into the affairs of recognised stock exchanges and their members, and requirements for listing of securities.

18.11 ROLE OF SEBI

As part of economic reforms programme started in June 1991, the Government of India initiated several capital market reforms, which included the abolition of the office of the Controller of Capital Issues (CCI) and granting statutory recognition to Securities Exchange Board of India (SEBI) in 1992 for:

(a) protecting the interest of investors in securities;

(b) promoting the development of securities market;

(c) regulating the securities market and

(d) matters connected therewith or incidental thereto.

SEBI has been vested with necessary powers concerning various aspects of capital market such as:

(i) regulating the business in stock exchanges and any other securities market;

(ii) registering and regulating the working of various intermediaries and mutual funds;

(iii) promoting and regulating self regulatory organisations;

(iv) promoting investors education and training of intermediaries;

(v) prohibiting insider trading and unfair trade practices;

(vi) regulating substantial acquisition of shares and take over of companies;

(vii) calling for information, undertaking inspection, conducting inquiries and audit of stock exchanges, and intermediaries and self regulation organisations in the stock market; and

(viii) performing such functions and exercising such powers under the provisions of the Capital Issues (Control) Act, 1947 and the Securities Contracts (Regulation) Act, 1956 as may be delegated to it by the Central Government.

As part of its efforts to protect investors' interests, SEBI has initiated many primary market reforms, which include improved disclosure standards in public issue documents, introduction of prudential norms and simplification of issue procedures. Companies are now required to disclose all material facts and risk factors associated with their projects while making public issue. All issue documents are to be vetted by SEBI to ensure that the disclosures are not only adequate but also authentic and accurate. SEBI has also introduced a code of advertisement for public issues for ensuring fair and truthful disclosures. Merchant bankers and all mutual funds including UTI have been brought under the regulatory framework of SEBI. A code of conduct has been issued specifying a high degree of responsibility towards investors in respect of pricing and premium fixation of issues. To reduce cost of issue, underwriting of issues has been made optional subject to the condition that the issue is not under-subscribed. In case the issue is under-subscribed i.e., it was not able to collect 90% of the amount offered to the public, the entire amount would be refunded to the investors. The practice of preferential allotment of shares to promoters at prices unrelated to the prevailing market prices has been stopped and private placements have been made more restrictive. All primary issues have now to be made through depository mode. The initial public offers (IPOs) can go for **book building** for which the price band and issue size have to be disclosed. Companies with dematerialised shares can alter the par value as and when they so desire.

As for measures in the secondary market, it should be noted that all statutory powers to regulate stock exchanges under the Securities Contracts (Regulation) Act have now been vested with SEBI through the passage of securities law (Amendment) Act in 1995. SEBI has duly notified rules and a code of conduct to regulate the activities of intermediaries in the securities market and then registration in the securities market and then registration with SEBI is made compulsory. It has issued guidelines for composition of the governing bodies of stock exchanges so as to include more public representatives. Corporate membership has also been introduced at the stock exchanges. It has notified the regulations on insider trading to protect and preserve the integrity of stock markets and issued guidelines for mergers and acquisitions. SEBI has constantly reviewed the traditional trading systems of Indian stock exchanges and tried to simplify the procedure, achieve transparency in transactions and reduce their costs. To prevent excessive speculations and volatility in the market, it has done away with badla system, and introduced rolling settlement and trading in derivatives. All stock exchanges have been advised to set-up clearing corporation / settlement guarantee fund to ensure timely settlements. SEBI organises training programmes for intermediaries in the securities market and conferences for investor education all over the country from time to time.

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18.12 NATIONAL STOCK EXCHANGE OF INDIA (NSEI)

National Stock Exchange of India was recognised in 1992 and started working in 1994. Ringless trading takes place in NSEI i.e., the trading of securities takes place through network of computers. NSEI provide a nationwide transparent market for different types of securities.

Objective of NSEI

1. To provide a nationwide transparent market for all types of securities.
2. To ensure access to investors all over the country through an appropriate communication network.
3. To provide an efficient securities market using electronic trading systems.
4. To make available shorter settlement cycles and book entry settlement system.
5. To meet international standards.

18.12.1 Trading Procedure on a Stock Exchange

Now-a-days trading of securities has shifted from the floor of a stock exchange to the broker's office. Securities are bought and sold with the help of brokers who are members of a stock exchange. They act as intermediaries between buyers and sellers of securities.

Companies have to get their securities listed in the stock exchange for the purpose of trading through stock exchange. Trading procedure involves the following steps :

1. **Selection of Broker :** Firstly, investor chooses the broker through whom he will buy or sell the securities.
2. **Placement of Order :** After fixing the broker, the investor places the order stating the name of the company, number of shares to be bought or sold the price at which the transaction has to be made.
3. **Trade by the Broker :** Broker makes the deal if the desired price is quoted by any buyer/seller in his computer. Transactions on a stock exchange can be on cash basis or carryover basis (badla).
4. **Information to Investor :** The broker informs the investor about the deal. The buyer makes arrangement for payment.
5. **Settlement :** All transactions are settled through the clearing house through electronic book entry.

18.13 DEPOSITORY SERVICES

The Depositories Act 1996 introduced the depository service system in India. Under the depository system, physical securities are converted into electronic form thrugh the process of dematerialisation.

The constituents of the depository system are :

1. Depository
2. Depository Participants (DP)
3. Issuing Company
4. Investors

Depository is like a bank in which an investor can deposit and withdraw his shares. Depository Participant (DP) is an agent of the depository. Investors interact only with DPs. Any financial institution can become DP after registration with SEBI. The company whose shares are to be transacted in electronic form must be registered with a depository.

Investors who want to get securities in electronic form opens a Demat Account. Demat account is the abbreviation of dematerialised account. Demat account refers to an account which an Indian citizen must open with the DPs to trade in listed securities in electronic form. From this account one can hold shares of various companies in the dematerialised/electronic form.

The services provided by a depository are termed as 'Depository Services'. The name of two depositories in India are NSDL and CDSL. [National Securities Depository Ltd. and Central Depository Services Ltd.].

18.13.1 Services provided by Depository

1. Dematerialisation (demat) that is converting physical certificates to electronic form.
2. Rematerialisation (remat) that is getting physical certificates from the electroic securities. This is the reverse of demat.
3. Transfer of securities.
4. Settlement of trade.

Working of Depository System

Investor must submit Demat Request Form (DRF) along with the certificate to DP (Depository Participant). DP submits the DRF and share certificates to the issuing company and intimates the depository. The company verifies the DRF and share certificates. Then the company confirms the dematerialisation to the depository. Depository informs the same to DP. DP then credits investor's Demat account with the shares. DP sends a statement of account to the investor.

18.13.2 Benefits of Depository Services

Depository services are beneficial because of the following reasons:

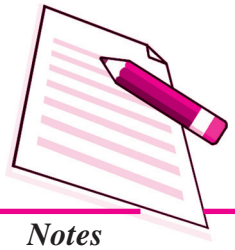
1. Sale and purchase of shares and stocks of any company on any stock exchange is facilitated by depository services.

Notes

2. Saves time
3. No paperwork.
4. Lower transaction costs
5. Ease in trading
6. Transparency in transactions
7. Physical presence of investor is not required in stock exchange.
8. Risk of loss and mutilation of security certificate is eliminated.

INTEXT QUESTIONS 18.3

1. State any three main objectives for which SEBI was granted statutory recognition in 1992.
2. Give a specific term/name for the following:
   (a) The prominent stock exchange enjoying nation wide coverage that commenced operations in 1994.
   (b) The stock exchange that specially caters to small and medium-sized companies.
   (c) The first organised stock exchange in India.
   (d) The Act passed in the year 1956 for providing recognition of stock exchanges by the central government.
   (e) The regulatory body of stock exchanges in our country granted statutory recognition in the year 1992.
3. List any three primary market reforms initiated by SEBI.
4. Multiple Choice Questions :
   (i) NSDL is the name of _____.
   a) Depository b) Company
   c) Investor d) None of the above
   (ii) Investor who wants to keep his securities in electronic form opens a _____ account with a Depository Participant.
   a) Savings b) Current
   c) Demat d) Both (a) and (b)



Notes

WHAT YOU HAVE LEARNT

- Financial market is the market that facilitates transfer of funds between investors/ lenders and borrowers/ users. It deals in financial instruments like bills of exchange, shares, debentures, bonds, etc. It provides security to dealings in financial assets, liquidity to financial assets for investors and ensures low cost of transitions and information.
- Financial Markets can be classified as (1) Money market and (2) Capital market.
- Money market refer to the network of financial institutions dealing in short term funds through instruments like bills of exchanges, promissory notes, commercial papers, treasury bills etc.
- Capital Market is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issue of various securities such as shares debentures, bonds, etc.
- The securities market has two different segments namely primary and secondary market.
- The primary market consists of arrangements for procurement of long-term funds by companies by fresh issue of shares and debentures.
- The secondary market or stock exchange provides a ready market for existing long-term securities.
- Stock exchange is the secondary market, which provides a place for regular sale and purchase of different types of securities like shares, debentures, bonds & government securities. It is an organised market where all transactions are regulated by the rules and laws of the concerned stock exchanges.
- The functions of a stock exchanges are to provide ready and continuous market for securities, information about prices and sales, safety to dealings and investment, helps mobilisation of savings and capital formation. It acts as a barometer of economic and business conditions and helps in better allocation of funds.
- Stock exchanges provide many benefits to companies, investors and the society as a whole. But they also suffer from limitations like exclusive speculation and fluctuation in prices due to rumours and unpredictable events.
- Along with genuine investment, at times, stock exchange transactions may be undertaken by persons as a speculation.
- There are 23 stock exchanges in India presently, including BSE, NSE and OTCEI.

- Stock Exchanges are regulated by the Securities Contracts (Regulation) Act and by SEBI. SEBI has initiated a number of reforms in the primary and secondary market to regulate the stock market. Documentary and procedural requirements for listing and trading have been made stricter and foolproof to protect investors' interest.
- NSEI is the national level stock exchange.
- The main objective of NSEI is to provide a nationwide transparent market.
- Investor in share market open a demat account to keep these securities in electronic form.
- Investors approach depository participant for dematerialisation procedure.
- NSDL and CDSL are the two depositories in India.
- Services provided by Depository : dematerialisation, rematerialisation, transfer of securities, settlement of trade.
- Benefits of depository services include : saves time, no paperwork, lower transaction costs, ease in trading, transparency in transactions and elimination of risk of loss of security certificate.

KEY TERMS

Call money	Capital market	Certificate of deposit
Commercial paper	Financial Market	Money market
New issue market	NSE	OTCEI
Primary market	Rolling settlement	SEBI
Secondary market	Speculation	Stock exchange
Trade bill	Treasury bill	

TERMINAL EXERCISE

Very Short Answer Type Questions

1. What do you mean by 'Financial Market'?
2. Give four examples of credit instruments of money market.
3. State the meaning of capital market.
4. List any two advantages of stock exchanges to companies.
5. Mention the organisations that are part of the organised money market in India.

6. What do you mean by 'Depository'?
7. Give the full form of NSDL.
8. State the full form of CDSL.

Short Answer Type Questions

9. Define money market and explain its importance in a modern economy.
10. What is capital market? How does it differ from money market?
11. Distinguish between primary market and secondary market.
12. How does the stock exchange helps in mobilizing savings and capital formation?
13. Describe the measures taken by SEBI to regulate the secondary market.
14. What is meant by a 'Demat' account?
15. Anil wants to invest money in share market. As a financial advisor what will you suggest him to do?

Long Answer Type Questions

16. Define stock exchange and explain its functions.
17. Explain the importance of stock exchanges from the point of view of companies and investors.
18. Explain the role played by SEBI in protecting investors' interests and controlling the business at stock exchange.
19. Give explanatory notes on (a) stock exchange in India; and (b) Regulations of stock exchanges.
20. Describe the two components of the securities market, in detail.

ANSWERS TO INTEXT QUESTIONS

18.1

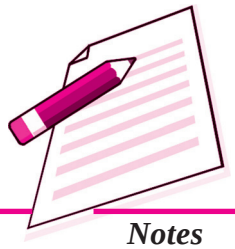
1. It is market that facilitates transfer of funds between investors/lenders and borrowers/users. It deals in financial instrument like bills of exchange, shares, debentures, bonds etc.

2. (a) (i) To raise long-term funds through fresh issue of securities

   (ii) Stock brokers who are members of the stock exchange and mutual funds, financial institutions, and individual investors,

   (iii) Listing in stock exchange is required to deal in a security in the stock exchange.

   (iv) Prices are determined by the company/institution's management, with due confirmation with SEBI.



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(b)

Point of Distinction	Capital Market	Money Market
1. Time period / Term	Long term funds dealt with	Deals in short-term funds.
2. Instrument Dealt In	Deals in shares, debenture, bonds and government securities.	Deals in securities like treasury bills, commercial paper, bills of exchange, certificate of deposits etc.
3. Participants	Stock brokers, underwriters, mutual funds, financial institutions and individual investors.	Participants are commercial banks, non-banking finance companies, chit funds etc.
4. Regulatory body	SEBI (Securities and Exchange Board of India.)	RBI (Reserve Bank of India)

18.2

2. (a) False: Stock Exchange provides a ready market for sale and purchase of various shares, debentures, bonds and government securities.
   (b) False: In the stock exchange, transactions take place between its members or their authorised agents.
   (c) True
   (d) False: It becomes easy for investors to raise loans from banks against collateral of their holdings in securities traded at the stock exchange.
   (e) False: Speculation is different from gambling.

3. (a) Excessive speculation
   (b) fluctuation in security prices due to unpredictable political, social and economic factors as well as on account of rumours spread.

18.3

1. (a) protecting interest of investors
   (b) promoting development of securities market
   (c) regulating the securities market.

2. (a) National Stock Exchange (NSE)
   (b) Over The Counter Exchange of India (OTCEI)
   (c) Bombay Stock Exchange (BSE)
   (d) Securities Contracts (Regulation) Act.
   (e) Securities and Exchange Board of India (SEBI)

3. (i) Improved disclosure standards in public issue documents.
   (ii) Introduction of prudential norms.
   (iii) Simplification of the issue procedures.

4. (i) a (ii) c

DO AND LEARN

1. Identify any two persons in your vicinity who are associated with the financial market/ stock exchanges, either as an investor or as a stockbroker. Talk to them and find out (i) how sale and purchase of securities takes place; (ii) what are the popular instruments traded in the market and (iii) about recent SEBI/ government guidelines that may have affected their transactions.
2. Read the Business Section of a daily newspaper or a specialised Business Newspaper. Locate the segment where share prices of important stock exchanges are given. Select any five companies and record their share prices everyday for a period of three weeks. Observe their price movement and see how major events in the economic, political or social environment affect the prices of these shares. You may even get information about these share prices from the television.

ROLE PLAY

Sunita and Kavita are good friends. Kavita is very god-fearing kind, while Sunita was an enterprising person, having practical in approach. Read the following conversation.

Kavita : Hi, Sunita! What are you doing?

Sunita : Hi, I am reading the newspaper - financial market page that gives us information about the shares price.

Kavita : Shares, that is an area of big gambles.

Sunita : No, not really! You must understand how it works.

Kavita : Frankly speaking, I think this Capital market is all a gambling game and I don't see any use of them.

Sunita : No, you are seriously mistaken; you do not know the importance of capital market. I will tell how it is needed for an individual and an economy.

You are required to play the role of Sunita and continue the conversation.

19

INTRODUCTION TO MARKETING

We use a large variety of goods and services in our daily life. These include items like toothpaste, toothbrush, soap, oil, clothes, food items, telephone, electricity and many more. How do all these goods and services reach our home? Obviously the business houses who produce the goods and services have to ensure that these are to be sold, and so they have to make the consumers/users aware of their products and place them at points convenient to the consumers. This involves a number of activities such as product planning, pricing, promotion, use of middlemen (wholesalers, retailer etc.) for sale, warehousing, transportation etc. All these activities taken together are termed as Marketing. In this lesson, we will learn about the concept of marketing, its importance, objectives and functions.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of marketing;
- differentiate between 'marketing' and 'selling';
- describe the importance of marketing;
- state the objectives of marketing and
- explain the various functions of marketing.

19.1 MEANING OF MARKETING

We know that the businessman produces goods and services for our use. These are not necessarily produced at the places where they are consumed or used. Even in villages, now-a-days you find the products manufactured all over India and in other

countries are used. This implies that the manufacturers must be making efforts to ensure that their products are in demand and reach the ultimate consumers all over the globe. So, when you go to the market to buy a readymade shirt you find that there are several options available to you in terms of quality of cloth used, design, colour, price etc. and you can buy what suits you most. This also implies that the manufactures assess the needs of the consumers, their tastes and preferences and plan the products accordingly. Not only that, they also ensure that people are aware about the product and its features. All these activities are said to be part of marketing function of any organisation. Thus, marketing refers to the process of ascertaining consumers' needs and supplying various goods and services to the final consumers or users to satisfy those needs. Basically, marketing is the performance of business activities that direct the flow of goods and services from producers to consumers or users.

The American Marketing Association defines marketing as an organisational function and set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.

19.1.1 Traditional Concept of Marketing

According to the traditional concept, marketing means selling goods and services that have been produced. Thus, all those activities which are concerned with persuasion and sale of goods and services, are called marketing. This concept of marketing emphasises on promotion and sale of goods and services and little attention is paid to consumer satisfaction. This concept has the following implications:

(a) The main focus of this concept is on product, i.e., we have a product and it has to be sold. So, we have to persuade the consumers to buy our product.

(b) All efforts of the marketing people are concentrated on selling the product. They adopt all means like personal selling and sales promotion to boost the sales.

(c) The ultimate goal of all marketing activity is to earn profit through maximisation of sales.

Traditional Concept of Marketing	
Focus on	Product
Means	Selling
Ends	Profits through maximisation of sales

19.1.2 Modern Concept of Marketing

The modern concept of marketing considers the consumers' wants and needs as the guiding spirit and focuses on the delivery of such goods and services that can satisfy those needs most effectively. Thus, marketing starts with identifying consumer needs, then plan the production of goods and services accordingly to provide him the maximum satisfaction. In other words, the products and services are planned according to the needs of the customers rather than according to the availability of materials and machinery. Not only that, all activities (manufacturing, research and development, quality control, distribution, selling etc.) are directed to satisfy the consumers. Thus, the main implications of the modern concepts are:

(a) The focus of this concept is on customer orientation. The marketing activity starts with an assessment of the customers needs and plan the production of items that satisfy these needs most effectively. This also applies to all other marketing activities like pricing, packaging, distribution and sales promotion.

