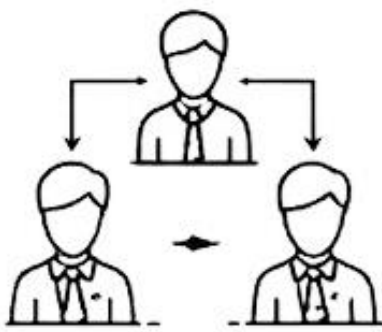
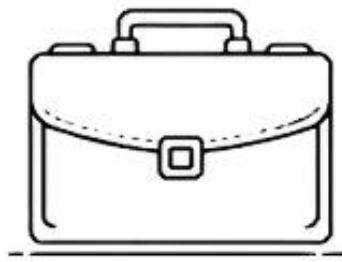




# **BUSINESS STUDIES (319)**

## CHAPTERWISE NOTES



## **BUSINESS STUDIES**

Sl. No.	Module	Chapters (Public Examination)	Marks
1	<b>Module 2:</b> Business Management	L-7 Planning & Organising; L-8 Staffing & Directing; L-9 Co-ordination & Controlling	20
2	<b>Module 3:</b> Business Finance	L-10 Financial Planning; L-12 Long Term Sources; L-13 Financial Markets	20
3	<b>Module 4:</b> Marketing	L-15 Marketing Mix; L-16 Advertising and Salesmanship	15

Component	Details	Marks
<b>Public Exam (Selected Modules 2,3,4,)</b>	Total Chapters : 8	55
<b>Practical Exam</b>	NA	0
<b>TMA</b>	Tutor Marked Assignment	20
<b>Final Possible Marks</b>		<b>75</b>
		<b>Marks</b>

# TABLE OF CONTENTS

<b>1</b>	Planning And Organising
<b>2</b>	Staffing & Directing
<b>3</b>	Co-Ordination And Controlling
<b>4</b>	Financial Planning and Management
<b>5</b>	Long-Term Sources Of Business Finance
<b>6</b>	The Financial Market
<b>7</b>	The Marketing Mix
<b>8</b>	Advertising And Salesmanship

## 1

# PLANNING AND ORGANISING

## Introduction

Among the various functions of management, planning and organising are the most basic and primary functions. Planning helps us to decide what and how to do in the future, whereas organising works to arrange resources and human efforts to achieve those goals. This chapter explains in detail the importance of these two processes and their steps for the successful operation of business.



## What is Planning

- **Definition:** The process of setting future objectives and deciding the ways to achieve them is called planning.
- **According to M.E. Hurley,** planning is deciding in advance about the work to be done in future.
- It tells that "where we are and where we want to go".
- It is a systematic way that helps in decision making.

## Features of Planning

- **Primary Function:** It is the first function of management and is the basis of all other functions (organising, staffing, etc.).
- **Goal Oriented:** Planning is always done to achieve a specific goal or objective.
- **Pervasive:** It is required at all levels of management (top, middle and lower) and in all areas.
- **Futuristic:** In this, plans are prepared by forecasting future events.



- **Intellectual Activity:** It requires foresight, imagination and better decision-making ability.
- **Continuous Process:** Planning is not a one-time activity; it continues according to time and situation.
- **Flexibility:** Planning can be changed according to situations; it is not rigid.

### Importance of Planning

- **Provides Direction:** It tells employees what the goal is and how to achieve it.
- **Reduces Risk:** With the help of forecasting, it reduces future uncertainties and risks.
- **Coordination and Control:** It brings coordination in activities and sets standards for comparing actual results.
- **Decision Making:** It helps managers to choose the right option among various alternatives.
- **Economy and Efficiency:** It ensures proper use of resources by reducing wasteful activities.

### Limitations of Planning

- **Rigidity:** Sometimes pre-made plans become so rigid that employees cannot accept changes.
- **Probabilistic:** Since it is based on estimates, it does not always prove true.
- **Expensive and Time Consuming:** A lot of time and money is spent in collecting and analysing information.
- **Delay in Action:** Due to long process, quick decision-making may be hindered.
- **Misdirection:** Sometimes organisational interests may be ignored for personal interests.
- **False Sense of Security:** Employees may feel that everything will happen as per plan, which may make them careless.



## Planning Process

1. **Objective Setting:** First, clear and definite goals are set.
2. **Making Assumptions (Base Formation):** Forecasting future conditions (like government policy, demand).
  - **Internal Premises:** cost, machines, employee capacity.
  - **External Premises:** market demand, change in technology, government rules.
3. **Development of Alternative Courses of Action:** Identifying different ways or options to achieve goals.
4. **Evaluation of Alternatives:** Examining advantages and disadvantages of each option.
5. **Selection of Best Course of Action:** Choosing the option which gives maximum benefit at minimum cost.
6. **Implementation:** Executing the selected plan and forming strategies.
7. **Review and Follow-up:** Checking whether the plan is working properly and making changes if needed.

## Types of Plans

**Objectives :** The end results which the organisation wants to achieve.

**Strategy :** A broad plan to achieve long-term goals of the organisation.

**Policy :** General guidelines for decision-making.

**Procedure :** Step-by-step method of doing a task.

**Method :** The best way to complete a task.

**Rule :** Specific instructions stating what to do and what not to do.

**Budget :** Expressing expected results in numerical form (Numbers).



**Programme :** Detailed outline of a task including rules, policies and procedures.

### Meaning of Organising

- **Definition:** Organising means identifying activities required to implement the plan, grouping them and assigning responsibilities to employees.
- It decides who will do which work and who will report to whom.
- It is the second important function of management.

### Features of Organising

- **Organising is an Important Function of Management:** It arranges resources properly to achieve organisational goals.
- **Organising is a Continuous Process:** It is an ongoing process of dividing and arranging work.
- **Organising is Pervasive:** It is applied at all levels of management (top, middle, lower).
- **Organising is Goal-oriented:** It focuses on achieving the overall goals of the organisation.
- **Organising Involves Co-ordination:** It ensures proper coordination among resources and employees.
- **Organising is a Group Activity:** It creates relationships among employees to work in teams.
- **Organising Establishes Authority-Responsibility Relationship:** It defines authority and responsibility for effective work.

### Steps in Organising Process

1. **Identification of Activities:** The first step is to identify all activities required to achieve objectives. Then the total work is divided into specific jobs to avoid duplication.
2. **Grouping of Activities:** Similar nature activities are grouped together to form departments (like production, marketing, finance).
3. **Assignment of Duties:** Each employee is assigned specific work according to his qualification and skill.



**4. Delegation of Authority:** It is clarified who is superior and who is subordinate. This creates a chain of command.

### Importance of Organising

- **Increases Efficiency:** It clearly divides work, removes confusion and increases working capacity.
- **Clarity in Work Relationships:** It reduces confusion and conflicts by clarifying who is accountable to whom.
- **Optimum Use of Resources:** Division of work prevents wastage of time and resources.
- **Adaptation to Change:** It helps the organisation to adjust according to changing business conditions.
- **Effective Administration:** Clear roles make it easy for management to supervise work.
- **Employee Development:** Delegation of authority increases decision-making ability of employees.

### Organisational Structure

#### Traditional or Bureaucratic Structure-

It is the framework within which managerial and operational tasks are performed. Its two main types are:

1. **Functional Structure:** Departments are formed on the basis of functions (like production, sales). It is suitable for small and medium organisations.
2. **Divisional Structure:** Departments are formed on the basis of products (like textile division, beauty division). It is suitable for large companies.

#### Modern Organisational Structure-

1. **Team Structure** – Organisation is divided into small teams working towards a common goal.
2. **Matrix Structure** – Employees report to both project manager and functional manager
3. **Network Structure** – Main organisation works with external organisations.



## Formal and Informal Organisation

- **Formal Organisation** : It is a structure deliberately created by management in which authority, responsibility and relationships are clearly defined by written rules.
- **Informal Organisation** : It develops automatically due to personal contacts, social relationships and common interests among employees.

## Delegation of Authority

- **Definition: Delegation of authority** means assigning part of work and necessary power to subordinates by a manager.
- **Elements:**
  1. **Authority:** Power to make decisions.
  2. **Responsibility:** Obligation to complete assigned work.
  3. **Accountability:** Being answerable to the superior for final result (cannot be delegated).

