

**Syllabus**  
**F.Y.B.Com.**  
**COMMERCE PAPER - I**  
**INTRODUCTION TO BUSINESS**  
**SEMESTER - I**  
**(Academic year 2012-2013)**

**Objectives :**

1. To familiarize the students with basic concepts of business.
2. To develop knowledge and understanding of business.
3. To make students aware of current trends in business.

**Module - I**

**Business :** **(12 Lectures)**

**1.1 Introduction :**

Concept, Functions, Scope and Significance of business.  
Traditional and Modern Concept of business.

**1.2 Objectives of Business :**

Steps in setting business objectives, classification of business objectives, Reconciliation of Economic and Social Objectives.

**1.3 New Trends in Business :**

Impact of Liberalization, Privatization and Globalization, Strategy alternatives in the changing scenario. Restructuring and Turnaround Strategies.

**Module - II**

**BUSINESS ENVIRONMENT :** **(11 Lectures)**

**2.1 Introduction :**

Concept and Importance of business environment, Interrelationship between Business and Environment.

## **2.2 Constituents of Business Environment :**

Internal and External Environment, Educational Environment and its impact, International Environment Current Trends in the World, International Trading Environment - WTO and Trading Blocs and their impact on Indian Business.

## **Module - III**

**Project Planning : (12 Lectures)**

### **3.1 Introduction :**

Business Planning Process; Concept and importance of Project Planning; Project Report; feasibility Study types and its importance.

### **3.2 Business Unit Promotion :**

- ❖ Concept and Stages of Business Unit Promotion.
- ❖ Location - Factors determining location, and Role of Government in Promotion.

### **3.3 Statutory Requirements in Promoting Business Unit :**

Licensing and Registration procedure, Filing returns and other documents, Other important legal provisions.

## **Module - IV**

**Entrepreneurship : (10 Lectures)**

### **4.1 Introduction :**

Concept and importance of entrepreneurship, factors Contributing to Growth of Entrepreneurship, Entrepreneur and Manager, Entrepreneur and Intrapreneur.

### **4.2 The Entrepreneurs :**

Types of Entrepreneurs, Competencies of an Entrepreneur, Entrepreneurship Training and Development centers in India. Incentives to Entrepreneurs in India.

### **4.3 Women Entrepreneurs :**

Problems and Promotion.

**COMMERCE PAPER - I (SERVICE SECTOR)**  
**SEMESTER - II**  
**(Academic year 2012-2013)**

**Objectives :**

1. To familiarize the students with basic concepts of services.
2. To develop knowledge and understanding of services.
3. To make students aware of current trends in Services Sector.

**Module - V**

**Concept of Services : (12 Lectures)**

**5.1 Introduction :**

Meaning, Characteristics, Scope and Classification of Services - Importance of service sector in the Indian context.

**5.2 Marketing Mix for Services :**

Consumer expectations, Services Mix, Product, Place, Price, Promotion, Process of Services delivery, Physical evidence and people.

**5.3 Service Strategies :**

Market research and Service development cycle, Managing demand and capacity, opportunities and challenges in service sector.

**Module - VI**

**Retailing : (12 Lectures)**

**6.1 Introduction :**

Concept of organized and unorganized retailing, Trends in retailing, growth of organized retailing in India, Survival strategies for unorganized Retailers.

**6.2 Retail Format :**

Store format, Non-Store format, Store Planning, design and layout.

**6.3 Retail Scenario :**

Retail Scenario in India and Global context - Prospects and Challenges in India. Mall Management - Retail Franchising. FDI in Retailing, Careers in Retailing.

**Module - VII**

**Recent Trends in Service Sector : (10 Lectures)**

**7.1 ITES Sector :**

Concept and scope of BPO, KPO, LPO and ERP.

**7.2 Banking and Insurance Sector :**

ATM, Debit & Credit Cards, Internet Banking - Opening of Insurance sector for private players, FDI and its impact on Banking and Insurance Sector in India.

**7.3 Logistics :**

Net working - Importance - Challenges.

**Module - VIII**

**E - Commerce: (11 Lectures)**

**8.1 Introduction :**

Meaning, Features, Functions and Scope of E-Commerce - Importance and Limitations of E-Commerce.

**8.2 Types of E-Commerce :**

Basic ideas and Major activities of B2C, B2B, C2C.

**8.3 Present status of E-Commerce in India :**

Transition to E-Commerce in India, E-Transition Challenges for Indian Corporate; on-line Marketing Research.