(b) All marketing activities like product planning, pricing, packaging, distribution and sales promotion are combined into one as coordinated marketing efforts. This is called integrating marketing. It implies:

  (i) developing a product that can satisfy the needs of the consumers;

  (ii) taking promotional measures so that consumers come to know about the products, its features, quality, availability etc.;

  (iii) pricing the product keeping in mind the target consumers' purchasing power and willingness to pay;

  (iv) packaging and grading the product to make it more attractive and undertaking sales promotion measures to motivate consumers to buy the product; and

  (v) taking various other measures (e.g., after sales service) to satisfy the consumers' needs.

(c) The main aim of all effort is to earn profit through maximisation of customer satisfaction. This implies that, if the customers are satisfied, they will continue to buy, and many new customers will be added. This will lead to increased sales and so also the profits.

Modern Concept of Marketing	
Focus on	Customers' need
Means	Coordinated marketing efforts
Ends	Profits through customers' satisfaction

It may be noted that with growing awareness of the social relevance of business, marketing has to take into account the social needs and ensure that while enhancing consumer satisfaction, it also aims at society's long-term interest.

19.1.3 Marketing Management Philosophies

Different producers lay different emphasis of different aspects of the concept of marketing. The making concept is characterised according to the philosophy of the producer. Seeing the outlook of the producers of the marketing concept may be looked at in the following works:

i. **Production Concept :** In earlier days, selling was not a problem. So business organisations followed production concept. This concept means profits could be increased by producing large quantity of goods reducing the cost of production. a limitation of this concept is that quality conscious customers hesitate in buying.

ii. **Product Concept :** The producer os this class lay emphasis on the quality of products and services. As variety of products came in the society, customers began to prefer product of good quality and features. For example, normal toothpaste is not preferred when compared with toothpaste with salt [or with any other protective items]

iii. **Selling Concept :** In order to survive and grow business firms adopted aggressive selling technique to attract customers to buy their product. Sales persons started using unfair practices like cheating the customers with defective products as their main target is to earn money from the product.

iv. **Marketing Concept :** Business firms adopting marketing concept, identified that consumer needs and wants must be considered which producing a product. Before starting productions, the target market for the product should be identified. Under marketing concept, customer satisfaction is the key to maximise profits.

v. **Societial Marketing Concept :** In order to survive and grow business must satisfy the interest of society and the interest of customers. Under this concept, social welfare should be dalt by business firms. Public health, education, environmental protection etc. are some of the social goals to be considered.

INTEXT QUESTIONS 19.1

1. Define the term marketing.

2. Followings are the statements related to different concept of marketing. Identify those pertain to modern concept by mentioning 'MCM' and traditional concept by mentioning 'TCM' in the specified box given against each statement.

(a) It focuses on customer's need. ☐

(b) It focuses on product. ☐

(c) It sells satisfaction. ☐

(d) It sells goods and services. ☐

(e) It earns profit by maximisation of sales. ☐

(f) It earns profit through maximisation of customer satisfaction. ☐

19.2 DIFFERENCE BETWEEN MARKETING AND SELLING

The terms 'marketing' and 'selling' are related but not synonymous. 'Marketing' as stated earlier, emphasises on earning profits through customer satisfaction. In marketing, the focus is on the consumer's needs and their satisfaction. 'Selling' on the other hand focuses on product and emphasises on selling what has been produced. In fact it is a small part of the wide process of marketing wherein emphasis is initially on promotion of goods and services and eventually on increase in sales volume.

Marketing has long term perspective of winning over consumer loyalty to the product by providing him maximum satisfaction. However, selling has short-term prospective of only increasing the sales volume.

In marketing, the consumer is the king whose needs must be satisfied. In selling, the product is supreme and the entire focus is its sale. Marketing starts before production and continues even after the exchange of goods and services has taken place. It is so because provision of after sale service is an important component of marketing process. Selling starts after the production and ends as soon as the exchange of goods and services has taken place.

Marketing	*Selling*
Marketing includes selling and other activities like various promotional measures, marketing research, after sales service, etc.	Selling is confined to persuasion of consumers to buy firm's goods and services.
It starts with research on consumer needs, wants, preference, likes, dislike etc., and continues even after the sales have taken place.	Selling starts after the production process is over and ends with the handing over the money to the seller by the buyer.
Focus is on earning profit through maximisation of customers' satisfaction.	Focus is on earning profit through maximisation of sales.

Customer's need is the central point around whom all marketing activities revolve.	Fragmented approach to achieve short-term gain.
It is an integrated approach to achieve long term goals like creating, maintaining and retaining the customers.	All activities revolve around the product that has been produced.
Stresses on needs of buyer.	Stresses on needs of the seller.

A Few Relevant Terms on Marketing

- **Market :** Normally people understand the term market as a place where goods are bought and sold. But, in the context of Marketing, it refers to a group of buyers for a particular product or service. For example, the market for Accountancy textbooks consists of students in Commerce and specialised Accountancy Programmes; the market for ladies readymade garments consists of girls and women, and so on.

Types of Market

According to Area	*According to Goods and Commodities*	*According to Volume of transaction*
• Local Market • Regional Market • Rural Market • National Market • International Market	• Fruit Market • Furniture Market • Stock Market and so on.	• Wholesale Market • Retail Market

- **Marketeer :** It refers to the person who organises the various marketing activities such as market research, product planning, pricing, distribution etc.
- **Seller :** It refers to a person or organisation who is directly involved in the process of exchange of goods and services for money. This includes the wholesaler, retailer, etc.
- **Buyer :** A buyer is one who is directly involved in the process of purchase of goods and services. He/she is one who selects the goods, makes payment and takes the delivery.
- **Consumer :** One who actually uses the product or service. For example, you bought a shirt and gifted it to your friend who uses it. Here your friend is the consumer and you are a buyer. However, a consumer can also be the buyer.

- **Customer :** A customer usually refers to the person who takes the buying decision. For example, in a family, father decides on the brand of the toothpaste to be used by his children. Here, the children are the consumers and the father is the customer. A customer can also be the consumer. Similarly, the buyer may be different from the customer or one can be the customer as well as the buyer.
- **Virtual Market :** With advancement of technology, the buyer and sellers can, now-a-days, interact with each other by using Internet. This is called virtual market.

INTEXT QUESTIONS 19.2

1. Following is a list of statements regarding features of 'marketing' and 'selling'. Identify the features of marketing by mentioning 'M' and of selling by mentioning 'S' in box given against each.

   (a) It starts after the production process is over. ☐

   (b) All activities revolve around the product that has been produced. ☐

   (c) Customer is the central point. ☐

   (d) Satisfaction of the customer is the main focus. ☐

   (e) Target is to achieve shot-term gain. ☐

   (f) It is an integrated approach to achieve long-term goals. ☐

2. Complete the following table.

	Types of Market	
According to Area	(a)	Local Market
	(b)	Regional Market
	(c)	_____
	(d)	_____
	(e)	International Market
According to Volume of transaction	(a)	_____
	(b)	Wholesale Market

19.3 IMPORTANCE OF MARKETING

Marketing is important to the business, consumer as well as the society. This is evident from the following points.

(a) Marketing helps business to keep pace with the changing tastes, fashions, preferences of the customers. It works out primarily because ascertaining consumer needs and wants is a regular phenomenon and improvement in existing products and introduction of new product keeps on taking place. Marketing thus, contributes to providing better products and services to the consumers and improve their standard of living.

(b) Marketing helps in making products available at all places and throughout the year. We are able to get Kashmir shawls and Assam Tea all over India and get seasonal fruits like apple and oranges round the year due to proper warehousing or proper packaging. Thus, marketing creates time and place utilities.

(c) Marketing plays an important role in the development of the economy. Various functions and sub-functions of marketing like advertising, personal selling, packaging, transportation, etc. generate employment for a large number of people, and accelerate growth of business.

(d) Marketing helps the business in increasing its sales volume, generating revenue and ensuring its success in the long run.

(e) Marketing also helps the business in meeting competition most effectively.

19.4 OBJECTIVES OF MARKETING

After knowing the points of importance of marketing let us discuss on the basic objectives of marketing.

(a) Provide Satisfaction to Customers : All marketing activities are directed towards customer satisfaction. Marketing starts with ascertaining consumer needs and produce goods that satisfy those needs most effectively. Not only that the pricing and distribution functions of marketing are also planned accordingly.

(b) Increase in Demand : Through advertising and other sales promotional efforts, marketing aims at creating additional demand for their products. Satisfied customers also help in creating new customers. For example, if you buy a 'gel pen' and feel satisfied, next time also you will buy the same pen and obviously when you tell others about it they will also feel like giving it a try.

(c) Provide Qetter Quality Product to the Customers : This is a basic objective of marketing. The business houses try to update and upgrade their knowledge and technology to continuously provide better products. If they do not do so, they will be phased out through competition.

(d) Create Goodwill for the Organisation : Another objective of marketing is to build a good public image and create goodwill for the organisation. This helps in maintaining loyalty to the product and accepting new products of the same company.

(e) **Generate Profitable Sales Volume :** The ultimate objective of all marketing efforts is to generate profitable sales volumes for the business. Taking care of customer needs and wants by providing the required goods and services at prices they can afford, and at places and time that are convenient to them ultimately lead to increased sales and profits.

INTEXT QUESTIONS 19.3

1. State any two points of importance of marketing to consumer.

2. Given below are words in two columns, A and B. You have to match the words of column A with words of column B, so that the matched words describe an objective of marketing. Write the serial number of words in column B against the matched words of column A.

A	B
(a) Customer	(i) Goodwill
(b) Increase in	(ii) Sales volume
(c) Profitable	(iii) Product
(d) Better Quality	(iv) Satisfaction
(e) Create	(v) Demand

19.5 FUNCTIONS PERFORMED IN MARKETING

You have learnt that marketing is the performance of those business activities that direct the flow of goods and services from producers to consumers or users. Let us now learn what those activities are? These are briefly discussed hereunder.

1. **Marketing Research :** Marketing research involves collection and analysis of facts relevant to various aspects of marketing. It is a process of collecting and analysing information regarding customer needs and buying habits, the nature of competition in the market, prevailing prices, distribution network, effectiveness of advertising media, etc. Marketing research gathers, records and analyses facts for arriving at rational decisions and developing suitable marketing strategies.

2. **Product Planning and Development :** As you know marketing starts much before the actual production. The marketeers gather information regarding what are the needs of the consumers and then decide upon what to produce. So, the task of marketing begins with planning and designing a product for the consumers. It can also be done while modifying and improving an already existing product.

For example, now-a-days we find much better soaps and detergent powders than we used to get earlier. Similarly, we have many new products introduced almost on a regular basis.

3. **Buying and Assembling :** Buying and assembling activities as a part of marketing refer to buying and collection of required goods for resale. This function of marketing is primarily relevant to those business organisations that are engaged in trading activities. In the context of manufacturing organisations, buying and assembling involves buying raw materials and components required for production of finished goods.

4. **Packaging :** Packaging involves putting the goods in attractive packets according to the convenience of consumers. Important considerations to be kept in view in this connection are the size of the package and the type of packaging material used. Goods may be packaged in bottles (plastic or glass), boxes (made of tin, glass, paper, plastic), cans or bags. The size of the package generally varies from a few grams to a few kilograms, one piece to a number of pieces of a product, or in any other suitable quantity in terms of weight, count, length etc. Packaging is also used as a promotional tool as suitable and attractive packages influences the demand of the products. It may be noted that packaging is different from packing, which refers to putting goods in suitable containers for transportation purposes.

5. **Standardisation and Grading :** Standardisation refers to development of standards for production of goods with respect to shape, design, colour and other characteristics. If products are standardised, customers are able to identify a product and its characteristics very well. So goods can be sold by sample or description. Standardisation helps in promoting the sale of the product by increasing consumers' confidence in the product quality.

   Grading involves separating products into different classes on the basis of certain predetermined standards relating to size and quality. Grading is required in case of agricultural, forest and mineral products such as cotton, sugar cane, iron ore, coal, timber, etc.

6. **Branding :** Branding means giving an attractive name, symbol or identity mark to the product to make a product different from others so that it is known by that name or symbol or mark. For example, Surf is the brand name of a detergent powder produced by Hindustan Unilever Limited (HUL). Similarly, you must be familiar with brands like Colgate for toothpaste, Lux for soap and so on.

7. **Pricing the Product :** Pricing involves decisions regarding fixation of product prices, keeping in view the product costs, the capacity of customers to pay, and the prices of the competitive products. It is an important decision as it influences the sales and so also the profits. So pricing has to be done very carefully.

8. **Promotion of the Product :** Promotional activities include advertising, personal selling, sales promotion and publicity. All promotional activities involve communication with the existing and prospective customers whereby they are made aware of the product, its distinctive features, price, availability etc. The objective of promotional activities is to motivate the customers to buy the product.

9. **Distribution :** Distribution refers to those activities that are undertaken for sale of products to the customers and the physical transfer thereof. The first aspect i.e., sale of product involves use of middlemen such as wholesalers and retailers whose services are used for making the products available at convenient points and helping in their sale to the ultimate consumers. The second aspect i.e., physical transfer involves warehousing and transportation of goods from the point of production to the point of sale or the consumer. The objective of distribution activities is to ensure that consumers get the goods and services at the place and time most convenient to them and in the desired quantity.

10. **Selling :** Selling is an important function of marketing whereby the ownership of goods and services is transferred from the seller to the buyer for a consideration known as price. To initiate and complete the process of selling, the seller has to inform the prospective buyer about availability of goods, the nature and uses of products, their prices and the needs of the customers that may be effectively satisfied by the product. In the process, he arouses customers' interest in the product and persuades them to buy it.

11. **Storage and Warehousing :** Storage refers to holding and preserving goods from the time of their procurement or production till the time of their sale. In other words storage involves making suitable arrangements for preserving the goods till they are bought by the consumers and delivered to them. Warehousing is synonymous to storage but is normally used for large-scale storage facility for goods and commodities. You must have seen cold store where vegetables like tomato, cabbage, potato etc. are stored to be consumed throughout the year. In marketing it is essential to store raw material and finished goods to be used later by the company for production or for resale.

12. **Transportation :** Transportation refers to the physical movement of goods from one place to another. In marketing, transport as an activity refers to physical movement of raw materials as well as finished goods from the place of production to place of consumption. Goods are transported through various means like railways, roadways, waterways and airways. For heavy and bulky goods, the railways and waterways are the best. For other goods, it depends upon the demand, cost involved, urgency, nature of the goods etc. to decide about a suitable means of transportation.

INTEXT QUESTIONS 19.4

1. Define the term Grading.
2. Following are the statements pertaining to functions performed in marketing. Identify the function of marketing from each statement.
   (a) Physical movement of goods from one place to another.
   (b) Holding and preserving goods from the time of their procurement or production till the time of their sale.
   (c) Collection and analysis of relevant facts to solve marketing problems.
   (d) This include advertising, personal selling, sales promotion and publicity.
   (e) Separating products into different classes on the basis of certain predetermined standards.

WHAT YOU HAVE LEARNT

- Marketing refers to the process of ascertaining consumers' needs and supplying various goods and services to the final consumers or users to satisfy those needs.
- Traditionally marketing was synonymous with selling of goods and services. This concept of marketing emphasises on promotion and sale of goods and services and little attention is paid to consumer satisfaction.
- According to modern concept, marketing starts with identifying consumers needs, then plan the production of goods and services accordingly to provide them the maximum satisfaction.
- The terms 'marketing' and 'selling' are related but not synonymous. While selling starts after production is over, marketing starts with finding out consumers' needs, wants and preferences. Marketing revolves around the customers, whereas selling revolves around the product. Marketing seeks customers' satisfaction, selling seeks profits.
- Marketing helps business to keep pace with the changing tastes of the consumers and meeting the threats posed by competitors. It helps in providing better goods and services to the consumers, serves consumers by providing product irrespective of time and place and also by providing a wide range of product in different size, quality, prices etc.

- Marketing aims to achieve many objectives. It provides better quality products to the customers to fulfill their needs. It also creates demand of the product in the market by using various promotional tools. It helps in creating new customers, maintaining old customers, and generating profit and goodwill for the business.
- Marketing performs many functions like marketing research, product planning and development, buying and assembling, packaging, standardisation and grading, branding, pricing the product, promotion of the product, distribution, selling, storage and warehousing and transportation.

KEY TERMS

Branding	Buyer	Consumer
Customer	Grading	Marketeer
Marketing	Marketing Research	Packaging
Packing	Selling	Virtual Market

TERMINAL EXERCISE

Very Short Answer Type Questions

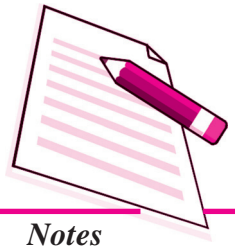
1. Define the term Market?
2. Who is termed as Marketeer?
3. What is meant by the term 'Grading'?
4. What is the purpose of marketing as per traditional concept?
5. Name the four activities included in promotion of the product.

Short Answer Type Questions

6. Explain the modern concept of marketing.
7. Distinguish between traditional and modern concept of marketing.
8. Explain 'packaging' as a function of marketing.
9. What is meant by integrating marketing?
10. Explain the significance of marketing research.

Long Answer Type Questions

11. State any four points of the importance of marketing.



Notes

12. Do you think marketing and selling are synonymous terms? Give reason.
13. Explain any three objectives of marketing.
14. Describe any four important functions of marketing.
15. Define marketing and distinguish it from selling.

ANSWERS TO INTEXT QUESTIONS

19.1

1. It is an organisational function and set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.
2. MCM: (a), (c), (f) TCM: (b), (d), (e)
3. (c)
4. (d)

19.2

1. M : (c), (d), (f) S : (s), (b), (e)
2. **Types of Market**

According to Area	(a)	Local Market
	(b)	Regional Market
	(c)	Rural Market
	(d)	National Market
	(e)	International Market
According to Volume of transaction	(a)	Retail Market
	(b)	Wholesale Market

19.3

1. (a) Marketing provides better products and services to the customers.
   (b) Marketing helps in making products available irrespective of time and place.
2. (a) iv (b) v (c) ii (d) iii (e) i

19.4

1. Grading is the process of seprating the products into different classes on the basis of certain predetermined standards relating to size and quality.
2. (a) Transportation (b) Storage and warehousing
   (c) Marketing research (d) Promotion of Product
   (e) Grading

DO AND LEARN

We use a number of products in our daily life. Make a list of any three such products and ask your friends and family members as to what tare their likes/dislikes about these products. Ask them to suggest changes in these products, which would make them more popular.