## Decentralisation

- When decision-making authority is systematically distributed at all levels of organisation, it is called **decentralisation**.
- **Importance:** It develops confidence in subordinates, speeds up decision-making and reduces workload of top managers.

# TOP 5 QUESTIONS

**Q-1. What is the importance of 'making assumptions' in the planning process?**

**Answer-** Planning is done for the future which is uncertain. Therefore, to provide a solid base to plans, some forecasts or assumptions about future conditions (like government policy, technology, demand) are made. These are called 'planning premises'. Without them, plans cannot be successful in real conditions.



**Q-2. Explain the main difference between functional and divisional organisational structure.**

**Answer-** Functional structure is formed on the basis of functions (like production, marketing) and is suitable for single product companies. On the other hand, divisional structure is formed on the basis of products (like cosmetics, shoes) and is better for large multi-product companies where each division works independently.

**Q-3. Can a manager be free from accountability by delegating authority?**

**Answer-** No, a manager can delegate authority and responsibility to subordinates, but cannot delegate his 'accountability'. He remains answerable to his superiors for the final result. Accountability always remains with the delegator.

**Q-4. What is the difference in communication flow between formal and informal organisation?**

**Answer-** In formal organisation, communication follows a pre-defined path or 'chain of command', which is systematic and written. In contrast, in informal organisation, communication has no fixed direction; it spreads very fast in any direction like 'grapevine'.

**Q-5. Why is decentralisation important for an organisation?**

**Answer-** Decentralisation develops decision-making ability and confidence among lower level employees. It reduces the workload of top managers, enabling them to focus on important policy matters. It also speeds up problem-solving and decision-making at local level.



## 2

# STAFFING AND DIRECTING

## Introduction

A small businessman can work alone, but as the business grows, he needs the help of qualified persons. Appointing talented people for the development of the organisation and directing them towards goals is the main function of management.

## Meaning of Staffing

- Staffing is the process of **filling job positions** in the organisational structure.
- Completing managerial and non-managerial activities in the organisation through planning and developing human resources.
- It is a **continuous process** because there is always a need to maintain and update personnel.
- It is an integral part of human resource management.

## Importance of Staffing

- It helps in getting the right **people for the right job** at the right time.
- It contributes to improving organisational **productivity**.
- It helps in maintaining employees' **morale** high and providing job satisfaction.
- It is helpful in maintaining a **good environment** and harmony in the organisation.

## Staffing Process

The staffing process includes the following steps:

1. **Manpower planning**
2. **Job analysis**



3. Recruitment
4. Selection
5. Placement
6. Induction
7. Training and development
8. Performance appraisal
9. Compensation
10. Promotion and transfer



### Manpower Planning

- Estimating the number and type of manpower required in the organisation.
- It focuses on getting the right number of **qualified and educated people** at the right time.

### Job Analysis

- **Definition:** The process of collecting information related to all aspects of a job.
- **Job Description :** It includes details of duties and responsibilities.
- **Job Specification :** Details of required qualifications, skills and abilities.

### Recruitment

- **Definition:** The process of finding and attracting suitable applicants for employment.
- **Sources of recruitment:** These are of two types:

**(A) Internal Sources:** It includes **transfer** (shifting without change in salary) and **promotion** (sending to a higher position).



### Advantages of internal sources

- Managers know employees well
- Employees' morale increases

### **(B) Various external sources of recruitment:**

- **Media advertisement:** Giving advertisement in newspapers or magazines.
- **Employment offices:** Registration through government centres.
- **Educational institutions:** Through campus interview.
- **Unsolicited applications:** Candidates who apply on their own without advertisement.
- **Factory gate recruitment:** For daily wage workers.
- **Recommendation:** On the recommendation of existing employees or unions.

### **Modern Trends in Recruitment:**

In today's digital era, apart from traditional methods of recruitment, some new and modern methods are being adopted:

- **E-recruitment :** Inviting applications for vacancies and searching candidates using the internet.
  - Companies take applications directly through '**Work with us**' or '**Careers**' section on their website.
- **Walk-in interview :** Interview given by directly visiting without prior appointment.
- **Internship:** Internship is a period in which students gain practical experience by working in a company or organisation.
- **Outsourcing :** Assigning the recruitment process to a **third party** or private consultants so that expert selection can be done.

### **Selection**

**Selecting the most suitable person** from among qualified candidates.



## Selection Process Steps

- **Screening of application form**
- **Test**
- **Interview**
- **Reference check**
- **Medical examination**
- **Appointment letter**
- **Probation period**

## Placement

Appointing the selected candidate to the **appropriate position**

### Main points:

- Work is assigned
- Employee **gets authority**
- **Adjustment** in the organisation becomes easy

## Induction (Introduction to workplace)

- The process of **introducing a new employee** to the organisation
- **Main points:**
  - Information about work and environment
  - Rules and conditions are explained
  - Employee's **nervousness is reduced**
  - **Favourable attitude** towards the organisation is developed



## Training and Development

**Training:** The process of increasing knowledge and technical skills of employees

**Development:** Development of overall ability and personality of employees

### Difference between Training and Development

This is your content in table form:

Basis	Training	Development
<b>Focus</b>	Focused on technical skills	Focused on personality and ability
<b>Duration</b>	Short-term process	Long-term process

## Importance of Training and Development

### Benefits for organisation

- Increase in work efficiency
- Better utilisation of resources
- Positive attitude
- Reduction in accidents
- Reduction in absenteeism of workers

### Benefits for employees

- Increase in skills
- Increase in income
- Increase in employment opportunities



- Increase in problem-solving ability
- Increase in morale

### **Methods of Training**

#### **(i) On-the-job training**

- Coaching
- Job rotation
- Learning as an assistant

#### **(ii) Off-the-job training**

- Lectures
- Conferences
- Case study
- Video / film

### **Directing**

The process of **directing, motivating and guiding employees**

#### **Main points:**

- Dynamic function of **management**
- **Motivates** employees towards goals

#### **Elements of Directing**

##### **(i) Communication**

- **Exchange** of information
- Establishing **coordination** in the organisation



**(ii) Supervision**

- **Monitoring** the work
- **Guiding** employees

**(iii) Motivation**

- **Motivating** employees
- **Increasing enthusiasm** for better performance

**(iv) Leadership**

- **Influencing and directing** employees
- Helping in achieving goals

**Importance of Directing**

- Employees get **motivation**
- **Coordination** in work increases
- Helps in achieving goals
- **Discipline and unity** in work

## TOP 5 QUESTIONS

**Q-1. What is staffing? Explain its process.**

**Answer-** Staffing is the process in which human resources are recruited, selected, trained and developed. Its process includes manpower planning, job analysis, recruitment, selection, placement, induction, training, appraisal, promotion and transfer.



**Q-2. Explain the difference between recruitment and selection.**

**Answer-** Recruitment is the process of attracting candidates, whereas selection is the process of choosing the most suitable person from them. Recruitment is positive and simple, whereas selection is a negative and complex process.

**Q-3. State the importance of training and development.**

**Answer-** Training and development increase the work efficiency of employees, improve utilisation of resources, reduce accidents and increase organisational productivity. It also increases employees' morale and future capability.

**Q-4. What is directing? State its elements.**

**Answer-** Directing is the process in which employees are directed, motivated and guided. Its main elements are supervision, motivation, leadership and communication, which help in achieving organisational goals.

**Q-5. What is manpower planning? State its importance.**

**Answer-** Manpower planning is the process of estimating the number and quality of employees. It ensures availability of qualified employees at the right time, proper utilisation of resources and increases organisational efficiency.



## 3

# CO-ORDINATION AND CONTROLLING

## Introduction

In an organisation, different functions are performed by various departments and groups. To achieve the goals effectively, it is necessary to coordinate all these activities and ensure that performance is in accordance with the plans.



## Meaning of Co-ordination

- Co-ordination means **establishing harmony** among the activities of different work groups and departments.
- It is the function of management that integrates the efforts of different units to achieve organisational goals.
- It is considered the '**essence**' of management because it is inherent in all other functions (planning, organising, etc.).

## Importance of Co-ordination

- **Ensures unity:** It ensures unity of efforts among different departments.
- **Reduces conflict:** It prevents potential conflicts between departmental goals and organisational goals.
- **Increases efficiency:** It increases efficiency by preventing duplication and wastage of resources.
- **Team spirit:** It promotes cooperation and teamwork among employees.