**Question paper pattern**

**Marks:100**

**SECTION - I**

Q.1 Answer any two (out of three) 16

From Module I and II

Q.2 Answer any two (out of three) 16

From Module III and IV

Q.3 Write short notes (any three) 18

From all modules

**SECTION - II**

Q.4 Answer any two (out of three) 16

From Module V and VI

Q.5 Answer any two (out of three) 16

From Module VII and VIII

Q.6 Write short notes (any three) 18

From all Modules



# BUSINESS

## Unit Structure :

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Meaning of Business
- 1.3 Nature/Feature of Business
- 1.4 Functions of Business
- 1.5 Scope of Business
- 1.6 Significance of Business
- 1.7 Traditional and Modern concept of Business.
- 1.8 Summary
- 1.9 Questions for Self-Assessment

---

## 1.0 OBJECTIVES

---

After studying the unit the students will be able to:

- Know an overview of business.
- Understand the meaning, nature/features of business.
- Study the various functions of business.
- Elaborate the scope of business.
- Know the importance of business to the various parties.
- Understand the changing concept of business.

---

## 1.1 INTRODUCTION

---

Business is derived from the English word “bisig” literally means a state of being “busy”. It is a part of social system. Every action taken in a business is related to the external world around it. Every individual in a society is related to the business activity. It is a gainful human activity. It is concerned with creation, exchange and possession of wealth.

Business is an economic activity. It is concerned with the use of resources to produce goods or services. It also involves exchange of things. Every individual has to satisfy the wants of food, clothing and shelter for survival, No one can produce all the things which he or she wants to use. Therefore we have to depend upon others i.e. businessmen. Even a businessman has to buy goods from other businessmen for his own consumption. Thus, business activities are concerned with production, and distribution of goods and services.

---

## **1.2 MEANING OF BUSINESS**

---

According to B.O. Wheeler, "Business is an institution organised and operated to provide goods and services to society under the incentive of private gain."

According to L.H. Haney, "Business is a human activity directed towards producing or acquiring wealth through buying and selling activities."

---

## **1.3 NATURE/FEATURES OF BUSINESS**

---

The main important features of business are as follow:

### **1. Economic activity :**

Business is a form of an economic activity. It is the fruitful occupation for millions of people around the world like traders, bankers, industrialists, manufacturers and many more including professionals and those employed.

### **2. Regularity in dealing :**

Business activity is carried out regularly. It is not merely sale or exchange but the regularity or continuity of such dealings that constitutes business. A single transaction does not constitute business. The production or exchange of goods or services for a price is undertaken regularly and continuously in business.

### **3. Profit motives :**

Business is an income oriented activity. Every businessman expects profit from the transactions. The main object of business is to earn profit. Businessman earns profit from the business transactions and the buyer satisfies his wants of goods and services.

### **4. Organized activity :**

Business is an organised activity concerned with production and distribution of goods and services. A firm must conduct consumer research to identify consumer needs and wants. There is

a constant need to monitor customer needs and wants, and accordingly produce and distribute goods and Service. Business has to be conducted systematically with continuous research and development. It should be organized in a systematic manner so that business objectives can be achieved successfully.

#### **5. Degree of scale :**

Business can be undertaken at varied degree of seals of operation. Some firm like Sole trading concerns may undertake business on a small scale and that too in a local area. However, some firms, like joint stock companies may undertake business on a large scale, even at a global level.

#### **6. Risk and Uncertainties :**

Business activities are always risky and uncertain. A business is likely to suffer huge loss due to a number of possible reasons such as change in fashion, tastes, preferences, government policies, technology, recession in the economy, natural calamities etc. All business risks can't be insured. A business, however, can minimise risks through proper foresight and planning.

#### **7. Societal Interest :**

At present, business firms place emphasis on "societal concept" of business. Business make efforts to preserve and promote customers' and society's well-being. Business unit try to achieve a balance between profit + Consumer satisfaction + public Interest. Therefore, increasing efforts are made to produce eco-friendly products to satisfy consumer.

#### **8. Social Responsibility :**

Professional business firms are conscious of their social responsibility. The firm try to fulfill their social responsibility towards various groups. It needs the support of the groups i.e. investors, employees, consumers, creditors and so on. It can't function without an active participation from these social groups. This feature of business in getting more importance in today's era of globalization.