ROLE PLAY

Surinder is a successful businessman. During morning walk in the park, he met his neighbour, Amit, another businessman.

Surinder : Hello Mr. Amit, how is your business doing?

Amit : Surinderji, things are not very bright. I launched three ready to eat products one after another, but all failed in the market. I am very upset and confused.

Surinder : But did you analyse why it happened?

Amit : No, you can never predict Indian consumers' likes and dislikes.

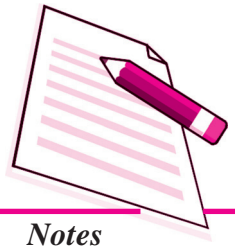
Surinder : No, you are wrong. Reason of failure of your products lies elsewhere. You must have given more emphasis on selling rather than marketing.

Amit : But, I think both are synonymous.

Surinder : Both are related terms but not synonymous.

Surinder explained to Amit the relationship between selling and marketing and the difference between the two.

Put yourself in place of Surinder and your friend in place of Amit and continue the conversation.



Notes

20

MARKETING MIX

In the previous lesson you learnt that marketing identifies consumers' needs and supplies various goods and services to satisfy those needs most effectively. So the businessman needs to: (a) produce or manufacture the product according to consumers' need; (b) make available it at a price that the consumers' find reasonable; (c) supply the product to the consumers at different outlets they can conveniently approach; and (d) inform the consumers about the product and its characteristics through the media they have access to.

So the marketing manager concentrates on four major decision areas while planning the marketing activities, namely, (i) products, (ii) price, (iii) place (distribution) and (iv) promotion. These 4 'P's are called as elements of marketing and together they constitute the marketing mix. All these are inter-related because a decision in one area affects decisions in other areas. In this lesson you will learn about the basic aspects relating to these 4'P's viz., product, price, place and promotion.

OBJECTIVES

After studying this lesson, you will be able to :

- explain the concept of marketing mix and its components;
- explain the meaning of product and its classification;
- state the various factors affecting pricing decisions;
- describe different methods of pricing;
- state the meaning of channels of distribution;
- identify the various channels of distribution;

- state the factors affecting choice of a channel of distribution; and
- explain the concepts of promotion and promotion mix.

20.1 CUSTOMER : KING OF THE MAEKET

Now a day the customer is considered as the king of the market. Thus all the firms should constrate on customers requirement and satisfaction. Now a day compinies are shaping seperate offers, services and messages to indiviusals customers. Many companies collect information on each customers past transaction, demographics, psyphographics, and media and distribution references. They hope to achieved profitable growth through capturing a larger share of each customers expenditure by building high customer loylty and focusing on customer life time value.

20.2 CONCEPT AND COMPONENTS OF MARKETING MIX

Marketing involves a number of activities. To begin with, an organisation may decide on its target group of customers to be served. Once the target group is decided, the product is to be placed in the market by providing the appropriate product, price, distribution and promotional efforts. These are to be combined or mixed in an appropriate proportion so as to achieve the marketing goal. Such mix of product, price, distribution and promotional efforts is known as 'Marketing Mix'.

According to Philip Kotler "Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response". The controllable variables in this context refer to the 4 'P's [product, price, place (distribution) and promotion]. Each firm strives to build up such a composition of 4'P's, which can create highest level of consumer satisfaction and at the same time meet its organisational objectives. Thus, this mix is assembled keeping in mind the needs of target customers, and it varies from one organisation to another depending upon its available resources and marketing objectives. Let us now have a brief idea about the four components of marketing mix.

- **Product :** Product refers to the goods and services offered by the organisation. A pair of shoes, a plate of dahi-vada, a lipstick, all are products. All these are purchased because they satisfy one or more of our needs. We are paying not for the tangible product but for the benefit it will provide. So, in simple words, product can be described as a bundle of benefits which a marketeer offers to the consumer for a price. While buying a pair of shoes, we are actually buying comfort for our feet, while buying a lipstick we are actually paying for beauty because lipstick is likely to make us look good. Product can also take the form of a service like an air travel, telecommunication, etc. Thus, the term product refers to goods and services offered by the organisation for sale.

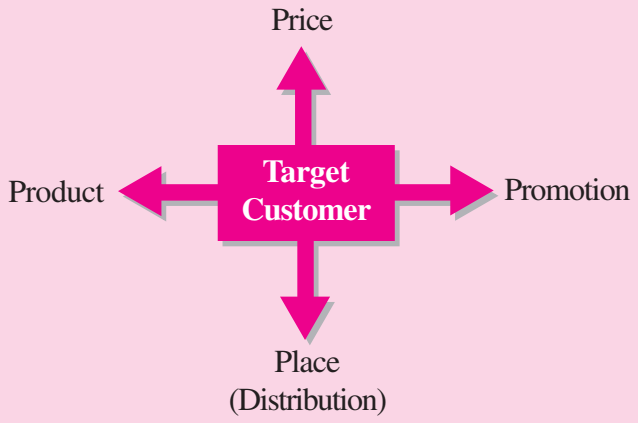
- **Price :** Price is the amount charged for a product or service. It is the second most important element in the marketing mix. Fixing the price of the product is a tricky job. Many factors like demand for a product, cost involved, consumer's ability to pay, prices charged by competitors for similar products, government restrictions etc. have to be kept in mind while fixing the price. In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm.

- **Place :** Goods are produced to be sold to the consumers. They must be made available to the consumers at a place where they can conveniently make purchase. Woollens are manufactured on a large scale in Ludhiana and you purchase them at a store from the nearby market in your town. So, it is necessary that the product is available at shops in your town. This involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm's distribution network (also called a channel of distribution). The organisation has to decide whether to sell directly to the retailer or through the distributors/wholesaler etc. It can even plan to sell it directly to consumers. The choice is guided by a host of factors about which you will learn later in this chapter.

- **Promotion :** If the product is manufactured keeping the consumer needs in mind, is rightly priced and made available at outlets convenient to them but the consumer is not made aware about its price, features, availability etc, its marketing effort

may not be successful. Therefore promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a product. It arouses potential consumer's interest in the product, compare it with competitors' product and make his choice. The proliferation of print and electronic media has immensely helped the process of promotion.

Marketing Mix : A bird's eye view



Having acquainted ourselves with the broad nature of the four components of marketing mix, let us now learn some important aspects of each one of these in detail in the following sections.

INTEXT QUESTIONS 20.1

1. List the four components of marketing mix
2. Give one word/phrase for the following statements :
   (a) The crucial decision area of marketing that has direct effect on demand for the product and profitability of the firm.
   (b) The component of marketing that relates to channels of distribution.
   (c) The components that are combined to achieve the marketing goal.
   (d) The goods and services offered by the organisation for sale.
   (e) The ingredient of marketing mix relating to informing, persuading and influencing a consumer to make choice of the product to be bought.

20.3 CONCEPT OF PRODUCT AND ITS CLASSIFICATION

As stated earlier, product refers to the goods and services offered by the organisation for sale. Here the marketers have to recognise that consumers are not simply interested in the physical features of a product but a set of tangible and intangible attributes that satisfy their wants. For example, when a consumer buys a washing machine he is not buying simply a machine but a gadget that helps him in washing clothes. It also needs to be noted that the term product refers to anything that can be offered to a market for attention, acquisition, or use. Thus, the term product is defined as "anything that can be offered to a market to satisfy a want". It normally includes physical objects and services. In a broader sense, however, it not only includes physical objects and services but also the supporting services like brand name, packaging accessories, installation, after sales service etc. Look at the definitions by Stanton and McCarthy as given in the box.

Product

"Product is a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants and services". ***..... William J. Stanton***

"A product is more than just a physical product with its related functional and aesthetic features. It includes accessories, installation, instructions on use, the package, perhaps a brand name, which fulfills some psychological needs and the assurances that service facilities will be available to meet the customer needs after the purchase". ***..... Jerome McCarthy***

Product Classification

Product can be broadly classified on the basis of (1) use, (2) durability, and (3) tangibility. Let us have a brief idea about the various categories and their exact nature under each head, noting at the same time that in marketing the terms 'product' and 'goods' are often used interchangeably.

1. Based on use, the product can be classified as:

(a) **Consumer goods :** Goods meant for personal consumption by the households or ultimate consumers are called consumer goods. This includes items like toiletries, groceries, clothes etc. Based on consumers' buying behaviour the consumer goods can be further classified as :

(i) ***Convenience Goods :*** Do you remember, the last time when did you buy a packet of butter or a soft drink or a grocery item? Perhaps you don't remember, or you will say last week or yesterday. Reason is, these goods belong to the categories of convenience goods which are bought frequently

without much planning or shopping effort and are also consumed quickly. Buying decision in case of these goods does not involve much pre-planning. Such goods are usually sold at convenient retail outlets.

(ii) ***Shopping Goods :*** These are goods which are purchased less frequently and are used very slowly like clothes, shoes, household appliances. In case of these goods, consumers make choice of a product considering its suitability, price, style, quality and products of competitors and substitutes, if any. In other words, the consumers usually spend a considerable amount of time and effort to finalise their purchase decision as they lack complete information prior to their shopping trip. It may be noted that shopping goods involve much more expenses than convenience goods.

(iii) ***Speciality Goods :*** Because of some special characteristics of certain categories of goods people generally put special efforts to buy them. They are ready to buy these goods at prices at which they are offered and also put in extra time to locate the seller to make the purchase. The nearest car dealer may be ten kilometres away but the buyer will go there to inspect and purchase it. In fact, prior to making a trip to buy the product he/she will collect complete information about the various brands. Examples of speciality goods are cameras, TV sets, new automobiles etc.

(b) **Industrial Goods :** Goods meant for consumption or use as inputs in production of other products or provision of some service are termed as 'industrial goods'. These are meant for non-personal and commercial use and include (i) raw materials, (ii) machinery, (iii) components, and (iv) operating supplies (such as lubricants, stationery etc). The buyers of industrial goods are supposed to be knowledgeable, cost conscious and rational in their purchase and therefore, the marketeers follow different pricing, distribution and promotional strategies for their sale.

It may be noted that the same product may be classified as consumer goods as well as industrial goods depending upon its end use. Take for example the case of coconut oil. When it is used as hair oil or cooking oil, it is treated as consumer goods and when used for manufacturing a bath soap it is termed as industrial goods. However, the way these products are marketed to these two groups are very different because purchase by industrial buyer is usually large in quantity and bought either directly from the manufacturer or the local distributor.

2. Based on Durability, the products can be classified as :

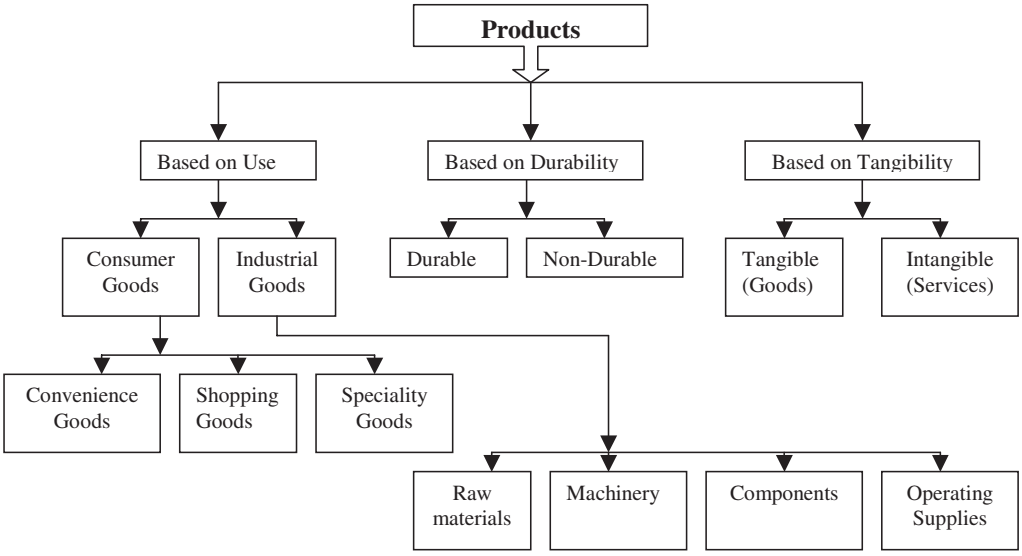
(a) **Durable Goods :** Durable goods are products which are used for a long period i.e., for months or years together. Examples of such goods are refrigerator, car, washing machine etc. Such goods generally require more of personal selling efforts and have high profit margins. In case of these goods, seller's reputation and pre-sale and after-sale service are important determinants of purchase decision.

(b) Non-durable Goods : Non-durable goods are products that are normally consumed in one go or last for a few uses. Examples of such products are soap, salt, pickles, sauce etc. These items are consumed quickly and we purchase these goods more often. Such items are generally made available by the producer through large number of convenient retail outlets. Profit margins on such items are usually kept low and heavy advertising is done to attract people towards their trial and use.

3. Based on tangibility, the products can be classified as:

(a) Tangible Goods : Most goods, whether these are consumer goods or industrial goods and whether these are durable or non-durable, fall in this category as they have a physical form, that can be touched and seen. Thus, all items like groceries, cars, raw-materials, machinery etc. fall in the category of tangible goods.

(b) Intangible Goods : Intangible goods refer to services provided to the individual consumers or to the organisational buyers (industrial, commercial, institutional, government etc.). Services are essentially intangible activities which provide want or need satisfaction. Medical treatment, postal, banking and insurance services etc., all fall in this category.



20.4 COMPONENTS OF PRODUCT MIX

In order to optimise the product requirements by the consumers, importance should be given to the following elements or components of product mix :

1. **Branding :** It is the process of using a name, sign, symbol or design to a product. A brand is an identification of a product. The part of the brand which can be spoken is called the brand name e.g., Detol, Nike etc. The part of brand which

cannot be spoken but can be recognised is the brand mark. e.g. arrow sign of Nike, star of Mercedz etc. A brand that is given legal protection against its use by other firms is called trade mark. e.g., is the trade mark of State Bank of India.

Customers demand the product by calling its brand name. For e.g. give one Lux, one Coke etc. Thus, it helps in product differentiation. Branding help companies to adopt differential pricing for its product. Customers are ready to accept that price because of its quality. Companies which use their brand name find it easy to market a new product.

2. **Packaging :** It is the act of designing and producing appropriate container or cover for the product.

   Level of Packing : There are three levels of packaging. These are:

   i. ***Primary Package :*** It refers to immediate packing of product. e.g., tube of ointment.

   ii. ***Secondary Package :*** It refers to additional packaging which gives protection to the product. e.g., Cardboard box used to keep ointment tube. Such containers and boxes are dispensed units where we start using the inside material from the primary package.

   iii. ***Transportation Packaging or Final Packaging :*** It refers to further packaging components necessary for storage or transportation. e.g., boxes of ointments are transported in corrugated boxes each containing 50/100 items.

   Packaging protects the product from damage. It helps to identify a product. It enables convenient handling of the product. As package increases the sale of a product, it acts as a silent salesman.

3. **Labeling :** Label is a part on the cover of the product which will devote its name, contents, ownership, expiry date, manufacturing date etc. A label helps in identifying the product. It is full of information about the product. It helps in grading the product. It attracts customers because of its colourful packing.

INTEXT QUESTIONS 20.2

1. Classify the following products into consumer goods and industrial goods and further classify them into convenience goods, shopping goods and speciality goods, if they are consumer goods :

   (a) Stationery for the office (b) Washing machine for use at home

   (c) A car for the family use (d) Oil for manufacturing soap

   (e) A pair of shoes for yourself

(f) An electric lift for lifting weight in the workshop

(g) A packet of biscuits for your breakfast

2. For the following categories of goods, give two examples of each, from the products that you see around you :

(a) Intangible goods (b) Durable goods (c) Non-durable goods

3. (a) The following words refers to tangible and intangible products. You are required to put these products into their right class in the appropriate boxes.

(i) Cricket Bat (ii) Ball (iii) Boarding a bus

(iv) 'Pollution check' (v) Pen

(vi) Getting medical advice from a Doctor

Tangible		Intangible

(b) The following is a list of durable and non durable consumer goods. You are required to put them in the appropriate boxes.

(i) Refrigerator (ii) Salt

(iii) Soap (iv) Washing Machine

(v) Television (vi) Cooking oil

(vii) Sauce (viii) Note Book

Durable		Non-Durable	

20.5 PRICING AND FACTORS AFFECTING PRICING DECISIONS

As stated earlier price is the consideration in terms of money paid by consumers for the bundle of benefits he/she derives by using the product/ service. In simple terms, it is the exchange value of goods and services in terms of money. Pricing (determination of price to be charged) is another important element of marketing mix and it plays a crucial role in the success of a product in the market. If the price fixed is high, it is likely to have an adverse effect on the sales volume. If, on the other hand, it is too low, it will adversely affect the profitability. Hence, it has to be fixed after taking various aspects into consideration. The factors usually taken into account while determining the price of a product can be broadly described as follows:

(a) **Cost :** No business can survive unless it covers its cost of production and distribution. In large number of products, the retail prices are determined by adding a reasonable profit margin to the cost. Higher the cost, higher is likely to be the price, lower the cost lower the price.

(b) **Demand :** Demand also affects the price in a big way. When there is limited supply of a product and the demand is high, people buy even if high prices are charged by the producer. But how high the price would be is dependent upon prospective buyers' capacity and willingness to pay and their preference for the product. In this context, price elasticity, i.e. responsiveness of demand to changes in price should also be kept in view.

(c) **Competition :** The price charged by the competitor for similar product is an important determinant of price. A marketeer would not like to charge a price higher than the competitor for fear of losing customers. Also, he may avoid charging a price lower than the competitor. Because it may result in price war which we have recently seen in the case of soft drinks, washing powder, mobile phone etc.

(d) **Marketing Objectives :** A firm may have different marketing objectives such as maximisation of profit, maximisation of sales, bigger market share, survival in the market and so on. The prices have to be determined accordingly. For example, if the objective is to maximise sales or have a bigger market share, a low price will be fixed. Recently one brand of washing powder slashed its prices to half, to grab a bigger share of the market.

(e) **Government Regulation :** Prices of some essential products are regulated by the government under the Essential Commodities Act. For example, prior to liberalisation of the economy, cement and steel prices were decided by the government. Hence, it is essential that the existing statutory limits, if any, are also kept in view while determining the prices of products by the producers.

20.6 METHODS OF PRICE FIXATION

Methods of fixing the price can be broadly divided into the following categories.