## Meaning of Controlling

- **Definition:** It is the process of ensuring that actual activities conform to the **predetermined plans**.



- It is the last function of management that provides the basis for future planning.
- Its main objective is to identify shortcomings and take corrective action.

### Characteristics of Control

- **Managerial Function:** Control is an essential function performed at all levels of management (top, middle and lower).
- **Continuous Process:** It is not a one-time activity but a **continuous process** in business.
- **Link with Planning:** Control is completely based on planning; without planning control is not possible.
- **Futuristic:** The purpose of control is not only to see past mistakes but also to learn from them and improve **future performance**.
- **Result-oriented:** Its main focus is to ensure that the **final results** of the organisation are according to the set goals.
- **Corrective Nature:** The essence of control is not only to find faults but to take **remedial steps** to remove them.

### Importance of Control

- **Achievement of goals:** It helps in achieving organisational goals by monitoring the implementation of plans.
- **Efficient use of resources:** It reduces wastage and misuse of resources.
- **Employees' morale:** When employees know that their performance will be evaluated, they perform better.
- **Maintaining discipline:** It creates an environment of order and discipline in the organisation.

### Steps in Control Process

Control is a systematic process which includes the following steps:



- 1. Establishment of standards:** Setting **benchmarks or targets** for performance (like quantity or quality of production).
- 2. Measurement of work:** Collecting information about **actual work** done.
- 3. Comparison of performance with standards:** Comparing actual work with **set standards** to find deviations.
- 4. Identifying causes of deviations:** Understanding the reasons why work did not occur as per plan.
- 5. Taking corrective action:** Taking **necessary steps** to remove deficiencies so that such mistakes do not occur in future.

## TOP 5 QUESTIONS

### Q-1. What do you understand by co-ordination?

**Answer-** Co-ordination is the function of management that establishes harmony among the activities of different departments, groups and individuals of the organisation. Its main objective is to integrate all efforts for achieving organisational goals effectively. It is considered the 'essence' of management because it is necessary at every level.

### Q-2. What is the importance of control in management?

**Answer-** Control ensures that organisational activities are being performed according to predetermined plans. It helps in efficient use of resources, increases employees' discipline and morale, and provides an opportunity to detect and correct deviations (mistakes) so that goals are achieved on time.

### Q-3. Briefly describe the main steps of the control process.

**Answer-** The control process includes five main steps:

1. Establishing performance standards.
2. Measuring actual performance.
3. Comparing actual performance with standards.
4. Analysing deviations if any.



5. Taking necessary corrective action for future improvement.

**Q-4. Why is co-ordination called the "essence of management"?**

**Answer-** Co-ordination is not a separate function but is inherent in all functions like planning, organising, staffing, directing and controlling. Just like a thread keeps the flowers of a garland together, co-ordination binds all activities of the organisation and maintains order.

**Q-5. What is meant by 'deviation' in the control process?**

**Answer-** When the actual performance of work is not equal to the predetermined standards (targets), that difference is called 'deviation'. For example, if the target was to produce 100 units and only 80 were produced, then the shortage of 20 units is a 'negative deviation', which must be analysed.



## 4

# FINANCIAL PLANNING AND MANAGEMENT

## Introduction

Finance is the life blood of industry and commerce. Effective management of finance is essential for the existence, growth and stability of any business organisation. In the absence of efficient financial management, the business may have to face many undesirable results and wastage.

## Meaning of Financial Management

Financial management is mainly concerned with the **procurement of funds** in an economic and prudent manner and their effective utilisation. It plays an important role in accelerating the present and future performance of the business.

### Main points:

- It helps in the **operation and development** of the business
- It includes three main decisions: **Investment decision, financing decision, dividend decision**

## Investment Decision

Decision of where and how to invest funds

### Main points:

- **Investment in fixed assets**
- **Investment in current assets**
- **Investment in securities**
- Consideration is given to: **time, risk, cash flow**



## Financing Decision

Where and how to obtain funds for the business

- **Main points:**

- Different sources: **share capital, loan (Loan), financial institutions**

- Consideration is given to:

- **Cost of capital**
- **Debt-equity ratio**
- **Market condition**
- **Government policies**



## Dividend Decision

How much part of profit is to be **given to shareholders** and how much to **retain**

- **Main points:**

- Division of profit:

- Dividend
- Retained earnings

**Objective:** To increase the income of shareholders

## Objectives of Financial Management

**Two main objectives of financial management are considered:**

- **Profit Maximization:** It is traditionally considered as the main objective, where the primary goal of the business is to earn profit for the owner. However, it ignores the time value of money and risk.



- **Wealth Maximization:** It means maximizing the market value of shares held by owners (shareholders). It is better than profit maximization because it considers both time and risk.

### **Financial Planning**

Financial planning means determining financial policies regarding procurement of funds, investment and administration of funds to achieve the objectives of the organisation.

### **Essential elements of a good financial plan**

- Simplicity
- Long-term perspective
- Flexibility
- Proper utilisation of capital
- Minimum cost
- Adequate liquidity

### **Importance of Financial Planning**

- Estimation of correct requirement of funds
- **Developing proper capital structure**
- Proper utilisation of funds
- Avoidance of shortage/excess of funds
- Coordination among different departments
- Control of financial activities
- Control of financial activities



## Concept of Capital Structure

Capital structure refers to the combination of **debt and equity** used for the operation of the business.

## Types of Capital

- **Equity Capital:** It is the fund of owners and is considered the most expensive source of finance. It includes equity shares, preference shares and retained earnings.
- **Debt Capital:** It includes loans from banks, debentures and borrowings from financial institutions.
- **Cost and Risk:** Debt has lower cost because interest gets tax-shield, but it is more risky because payment of interest is a legal obligation. Equity is safe but expensive due to no tax benefit on dividend.

## Pattern of Capital Structure

### Different combinations:

- Only **equity**
- Equity + **preference shares**
- Equity + debt
- Mixed structure

## Cost and Risk of Debt and Equity

- **Debt:** Cost low , risk high (interest payment is compulsory)
- **Equity:** Cost high, risk low

## Difference between Capital Structure and Financial Structure

Basis of difference	Capital Structure	Financial Structure
<b>Components</b>	It includes only long-term debt and shareholders' fund.	It includes long-term funds as well as current liabilities.



**Scope**

It is a part of financial structure.

It is a broader concept which includes all liabilities.

**Determinants of Capital Structure**

1. **Cash flow position:** Company should take debt only when it has sufficient cash flow to pay interest.
2. **Return on investment :** If ROI is more than interest rate, debt should be preferred.
3. **Tax rate:** High tax rate makes debt cheaper.
4. **Control:** If present owners do not want to lose control, they prefer debt.
5. **Condition of stock market:** During recession investors prefer safety (debt), while during boom they can take risk (equity).

**Leverage**

Leverage refers to the ability to use **fixed cost funds (debt)** in capital structure to increase profit and earnings per share (EPS).

- **Operating leverage:** It shows the ratio of fixed cost and variable cost. It measures the change in EBIT (earnings before interest and tax) due to change in sales.
- **Financial leverage:** It shows the amount of debt in capital structure. It shows the relationship between EBIT and earnings per share (EPS).
- **Combined leverage:** It is the product of operating and financial leverage and shows total risk.

**Fixed Capital Requirement**

The capital invested in acquisition of **fixed assets** (like land, building, machinery) is called fixed capital.

- **Sources:** Issue of shares, debentures, term loans, retained earnings and lease financing.
- **Determinants:** Nature of business (more in manufacturing), size of business (more in large business), and type of technology (more in capital-intensive technology).



## Working Capital

The amount used to meet day-to-day operations and production needs of business is called **working capital**.

### Types of Working Capital

- **Fixed (permanent) working capital:** Minimum level of current assets required to ensure continuous operation.
- **Variable working capital:** Additional capital required due to changes in demand and season.

### Fixed Capital vs Working Capital

Basis	Fixed Capital	Working Capital
<b>Period</b>	It remains for long-term.	It remains for short-term.
<b>Use</b>	To purchase fixed assets.	To meet daily needs.
<b>Liquidity</b>	It is very low	It is very high.