#### **9. Customer Satisfaction :**

Modern business world is a consumer oriented. Customer is the King and Centre of all marketing activities. Professional business firms adopt customer oriented approach in their business operations. Business firms give importance not only to profit earning but also to customer satisfaction. Customers would be satisfied only when they get real value for their purchases. Business firms have to take care of not only customer satisfaction but also have to delight the customers by providing better and additional services.



**10. Creative :**

Modern business is creative in nature. These days, consumers can't be satisfied with the same type of goods and services. Hence business organizations have to be innovative or constantly search new ideas and proposals.

**11. Dynamic :**

Business is a dynamic activity. There is a certainty of change in business. Dynamic forces are at work from day to day. Within business new products, methods, innovations in management cause ever changing adjustment of policies and administration. From outside forces such as government regulation, war, changing consumer income and new development in science and an art.

**12. Government Control :**

Business organizations are subject to government control. The government of each country enacts laws and regulations to control and regulate business activities. Business organisations are expected to adhere to such laws.

**13. Buying and Selling :**

All business activities are directly or indirectly connected with transfers or buying and selling of goods and services. Business is useful to buyers and sellers. Businessmen as Seller of goods and services, provide convenience and satisfaction to buyers through provision of form utility, place utility and time utility. In return for the supply of utilities, businessmen receive profit benefit from the buyers.

---

## **1.4 FUNCTIONS OF BUSINESS**

---

Functions refer to series of activities or tasks performed to achieve pre determined objectives. For the smooth conduct of business activities, there is a need to perform certain important functions. These functions are as follows.

**1. Purchase and store keeping :**

Business firms have to make a series of purchases for conducting business activities. Such purchases include the buying of raw materials, components, spare parts, movable and immovable, assets relating to the functioning of the business activity. Traders purchase finished goods in order to sell these.

An allied function would be to store the raw materials purchased for which a separate and special facility has to be provided. Care must be taken to maintain proper inventory of materials. Over stocking of material block the working capital on the other hand, under-stocking blocks the production cycle. Further,

there must be a proper stock of finished goods so as to distribute them as per the delivery schedules.

## **2. Production :**

Production means conversion of raw material in to semi finished or finished product. The production department deals with activities like design of the operations system (product design, process design, and location of facilities, facilities layout and capacity planning) and operation and control decisions (routing, loading, scheduling, dispatching and expediting).

## **3. Marketing Function :**

This function is concerned with, Controlling the level and composition of demand. It deals with creating and maintaining demand for goods and services produced by the production department. It determines physical attributes of the product, fixes its price, motivates consumers to buy the same through advertisement, personal selling and Sales promotion and determines the path through which goods will be transferred from sellers to buyers.

## **4. Finance Function :**

This function deals with obtaining and effectively utilising funds necessary for efficient Operations. It ensures that right amount of finance, at right cost and at right time is available for carrying out business Operations. It also deals with investment of funds in long-term assets and short-term assets to ensure smooth business functioning.

## **5. Personnel Function :**

This function deals with effective utilisation of human resource. It aims at selecting right persons at the right place i.e. jobs and motivating them to work through team work and co-operate to achieve organizational goal. They have to do the work with commitment and loyalty.

## **6. Research and Development:**

Research and Development plays an important role in product development. It helps to bring out product modifications and product innovations. Business firms need to spend a good amount of time on research and development activities. Many professional business firms set up a separate department for research and development activities to make change in the business as per the requirement.

## **7. Public Relations :**

There is a need to maintain good public relations with the various sections of the public. Therefore, it makes a good sense to maintain separate department to look after public relations,

especially in the case of large firms. It handles public queries, media queries, interviews, complaints etc. It develops the good public relation and bring positive image in the minds of the customer about the business, firm.

#### **8. Sales Function :**

The Sales department works in close co-ordination with the marketing department. The sales department is concerned with the Selling activities of the firm. It books orders from the customers and then distributes the goods through the distribution channels. This is one of the most important functions of business, through which satisfied the consumers needs and wants.