1. **Cost Based Pricing :** Under this method, price of the product is fixed by adding the amount of desired profit margin to the cost of the product. If a particular soap costs the marketeer Rs. 8 and he desires a profit of 25%, the price of the soap is fixed at Rs 8 + (8x25/100) =Rs. 10. While calculating the price in this way, all costs (variable as well as fixed) incurred in manufacturing the product are taken into consideration.

2. **Competition Based Pricing :** In case of products where market is highly competitive and there is negligible difference in quality of competing brands, price is usually fixed closer to the price of the competing brands. It is called 'young rate pricing' and is a very convenient method because the marketeers do not have to worry much about demand and cost and effect the change as per the changes by the industry leaders.

3. **Demand Based Pricing :** At times, prices are determined by the demand for the product. Under this method, without paying much attention to cost and competitors prices, the marketeers try to ascertain the demand for the product. If the demand is high they decide to take advantage and fix a high price. If the demand is low, they fix low prices for their product. At times they resort to differential prices and charge different prices from different groups of customers depending upon their perceived values and capacity to pay. Take the case of cinema halls where the rates of tickets differ for the different sets of rows in the hall.

4. **Objective Based Pricing :** This method is applicable to introduction of new (innovative) products. If, at the introductory stage of the products, the organisation wishes to penetrate the market i.e., to capture large parts of the market and discourage the prospective competitors to enter into the fray, it fixes a low price. Alternatively, the organisation may decide to skim the market i.e., to earn high profit by taking advantage of a group of customers who give more importance to their status or distinction and are willing to pay even a higher price for it. In such a situation they fix quite high price at the introductory stage of their product and market it to only those customers who can afford it.

INTEXT QUESTIONS 20.3

1. List the main factors affecting pricing decision of a firm.

2. Which method of price fixation is being referred to here :

   (a) Hari fixes the price of shirts that he manufactures and sells at a price 10% higher than its cost.

   (b) Mannat introduces a new brand of biscuits at a low introductory price.

   (c) Sheetal fixes the price of her glassware keeping in mind the prices for similar products in the nearby shops.

   (d) Rahul, a fruit-seller increases the price of mangoes if there is a heavy demand for them during the summer season.

   (e) Pinky charges a high price for the exclusive designer handkerchiefs that she designs for a selective group of customers.

(f) Jahanavi lowers the price of the vegetables at her shop in the evening, so that customers purchase them even when they are not as fresh as they were in the morning time.

20.7 CHANNELS OF DISTRIBUTION

You are aware that while a manufacturer of a product is located at one place, its consumers are located at innumerable places spread all over the country or the world. The manufacturer has to ensure the availability of his goods to the consumers at convenient points for their purchase. He may do so directly or, as stated earlier, through a chain of middlemen like distributors, wholesalers and retailers. The path or route adopted by him for the purpose is known as channel of distribution. A channel of distribution thus, refers to the pathway used by the manufacturer for transfer of the ownership of goods and its physical transfer to the consumers and the user/buyers (industrial buyers).

Stanton has also defined it as "A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business user". Basically it refers to the vital links connecting the manufacturers and producers and the ultimate consumers/users. It includes both the producer and the end user and also the middlemen/agents engaged in the process of transfer of title of goods.

Primarily a channel of distribution performs the following functions:

(a) It helps in establishing a regular contact with the customers and provides them the necessary information relating to the goods.

(b) It provides the facility for inspection of goods by the consumers at convenient points to make their choice.

(c) It facilitates the transfer of ownership as well as the delivery of goods.

(d) It helps in financing by giving credit facility.

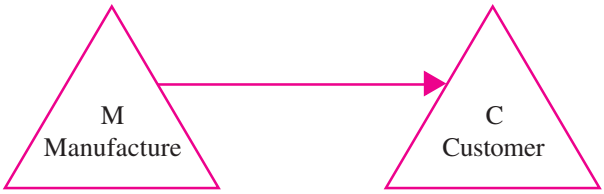
(e) It assists the provision of after sales services, if necessary.

(f) It assumes all risks connected with the carrying out the distribution function.

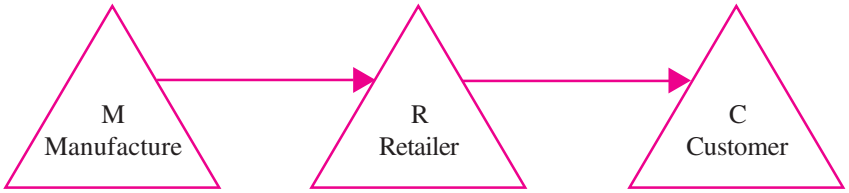
Types of Channels of Distribution

Generally we do not buy goods directly from the producers. The producers/ manufacturers usually use services of one or more middlemen to supply their goods to the consumers. But sometimes, they do have direct contact with the customers with no middlemen in between them. This is true more for industrial goods where the customers are highly knowledgeable and their individual purchases are large. The various channels used for distribution of consumer goods can be described as follows:

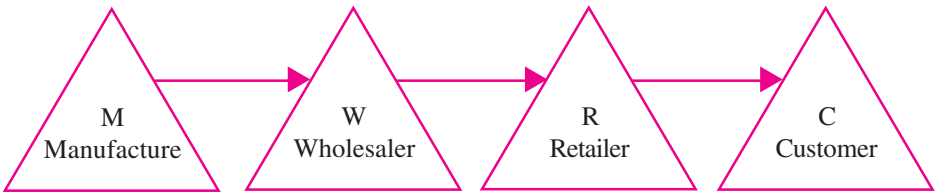
(a) **Zero Stage Channel of Distribution :** Zero stage distribution channel exists where there is direct sale of goods by the producer to the consumer. This direct contact with the consumer can be made through door-to-door salesmen, own retail outlets or even through direct mail. Also in case of perishable products and certain technical household products, door-to-door sale is an easier way of convincing consumer to make a purchase. Eureka Forbes, for example, sells its water purifiers directly through their own sales staff.



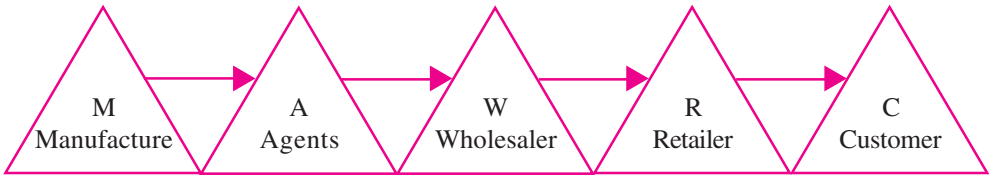
(b) **One Stage Channel of Distribution :** In this case, there is one middleman i.e., the retailer. The manufacturers sell their goods to retailers who in turn sell it to the consumers. This type of distribution channel is preferred by manufacturers of consumer durables like refrigerator, air conditioner, washing machine, etc. where individual purchase involves large amount. It is also used for distribution through large scale retailers such as departmental stores (Big Bazaar, Spensors) and super markets.



(c) **Two Stage Channel of Distribution :** This is the most commonly used channel of distribution for the sale of consumer goods. In this case, there are two middlemen used, namely, wholesaler and retailer. This is applicable to products where markets are spread over a large area, value of individual purchase is small and the frequency of purchase is high.



(d) Three Stage Channel of Distribution : When the number of wholesalers used is large and they are scattered throughout the country, the manufacturers often use the services of mercantile agents who act as a link between the producer and the wholesaler. They are also known as distributors.



INTEXT QUESTIONS 20.4

1. Give any four important functions performed by a channel of distribution.
2. Which type of channel of distribution will be suitable in each of the following cases? Name it and draw a labelled diagram (in the space given below) depicting the channel.
   (a) For a perishable product
   (b) Where large number of wholesalers are involved and are scattered throughout the country.
   (c) For durable products like washing machines.

20.8 FACTORS AFFECTING THE CHOICE OF DISTRIBUTION CHANNEL

Choice of an appropriate distribution channel is very important as the pricing as well as promotion strategy are dependent upon the distribution channel selected. Not only that, the route which the product follows in its journey from the manufacturer to the consumer also involves certain costs. This in turn, affects not only the price of the product but also the profits. Choice of inappropriate channels of distribution may result in lesser profits for the manufacturer and higher price from the consumer. Hence, the manufacturer has to be careful while finalising the channel of distribution to be used. He should pay attention to the following factors while making his choice.

(a) Nature of Market : There are many aspects of market which determine the choice of channel of distribution. Say for example, where the number of buyers is limited, they are concentrated at few locations and their individual purchases are large as is the case with industrial buyers, direct sale may be the most preferred choice. But in case where number of buyers is large with small individual purchase and they are scattered, then need may arise for use of middlemen.

(b) **Nature of Product :** Nature of the product considerably affects the choice of channel of distribution. In case the product is of technical nature involving a good amount of pre-sale and after sale services, the sale is generally done through retailers without involving the wholesalers. But in most of the consumer goods having small value, bought frequently in small quantities, a long channel involving agents, wholesalers and retailers is used as the goods need to be stored at convenient locations. Items like toiletries, groceries, etc. fall in this category. As against this in case of items like industrial machinery, having large value and involving specialised technical service and long negotiation period, direct sale is preferred.

(c) **Nature of the Company :** A firm having enough financial resources can afford to have its own distribution force and retail outlet, both. But most business firms prefer not to create their own distribution channel and concentrate on manufacturing. The firms who wish to control the distribution network prefer a shorter channel.

(d) **Middlemen Consideration :** If right kind of middlemen having the necessary experience, contacts, financial strength and integrity are available, their use is preferred as they can ensure success of newly introduced products. Cost factors also have to be kept in view as all middlemen add their own margin of profit to the price of the products. But from experience it is learnt that where the volume of sales are adequate, the use of middlemen is often found economical and less cumbersome as against direct sale.

20.9 PROMOTION

Promotion refers to the process of informing and persuading the consumers to buy certain product. By using this process, the marketeers convey persuasive message and information to its potential customers. The main objective of promotion is to seek buyers' attention towards the product with a view to:

- arouse his interest in the product;
- inform him about its availability; and
- inform him as to how is it different from others.

It is thus a persuasive communication and also serves as a reminder. A firm uses different tools for its promotional activities which are as follows :

- Advertising
- Publicity
- Personal selling
- Sales promotion

These are also termed as four elements of a **promotion mix**. Let us have a brief idea about these promotion tools.

1. **Advertising :** Advertising is the most commonly used tool for informing the present and prospective consumers about the product, its quality, features, availability, etc. It is a paid form of non-personal communication through different media about a product, idea, a service or an organisation by an identified sponsor. It can be done through print media like newspaper, magazines, billboards, electronic media like radio, television, etc. It is a very flexible and comparatively low cost tool of promotion.

2. **Publicity :** This is a non-paid process of generating wide range of communication to contribute a favourable attitude towards the product and the organisation. You may have seen articles in newspapers about an organisation, its products and policies. The other tools of publicity are press conference, publication and news in the electronic media etc. It is published or broadcasted without charging any money from the firm. Marketeers often spend a lot of time and effort in getting news items placed in the media for creation of a favourable image of the company and its products.

3. **Personal selling :** You must have come across representatives of different companies knocking at your door and persuading you to buy their product. It is a direct presentation of the product to the consumers or prospective buyers. It refers to the use of salespersons to persuade the buyers to act favourably and buy the product. It is most effective promotional tool in case of industrial goods.

4. **Sales promotion :** This refers to short-term and temporary incentives to purchase or induce trials of new goods. The tool include contests, games, gifts, trade shows, discounts, etc. Sales promotional activities are often carried out at retail levels.

INTEXT QUESTIONS 20.5

1. What are the main objectives of promotion? List them.
2. State the main factors affecting the choice of distribution channels.
3. Which element of the promotion mix is being referred to in the following statements.
   (a) It is a temporary incentive to induce trial or purchase of a new product.
   (b) It does not cost money but may involve considerable time and effort by the marketeer.
   (c) It is an effective promotion tool for machines, lubricant etc.
   (d) Press conference, publications and news in the electronic media are its various tools.
   (e) It is a paid form of non-personal communication by an identified sponsor.

(f) It is done through popular media like radio, television, magazines, newspapers etc.

4. Multiple Choice Questions :

i. To which tool of marketing mix does 'Brand Name' relate?

a) Product b) Price

c) Place d) Promotion

ii. Identity the philosophy in management which suggests that aggressive selling and promotional efforts are needed to sell product.

a) Production concept b) Product concept

c) Sales concept d) Societal concept

iii. A cool drinks manufacturing company is using chemicals to make its product (cool drinks), name the marketing philosophy which is ignored here.

a) Production concept b) Product concept

c) Sales concept d) Societal concept

WHAT YOU HAVE LEARNT

- The mix of product, price, place (distribution) and promotional efforts is known as 'Marketing Mix'.
- Product is defined as anything that can be offered to a market to satisfy a want. It not only includes physical objects and services but also the supporting services like packaging, installation, after sales services etc.

1. Based on use, products can be classified as

(a) **Consumers goods** meant for personal consumption by the households or ultimate consumers. Based on buying behaviour of consumers, they can be further classified as (i) Convenience goods; (ii) Shopping goods; and (c) Speciality goods.

(b) **Industrial goods** are meant for consumption or use as inputs in production of other products or provision of some service.

2. Based on **durability,** products can be classified as

(a) Durable goods; and (b) Non-durable goods.

3. Based on **tangibility,** they are classified as

(a) Tangible goods, and (b) Intangible goods

- Price is the consideration in terms of money, paid by consumers for the bundle of benefits he/she derives from use of product/services. The factors determining price of a product are- cost, demand, competition marketing objectives and government regulation.
- The different methods of price fixation are :
  1. Cost based pricing : Price is fixed by adding a desired amount of profit margin to the cost of the product.
  2. Competition based pricing : Price is fixed keeping in mind the price of competing brands.
  3. Demand based pricing : Prices are determined by the demand for the product.
  4. Objective based pricing : Here prices for new (innovative) products are kept low. Where the organisation decides to skim the market, prices are kept high.
- Channels of distribution are a vital link between manufacturers/producers and the ultimate consumers/users. It includes the middlemen/agents engaged in the process of transfer of title of goods. It helps in establishing regular contact with customers, facility for inspection of goods, transfer of ownership and delivery, it helps in financing, provision of after sales services and it assumes all risks connected with the distribution function.
- The various channels used for distribution of consumer goods are :
  (a) Zero stage channel : Manufacturer → Consumers
  (b) One stage channel : Manufacturer → Retailer → Consumers
  (c) Two stage channel : Manufacturer → Wholesaler → Retailer → Consumers
  (d) Three stage channel :
  Manufacturer → Agent → Wholesaler → Retailer → Consumers
- Factor affecting choice of distribution channel :
  - Nature of market
  - Nature of product
  - Nature of the company
  - Middlemen consideration
- Promotion is an applied communication used by marketeers to convey persuasive messages and information between the firm and its potential customers.

The different tools used for promotional activities are :

1. **Advertising :** It is a paid form of non-personal communication through different media about a product, idea, service or organisation, by an identified sponsor.
2. **Publicity :** It is a non-paid process of generating wide range of communication to contribute a favourable attitude towards the product and the organisation.
3. **Personal selling :** It is a direct presentation of the product to the consumers or prospective buyers.
4. **Sales promotion :** It refers to short term and temporary incentives to purchase or induce trials of new goods. For example, games, contests, gifts and discounts.

- Production concept suggests to sell the product by producing inexpensive products.
- Product concept emphasises on production of quality products.
- Selling concept suggests to sell what is produced.
- Marketing concept insist of designing product according to the taste of customer. It helps to give customer satisfaction.
- Societal concept insist to consider social goal with customer satisfaction.
- Branding is the process of using a name, term, symbol or design to identify the product.
- Packaging includes all the activities which are involved in making a container and protecting a product.
- Labeling provide a detailed information about a product.
- Various elements of promotion are advertising, sales promotion, personal selling and publicity.
- Publicity is a non-paid communication which gives information about a product.

KEY TERMS

Marketing Mix	Consumer goods	Durable goods
Product	Convenience goods	Non-durable goods
Price	Shopping goods	Tangible goods
Place	Speciality goods	Intangible goods
Promotion	Industrial good	Advertising
Publicity	Personal selling	Sales promotion

TERMINAL EXERCISE

Very Short Answer Type Questions

1. Define the term 'Advertising'.
2. What is meant by the term 'product'?
3. Give two examples each of tangible products and intangible products.
4. What are speciality goods? Give one example.
5. Define the term 'promotion'.
6. What do you mean by labeling?
7. What is the purpose of packaging a product?
8. What is meant by the 'product concept of marketing'?

Short Answer Type Questions

9. What are 'convenience goods' and 'shopping goods'. Explain giving examples for each type.
10. Explain 'cost based pricing' and 'objective based pricing'.
11. State four functions performed by channel of distribution.
12. Describe the various factors affecting choice of distribution channels.
13. What are durable and non-durable goods? Give two examples of each of them.
14. Write short notes on the elements of promotion.
15. State the functions of packaging.

Long Answer Type Questions

16. What is meant by Marketing Mix? Describe the four components of marketing mix.
17. Describe the classification and sub-classification of products on the basis of their use.
18. Explain the four broad methods of price fixation of a product.
19. 'Promotion includes four main tools'. Explain each of these tools.
20. "Channels of distribution are a vital link between manufactures and consumers". Describe this statement with the help of diagrams by mentioning the four types of channels of distribution.
21. 'Developing the product according to customer needs is an important concept of marketing management'. Explain briefly.
22. Differentiate between Publicity and Advertising.
23. Explain briefly the components of product mix.
24. Critically examine the objections of advertisement.

ANSWERS TO INTEXT QUESTIONS

20.1

1. (a) Product (b) Price (c) Place (d) Promotion

2. (a) Price (b) Place (c) Marketing mix
(d) Product (e) Promotion

20.2

1. (a) Industrial goods
(b) Consumer goods- shopping goods
(c) Consumer goods - speciality goods
(d) Industrial goods
(e) Consumer goods - shopping goods
(f) Industrial goods
(g) Consumer goods - convenience goods

2. (a) banking, insurance or any other suitable example
(b) car, washing machine or any other suitable example
(c) salt, pickles, soap or any other suitable example

3. (a)

Tangible	**Intangible**
(i) Cricket bat	(iii) Boarding a bus
(ii) Ball	(iv) Pollution check
(v) Pen	(vi) Getting medical advice from a doctor

(b)

Durable	**Non-durable**
(i) Refrigerator	(ii) Salt
(iv) Washing machine	(iii) Soap
(v) Television	(vi) Cooking oil
(vii) Sauce	
(viii) Note book	

20.3

1. (a) Cost (b) Demand (c) Competition
(d) Marketing objectives (e) Government regulation

2. (a) Cost based pricing (b) Objective based pricing
(c) Competition based pricing (d) Demand based pricing
(e) Objective based pricing (f) Demand based pricing

20.4 2. (a) Zero stage channel of distribution
(b) Three stage channel of distribution
(c) One stage channel of distribution

20.5 1. (a) arouse buyer's interest in the product
(b) inform buyer about its availability
(c) inform him/her how it is different from other products

2. (a) Nature of market (c) Nature of product
(b) Nature of the company (d) Middlemen consideration

3. (a) Sales promotion (d) Publicity
(b) Publicity (e) Advertising
(c) Personal Selling (f) Advertising

4. (i) a (ii) c (iii) d

DO AND LEARN

Make a list of atleast five different types of products. Classify them into the product categories that you have studied (viz. consumer goods, industrial goods, durable and non-durable, tangible and intangible goods)

Find out about the type of channel of distribution that is used for these five products. Also, find out about the promotional activities that generally associated with the products.