### Determinants of Working Capital

The main factors affecting investment in working capital in an enterprise are as follows:

- **Promotional and formative stage:** The startup phase of a new project is most important for planning working capital.
- **Position of business cycle:** During boom, level of credit increases, while during decline it may decrease.
- **Nature of business:** Retail stores or manufacturing companies require more working capital.
- **Manufacturing cycle:** Time gap between purchase of raw material and finished product determines requirement.



- **Credit terms:** Liberal credit terms and slow collection block funds.

### Assessment of Working Capital Requirement

To estimate working capital requirement, the following methods are used:

- **Operating cycle method:** It is the most appropriate method, in which the period of conversion from cash to materials, then sales, then debtors and finally again into cash is observed.
- **Ratio of sales:** Estimating change in current assets based on sales volume.
- **Percentage of fixed investment:** Estimating requirement based on fixed investment.

### What is Dividend?

- Dividend is that part of company's funds which is paid by the company to its shareholders.
- It is not an expense, but a distribution of wealth among shareholders.
- The amount of dividend is decided every year in the annual meeting of the company.
- After declaration, dividend becomes a liability of the company.
- **Preference shareholders:** They get dividend at a fixed rate on invested amount first.
- **Equity shareholders:** They have no guarantee of dividend; it depends on the discretion of the board of directors.

### Methods of Payment of Dividend

- **Cash dividend:** When the company shares a part of its net earnings in **cash**.
- **Dividend in the form of stock (bonus shares):** Company issues additional shares in proportion to investor's current holding. Number of shares increases but market value remains same.
- **Repurchase of stock:** Shareholders get the option to sell their shares back to the company. It increases earnings per share (EPS).



### Process of Payment of Dividend

- **Declaration date:** The date on which board of directors decide and declare dividend.
- **Record date:** The date on which a shareholder whose name is in the register is entitled to receive dividend.
- **Payment date:** Dividend cheque is sent by post on the basis of record date.
- **Ex-dividend date :** A person buying stock on or after this date is not entitled to the next dividend.

### Derived Determinants of Dividend

- **Free cash flow:** Company pays that cash which remains after investment in net asset values.
- **Dividend to customer:** Retired investors prefer **high dividend**, while working persons may defer it for tax benefit.
- **Information signalling:** Declaration of dividend gives signal to the market about **future prospects** of the company.

## TOP 5 QUESTIONS

**Q-1. Explain the 'wealth maximization' objective of financial management.**

**Answer-** Wealth maximization means maximizing the value of investment of shareholders of the company. It is considered a better objective than profit maximization because it considers both the time value of money and the risk associated with investment. Its main indicator is increase in market price per share.

**Q-2. State any four essential elements of a good financial plan.**

**Answer-** The main elements of an effective financial plan are as follows:

- **Simplicity:** The plan should be easy to understand and implement.
- **Flexibility:** There should be scope for change according to future needs.



- **Liquidity:** There should be sufficient cash or liquid assets for emergency expenses.
- **Minimum cost:** The cost of raising capital should be at minimum level.

**Q-3. What is meant by 'capital structure' and what are its main determinants?**

**Answer-** Capital structure refers to the proportion of debt and equity used for the operation of the business. Its main determinants include cash flow position of the company, return on investment (ROI), tax rate, and the amount of risk involved in the business.

**Q-4. Why is co-ordination called the "essence of management"?**

**Answer-** Co-ordination is not a separate function but is inherent in all functions like planning, organising, staffing, directing and controlling. Just like a thread keeps the flowers of a garland together, co-ordination binds all activities of the organisation and maintains order.

**Q-5. Describe the main factors affecting dividend decision.**

**Answer-** Dividend decision is affected by many factors:

- **Free cash flow:** Availability of surplus cash after investment.
- **Customer preference:** Retired investors want regular income, while others may prefer capital gains.
- **Information signalling:** Increase in dividend indicates good future prospects of the company.
- **Need for retained earnings:** Plans for expansion and diversification of the company.



## 5

# LONG-TERM SOURCES OF BUSINESS FINANCE

## Introduction

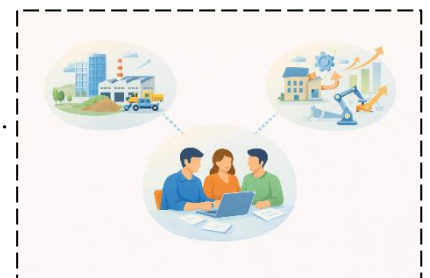
The capital which is invested in business for a long period of more than one year is called long-term finance or fixed capital. This capital is mainly required to purchase fixed assets like land, building and machinery and for expansion of the business.

## Long-term Finance

- The amount of money which is not to be paid within one year is long-term finance.
- It is also known as the **fixed capital** of the business.

## Need of Long-term Finance

- To purchase fixed assets like land, building, plant and machinery.
- For activities like merger, acquisition and modernisation of companies.
- For investment in research and development (R&D) works.
- To design marketing strategy and to increase facilities.



## Sources of Long-term Finance

There are two main sources of finance: internal (within the organisation) and external (outside the organisation).

## Domestic or Internal Sources

### (a) Retained Earnings :



- The part of profit which is not distributed among shareholders and is kept in the business for future.
- It is also called **reinvestment** of profits.
- **Merits:** Cheapest source of capital, for financial stability, benefit to shareholders.
- **Demerits:** It is possible only in case of high profit, dissatisfaction may arise among shareholders expecting dividend, misuse of funds by management may occur.

### External Sources

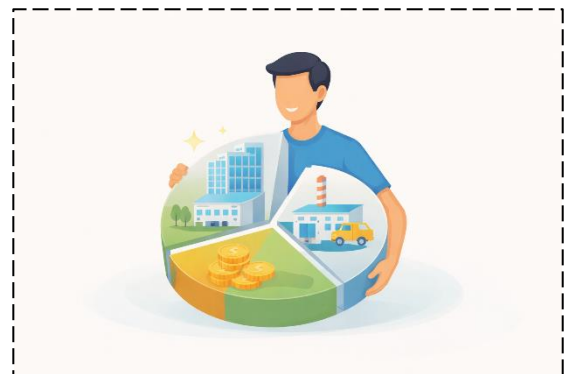
External sources include equity shares, preference shares, debentures and bank loans etc.

#### (a) Equity Shares:

- These are the shares which do not get any priority in dividend or return of capital.
- Equity shareholders are called the real owners of the company and they have voting rights.

#### Merits of Equity Shares:

- Equity shareholder is the owner of the company.
- Opportunity to earn profit even after taking higher risk.
- Value of equity shares increases with increase in profit.
- Easily sold in the market.



#### Demerits of Equity Shares:

- Profit is not received unless the company earns profit.
- High level of uncertainty in dividend.
- Problem of speculation during boom.
- Loss may also occur due to high risk.
- Investment is not returned when company is closed.



**Private Placement:** When shares are issued privately to known persons or institutions instead of issuing them publicly.

### **(b) Preference Shares:**

These shares get priority (preferential right) in payment of dividend and return of capital.

#### **Types of Preference Shares:**

##### **Convertible and Non-convertible Preference Shares**

- Some preference shares can be converted into equity shares after a fixed period.
- Those which cannot be converted are called non-convertible.

##### **Cumulative and Non-cumulative Preference Shares**

- If dividend of cumulative shares is not paid, it is paid later.
- If dividend of non-cumulative shares is not paid, it lapses.

##### **Participating and Non-participating Preference Shares**

- Participating shareholders have right to get extra profit after dividend.
- Non-participating shareholders do not get extra profit.

##### **Redeemable and Irredeemable Preference Shares**

- Redeemable shareholders get their amount back at a fixed time by the company.
- Irredeemable shareholders are not repaid.

### **(c) Issue of Debentures:**

- **Debenture:** It is a written receipt of money borrowed by the company.
- Debenture holders are creditors of the company and get interest at a fixed rate.



**Merits of Debentures:**

- Debentures are secured loans and get priority in payment.
- Debenture holders get fixed return whether there is profit or loss.
- Issue of debentures enables company to give higher return to equity shareholders.
- Debenture holders do not have rights in management, so control remains.

**Demerits of Debentures :**

- In case of uncertain income, it becomes difficult to pay interest and principal.
- Issue of debentures creates charge on company's assets.
- Borrowing capacity reduces due to mortgaging of assets.