Note your findings and tabulate them as follows :

Name of the product	*Product category According to (a) use (b) durability and (c) tangibility*	*Type of channel of distribution used*	*Promotional activities*

ROLE PLAY

Mani and Prasad are good friends. Mani is a marketing executive working for an MNC and Prasad is a small scale businessman making plastic toys:

Mani : Hi Prasad! How are you?

Prasad : Hello ! Mani, nice to see you.

Mani : How you business going on?

Prasad : Not very well.

Mani : Why?

Prasad : For the past 3 years my sales turnover has not increased. It is quite disturbing.

Mani : I understand, but tell me how is your distribution of the product done.

Prasad : I sell the toys in the local market and in the nearby town. I have a dealer. Thats it.

Mani : No, you have to analyse your distribution channel. Let us sit down and do some work. I think you should have at least three channels of distribution.

Prasad : Why?

Play the role of Mani and explain to Prasad the three suitable channels he should adopt for the plastic toys.

Notes

21

ADVERTISING AND SALESMANSHIP

In TV, radio, cinema hall, newspapers and magazines, you observe a number of advertisements. These advertisement relate to a variety of products ranging from daily use items like oil, soap, shampoo, clothes to durable goods like television., refrigerator, automobile etc. For each product, a number of companies advertise their brand, as in case of washing powder, Surf, Ariel, Wheel, Doctor, Nirma etc, and in case of television, Videocon, Sony, BPL, LG etc.

The main purpose of advertising is to inform the prospective customers about the availability, quality, price etc. of the products and motivate them to buy. Besides advertising, sales promotion and personal selling are the other tools commonly used by the firms for promotion of their products. In this lesson, we shall learn about all these elements of the promotion mix.

OBJECTIVES

After studying this lesson, you will be able to:

- define advertising;
- differentiate between 'Advertising' and 'Publicity';
- explain the objectives of advertising;
- describe the advantages and limitations of Advertising;
- identify the various advertising media and their suitability;
- explain the meaning and importance of personal selling;
- state the qualities of a good salesman;
- describe the meaning and objectives of sales promotion and
- identify the various tools used in sales promotion.

21.1 ADVERTISING

While watching a movie in the cinema hall or a television at home you must have noticed that suddenly there is a break and a model appears on the screen displaying a product, indicating its special features, prices etc. This is followed by similar appearances relating to other products before the movie is resumed. These displays are known as advertisements which are used by different firms to inform a targeted group of customers about their product, its quality, availability, price etc. Likewise, you come across a number of advertisements for a variety of products in the newspapers and magazines. These are impersonal messages duly paid for, by firms to an audience who may be the current or prospective buyer of goods.

According to American Marketing Association "Advertising is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor."

Thus, advertising is

(i) **Paid form of Communication :** Advertisements appearing in the newspapers, television, cinema halls etc. are duly paid for. The firms have to pay huge amounts for use of space in newspaper or time slot in television and radio etc.

(ii) **Non-personal Presentation of Message :** In advertisements there is no face to face communication as it happens in case of personal selling. These are presentations through mass media and as such are impersonal in nature.

(iii) **The Idea is to Promote Goods or Services :** Advertising is done with a specific objective of promoting a product or service and increase their sale.

(iv) **Issued by an Identified Sponsor :** The advertisers who sponsor the advertisement are duly identifiable in the advertised messages. Take the case of advertisement of Lifebuoy soap on TV wherein the name and symbol of HUL also appears.

Product	*Sponsor*	*Media*
Lifebuoy	Hindustan Unilever Ltd.	TV/Radio/Newspaper
Chyawanprash	Dabur India Ltd.	TV/Newspaper
Tide	Proctor & Gamble	TV/Newspaper

21.1.1 Publicity

Publicity is like advertising. But it is the news carried in the mass media about a product or about an organisation. But money is not paid for it publicity. Publicity can be positive or negative. Maggi Ketch-up and Maggi Masala gained popularity due to favourable publicity about Maggi Noodles. But there was substantial decline in the sales of chinese plastic toys after news reports of harmful materials in the plastic toys.

So we can say publicity is a powerful tool of communication as it can make or break a product/company.

21.1.2 Distinction between Advertising and Publicity

Advertising is different from publicity which is a communication of any significant information about a company or its product to the public through non-personal media without any payment by the concerned business firm. Thus, publicity is basically an information about the product, service or a business firm which is communicated voluntarily by the media and is of commercial significance to the firm. The information may be passed through media like magazines, newspapers, radio, T.V. in the form of debates, discussions, news items, reports, editorials etc. The company does not pay anything to the media for such activities. Look at the following.

1. While reading the newspaper you may get a news about an ongoing trade fair in your state. It talks about the products of different companies exhibited there. After reading this news item you may feel interested in having a look at or buying one or more of these products.

2. In a newspaper there may be a column on review of movies. You read the ratings given to different movies by a critics and at times, feel interested in watching a particular movie.

3. In the television news, sometimes we get information about the quarterly financial results of companies. This may motivate us to buy shares of such companies.

In all the above instances there is information about the product or services or the firm which is communicated through print or electronic media, leading to significant responses by the public. Can it be called advertising? But, these are non-sponsored and have not been paid for. As such, these are instances of publicity, and not advertising.

Difference between Advertising and Publicity

	Advertising	*Publicity*
1. Payment	It is a paid form of dissemination of information. The firm has to pay for the use of space and time.	The sponsor does not make any payment to the media as the information is published/ communicated voluntarily.
2. Identified Sponsor	There is an identified sponsor, that is, the business firm which wants to advertise it's products or services.	There is no identified sponsor. Media communicates the information as it considers it newsworthy.

3. Control	The advertising firm has full control over the content, type, size, duration and frequency of the message.	The concerned firm has no control over the contents, type, and size of the information.
4. Purpose	It is intended to give favourable and positive impression about the company and its products.	This may have favourable or unfavourable impression on the public about the company and its products.

21.1.3 Objectives of Advertising

The main objective of advertising is to help a business firm to promote its products and increase the sales. But, there are some other goals also which a firm can achieve with the help of advertising. The objectives to be achieved through advertising are as follows:

1. **Introduction of new product :** Business firms keep on introducing new products in the market and have to inform the prospective customers about its features, price, usage, availability etc. Advertising not only attracts their attention but also helps them in forming an opinion about the product and making the best purchase decisions.

2. **Increase in sale :** Advertising helps in increasing the sale of firm's products. It also helps in turning non-users of products to users of products and also in attracting the consumers of competitor's products. Business firms make use of advertising to inform the consumers about the advantages and superiority of their product.

3. **Maintaining existing buyers :** Now-a-days new products keep on entering in the market at a fast pace and consumers tend to switch over to the new products. Advertising is used to remind the consumers about how good their products or services are and that they are still in the market as old and reliable ones. The idea is to prevent decline in the sale of their product in the market.

4. **Create and enhance goodwill of the firm :** Advertising helps in building reputation of the business house. Through advertising, the firms can communicate their achievements to the consumers and clarify any misconceptions or doubts in the mind of the public about themselves or their products, if any. This helps in creating a good image of their firm in the minds of consumers, workers, investors, government and so on.

5. **Dealer support :** Another objective of advertisement is to provide the necessary support to firm's dealers and distributors. Hence some advertisements, besides the information about the product characteristics, price etc., include a list of dealers and distributors.

6. **Create and enhance brand image :** Advertising is also used for creating a brand image which helps in building customers' loyalty. When customers develop brand loyalty, they do not shift to other brands easily. Brand image gets enhanced with repeated advertisements.

7. **Helps in personal selling :** Advertising facilitates the process of personal selling. The salesperson's job is made easier if the customer has familiarity with the product. This is achieved through advertising. A customer is more receptive to the salesperson if he/she already has some idea about the product.

INTEXT QUESTIONS 21.1

1. The following sentences give the characteristics of advertising and publicity. You are required to put 'A' for characteristics of advertisement and 'P' for publicity in the boxes given against each sentence.

   (a) It is paid form of dissemination of information. ☐

   (b) There is no identified sponsor. ☐

   (c) There is an identified sponsor. ☐

   (d) This may leave favourable or unfavourable impression on the public about the company and its products. ☐

2. Read the following and indicate which objective of advertising is the company trying to achieve.

   (a) A washing powder manufacturing company issuing an advertisement about protection of the girl child.

   (b) A consumer durables company bringing out an advertisement giving a list of dealers selling its products.

   (c) A company using a celebrity to advertise their product.

   (d) A company manufacturing technical products issuing an advertisement showing use and operation of its products.

21.1.4 Advantages of Advertising

In today's competitive world there are innumerable products competing with each other. Hence, it is necessary that information regarding features, prices and availability of the product is frequently communicated to the consumers so as to ensure a reasonable market share for the manufacturer. Not only that, it also helps the consumers to make a right choice. So, advertising today benefits not only the business houses who manufacture the products but also the consumers and society. Let us now have a brief idea about how advertising benefits the manufacturers, consumers and the society.

Benefits to Manufacturers

Advertising helps the manufacturers in introducing new products, maintaining customers of existing products and in increasing their sales by attracting new customers. It also helps the business houses in creating and enhancing their goodwill. It makes the job of salespersons easier by keeping the customer informed about the product. Advertising is an important tool for fighting competition in the market effectively by giving the customers a comparative picture of its products vis-a-vis the competitors' products.

Benefits to Consumers

Advertising helps the consumers to gain useful information about the products, prices quality, terms of sale, after sales services, etc. Besides providing such information advertising also guides the customers about the right use of the product. This helps them to make a comparative analysis and make their choice. Not only that, advertising is the main source of information for those who live in remote areas and cannot be easily approached by salespersons.

Benefit to Society

The enhanced competition resulting from advertising motivate the producers to make improvements in their existing products and find out better alternatives through Research and Development (R&D) activity. So it helps in providing more convenience, comfort, better life style to the people. Advertising also works as a guide and teacher for people who do not know about many products and their multiple uses, if any. It generates employment for thousands of people who are connected with advertising world in different capacities. Not only that, advertising generates huge revenue for both print and electronic media. This helps the availability of newspapers, magazines and television programmes at affordable prices.

21.1.5 Limitations of Advertising

Many people consider advertising to be a wasteful activity and something harmful for the customers and the society in many ways. Their arguments against advertisement are as follows:

(i) **Advertising multiplies wants :** People tend to desire and buy products as they see in advertisement even if they do not actually need or afford them. This multiplication of wants may put them under financial and psychological pressure.

(ii) **Advertising adds to the cost and price of product :** Money spent on advertising eventually results in increased cost of the product, which is passed on to the consumers through increased prices. You must have noticed that the brands which are advertised heavily in different media are found to be priced higher as compared to those which are not so heavily advertised.

(iii) Creation of monopoly : Business firms which can spend heavily on advertising are usually the ones who grab a bigger share of the market. Such firms generally have a monopoly which results in unequal opportunity for small producers to make a place for themselves in the market. They do not get a fair opportunity to compete.

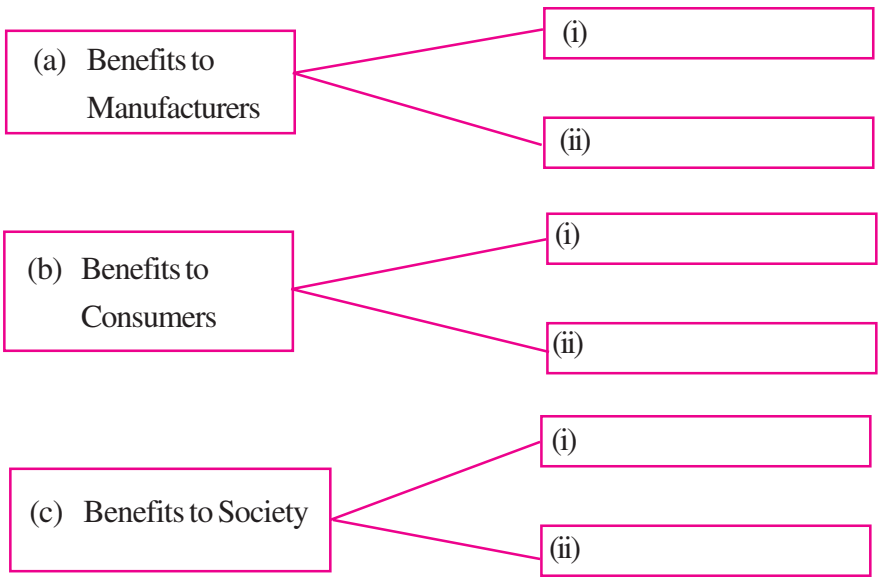
(iv) Advertising may affect the value-system of society : Advertising may introduce ideas or concepts alien to our culture. These new values generated or propagated by advertising may affect our social, moral and ethical values adversely. Objectionable appeals like sex, horror etc. are sometimes used in advertisement to attract attention.

(v) Motivation for wrong or dangerous deeds : The way advertisements project people consuming liquor, cigarettes or pan-masala, may feel tempted by the people to try and then get addicted to such products which are not good for health. Similarly, models are shown doing dangerous acts like jumping from the top of a hill which some children may try to copy and may face the accidents.

(vi) Advertising may not increase overall demand : Advertising does not always increase demand. In many cases, a number of firms manufacturing similar products may advertise vigorously. This may not result in an increase in the total demand for the product but simply shift demand from one brand to another.

INTEXT QUESTIONS 21.2

1. In the flow charts given below, the benefits of advertisement are given under three heads. You are required to state two important points of benefit under each head.



2. State any four limitations of advertising.

21.1.6 Media of Advertising

Advertising media are the means through which messages regarding products and services are transmitted from the advertising firm to people at whom that product is targeted. Many types of media are available for the purpose. These are enumerated below.

- **Newspapers :** Newspaper is a good means of advertising since a big proportion of our country's population read newspapers published in Hindi, English and the various regional languages.

  Newspaper is the most suitable media for advertising consumer products used by masses. Such products include durables like TV, Refrigerator, Cycle, Scooter, Washing Machine etc. and non-durables like soaps, shampoos, oils, etc. It is also suitable for advertising many services like banking, insurance, transportation, etc. However, it is not suitable for advertising products which have limited number of buyers like industrial products or products used by specific professionals like engineers, doctors etc. Similarly, there are very few buyers for products like art & crafts, expensive designer jewellery, furniture etc. For such products, advertising in the newspaper is not considered appropriate.

- **Television :** Television is an important source of entertainment. It shows varieties of programme in different channels and in different languages for 24 hours in most cases. Hence advertising of different products can be done on different channels during the day as well as night. It has the ability to attract the attention of different segments of consumers according to their viewership. For example, products used by children such as chocolates, school bags, chewing gums, toys, play school etc. can be advertised during programmes like cartoon network, story telling etc. Similarly, household products and cosmetics can be more effectively advertised during programmes watched by women in the family. It is a medium of advertising with a lot of flexibility and reach as visuals are more effective than audio and print media. It has the added advantage of reaching out to the illiterate consumers.

  Just like newspapers, this medium can be used for products of mass-use, like consumer durables, non-durables etc. But it cannot be used effectively and efficiently for specialised products meant for professionals or for industrial products. For introduction of new products, repeated advertising in television programmes is of immense help. However, the major limitation of this medium is the heavy cost. Hence, only large enterprises are in a position to use this media.

- **Radio :** Radio is the most common source of entertainment for rural masses and the people in the semi-urban areas. However, the addition of FM radio has brought back the lost importance of radio in urban areas. The radio programmes too have

a lot of advertising before and during the programme. Krishi Sandesh programme (for farmers) for example has advertisements on pesticides, fertilizer, tractors etc. Advertising on radio is popular in India because a number of villages do not have electricity and television transmission facility. Hence radio still remains a popular medium of advertising for rural people. Like television, radio is also a source of entertainment, news and views. But, arrival of large number of channels on television has reduced the popularity of radio and consequently its use for advertising.

- **Magazines and Journals :** Magazines and Journals are the print media of advertising. These are published periodically i.e., weekly, fortnightly, monthly, quarterly, half yearly or annually. Their circulation is limited and most magazines are generally targeted at specific segment of readers. Hence, advertisers use this media selectively according to the target customers to be reached. For example, the health care products can be advertised in magazines like Health and Nutrition, sports goods in magazine like Sports Star, medicines and medical equipment in different medical journals and so on.

- **Films :** Films are an important source of entertainment in India and as such an important medium of advertisement. Advertisements are generally shown before the start of the show or during interval. It can be used for advertising products of mass consumption like cosmetics, toiletries, medicines, etc. People from all strata of society visit cinema halls. But with limited reach, this is a comparatively costly medium.

- **Outdoor Advertising :** While travelling by bus or train, you must have noticed a number of advertisements on the walls, billboards, outside and inside the buses and trains. Even while walking on the road you must have seen advertisement of different products, shops, schools, coaching institutes, written on the back of a scooters, rickshaws, and buses etc. These are examples of outdoor advertising which are usually in the form of hoardings, displays on walls of buildings, public places like railway station etc., and are generally used for advertising products like shoes, lotions, creams, fans, cycles etc. They are also done through electronic displays. Lights and neon signs are used during night at different places with advertisement messages illuminating at regular interval. Another media of advertisement in outdoor advertising is vehicular displays. The space outside buses, company trucks (used to carry own company's products) can be used to attract and inform the customers about the product, availability, price etc. It may be noted that the cost of hoardings/neon signs etc. is quite high due to heavy initial expenditure on their preparation and installation. The rent paid for locating these at public places is also quite high. Despite this, all outdoor media are less expensive as compared to print, television and radio advertising. However, their reach is highly limited.

INTEXT QUESTIONS 21.3

1. Complete the following table by writing the names of the products advertised most frequently in the given medium.

Medium	*Products Advertised*
Newspaper	1. 2. 3.
Television	1. 2. 3.
Radio	1. 2. 3.
Magazines	1. 2. 3.

2. Which medium/media of advertising will be most suitable in the following cases:

   (a) For advertising products of mass consumption for all strata of the society.

   (b) To reach a selective target group or a specific segment of readers.

   (c) To catch the attention of people at traffic lights, in traffic jams or when they are travelling by train.

   (d) To reach out to illiterate consumers as well as to use the visual medium effectively.

   (e) To reach a wide range of the literate population of the country.

   (f) For advertising to people in rural, semi-urban and the urban areas.

21.2 SALESMANSHIP

Once your friend had gone to a readymade garment shop to buy a pant for his younger brother. The salesperson showed him the latest collection of garments. By the time the process of sale concluded, he had also purchased one for him. The reason for such unplanned purchase was the effect of salesmanship. The salesperson at the counter first assessed his interest in the new fabric available and then persuaded him to buy it. This whole exercise of assessing our need, activating it and ultimately satisfying it by selling the product to us is termed as salesmanship or personal selling. It is a process of assisting and persuading the prospective customers to buy a product in a face-to-face situation. In other words, salesmanship simply means selling through personal communication. For successful selling the salesperson usually goes through a selling process which involves the following seven steps.

(i) Prospecting

↓

(ii) Pre approach

↓

(iii) Approach

↓

(iv) Presentation and demonstration

↓

(v) Answering the queries/objections and their clarification

↓

(vi) Action or ending the process of sale

↓

(vii) Follow up or after sales service

Prospecting refers to identifying the prospective buyers in his area of operation. Having done this, he has to obtain the necessary information about the customer, his capacity to pay, choice and preferences etc. After this, in pre-approach activity he approaches the customer to gain his attention, greet him and make his presentation i.e., inform the customer about the product, its qualities, price etc. and demonstrate its use, if required. Then he handles the customers queries, persuades him to make his final decision and ends the process of sale with receiving his order and thanking him. Finally he ensures the delivery of goods and provides the necessary after sales service.

21.2.1 Importance of Salesmanship

The flow of goods from the producers to the consumers may not be possible without the involvement of salespersons. The salespersons play an important role in the process of sale. Starting from the conversation with the consumer to effecting a sale they actually act as an important link between the manufacturer and the consumer. They ensure the sale of products and so also provide satisfaction to customers. Thus, it is not only the business houses which benefit from salesmanship but also the consumers and the society. The benefits of salesmanship are discussed below :

1. **Benefits to Consumers :** A salesperson acts as a friend and guide to the consumers. By making conversation with salesperson, the customer gets help in identifying the product of his need and the price range that suits him. The salesperson explains to the customers the uses and the operational aspects of a product. By giving the requisite information about the company and the product, the salesperson provides confidence to the customers to try something new which might be better and/or cheaper. The salesperson also provides the necessary after sales service to the customers.

2. **Benefits to the Business :** Salesmanship helps a business in increasing its sales. Identification of new customers and persuading them to buy can be done effectively through personal selling. Since the salesperson comes in direct contact with the customers, understands the needs and preferences of the customers and thus, can help the businessman in planning for the right type of products and effecting the necessary improvements therein.

   In case of products of technical nature the role of salesmanship is very important as the salesperson can personally explain the functioning of the product, its use and precaution to be taken in its use. This ensures proper handling of the product, and boosts customer's confidence in his choice of the products.

3. **Benefits to the Society :** Salesmanship facilitates the process of production, distribution and consumption. Salespersons help in collecting market information, credit information, delivering goods and collecting payments. It helps in matching demand with supply because they know what the consumers want. They also inform the consumers about the introduction of new products, if any. By increasing sales, they help in the growth of business.

21.2.2 Qualities of a Good Salesperson

In the market you find a number of shops selling the same product but you prefer to go to a particular shop only. Why? This happens primarily because of the way the staff of the shop attend to you. The salesperson at the counter welcomes you with a smile, shows keen interest in your purchase and explains about the different varieties of the

product in such a way that it become easier for you to take a decision. So, besides the availability of the product, its price etc., it is the good salesmanship that makes a difference and builds your preference for a shop. Let us now understand the basic qualities which a salesperson must possess to be able to attract and retain a customer like you. Salesmanship is a tough and challenging job which requires a mixture of physical and mental qualities. Some of the common qualities which a salesperson must possess are as follows.

(a) **Good Personality :** Personality is a mixture of many traits like physical appearance, dressing-up, way of talking, manners, pitch of voice, habits etc. Personality of a salesperson should be such that the moment he/she comes in contact with the customer, he/she looks amiable with whom the customer is at least ready to start a conversation.

(b) **Mental Qualities :** A salesperson must have the quality of alertness, imagination, foresightedness, empathy etc. He should have the ability to read the customer's mind and behave accordingly. There may be certain doubts or apprehensions in the mind of the customer regarding the product. Only a salesperson with these mental qualities will be able to solve the customer's problems. A good salesperson should be able to match the product with the customer's need and ability to pay.

(c) **Good Behaviour :** A salesperson should be a well behaved person having ability to interact with people comfortably. He/she should be cooperative so that he/she can help people in making up their minds by patiently answering all their questions. Patience and humility will help him/her in not only holding the attention of the customer but also in getting them interested in purchasing the product.

(d) **Knowledge :** While buying a television set normally we ask the salesperson a number of questions about the features of the latest model. If the salesperson fails to answer our queries or if we are not satisfied with the reply, we may leave that shop and visit another shop where all of our queries are answered by the salespersons. This is possible only when the salesperson has detailed knowledge about the product. He/she should know every detail relating to the product and the company he/she is representing. He/she should be able to explain the various features of the product, the way it is to be used and the precautions to be taken and so on. Knowledge about competitors' product is also a must so that the salesperson can explain the superiority of his/her product.

(e) **Ability to communicate and persuade :** If a salesperson can communicate properly and effectively then he/she will be able to clear the biggest hurdle of making the prospective customer listen to him/her. The salesperson must speak confidently, clearly and audibly. Good communication ability coupled with good knowledge about the product helps the salesperson in persuading the customer to buy.

(f) Persistence : The salesperson must know the art of persistence. It requires a sense of determination to convince the customers to buy. He/she must not give up easily. Without being offensive, he/she must persuade the customer to finalise the purchase with a sense of satisfaction.

INTEXT QUESTIONS 21.4

1. Complete the flow chart

A

↓

Pre-approach

↓

Approach

B

↓

Answering the queries/objections and their clarification

↓

C

↓

After sales service

2. State briefly the benefits of salesmanship to:

   (a) Consumers

   (b) Business

   (c) Society

3. List any six qualities of a good salesperson.

21.3 SALES PROMOTION

In the market, sometimes we see the special offer like 'Buy one get one free offer'; on a particular brand of tea there was 50 gm. extra in a 250 gm pack or one glass or bowl free with 500 gm. pack. There are innumerable examples where the manufacturer or the seller tries to tempt you to buy his product by offering discounts, extra quantity or a chance to win grand prizes, etc. All such activities are known as sales promotion.

All promotional activities other than advertising, salesmanship and publicity which help in increasing the market demand of the product are called sales promotion. It is a non-repetitive and one time communication process. According to **American Marketing Association** "Sales Promotion includes those marketing activities, other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as displays, shows and exhibitions, documentation and various non-recurrent selling efforts not in the ordinary routine".

All elements of a promotion mix such as personal selling, advertising, publicity are used to inform people about the availability of a product, its characteristics and features and to create desire in the mind of the people to buy the product. Sales promotion is an effort in the same direction and is another important element of the promotion mix which includes displays, free sample, trade fairs, exhibitions, discount coupons, deferred payment plans, etc.

21.3.1 Objectives of Sales Promotion

Different sales promotional tools have different objectives. For example, while a free sample may motivate a consumer to buy a product for the first time, a free check-up for existing durable product like television, refrigerator etc. may affect future purchase decision of the buyer. Some of the objectives of sales promotion are listed below :

1. **Information to Customers :** Sales promotion activities inform the potential buyer about the availability, features, uses etc. of the product. Thus, it offers additional support to promotional activities like advertising, publicity and personal selling (salesmanship).

2. **Persuades Customers :** Sales Promotion activities aim at arousing customers' interest in the product and persuading them to buy.

3. **Increase in Sales Volume :** It aims at increasing sales. It is specially done during the periods when customer may not buy the product because it may not have immediate use, like a room cooler in winter, and a room heater in summer. The sales promotion schemes are a big help in making off-season sales and also in tempting the buyers to make quick decisions to purchase.

4. **Incentive to Retailers :** The main objective of sales promotional activities is to offer promotional support to retailers. Sales promotion schemes make sales easier. Incentive schemes help in getting shelf space for such products in new retail outlets.

5. **Create Product Identity :** A number of brands of a particular product are available in the market and it is very difficult to distinguish one from the other as all have similar features, prices, variety etc. Under sales promotion programme, product identity is established by offering additional features and incentives. This helps in building consumers' preference for the specific products and brands.

21.3.2 Difference Between Advertising and Sales Promotion

Basis	Advertising	Sales Promotion
(a) Objectives	Objectives of advertising is to to create a favourable consideration for the product.	The objective of sales promotion is to stimulate the consumers to buy the product.
(b) Effect	It has a long term effect.	It has a short term effect and useful for increasing immediate sales.
(c) Nature	Advertising is recurring in nature.	It is non-recurring and one time communication process.

21.3.3 Tools Used in Sales Promotion

Sometimes we get a small pack of tea, shampoo, soap or floor cleaner free from the manufacturer or producers. Have you ever thought why do companies distribute their products free like this? Because, their main intention is to attract the consumers' attention towards the product and then make them feel tempted to buy the product. This is a tool of sales promotion. Some of such promotional tools are given below:

1. **Distribution of Free Samples :** As mentioned above, distribution of free sample is a commonly used sales promotion tool. It is a good method for introducing a new product or a brand in the market. Such free samples can be distributed at the door step, through fairs, or even through retail stores.

2. **Bonus Offer :** At times marketers offer something extra with standard products without any additional charge to the customer. It could be extra quantity of the same product or some other product of the company like toothbrush with toothpaste or any other related items as gift like a bucket with large pack of washing powder, and so on.

3. **Price-off :** To increase sale, or to reduce competition, many business firms cut down prices. Prices may also be cut down during off season to maintain certain volume of sales.

4. **Exchange Offer :** Under this scheme, companies generally attract the customers by offering a price cut on purchase of new product in exchange for an old product. Recently you must have seen many advertisements talking about such offers on purchase of new refrigerator, television, washing machine, motorbike, cars, etc.

5. **Fairs and Exhibitions :** Trade fairs, exhibitions and fashion shows are important tools of sales promotion. They provide a forum for demonstration and exhibition

of products. A lot of important information about the product can be communicated to the customers through leaflets, brochures etc. during fairs and exhibitions. Especially in case of technical products like computer and electronic households gadgets, live demonstrations are undertaken. This cultivates customers' interest and boosts their confidence in the product.

6. **Free Offer :** Many companies give 'free' offers to boost the sales of their products. They offer products of similar or related nature with the purchase of main products. For example, VCR/VCD free with plasma TV is an example of such free offer.

7. **Money Refund Offer :** Of late, another method being used by marketeers to boost consumer's confidence in a product is a promise of total refund of money spent on the product if the buyer is not happy with the product's performance. Such offer not only arouses the customers' interest in the product but also motivates them to make a trial.

8. **Discount Coupon :** Discount Coupon is a certificate that entitles the holders a specified discount on purchase of a product. Such discount coupon may be issued by the company by mail or through the dealers. They can also be issued through newspapers.

9. **Deferred Payment Plan :** During 1980's, some of the airlines offered deferred payment plans - 'Travel today pay fare later' for air journeys for promoting travel. It was quite a success. This plan is quite common now-a-days in case of TVs and air-conditioners.

10. **Contests :** There may be a contest like quiz related to the product or slogan writing. In case of quizzes, the questions are generally prepared in a way that consumers feel forced to know about the company and the product in the hope of winning a prize. These contests can be held on television, radio and through the magazines.

Activity

While reading newspaper and watching television, note down the sales promotional tools being used by different companies. Give any five example of such tools in detail.

INTEXT QUESTIONS 21.5

1. State the main objectives of sales promotion.

2. Name the sales promotion tools being referred to here:

   (a) A sachet of a new brand of shampoo attached to a magazine for use by its readers.

(b) 10% talcum powder extra in a 250 gram tin.

(c) A crossword puzzle on information about a new magazine for children.

(d) A comb free with a bottle of hair oil.

(e) Books being sold at the annual book fair in your town.

(f) A ceiling fan being offered at a discounted price to customers during winters.

WHAT YOU HAVE LEARNT

- Advertising is 'any paid form of non-personal presentation and promotion of ideas, goods and services of an identified sponsor'.
- Publicity is a communication about the product, service or a business firm which is communicated voluntarily by the media and is of commercial significance to the firm.
- Objectives of Advertising: The main objectives of advertising is to help a business firm to promote its products and increase the sales. It helps in introducing new products in the market and maintains its current share of market. It creates and enhances goodwill of the firm and also provides support to dealers and distributors. It facilitates personal selling and enhances brand image of the firm.
- Advantages of Advertising: Advertising helps the manufacturers in introducing new products, maintaining the demand of the existing products and attracting new customers. The consumers gain useful information about products, quality, terms of sales etc. It helps them to make a comparative analysis and make their best choice.
- Advertising generates huge revenue, employment opportunities in the country. It increases competition and motivate the producers to produce better alternatives of the existing products by utilising the findings of research and development.
- Limitation of Advertising : It multiplies the wants of the consumers. It adds to the cost of the product which ultimately increases the sales price. It helps in creating monopoly in the market. In real sense it does not increase the overall demand but simply shifts the demand from one brand to other. Sometimes people feel tempted by seeing the advertisements and then get addicted to different harmful products. Advertising may also have advese effect on our social moral and ethical value.
- **Media of Advertising :** Newspapers; Television; Magazines and Journals; Films; Outdoor Advertising

- Personal selling is a process of assisting and persuading the prospective customers to buy a product in a face-to-face situation. It helps the consumers to make his/her best choice. It increases the sales of the product. It helps in collecting market information, credit information, delivering goods and collecting the payment.
- **Qualities of a good salesperson :** Good personality; Mental qualities like alertness, imagination, foresightedness, empathy etc.; Good behaviour; Knowledge about the product; Ability to communicate and persuade
- Sales promotion: All promotional activities other than advertising, salesmanship and publicity which help in increasing the market demand of the product.
- **Objectives of Sales promotion :** Inform the potential buyer; Persuades customers; Increase in sales volume; Incentive to retailers; Create product identity
- Tools used in sales promotion : The various commonly used tools are free samples, bonus offer, price off, exchange offer, fairs and exhibitions, free offer, money refund offer, discount coupon, deferred payment plan, contest etc.

KEY TERMS

Advertising	Bonus Offer	Discount Coupon
Films Advertising	Money Refund offer	Outdoor Advertising
Price-off	Publicity	Sales Promotion
Salesmanship	Sponsor	

TERMINAL EXERCISE

Very Short Answer Types Questions

1. Define the term advertising.
2. What is publicity?
3. Define personal selling.
4. State the meaning of Sales Promotion.
5. Explain 'Bonus offer' as a tool of sales promotion.

Short Answer Types Questions

6. What are the main objectives of advertising? Explain briefly.
7. How is publicity different from advertising?

8. Name four items each, which are best suited for advertisement in 'Magazines and Journals' and through 'Films'.

9. What are the limitations of advertising?

10. State the importance of personal selling for the society.

Long Answer Types Questions

11. "Advertising plays an important role in business and society". Discuss.

12. What is the right media for advertising consumer durable products ? Discuss.

13. A manufacturer of detergent powder wants to introduce detergent cake in the market under a new brand name. Which sales promotion tools should he use to attract the customers? Give reasons in support of your answer.

14. One reputed company wants to recruit salesmen for retail stores. Can you identify the qualities they should look for in the prospective candidates?

15. What are the objectives of Sales promotion? Explain in brief, giving a list of various popular sales promotion tools.

ANSWERS TO INTEXT QUESTIONS

21.1

1. (a) A (b) P (c) A (d) P

2. (a) Create and enhance goodwill of the firm
   (b) Dealer support
   (c) Create and enhance brand image
   (d) Helps personal selling

21.2

1. (a) Benefit to Manufactures
   (i) Introduction of new products
   (ii) Creating and enhancing goodwill

   (b) Benefits to Consumers
   (i) Information about product, prices etc.
   (ii) Guides the consumers about proper use

   (c) Benefits to society
   (i) Generates employment
   (ii) Generates huge revenue for print and electronic media

2. (a) Advertising multiplies wants
   (b) Advertising adds to the cost and prices of product.
   (c) Creation of Monopoly.
   (d) Motivates for wrong or dangerous deeds.

21.3 2. (a) Films Advertising (b) Magazines and Journals
(c) Outdoor advertising (d) Television
(e) Newspapers (f) Radio

21.4 1. (a) Prospecting (b) Presentation and demonstration
(c) Action or closing the sale

3. (a) Good personality (b) Mental qualities
(c) Good Behaviour (d)Knowledge
(e) Ability to communicate and persuade
(f) Persistence

21.5 1. (a) Information to customers (b) Persuades Customers
(c) Increase sales (d) Incentive to retailers
(e) Create product identify

2. (a) Distribution of free sample (b) Bonus offer
(c) Contests or Quizzes (d) Bonus-offer
(e) Fairs and exhibitions (f) Price-off

DO AND LEARN

1. Visit any two retail shops selling a particular kind of items (may be readymade garments or electronic goods) in your locality. Note down the different qualities of the salespersons you noticed during your conversation. Prepare a comparative chart and draw conclusion giving suitable reasons about the quality of salesmanship in both the retail shops.

2. Make a list of 10 different types of products. Find out the media used for their advertising. Also find out the different sales promotion tools being used by marketeers to promote that product. Tabulate your findings as shown below.

Name of Product Ball pen	*Advertising Media Newspapers, Television*	*Sales Promotion tools used Fairs and Exhibitions*
1.		
2.		
3.		
4.		
5.		
6.		

ROLE PLAY

Abhay Gupta has a small factory that manufactures biscuits and his friend Suryakant is a fresh MBA graduate. Both are discussing about promotion of Abhay's products.

Abhay : People hardly know about my brand of biscuits. How do I increase my sales?

Suryakant : Simple, Advertise your product.