**Types of Debentures:****(i) Redeemable and Irredeemable Debentures**

- Redeemable debentures are repaid at a fixed time.
- Irredeemable debentures have no fixed time of repayment.

**(ii) Convertible and Non-convertible Debentures**

- **Convertible debentures** can be converted into equity shares.
- **Non-convertible** debentures cannot be converted into shares.

**(iii) Secured and Unsecured Debentures**

- **Secured debentures** are issued with charge on company's assets.
- **Unsecured debentures** are issued without any charge on assets (only on trust).



#### (iv) Registered and Bearer Debentures

- In **registered debentures**, holder's name is recorded in company's record and transfer is done through formal process.
- In **bearer debentures**, no record is kept and transfer is done by delivery.

#### **(d) Loans from Special Financial Institutions (SFI Loans):**

- Institutions like IFCI and SFC provide loans for expansion and modernisation of industries.

#### **(e) Commercial Bank Loans:**

- Banks provide loans for a period of 3 to 5 years.

#### **(f) Public Deposits:**

- Companies raise funds directly from public savings by offering higher interest than banks.

#### **(g) Lease Financing:**

- **Lease:** It is a contract by which a person can use another's property on payment of rent.
- The owner is called lessor and the user is called lessee.
- **Merits:** Low investment, simple process, lease rent is tax deductible, no effect on borrowing capacity, risk of obsolescence is borne by lessor.
- **Demerits:** Restrictions on use of asset, business may be affected due to non-renewal, rent has to be paid even if not used, lessee does not become owner and is deprived of residual value.

#### **Foreign Sources**

- **ADR (American Depository Receipt):** Trading of shares in American market
- **GDR (Global Depository Receipt):** Trading of shares in international market
- **Loans from IFIs (IMF/World Bank):** Funds from international institutions
- **ECB (External Commercial Borrowings):** Loans from foreign banks



- **FCCB (Foreign Currency Convertible Bonds):** Bonds convertible into shares
- **NRI Investment:** Investment by Indians living abroad

### Factors Affecting Choice of Source of Funds

- **Cost:** Consider cost while selecting source.
- **Financial position:** Choose source according to repayment capacity.
- **Organisation and legal form:** Depends on nature of business.
- **Purpose and time period:** Selection based on need and duration.
- **Risk:** Source with lower risk should be chosen.
- **Control:** Source affects control over business.

## TOP 5 QUESTIONS

### Q-1. What is meant by long-term finance and why is it required?

**Answer-** Long-term finance is the capital which is paid over a period of more than one year. It is required to purchase fixed assets like land, machinery and building. Apart from this, it is also necessary for expansion, modernisation and new research activities of business.

### Q-2. What is the main difference between equity shares and preference shares?

**Answer-** Equity shareholders receive dividend after preference shareholders, whereas preference shareholders get priority. Equity shareholders have voting rights and are considered owners of the company, whereas preference shareholders generally do not have voting rights and receive dividend at a fixed rate.



**Q-3. Why are retained earnings considered the cheapest source of capital?**

**Answer-** Retained earnings are the saved profits of the company. No advertisement cost is incurred to raise them and there is no legal obligation to pay interest or dividend to any external party. Therefore, it is considered the simplest and cheapest source of finance.

**Q-4. What is a debenture? Write its two main advantages.**

**Answer-** A debenture is a document which confirms the loan taken by a company. Its main advantages are:

- (1) Debenture holders do not have voting rights, so control of management remains.
- (2) Interest paid on debentures reduces taxable profit, which saves income tax of the company.

**Q-5. What are the advantages of lease financing?**

**Answer-** Through lease financing, business gets an opportunity to use costly machines and assets without heavy investment. It saves company's cash which can be used for other purposes. Also, after completion of lease period, there is an option to return or purchase the asset.



## 6

# THE FINANCIAL MARKET

## Introduction

This chapter is about the **financial market**, which is a medium of exchange of funds between investors and borrowers. It explains different markets, their types, instruments and the role of stock exchange.

## Financial Market

- It is the place or system where financial assets (like shares, bonds etc.) are created and exchanged.
- It facilitates the flow of funds from investors to borrowers.
- It is called a medium that transfers funds from '**surplus sector**' to '**deficit sector**'.

## Importance of Financial Market

- **Mobilisation of savings:** It converts small savings of people into business investments.
- **Capital formation:** It helps in capital formation and industrial development in the country.
- **Providing liquidity:** Investors can sell their securities anytime and get cash.
- **Price determination:** It helps in determining the price of financial assets on the basis of demand and supply.

## Main Functions of Financial Market

1. Price discovery
2. Providing liquidity
3. Reducing transaction cost



## Classification of Financial Market

Financial market is mainly divided into two parts:

1. **Money Market (Money Market)**
2. **Capital Market (Capital Market)**

### Money Market

- **Definition:** It is the market where short-term funds are traded.
- **Time period:** It involves lending or borrowing for one year or less.
- **Instruments:** It includes instruments like treasury bill, commercial paper and certificate of deposit.
- It fulfils **working capital** needs of business.

### Money Market Instruments

#### (A) Call Money

- Loan taken by banks for a very short period
- It is taken for 1 day to 15 days

#### (B) Treasury Bill

- Short-term borrowing instrument issued by RBI
- It fulfils short-term needs of government

#### (C) Commercial Paper

- Borrowing instrument issued by companies
- Used to meet working capital needs

#### (D) Certificate of Deposit

- Short-term certificate issued by banks



- Issued for 91 days to 1 year

### **(E) Trade Bill**

- Bill related to business transactions
- Makes payment of credit sales easier

### **Capital Market**

- **Definition:** It is the market where medium and long-term funds are traded.
- **Time period:** Investment is made for more than one year.
- **Instruments:** It mainly includes shares and debentures.

### **Types of Capital Market**

Capital market has two main parts:

#### **(A) Primary Market**

- It is also called 'New Issue Market'.
- Here companies issue their securities (shares/bonds) to the public for the first time.
- **IPO (Initial Public Offer):** When a company offers shares to public for the first time.

#### **(B) Secondary Market:**

- It is known as 'Stock Exchange' or 'Share Market'.
- Here already issued securities are bought and sold.
- It provides opportunity to investors to exit and get liquidity.



### Difference between Primary Market and Secondary Market

Point of Difference	Primary Market	Secondary Market
<b>1. Function Raises</b>	long-term funds by issuing new securities	Provides ready market for existing securities
<b>2. Participants</b>	Financial institutions, mutual funds, underwriters, and individual investors.	Investors, companies, and stockbrokers (Stock Exchange members).
<b>3. Listing Requirement</b>	Listing is not mandatory.	Listing is mandatory for the trading of securities.
<b>4. Price Determination</b>	Price is determined by management according to SEBI regulations.	Price is determined on the basis of demand and supply.

### Difference between Capital Market and Money Market

Point of Difference	Money Market	Capital Market
<b>1. Duration of Funds</b>	Short-term funds.	Medium and long-term funds.
<b>2. Nature of Securities</b>	Treasury Bills, Commercial Paper, Trade Bills, Certificate of Deposit.	Shares, Debentures, Bonds, Government Securities.
<b>3. Participants</b>	Banks, NBFCs, Financial Institutions.	Investors, Brokers, Mutual Funds, Underwriters.
<b>4. Regulator</b>	Regulated by <b>RBI</b> (Reserve Bank of India).	Regulated by <b>SEBI</b> (Securities and Exchange Board of India).



## Stock Exchange

- **Definition:** Stock exchange is an organised market where different types of existing securities (shares, debentures, bonds) are bought and sold.
- It is organised as an association, society or company with limited members.
- It is often called the **barometer of the economic health** of the country.

## Functions of Stock Exchange

- **Providing ready market:** It ensures regular buying and selling of listed securities and provides liquidity.
- **Providing information:** It keeps complete record of prices and transactions and updates public through media (like CNBC, Zee News).
- **Providing safety:** Transactions take place under rules among members and are controlled by **SEBI**, reducing risk.
- **Capital formation:** It encourages savings and investment, helping economic development.
- **Economic barometer:** Fluctuations in share prices reflect economic, social and political conditions.

## Advantages of Stock Exchange

### (a) For Companies

- Listed companies get better **goodwill** and demand in market.
- Market of securities expands as investors worldwide become aware.
- It becomes easier to decide size and price of new issue.