Abhay : But advertising is an expensive option.

Suryakant : No, No. But you must make choice of the right media. You can advertise through your local cable channel on television initially and then through other popular television channels.

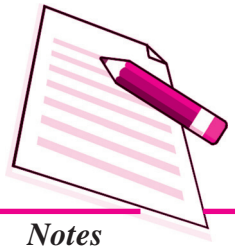
Abhay : Any other method to increase my sale.

Suryakant : Yes. Use promotional schemes; send people for door-to-door selling.

Abhay : All, this sounds a little difficult.

Two friends sat down and discussed various ways of promoting the products keeping in mind cost and return involved in advertising in different media, different kinds of sales promotion offers, salesmanship etc.

Continue the conversation between them, taking the role of Suryakant and asking your friend to play Abhay Gupta's role.



Notes

24

CONSUMER PROTECTION

We buy a variety of goods and services in our day-to-day life. Whatever we buy we pay for it and derive satisfaction from its consumption and use. But sometimes we do not feel satisfied with the product we buy. This may be on account of poor quality of the product, overcharging by the shopkeeper, lower quantity of contents, misleading advertisement, and so on. Should we allow these practices to continue? Obviously not; then is there any remedy for such malpractices? The answer lies in the concept and practice of consumer protection, the rights and responsibilities of consumers, legal provisions and mechanism for settlement of consumer grievances. In this lesson, let us know details about all these points.

OBJECTIVES

After studying this lesson, you will be able to:

- state the meaning of consumer;
- explain the concept of consumer protection;
- outline the need for consumer protection;
- describe the rights and responsibilities of consumers;
- state the main provisions of Consumer Protection Act; and
- outline the machinery for settlement of consumer grievances.

24.1 MEANING OF CONSUMER

You have learnt that a consumer is a person who consumes or uses any goods or services. Goods may be consumables like wheat flour, salt, sugar, fruit etc. or durable items like television, refrigerator, toaster, mixer, bicycle etc. Services refer to items like

electricity, cooking gas, telephone, transportation, film show etc. Normally, it is the consumption or use of goods and services that makes the person to be called as 'consumer'. But in the eyes of law, both the person who buys any goods or hires any service for consideration (price) and the one who uses such goods and services with the approval of the buyer are termed as consumers. For example, when your father buys apple for you and you consume them, your father as well as yourself are treated as consumers. The same thing applies to hiring a taxi to go to your school. In other words, even the buyer of goods and services whether he uses them himself or purchases them for consumption or use by some other person(s) is treated as consumer in the eyes of law. However, a person who buys goods for resale (like wholesaler, retailer, etc.) or for any commercial purpose is not treated as consumer.

Under the Consumer Protection Act 1986, the word **Consumer** has been defined separately for the purpose of goods and services.

(a) For the purpose of goods, a consumer means (i) one who buys any goods for consideration; and (ii) any user of such goods other than the person who actually buys it, provided such use is made with the approval of the buyer.

(The expression 'consumer' does not include a person who obtains such goods for resale or for any commercial purpose.)

(b) For the purpose of services, a consumer means (i) one who hires any service or services for consideration; and (ii) any beneficiary of such service(s) provided the service is availed with the approval of such person.

24.2 CONCEPT OF CONSUMER PROTECTION

Consumer protection means safeguarding the interest and rights of consumers. In other words, it refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business and to provide them speedy redressal of their grievances. The most common business malpractices leading to consumer exploitation are given below.

(a) Sale of adulterated goods i.e., adding something inferior to the product being sold.

(b) Sale of spurious goods i.e., selling something of little value instead of the real product.

(c) Sale of sub-standard goods i.e., sale of goods which do not confirm to prescribed quality standards.

(d) Sale of duplicate goods.

(e) Use of false weights and measures leading to underweight.

(f) Hoarding and black-marketing leading to scarcity and rise in price.

(g) Charging more than the Maximum Retail Price (MRP) fixed for the product.

(h) Supply of defective goods.

(i) Misleading advertisements i.e., advertisements falsely claiming a product or service to be of superior quality, grade or standard.

(j) Supply of inferior services i.e., quality of service lower than the quality agreed upon.

The above instances show the exploitation of consumers in the context of goods and services. In a democratic nation like India, should we allow this to happen? So the measures adopted by the government or non-government organisations (NGOs) for safeguarding the interests of the consumers constitute consumer protection.

Examples of Consumer Exploitation in India

- *The after sales service provider of the television set charged Rs 200 as service charge though he repaired the set within the warranty period.*
- *The tickets issued to different passengers on the same day for the same journey showed the same seat number.*
- *Penalty of Rs. 50 was charged by SBI after issuing the cheque book to the customer showing that the balance available in the account was less than the minimum required balance for issue of cheque book.*
- *The supply of cooking gas cylinder to the consumers is found to be underweight.*

24.3 NEED FOR CONSUMER PROTECTION

The necessity of adopting measures to protect the interest of consumers arises mainly due to the helpless position of the consumers. There is no denying fact that the consumers have the basic right to be protected from the loss or injury caused on account of defective goods and deficiency of services. But they hardly use their rights due to lack of awareness, ignorance or lethargic attitude. However in view of the prevailing malpractices and their vulnerability there to, it is necessary to provide them physical safety, protection of economic interests, access to information, satisfactory product standard, and statutory measures for redressal of their grievances. The other main arguments in favour of consumer protection are as follows:

Notes

(a) **Social Responsibility :** The business must be guided by certain social and ethical norms. It is the moral responsibility of the business to serve the interest of consumers. Keeping in line with this principle, it is the duty of producers and traders to provide right quality and quantity of goods at fair prices to the consumers.

(b) **Increasing Awareness :** The consumers are becoming more mature and conscious of their rights against the malpractices by the business. There are many consumer organisations and associations who are making efforts to build consumer awareness, taking up their cases at various levels and helping them to enforce their rights.

(c) **Consumer Satisfaction :** Father of the Nation Mahatma Gandhi had once given a call to manufactures and traders to "*treat your consumers as god*". Consumers' satisfaction is the key to success of business. Hence, the businessmen should take every step to serve the interests of consumers by providing them quality goods and services at reasonable price.

(d) **Principle of Social Justice :** Exploitation of consumers is against the directive principles of state policy as laid down in the Constitution of India. Keeping in line with this principle, it is expected from the manufacturers, traders and service providers to refrain from malpractices and take care of consumers' interest.

(e) **Principle of Trusteeship :** According to Gandhian philosophy, manufactures and producers are not the real owners of the business. Resources are supplied by the society. They are merely the trustees of the resources and, therefore, they should use such resources effectively for the benefit of the society, which includes the consumers.

(f) **Survival and Growth of Business :** The business has to serve consumer interests for their own survival and growth. On account of globalisation and increased competition, any business organisation which indulges in malpractices or fails to provide improved services to their ultimate consumer shall find it difficult to continue. Hence, they must in their own long run interest, become consumer oriented.

24.4 CONSUMER PROTECTION

Importance of Consumer Protection

The following factors make consumer protection important.

Importance from consumer's point of view

1. Ignorant consumers are given information relating to consumer rights and remedies.
2. Redressel agencies support the consumer who need assistance.
3. Large number of consumers are exploited by manufacturers. Consumer protection safe guard, the consumers against unfair trade practices.
4. Sometimes inconveniences like foul smell from the industries, noise of machines etc. cannot be completely controlled. Consumer protection safeguards the consumers for such inconveniences.

Importance from business point of view

1. Social responsibility of business can be explained by providing quality goods at reasonable price.
2. Business are able to satisfy its consumers by providing right quality products. This helps them to retain its consumers and it serves the long term interest of business.
3. Government intervention may spoil the image of business if they follow unfair trade practices. Business firms which violate the laws are likely to lose customers and goodwill forever.
4. Business enterprises are morally brunt to be honest in their dealings with the public.

Therefore, Consumer protection is in the interest of business itself.

24.4.1 Consumer Awareness

A consumer who is well informed about his rights would be in a position to raise his voice against any unfair trade practices. In addition to this, an understanding of his responsibilities would enable a consumer to safeguard his interest.

Role of Consumer organisations and NGOs

There are more than 500 consumer organisations in India. Many of them are working as Non-governmental organisations (NGOs). Consumer organisations are voluntary associations of consumers. Consumer organisation/Non-governmental Organisations protect the consumers from being exploited from business. The role of these organisations is described below.

1. To educate consumers about their rights and responsibilities.
2. To inform consumers about the remedies available to them protecting their rights.
3. To organise exhibitions on adulterated products.
4. To arrange talks, seminars, conferences on issues relating to consumers.
5. To publish journals on consumer affairs.
6. To produce films on food adulteration.
7. To run counseling and guidance centers for consumers.
8. To file suits, complaints and write petitions before the courts on behalf of consumers.

INTEXT QUESTIONS 24.1

1. Give five instances of your daily life in which you see yourself as a consumer.
2. Put (√ / X) mark in the box provided to identify consumer exploitation.
   (a) Turmeric powder sold with mixture of yellow colour.
   (b) Purchased a table fan with two years warrantee.
   (c) Sale of noodles, marked on the label as 100 gms, but actually it weighs 80 gms.
   (d) A passenger traveled in a deluxe bus but the seat was very much uncomfortable.
3. Choose the correct answer :
   i. Mr. Babu bought a packet of fried chips manuctured by 'Sneha Confectionaries' from local retailer. On opening the packet, he found that chips were stale and foul smell emitted from it. Name the organisation which can act on behalf of Mr. babu, to protect his interest.
      a) Tata Consultancy Service b) Reliance Ltd.
      c) Non-governmental organisations d) None of the above

24.5 RIGHTS OF CONSUMERS

John F, Kennedy, the former USA President, in his message to consumer had given six rights to consumers. These rights are (i) right to safety, (ii) right to be informed, (iii) right to choose, (iv) right to be heard, (v) right to redress and (vi) right to represent. These rights had paved the way for organised consumer movement in the USA and later it spread all over the world. In India, the Consumer Protection Act, 1986 has also provided for the same rights to consumers. Let us have a brief idea about these rights of consumers.

(a) Right to Safety : It is the right of the consumers to be protected against goods and services which are hazardous to health or life. For example, defective vehicles could lead to serious accidents. The same is true of electrical appliances with sub-standard material. Only recently, there were mass protests and boycott of soft drinks due to presence of hazardous pesticides beyond permissible limits. Thus, right to safety is an important right available to the consumer which ensures that the manufacturers shall not produce and sell sub-standard and dangerous products.

(b) **Right to be Informed :** The right to be informed is an important component of consumer protection. The consumer must be provided with adequate and accurate information about quality, quantity, purity, standard and the price of the goods and services. Now-a-days the manufacturers provide detailed information about the contents of the product, its quantity, date of manufacturing, date of expiry, maximum retail price, precautions to be taken, etc. on the label and package of the product. Such information helps the consumers in their buying decision and use of the product.

(c) **Right to Choose :** The right to choose provides that the consumer must be assured, whenever possible, access to a variety of goods and services at competitive prices. If the market has enough varieties of products at highly competitive prices, the buyers have an opportunity of wide selection. However, incase of monopolies like railways, postal service and electricity supply etc. it implies a right to be assured of satisfactory quality of service at a fair price.

(d) **Right to be Heard :** The rights to safety, information and choice will be frivolous without the right to be heard. This right has three interpretations. Broadly speaking, this right means that consumers have a right to be consulted by Government and public bodies when decisions and policies are made affecting consumer interests. Also, consumers have a right to be heard by manufactures, dealers and advertisers about their opinion on production, marketing decisions and any grievances of the consumers. Now-a-days, most of the top manufacturers and firms have set up consumer service cells to attend to consumers' complaints and take appropriate steps for their redressal. Thirdly, consumers have the right to be heard in legal proceedings in law courts dealing with consumer complaints.

(e) **Right to Seek Redressal :** The consumers have been given the right of redressal of their grievances relating to the performance, grade, quality etc. of the goods and services. If required, the product must be repaired / replaced by the seller/ manufacturer. The Consumer Protection Act has duly provides for a fair settlement of genuine grievances of the consumers. It has also set up a proper mechanism for their redressal at district, state and national levels.

(f) **Right to Consumer Education :** It means the right to receive knowledge and skill to become informed consumer. In this direction the consumer associations, educational institutions and the policy makers can play an important part. They are expected to impart information and knowledge about (i) the relevant laws which are aimed at preventing unfair trade practices, (ii) the ways and means which dishonest traders and producers may adopt to deceive the consumers, (iii) insistence on a bill or receipt at the time of purchase, and (iv) the procedure to be followed by consumers while making complaints. Effective consumer education leads to an increased level of consumer awareness and help them to enforce their rights more effectively, and protect themselves against fraudulent, deceitful and grossly misleading advertisement, labeling, etc.

Notes

24.6 RESPONSIBILITIES OF CONSUMERS

You have learnt about the various rights of the consumers. Let us now have an idea about their duties and responsibilities. These include the following:

(a) **Be quality conscious :** To put a stop to adulteration and corrupt practices of the manufacturers and traders, it is the duty of every consumer to be conscious of the quality of product they buy. They should look for the standard quality certification marks like ISI, Agmark, FPO, Woolmark, Eco-mark, Hallmark etc. while making the purchases.

(b) **Beware of misleading advertisements :** The advertisement often exaggerates the quality of products. Hence, the consumers should not rely on the advertisement and carefully check the product or ask the users before making a purchase. Incase there are discrepancies, the same should be brought to the notice of the sponsors and the appropriate authority, if need be.

(c) **Responsibility to inspect a variety of goods before making selection :** The consumer should inspect a variety of goods before buying the goods and service. For this purpose he/she should compare their quality, price, durability, after sales service etc. This would enable the consumers to make the best choice within the limit of their own resources.

(d) **Collect proof of transaction :** The consumer should insist on a valid documentary evidence (cash memo/invoice) relating to purchase of goods or availing of any services and preserve it carefully. Such proof of purchase is required for filing a complaint. In case of durable goods the manufactures generally provide the warrantee/guarantee card along with the product. It is the duty of consumers to obtain these documents and ensure that these are duly signed, stamped and dated. The consumer must preserve them till the warrantee/guarantee period is over.

(e) **Consumers must be aware of their rights :** The consumers must be aware of their rights as stated above and exercise them while buying goods and services. For example, it is the responsibility of a consumer to insist on getting all information about the quality of the product and ensure himself/herself that it is free from any kind of defects.

(f) **Complaint for genuine grievances :** As a consumer if you are dissatisfied with the product/services, you can ask for redressal of your grievances. In this regard, you must file a proper claim with the company first. If the manufacturer/company does not respond, then you can approach the forums. But your claim must state actual loss and the compensation claim must be reasonable. At no cost fictitious complaints should be filed otherwise the forum may penalise you.

(g) **Proper use of product/services :** It is expected from the consumers that they use and handle the product/services properly. It has been noticed that during guarantee period, people tend to reckless use of the product, thinking that it will be replaced during the guarantee period. This practice should be avoided.

Apart from the responsibility enumerated above, the consumers should be conscious of their duty towards other consumers, society and ecology and make responsible choice. In other words, their purchases and consumption should not lead to waste of natural resources and energy and environmental pollution.

INTEXT QUESTIONS 24.2

1. What information do you expect to get under the right to consumer education?
2. Identify the relevant rights of a consumer being violated in the following instances.
   (a) A bottle of acid sold but the cap was not properly sealed.
   (b) Medicine sold without date of manufacturing and date of expiring printed on its packaging.
   (c) Madan bought a cooler with 2 years warranty. The cooler started giving problem within 6 months. Madan approached the seller. The seller did not listen to his grievances.
   (d) The seller compels the consumer to purchase the available product.
   (e) The common consumers are not aware of their rights, right path and procedure for filing the complaints.

24.7 WAYS AND MEANS OF CONSUMER PROTECTION

We have enumerated several instances of exploitations and malpractices on the part of manufacturers, traders, dealers and services providers. Now the question arises as to how can these be eliminated. Actually it is very difficult to stop such exploitation by any consumer single handedly. The consumers have to collectively act against such malpractices and take the help of consumer organisations and the government agencies. Infact, consumer protection essentially needs consumer awareness, education and guidance, and it cannot be assured by voluntary business conduct or self-regulation. The following are the various ways and means of consumer protection followed in India.

(a) **Lok Adalat :** Lok Adalats are the effective and economical system for quick redressal of the public grievances. The aggrieved party can directly approach the adalats with his grievance, and his issues are discussed on the spot and decisions

are taken immediately. The consumers may take the advantage of this system to solve their problems. Cases of electricity billing, telephone billings, road accidents etc. can be taken up in Lok Adalat for spot settlement. Infact, Indian Railways, Mahanagar Telephone Nigam Limited and Delhi Vidyut Board hold Lok Adalat regularly to settle user's grievances on the spot.

(b) **Public Interest Litigation :** Public Interest Litigation (PIL) is a scheme under which any person can move to the court of law in the interest of the society. It involves efforts to provide legal remedy to un-represented groups and interests. Such groups may consist of consumers, minorities, poor persons, environmentalists and others. Any person or organisation, though not a party to the grievances, can approach the court for remedial action in case of any social atrocities.

(c) **Redressal Forums and Consumer Protection Councils :** Under the Consumer Protection Act 1986, a judicial system has been set up to deal with the consumer grievances and disputes at district level, state level and national level. These are known as District Forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission). Any individual consumer or association of consumers can lodge a complaint with the District, State or National level forum, depending on the value goods and claim for compensation. The main objective of these forums is to provide for a simple, speedy and inexpensive redressal of consumers' grievances. The Act as amended in 2002 also provides for setting up of **Consumer Protection Council** at district, state and national level for promotion and protection of the rights of the consumers as laid down in Section 6 of the Act. The councils are required to give wide publicity to the rights of consumers, the procedures for filling complaints by them and provide inputs to consumer movement in the country.

(d) **Awareness Programme :** To increase the level of awareness among the consumers the Government of India has initiated various publicity measures. It regularly brings out journals, brochures, booklets and various posters depicting the rights and responsibilities of consumers, redressal machineries etc. It observes World Consumer Rights Day on 15 March and National Consumer Day on 24 December. Several video programmes on consumer awareness are broadcasted through different television channels. Similarly, audio programmes are also broadcasted through All India Radio and FM channels. The poster and slogan competition on consumer protection are also organised at various level. To encourage the participation of public in the field of consumer protection the Government has also instituted National Awards to the persons who have done outstanding work in this field.

(e) **Consumer Organisations :** Consumer organisations have been active all over the world to promote and protect consumer interests. A number of such organisations have also been set up in recent years in different parts of India. It is felt that neither it is possible to discipline all members of the business community through moral sanctions and a code of fair business practices nor can administrate orders and legislative provisions to ensure consumer protection without the active involvement of consumer associations. Now with an increasing number of consumer organisations involved in consumer protection, the consumer movement is getting a foothold in India and helping individuals to seek quick and adequate redressal of their grievances. Look at the box for some of such consumer organisations.

Comsumer Organisations

Some of the important Consumer Organisations that have been playing an active role in taking up consumer cause are:

- *CERC (Consumer Education and Research Centre), Ahmedabad*
- *VOICE (Voluntary Organisation in the Interest of Consumer Education), New Delhi*
- *CGSI (Consumer Guidance Society of India), Mumbai*
- *CAG (Consumer Action Group), Chennai*
- *CUTS (Consumer Unity and Trust Society), Jaipur*
- *Common Cause, New Delhi*
- *Consumer Education Centre, Hyderabad*
- *Karnataka Consumer Service Society, Bangalore*
- *Kerela State Consumers Coordination Committee, Cochin*

These organisations are collecting data on different products and testing them, investigating into the problems of consumers, publishing and distributing brochures and journals, organising consumer awareness programmes, filing complaints, suits and writ petitions on behalf of the consumers, etc.

(f) **Consumer Welfare Fund :** The government has created a consumer welfare fund for providing financial assistance to strengthen the voluntary consumer movement in the country particularly in rural areas. This fund is mainly used for setting up facilities for training and research in consumer education, complaint handling, counseling and guidance mechanisms, product testing labs, and so on.

(g) Legislative Measures : A number of laws have been enacted in India to safeguard the interest of consumers and protect them from unscrupulous and unethical practices of the businessmen. Some of these Acts are as follows:

(i) Drug Control Act, 1950

(ii) Agricultural Products (Grading and Marketing) Act, 1937

(iii) Industries (Development and Regulation) Act, 1951

(iv) Prevention of Food Adulteration Act, 1954

(v) Essential Commodities Act, 1955

(vi) The Standards of Weights and Measures Act, 1956

(vii) Monopolies and Restrictive Trade Practices Act, 1969

(viii) Prevention of Black-marketing and Maintenance of Essential Supplies Act, 1980

(ix) Bureau of Indian Standards Act, 1986

The object and interest of almost all these enactments are mainly punitive, though some of these are also preventive in nature. However, none of these laws provide any direct relief to the consumers. Hence, amendments have been made in some of these laws by which individual consumers and consumer organisations have been conferred the right to take initiative and launch legal proceedings in civil and criminal courts against the violators. Another legal enactment that made a dent in this situation was the Monopolies and Restrictive Trade Practices Act, 1969. It gained the status of a specific consumer protection law with amendments made in 1984. Inspite of the changes made in 1984, a need was felt to have a more elaborate legislation. So the Consumer Protection Act was passed in 1986 to offer the necessary protection to consumers and provide an elaborate mechanism to deal with consumer grievances and disputes. A broad idea about its main provisions is being given in the next section.

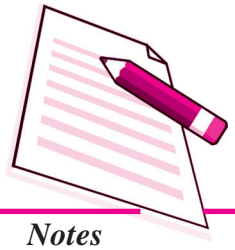
INTEXT QUESTIONS 24.3

1. State the role of Consumer Protection Councils.

2. Advise Suresh to adopt the relevant Ways and Means of Consumer Protection in the following case.

   (a) Suresh had received a faulty bill from the electricity department and could not settle the matter amicably. Where should he go?

   (b) Suresh wanted to be more informed about consumer protection. What should he do?



Notes

(c) Suresh faced an accident due to the manufacturing defect in the car. He wants to claim compensation from the manufactures. Where should he go?

(d) Suresh saw a group of 30 small children aged 8 to 10 years harassed by a manufacturer who employed these children. What can he do?

(e) Suresh came to know that a Industry of the nearby area is throwing its waste into the river. What should he do?

24.8 CONSUMER PROTECTION ACT 1986

The Consumer Protection Act was passed in 1986 and it came into force from 1 July 1987. The main objectives of the Act are to provide better and all-round protection to consumers and effective safeguards against different types of exploitation such as defective goods, deficient services and unfair trade practices. It also makes provisions for a simple, speedy and inexpensive machinery for redressal of consumers' grievances.

Salient Features of Consumer Protection Act 1986

The salient features of Consumer Protection Act (CPA) 1986 are as follows:

(a) It applies to all goods, services and unfair trade practices unless specifically exempted by the Central Government.

(b) It covers all sectors whether private, public or co-operative.

(c) It provides for establishment of consumer protection councils at the central, state and district levels to promote and protect the rights of consumers and a three tier quasi-judicial machinery to deal with consumer grievances and disputes.

(d) It provides a statutory recognition to the six rights of consumers.

Goods and Services covered under CPA 1986

The term 'goods' under this Act has the same meaning as under the sale of goods Act. Accordingly it covers all types of movable property other than money and includes stocks and shares, growing crops, etc. The term 'service' means service of any description made available to potential users and includes banking, financing, housing construction, insurance, entertainment, transport, supply of electrical and other energy, boarding and lodging, amusement, etc. The services of doctors, engineers, architects, lawyers etc. are included under the provisions of Consumer Protection Act.

Filing of Complaints

For redressal of consumer grievances a complaint must be filed with the appropriate forum. In this section let us know, who can file a complaint, what complaints can be filed, where to file the complaint, how to file the complaints etc.

Who can file a complaint?

The following persons can file a complaint under Consumer Protection Act 1986:

(a) a consumer;

(b) any recognised voluntary consumer association whether the consumer is a member of that association or not;

(c) the Central or any State Government; and

(d) one or more consumers where there are numerous consumers having same interest.

(e) Legal heir or representative in case of death of a consumer.

What complaints can be filed?

A consumer can file a complaint relating to any one or more of the following:

(a) an unfair trade practice or a restrictive trade practice adopted by any trader or service provider;

(b) goods bought by him or agreed to be bought by him suffer from one or more defect;

(c) services hired or availed of, or agreed to be hired or availed of, suffer from deficiency in any respect;

(d) price charged in excess of the price (i) fixed by or under the law for the time being in force, (ii) displayed on the goods or the package, (iii) displayed in the price list, or (iv) agreed between the parties; and

(e) goods or services which are hazardous or likely to be hazardous to life and safety when used.

Where to file a complaint?

If the value of goods and services and the compensation claimed does not exceed Rs. 20 lakh, the complaint can be filed in the District Forum; if it exceeds Rs. 20 lakh but does not exceed Rs. One crore, the complaint can be filed before the State Commission; and if it exceeds Rs. One crore, the complaint can be filed before the National Commission.

How to file a complaint?

A complaint can be made in person or by any authorised agent or by post. The complaint can be written on a plain paper duly supported by documentary evidence in support of the allegation contained in the complaint. The complaint should clearly specify the relief sought. It should also contain the nature, description and address of the complainant as well as the opposite party, and so also the facts relating to the complaint and when and where it arose.

What are the reliefs available to consumers?

Depending on the nature of complaint the and relief sought by the consumer, and the facts of the case, the Redressal Forum/Commission may order one or more of the following reliefs:

(a) Removal of defects from the goods or deficiencies in services in question.

(b) Replacement of the defective goods.

(c) Refund of the price paid.

(d) Award of compensation for loss or injury suffered.

(e) Discontinuance of unfair trade practices or restrictive trade practice or not to repeat them.

(f) Withdrawal of hazardous or dangerous goods from being offered for sale.

(g) Provision of adequate costs to aggrieved parties.

Time limit for filing the case

The consumer can file the complaint within two years from the date on which the cause of action had arisen. However, it may be admitted even after the lapse of two years if sufficient cause is shown for the delay.

Time limit for deciding the case

Every complaint must be disposed off as speedily as possible within a period of three months from the date of notice received by the opposite party. Where the complaint requires laboratory testing of goods this period is extended to five months.

INTEXT QUESTIONS 24.4

1. Give any two reliefs available to a consumer under the CPA 1986.

2. Write Yes or No in the following cases.

   a. Indian Airlines delayed the flight to Guwahati from New Delhi by 8 hrs. Can the passenger file a case in the consumer court?

   b. A lawyer accepted the fee but did not appear in the court for the client. Can the client approach the consumer court for remedy?

   c. Ramesh bought a refrigerator in January 2004 with a warrantee period of 2 years. In June 2005 he noticed some defect and asked the company to rectify it. The company did not listen to his complaint. Now in July 2007 he is thinking to approach the district forum for redressal. Can the forum accept his complaint?

Notes

d. In the nearby area a milkman adulterates the milk with water and sells in the locality. Can all the consumers from a group and file a case.

e. Mohan bought a product without a cash memo. Can he file a case in consumer court, if exploited?

24.9 MACHINERY FOR SETTLEMENT OF GRIEVANCES

The judicial machinery set up under the Consumer Protection Act, 1986 consists of consumer courts (forums) at the district, state and national levels. These are known as District forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission) separately. Let us have a brief idea about their composition and roles.

1. District Forum

This is established by the state governments in each of its districts.

(a) ***Composition :*** The district forums consist of a Chairman and two other members one of whom shall be a woman. The district forums are headed by the person of the rank of a District Judge.

(b) ***Jurisdiction :*** A written complaint can be filed before the District Consumer forum where the value of goods or services and the compensation claimed does not exceed Rs. 20 lakh.

(c) ***Appeal :*** If a consumer is not satisfied by the decision of the District forum, he can challenge the same before the State Commission, within 30 days of the order.

2. State Commission

This is established by the state governments in their respective states.

(a) ***Composition :*** The State Commission consists of a President and not less then two and not more than such number of members as may be prescribed, one of whom shall be a women. The Commission is headed by a person of the level of High Court judge.

(b) ***Jurisdiction :*** A written complaint can be filed before the State Commission where the value of goods or services and the compensation claimed exceeds Rs. 20 lakh but does not exceed Rs. One crore.

(c) ***Appeal :*** In case the aggrieved party is not satisfied with the order of the State Commission he can appeal to the National Commission within 30 days of passing of the order.

3. National Commission

The National commission was constituted in 1988 by the central government. It is the apex body in the three tier judicial machinery set up by the government for redressal of consumer grievances. Its office is situated at Janpath Bhawan (Old Indian Oil Bhawan), A Wing, 5th Floor, Janpath, New Delhi.

(a) ***Composition :*** It consists of a President and not less than four and not more than such members as may be prescribed, one of whom shall be a woman. The National Commission is headed by a sitting or retired judge of the Supreme Court.

(b) ***Jurisdiction :*** All complaints pertaining to those goods or services and compensation whose value is more than Rs. one crore can be filed directly before the National Commission.

(c) ***Appeal :*** An appeal can be filed against the order of the National Commission to the Supreme Court within 30 days from the date of order passed.

It may be noted that in order to attain the objects of the Consumers Protection Act, the National Commission has also been conferred with the powers of administrative control over all the State Commissions by calling for periodical returns regarding the institution, disposal and pending of cases and issuing instructions for adoption of uniform procedures, etc.

INTEXT QUESTIONS 24.5

1. State the level or rank of the head of the following consumer courts.

   (a) State Commission (b) District Forum

   (c) National Commission

2. Where does the remedy lie in the following case?

   (a) A boy got drowned in a pool and the compensation claimed is Rs. 6 crores.

   (b) The aggrieved party not being satisfied with the order of the State Commission wanted to appeal.

   (c) A builder sold a house and the land was under litigation. The consumer claimed Rs. 56 lakhs as compensation.

   (d) A consumer claimed a compensation of Rs.25,000/- from the manufacturer of a refrigerator.

   (e) The aggrieved party not being satisfied with the order of the district forum wanted to make an appeal.

WHAT YOU HAVE LEARNT

- Consumer is a person who buys goods or hires services to be used or consumed by himself/herself or by some one on behalf of the buyer.
- Consumer Protection refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business and to provide them speedy redressal of their grievances.
- A consumer will get information of consumer rights and remedies through the Consumer Protection Organisation (NGO)
- Consumer protection supports consumers and prevents exploitation of consumer.
- Consumer protections helps business to provide right quality product, increases social responsibility and prevents unfair trade practices.
- Consumer organisations and NGOs can play a vital role for consumer protection.
- Consumer organisations will educate consumers about their right through published materials, exhibitions, seminars etc.
- Consumer organisations help consumers to find remedies for their problems relating to consumer exploitation.
- The need for consumer protection arises due to the helplessness of consumers. They do not exercise their rights due to lack of awareness. Some reasons for consumer protection are:
  - Social Responsibility
  - Increasing Awareness
  - Consumer Satisfaction
  - Principle of Social Justice
  - Principle of Trusteeship
  - Survival and Growth of Business
- Rights of a Consumer as given in the Consumer Protection Act 1986
  - Right to Safety
  - Right to be Informed
  - Right to Choose
  - Right to be Heard
  - Right to Seek Redressal
  - Right to Consumer Education
- Responsibilities of Consumers shall include the following
  - Be quality conscious
  - Beware of misleading advertisements
  - Responsibility to inspect a variety of goods before making selection

- Collect proof of transaction
- Consumers must be aware of their rights
- Complaint for genuine grievances
- Proper use of products/services

- Ways and Means of Consumer Protections
  - Lok Adalat
  - Public Interest Litigation
  - Redressal Forums and Consumer Protection Councils
  - Awareness Programme
  - Consumer Organisations
  - Consumer Welfare Fund
  - Legislative Measures

- **Consumer Protection Act 1986 :** The main objective of the Consumer Protection Act 1986 is to provide better and all-round protection to consumers and effective safeguards against different types of exploitation such as defective goods, deficient services and unfair trade practices. It provides for establishment of consumer protection councils at the central, state and district levels to promote and protect the rights of consumers and a three tier quasi-judicial machinery to deal with consumer grievances and disputes.

- **Machinery for Settlement of Grievances :** The judicial machinery set up under the Consumer Protection Act, 1986 consists of consumer courts (forums) at the district, state and national levels. These are known as District forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission) separately.

KEY TERMS

Consumer	Consumer Organisation	Consumer Protection
Consumer Protection Council	CPA 1986	District Forum
Goods	Grievances	Lok Adalats
National Commission	PIL	Redressal Forum
Responsibilities of Consumers	Rights of Consumers	Services
State Commission		

Notes

TERMINAL EXERCISE

Very Short Answer Type Questions

1. Give the meaning of Consumer.
2. What is meant by consumer protection?
3. What do you mean by consumer awareness?
4. State any two examples of consumer exploitation.
5. Name the three tier judicial machinery under the Consumer Protection Act 1986.
6. Mention any four standard quality certification marks.

Short Answer Type Questions

7. State the various publicity measures initiated by the government to increase the level of awareness of consumers.
8. Explain the meaning of Goods and Services as per CPA 1986.
9. Write any two points that describe the role of NGOs in protecting the consumer.
10. Explain the composition and jurisdiction of state commission.
11. State the purpose of creating Consumer Welfare Fund.
12. Who can file a complaint for redressal of grievances under the Consumer Protection Act 1986?

Long Answer Type Questions

13. Explain the needs for consumer protection.
14. Describe the right of a consumer as per CPA 1986.
15. Explain the role of consumer organisation for consumer protection.
16. Briefly explain the importance of consumer protection to customer.
17. A shopkeeper sold you some spices claiming that it was pure. Later a laboratory test showed that these were adulterated. As a consumer what action would you like to take against this wrongful act of the shopkeeper?
18. One of your friends has recently bought a washing machine from the market by paying Rs.15,000. After using a day or two he found some mechanical problem in the machine. Immediately he informed the dealer but the dealer did not respond to repair or replace the machine. Now he wants to lodge a complaint in a consumer court. Which consumer court should he go and why? Also state any three possible reliefs the court may order in favour of your friend.

19. Your friend bought a ceiling-fan from an electronic equipments shop. When she fitted the fan at home, she discovered that it was not functioning. The shopkeeper now refuses to exchange the fan or return the money. Where and how can your friend file a complaint to get redressal of her grievance?

ANSWERS TO INTEXT QUESTIONS

24 .1 2. (a) √ (b) X (c) √ (d) √

24 .2 1. (a) the relevant laws which are aimed at preventing unfair trade practices
(b) the ways and means which dishonest traders and producers may adopt to deceive the consumers,
(c) the procedure to be followed by consumers while making complaints.

2. (a) Right to safety (b) Right to be informed
(c) Right to be heard (d) Right to choose
(e) Right to consumer education

3. (i)

24 .3 2. (a) Lok Adalat (b) Awareness Programme
(c) Redressal Forums (d) Public Interest Litigation
(e) Public Interest Litigation

24 .4 2. (a) Yes (b) Yes (c) No (d) Yes (e) No

24 .5 1. (a) High Court Judge (b) District Judge
(c) Supreme Court Judge

2. (a) National Commission (b) National Commission
(c) State Commission (d) District Forum
(e) State Commission

DO AND LEARN

Find out from persons in your family and of your locality about the products that they have bought and are using, like groceries, clothing and durable goods like Radio, T.V., Cycle, Scooter etc.

Make a list of about 10 such products and also note down against each item, after asking these people, the problems that they face in using these products (safety hazard, poor quality, not durable, etc.)

Notes

Identify which of their rights as consumers are violated as a result of each of these problems. Also, mention how these problems could have been avoided through responsible consumer behaviour by these people?

ROLE PLAY

Two friends, Gopal and Jaggu had gone to the market to buy the medicine for the ailing mother of Gopal. Jaggu is student of Business Studies, while Gopal is working as a computer operator. Read the conversation between them as given below:

Gopal	:	Jaggu, please come immediately to my house.
Jaggu	:	Why? What happened! What is the urgency?
Gopal	:	My mother is not well.
Jaggu	:	Don't worry, I am coming right now. In the mean time call the doctor.
Gopal	:	Yes, I will do that.
		The doctor pays a visit and prescribes certain medicine.
Jaggu	:	What did the doctor say?
Gopal	:	He says it is typhoid and gave the prescription for medicines.
Jaggu	:	Okay, let us go and get the medicine.
Gopal	:	(to the shopkeeper) Sir, please give me all the medicine written here.
Shopkeeper	:	Here is medicine, do you want the cash memo.
Gopal	:	No, I don't want the cash memo. I know you very well!
Jaggu	:	No don't do that. It is important to collect the cash memo even if you know him well.
Gopal	:	But why?

Jaggu explained to Gopal about the importance of Cash memo and other responsibilities of a consumer. Put yourself in place of Jaggu and your friend in place of Gopal and continue the conversation.