### (b) For Investors

- Investors can buy or sell securities anytime.
- Safety in transactions ensures no worry about delivery and payment.
- Securities can be used as collateral for bank loans.



### (c) For Society

- Encourages savings into long-term investments, leading to capital formation.
- Promotes industrial growth and economic development.
- Facilitates government borrowing through trading of government securities.

### Limitations of Stock Exchange

- Excessive **speculation** creates instability in market.
- When speculation increases due to vested interests, real investors suffer.
- Uncontrolled speculation can be harmful for the economy.

### Speculation in Share Market

- **Definition:** Buying and selling of securities only to earn profit from price difference without taking delivery is called speculation.
- **Investor vs Speculator:** Investor pays full price and takes delivery, while speculator benefits from price differences.
- Speculation is not gambling as it is based on foresight and calculation and is a legal activity.

### Rolling Settlement

- Earlier, settlement was done on fixed days (like Saturday or Wednesday), called fixed settlement.
- In India, rolling settlement was introduced from April 2003, where transactions are settled immediately or within few days through computer software.

### Stock Exchanges in India

- The first organised stock exchange in India was Bombay Stock Exchange (**BSE**) in Mumbai.
- Then Ahmedabad (1894) and Kolkata (1908) stock exchanges were established.
- Currently, there are **23 stock exchanges**, with National Stock Exchange (**NSE**) being the main one.



- OTCEI was established to help small and medium companies raise finance.

### Rules of Stock Exchange

- **Securities Contracts (Regulation) Act**, 1956 was passed to regulate stock exchanges.
- Government has power to recognise, inspect and remove exchanges.
- Exchanges must provide regular information to government.
- Government makes laws for listing and regulation of securities.

### Role of SEBI

- SEBI was given statutory recognition in **June 1991** under economic reforms.
- Its main function is to protect **investors' interests** and regulate securities market.
- It registers and controls stock exchanges, intermediaries and mutual funds.
- It prevents insider trading and unfair trade practices.
- It ensures strict disclosure and transparency in public issues.

### National Stock Exchange of India (NSEI)

- It was established in **1992** and started working in **1994**.
- It is a **ringless** market where trading is done through computer network with full transparency.

### Objectives of NSEI

- To provide transparent market for securities across the country.
- To connect investors through efficient communication network.
- To implement modern and efficient trading system.
- To reduce settlement cycle.
- To meet international standards.



### **Trading Procedure in Stock Exchange**

1. **Selection of broker:** Investor selects a registered broker.
2. **Placing the order:** Investor gives order with company name and price.
3. **Trade by broker:** Broker executes deal through computer.
4. **Information to investor:** Broker informs and payment is arranged.
5. **Settlement:** Transactions are settled electronically through clearing house.

### **Depository Services**

- **Depository Act 1996** introduced depository system in India.
- It converts physical securities into electronic form.
- **Its four components are:** Depository, Depository Participant (DP), issuing company and investor.
- Depository works like a bank where securities are kept electronically.
- Investors open **Demat account** to hold securities.
- Two main depositories in India are **NSDL** and **CDSL**.

### **Services Provided by Depository**

- **Dematerialisation (Demat):** Converts physical certificates into electronic form.
- **Rematerialisation (Remat):** Converts electronic securities back to physical form.
- **Transfer of securities:** Transfers ownership easily.
- **Settlement of trade:** Arranges transactions electronically.

### **Working of Depository System**

- Investor submits DRF and share certificates to DP.
- DP sends documents to company and depository for verification.



- After verification, depository confirms dematerialisation.
- DP credits shares in investor's Demat account and sends details.

### **Benefits of Depository Services**

- Easy buying and selling of shares on any stock exchange.
- Saves time due to no paperwork.
- Full transparency and ease in trading.
- Eliminates risk of loss, damage or theft of certificates.
- Physical presence of investor is not required.

## **TOP 5 QUESTIONS**

### **Q-1. What is the main difference between primary market and secondary market?**

**Answer-** In primary market, companies raise capital directly from investors by issuing **new securities** for the first time. In contrast, in secondary market (stock exchange), already **existing** securities are bought and sold among investors.

### **Q-2. Why is stock exchange called the 'economic barometer'?**

**Answer-** Because movements in stock exchange reflect the **economic condition** of the country. When economy is strong, share prices rise, and when economy declines, prices fall, thus acting like a barometer.

### **Q-3. What are the main objectives of SEBI?**

**Answer-** The main objectives of SEBI are to protect the interests of investors, promote the development of securities market and regulate the functioning of stock exchanges and intermediaries to prevent fraud.



**Q-4. What is meant by Dematerialisation (Demat)?**

**Answer-** It is the process in which physical share certificates are cancelled and converted into electronic form and credited into the investor's Demat account.

**Q-5. What is the difference between money market and capital market?**

**Answer-** Money market deals with short-term financial needs (less than one year) and instruments like treasury bills. Capital market deals with long-term funds (more than one year) and instruments like shares and debentures.



## 7

# THE MARKETING MIX

## Introduction

In today's competitive market, the success of a product depends on its proper presentation. Marketing mix are such tools that deliver the product to customers with the right price, place and promotion.

## Customer : King of the Market

- **A customer** is the most important person of our business who is not dependent on us, rather we are dependent on him.
- The success of business completely depends on **customer satisfaction**.
- The marketing manager should design his efforts in such a way that customers get maximum satisfaction.



## Concept and Components of Marketing Mix

- The proper combination of product, price, place and promotion is called '**Marketing Mix**'.
- Each company designs such a composition of 4Ps so that the highest level of consumer satisfaction can be achieved.

## Product

- Product is the good or service which a business offers to satisfy the needs of consumers.
- It includes both physical goods (like shoes, lipstick) and services (like haircut, cell phone service).
- Consumer sees product not just as an item but as a **bundle of benefits**.



## Price

- **Price** is the amount which a customer pays in exchange for a product or service.
- It is the only element that generates revenue for the business and is very flexible.
- Price determination is affected by cost, demand, consumers' capacity and government rules.

## Place

- It means making the product available to customers at such a place from where they can **easily buy it**.
- It includes a network of distributors, wholesalers and retailers (channel of distribution).
- The company may plan to sell directly to consumers or through intermediaries.

## Promotion ( Advertising )

- It is the process of making **consumers aware** about the availability, features and use of the product.
- It includes tools like advertising, personal selling and sales promotion.
- Its objective is to create interest among potential consumers and persuade them to buy the product.

## Modern Concept of Marketing

- According to modern concept, customers are not only interested in physical features but in those features which **satisfy their wants**.
- Only that product should be launched in the market which is useful for the customer and provides benefit to him.
- The term product defines the benefit offered according to a want and demand.

## Product

- **According to William J. Stanton**, product is a set of tangible and intangible attributes that satisfy the wants of the buyer.



- **According to Jerome McCarthy**, product fulfils psychological needs of the customer along with its functional and aesthetic features.
- Effective businessmen see themselves in terms of product benefits, not just as a physical item.

### Classification of Products

- Products are classified into two main categories on the basis of their use and the customers who buy them.
- The first category is **consumer goods** and the **second category** is industrial goods.

### Consumer Goods

These are the goods which are used by the ultimate consumer to satisfy their **personal needs**.

#### (a) On the basis of use

- **Convenience goods:** These are the goods which are purchased frequently, immediately and with little effort (like milk, newspaper).
- **Shopping goods:** Before buying these, the consumer compares quality, price and style (like clothes, shoes).
- **Speciality goods:** These have special characteristics for which the consumer is willing to make special efforts (like expensive painting, luxury car).

#### (b) On the basis of durability

- **Durable goods:** These goods last for a long time and can be used repeatedly (like TV, refrigerator).
- **Non-durable goods:** These goods are consumed in one or few uses (like soap, toothpaste).
- **Services:** These are intangible which cannot be seen or touched, only experienced (like doctor's advice, banking).

### Industrial Goods

- These are the goods which are used for **production** of other goods or for running the business.



- These include items like **raw material**, engines, machinery and lubricants.
- There are fewer buyers of these goods but they purchase in large quantity.
- The demand for these goods depends on the demand for final consumer goods.

## Components of Product Mix

### 1. Product Characteristics

### 2. Branding

### 3. Packaging

### 4. Labelling

## Product Characteristics

1. Product includes elements **like design, features and warranty**.
2. Product should be available in different varieties according to **target customers**.
3. Maintaining product quality is essential.
4. Product/service package should have features according to customer needs.
5. **Warranty increases customer trust** and makes buying decision easier.

## Branding

- Branding is the process of giving a **name, term, sign or symbol** to a product so that it can be identified differently from competitors.
- The part of brand which can be spoken is called brand name (**like Lux, Dettol**).
- The part of brand which can only be recognised (like design or colour) is called **brand mark**.
- When a brand gets legal protection, it is called **trademark**.
- Branding helps customers to easily identify the product and helps the company to build its market.



## Packaging

- Packaging means designing and producing the **container or wrapper** for the product.
- It is very necessary to protect the product from damage, spoilage and leakage.
- Packaging makes the product attractive and encourages customers to buy it.
- Good packaging makes it easy to transport and handle the product.

## Levels of Packaging:

**Primary package:** The first package that directly packs the product.

**Secondary package:** The outer package that protects the primary package.

**Transportation package or final package:** Strong package used for storage and transportation.

## Labelling

- Label is a **paper or graphic** attached on the product or its package which provides information about the product.
- It provides important information like quality, weight, price, manufacturing date and method of use.
- Label helps in identifying the product and classifying it from other products.
- It also helps in promoting the brand and providing legally required information (like warning).

## Factors Affecting Pricing Decisions

- **Price** is the money which a consumer pays in exchange for a product or service.
- It is the **exchange value** of goods and services.
- Correct pricing is very important for the success of a product in the market.
- High price may reduce sales and very low price may adversely affect profit.



**(a) Cost**

- Business can run only when it covers its **production and distribution cost**.
- A reasonable **profit margin** is added to cost while fixing price.
- Higher cost leads to higher price and lower cost leads to lower price.

**(b) Demand**

- When supply is less and **demand is high**, seller can charge higher price.
- Price depends on customers' purchasing power and willingness.
- Generally, there is a **negative relationship** between price and demand (when price increases, demand decreases).

**(c) Competition**

- **Price set by competitors** for similar products is an important factor.
- Companies do not keep price too high due to fear of losing customers.
- Very low price may lead to situation like '**price war**'.

**(d) Market Objectives**

- Objectives of firm like **increasing profit or sales** determine price.
- If the objective is to capture large market, price is kept **low**.

**(e) Government Regulations**

- Prices of some essential goods are controlled by **government**.
- It is necessary to consider existing **legal limits** while fixing price.

**Methods of Price Fixation**

- Methods of price fixation are mainly divided into five categories.



### 1. Cost Based Pricing

- In this, price is **fixed by adding desired profit** to the cost of product.
- Example: Cost of soap ₹8 + 25% profit = ₹10 price.
- All fixed and variable costs are considered in this method.

### 2. Competition Based Pricing

- In this, price is fixed around **competitor's price**.
- It is also called '**going pricing**'.
- This method is common in products like bread, steel, cement and telecom services.

### 3. Demand Based Pricing

- In this, focus is on **market demand** instead of cost.
- High demand leads to **high price** and **low demand** leads to low price.
- Different ticket rates in cinema hall for different seats is an example.

### 4. Objective Based Pricing

- It is used for launching new products in the market.
- **Low price** is kept initially to capture large market share.
- **High price** can also be fixed initially for special customers.

### 5. Sealed Bid Pricing

- This method is used for tenders of **government departments** or big projects.
- Companies submit their confidential bids.
- Price is decided based on expected **price of competitors** rather than own cost.



## Channels of Distribution

- Manufacturer is at one place while consumers are spread all over the world.
  - **Distribution channel** is the path through which goods reach from producer to consumer.
  - It connects manufacturer, intermediaries (agents, wholesalers) and consumers.
- (a) **Contact with customers:** It helps in establishing regular contact with customers and providing product information.
- (b) **Transfer of ownership:** It transfers legal **ownership** of goods along with goods.
- (c) **Financing (Credit):** Intermediaries provide **credit** facility to customers.
- (d) **After-sales service:** It provides **after-sales** services when required.
- (e) **Risk bearing:** It helps in bearing risks like damage or **theft** during distribution.

## Types of Distribution Channels

It is classified on the basis of number of intermediaries between producer and consumer.

### (a) Zero level channel of distribution

- In this, producer sells goods directly to consumer, no intermediary is involved.
- **Channel:** Producer → Consumer

### (b) One level channel of distribution

- In this, there is one intermediary (retailer) between producer and consumer.
- **Channel:** Producer → Retailer → Consumer

### (c) Two level channel of distribution

- In this, two intermediaries (wholesaler and retailer) are involved.
- **Channel:** Producer → Wholesaler → Retailer → Consumer



### **(d) Three level channel of distribution**

- In this, three intermediaries (agent, wholesaler and retailer) are involved.
- Agent acts as a link between producer and wholesaler.
- **Channel:** Producer → Agent → Wholesaler → Retailer → Consumer

### **Factors Affecting Choice of Distribution Channel**

Correct channel selection affects product price and profit.

#### **(a) Nature of market**

- If buyers are few, **direct selling** (zero level) is better.
- If buyers are many and scattered, intermediaries are required.

#### **(b) Nature of product**

- Technical or costly machines are **sold directly**.
- Low priced daily goods (like soap, grocery) use **long channels**.

#### **(c) Nature of company**

Companies with strong financial position can have their own distribution network (like own stores).

#### **(d) Considering control over distribution channel**

Companies that want control prefer shorter channel.

#### **(e) Considering intermediaries**

- Experienced intermediaries can ensure product success.
- Addition of intermediaries increases cost as they add their **margin**.



## Promotion Mix

It is the group of tools through which product demand is increased and customers' attention is attracted. It provides information to customers and persuades them to buy.

1. **Advertising** – Paid, non-personal communication (TV, radio, newspaper) that provides information on large scale.
2. **Publicity** – Creating a good image of product/company in media without payment (like news, articles).
3. **Personal selling** – Selling product by directly meeting customers.
4. **Sales promotion** – Short-term incentives like discount, gifts, free samples etc. that encourage immediate purchase.
5. **Direct marketing** – Sending messages directly to customers (e-mail, internet, TV shopping).

## TOP 5 QUESTIONS

**Q-1. What is meant by marketing mix? Write the names of its main elements (4Ps).**

**Answer-** Marketing mix is the group of tools which a firm uses to achieve its marketing objectives in the market. Its four main elements (4Ps) are:

1. **Product:** The good or service which satisfies the needs of customers.
2. **Price:** The amount of money which the customer pays in exchange for the product.
3. **Place:** The process of delivering the product from producer to consumer.
4. **Promotion:** Providing information about the product and increasing sales.

**Q-2. Explain any three main factors affecting pricing decisions.**

**Answer-** While fixing price, the following factors are taken into consideration:



**1. Cost :** The production and distribution cost of the product is the most important factor. Price should not be less than cost.

**2.Demand :** If the demand for the product is very high, the company can keep a higher price.

**3. Competition :** Prices of competing brands also play an important role in determining the price of the product.

**Q-3. Distinguish between 'Zero level channel' and 'One level channel'.**

**Answer- Zero level:** In this, producer sells goods directly to the consumer. There is no intermediary (like: Eureka Forbes).

**One level:** In this, there is only one intermediary 'retailer' between producer and consumer (like: Maruti car showroom).

**Q-4. What is the difference between advertising and personal selling?**

**Answer- Advertising:** It is a 'non-personal' communication. It reaches a large number of people at once through TV, radio or newspaper and it is paid for.

**Personal selling:** In this, the seller and customer interact face-to-face. It is personal and is most effective for selling industrial or technical goods.

**Q-5. Briefly explain any three tools of sales promotion.**

**Answer-** Companies use these methods to increase sales:

- 1. Discount :** Reducing some percentage in the price of the product.
- 2. Free samples :** Giving product free to customers for trial.
- 3. Prizes and contests:** Organising lucky draw or competitions to attract customers.



## 8

# ADVERTISING AND SALESMANSHIP

## Introduction

In this chapter, the three main pillars of business growth—**advertising, salesmanship and sales promotion**—have been described in detail. This lesson teaches us how a company communicates information about its products to customers, how a good salesperson influences customers, and how sales are increased immediately through short-term offers.

## Advertising

Advertising is a medium through which companies inform customers about their product, its quality and price. Its main objective is to increase sales and build brand image.

## Features of Advertising:

- **Paid activity:** Payment is made for advertising.
- **Non-personal presentation:** There is no face-to-face interaction between seller and customer.
- **Promotion of goods or services :** It is a major means of increasing sales.
- **Identification of sponsor:** The identity of the company giving the advertisement (e.g.- Tata, LG) is clear.

## Publicity

Publicity spreads information like advertising, but it is **free of cost**. It is information given automatically by media, over which the company has no control. It can be both positive and negative.



### Difference between Advertising and Publicity

S.No.	Basis	Advertising	Publicity
1.	<b>Payment</b>	It is a paid form of communication.	No payment is made for this.
2.	<b>Identification</b>	The identity of the sponsor is clear.	There is no sponsor.
3.	<b>Control</b>	The company has full control over the content and timing.	The company has no control over it.
4.	<b>Target</b>	Its target is potential customers.	Its target is the general public.

### Objectives of Advertising

Advertising is not only done to sell goods, but also for these objectives:

- 1. Introduction of new product:** To inform about new products in the market.
- 2. Increase in sales:** To increase sales by attracting new customers.
- 3. Retaining existing customers:** To remind old customers that the product is still good.
- 4. Enhancing goodwill of the firm:** To build a good image of the company and remove misconceptions.
- 5. Support to dealers:** To help dealers and distributors in selling goods.

### Benefits of Advertising

Advertising benefits different sections of society in different ways:

#### 1. Benefits to Producer:

- **Increase in sales:** Helps in introducing new products and attracting new customers.
- **Spread of message:** Widely spreads information about company and product features.



- **Goodwill:** Helps in building and increasing business reputation.
- **Support to salesmen:** Makes the work of salesmen easier by informing customers in advance.
- **Face competition:** A tool to show product better than competitors.

## 2. Benefits to Consumer:

- **Source of information:** Provides information about price, quality and after-sales service.
- **Right selection:** Helps in choosing the right product by comparing options.
- **Reach:** Information reaches even people living in remote areas.

## 3. Benefits to Society:

- **Research and Development (R&D):** Encourages improvement in products and finding better options.
- **Educational role:** Educates people about new products and their uses.
- **Employment generation:** Creates job opportunities in advertising field.
- **Support to media:** Main source of income for newspapers and TV channels.

## Limitations of Advertising

Some people consider advertising harmful, the main arguments are:

- **Unnecessary demand:** People buy things they do not need, increasing financial pressure.
- **Increase in price:** Advertising cost increases product price, burdening customers.
- **Creation of monopoly:** Big companies dominate market through heavy advertising.
- **Effect on value system:** Sometimes advertisements show content against culture and moral values.
- **Wrong motivation:** Ads of alcohol, cigarettes or dangerous stunts negatively influence youth.
- **One-way communication:** Only message is given, immediate feedback from customers is not received.



## Media of Advertising

Companies use these media to communicate their message:

1. **Newspaper:** Most popular medium. Suitable for mass products and services, but less effective for technical or expensive products.
2. **Television (Doordarshan):** Combination of audio and visual. Reaches even illiterate people but is very costly.
3. **Radio:** Simple entertainment medium in villages and cities. Effective while driving or in areas without electricity.
4. **Magazines and Journals:** Good for reaching specific customers (e.g. medical magazines for doctors).
5. **Film:** Advertisements shown in cinema halls. Costly but has deep impact.
6. **Outdoor Advertising:** Ads on buses, trains, hoardings and walls. Useful in crowded places.

## Salesmanship

Salesmanship does not only mean selling goods, but it is a human process of motivating potential customers to buy products and satisfying them. It is also called 'personal communication'.

### Steps in the process of successful selling:

1. **Prospecting:** Identifying potential buyers.
2. **Pre-approach:** Collecting information about the customer before meeting.
3. **Approach :** Contacting and greeting the customer.
4. **Presentation and demonstration :** Showing features and uses of the product.
5. **Answering queries:** Solving customer doubts and questions.
6. **Action:** Convincing the customer and taking order.
7. **Follow-up service:** Checking customer satisfaction after sale.



## Importance of Salesmanship

### 1. Benefits to Consumer:

- Guidance and friendly advice.
- Help in selecting product according to budget.
- Assurance of after-sales service.

### 2. Benefits to Business:

- Helps in finding new customers and increasing sales.
- Gives direct knowledge of customer preferences and market response.
- Most effective for technical products (e.g. washing machine, computer).

### 3. Benefits to Society:

- Benefits to Society:
- Helps in maintaining balance between demand and supply.
- Educates people about new technologies and products.

## Qualities of a Good Salesperson

To become a successful salesman, a person must have the following qualities:

- **Good personality:** Attractive appearance, neat dressing, proper way of speaking and discipline.
- **Mental qualities:** Alertness, foresight, imagination and ability to understand customer
- **Good behaviour:** Patience, politeness and ability to build good relations with customers.
- **Knowledge:** Complete knowledge about company, product and competitors.
- **Communication ability:** Ability to speak clearly and confidently and convince others.



## Sales Promotion

Sales promotion refers to short-term measures adopted to encourage customers to buy immediately and to increase efficiency of dealers. It acts as a link between advertising and personal selling.

### Objectives of Sales Promotion

- **Attract new customers:** Motivate them to try the product.
- **Introduce new products:** Increase awareness and reach.
- **Retain existing customers:** Encourage repeat purchases.
- **Increase sales volume:** Maintain sales even in off-season.
- **Motivate retailers:** Encourage dealers to keep more stock.

### Tools of Sales Promotion

Companies mainly use two types of tools to increase sales:

#### (A) Tools for Consumers:

1. **Free samples :** Giving small packs free for trial.
2. **Discount coupons:** Providing coupons for discount on next purchase.
3. **Premium or gift:** Giving another item free with product (e.g. pen with soap).
4. **Price reduction:** Selling product at lower price (e.g. 20% discount).
5. **Fairs and exhibitions:** Displaying and selling products at events.
6. **Contests:** Giving prizes through lucky draw or quiz.

#### (B) Tools for Traders/Dealers:

1. **Cash discount:** Giving special discount for early payment.
2. **Free goods :** Giving extra units free on bulk purchase.



3. **Advertising allowance:** Helping dealers in local advertising expenses.
4. **Sales contests:** Rewarding dealers with highest sales.

## TOP 5 QUESTIONS

**Q-1. Write any three main differences between advertising and publicity.**

**Answer-**

Basis	Advertisement	Promotion
<b>Payment</b>	Paid process	No payment
<b>Control</b>	Complete control over message and time	No control
<b>Identification</b>	Identification of the sponsor is clear	Identification of the sponsor is not clear

**Q-2. Explain any three benefits of advertising to consumers.**

**Answer- 1. Source of information:** Consumers get information about price, features and availability of new products.

**2. Ease of selection:** By comparing different advertisements, customers can choose the right product according to their need and budget.

**3. Education:** Advertisements educate customers about proper use and benefits of products.

**Q-3. What are the main qualities of a successful salesperson?**

**Answer-** A good salesperson should have the following qualities:

**1. Good personality:** Neat dressing and impressive way of communication.



2. **Mental qualities:** Confidence, patience and ability to understand customer thinking.
3. **Full knowledge:** Complete knowledge of product and competing products in market.
4. **Polite behaviour:** Ability to maintain sweet and respectful relations with customers.

**Q-4. What do you understand by sales promotion? Name any two tools of it.**

**Answer-** Sales promotion refers to short-term measures adopted to increase sales immediately. Two main tools:

1. **Free samples :** Giving small packs free for trial.
2. **Price reduction :** Selling goods at lower price through sale or discount.

**Q-5. What are the main steps involved in the process of personal selling?**

**Answer-** The main steps of personal selling process are as follows:

1. **Prospecting:** Identifying potential buyers.
2. **Approach:** Contacting and building relation with customer.
3. **Demonstration:** Showing features and working of the product.
4. **Handling objections:** Answering customer questions and objections.
5. **Closing the sale:** Convincing the customer and receiving order.