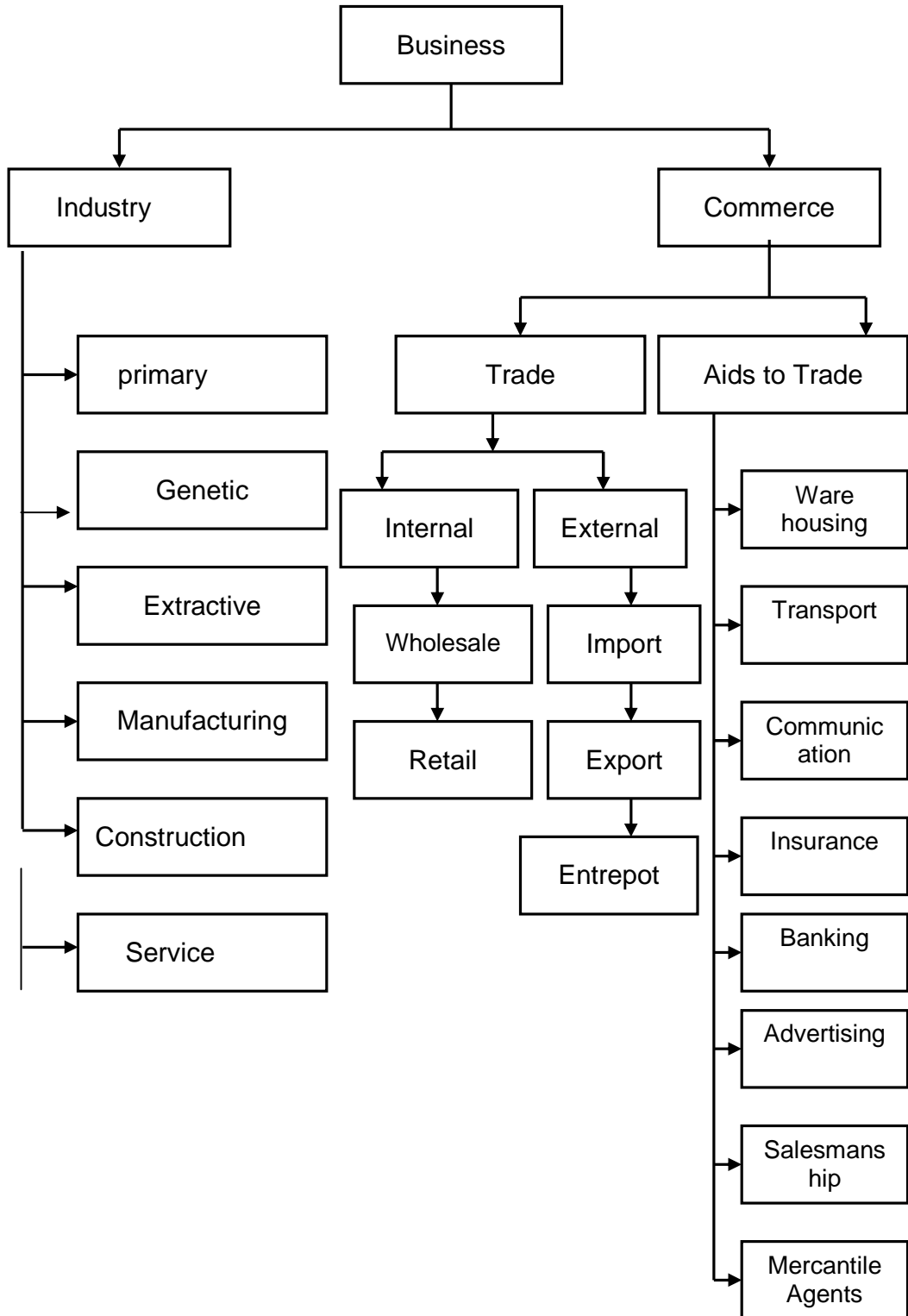
---

### **1.5 SCOPE OF BUSINESS**

---

Business has a very wide scope. It includes large number of activities. These activities may be grouped under Two broad categories i.e. Industry and commerce.

The Scope of business shown in the following table.



**I. Industry :**

The term industry refers to that part of business activity which directly concerns itself with production, processing or fabrication of goods and services. It creates form utility. In industry, raw materials are converted into finished products, which can be used for consumption. Some industries manufacture consumer goods while others manufacture capital goods.

Following are the various types of industries-

**a) Primary Industries-**

These industries are engaged in the production of primary goods, such as rice, cotton, fish etc.

The best examples of this type of industries are Agriculture, fishing etc.

**b) Genetic Industries :**

Genetic industry involves breeding and reproduction of plants and animals for the purpose of sale. Poultry, Plant nurseries, sericulture etc. are examples of genetic industry. The price of products available from such activities is generally less.

**c) Extractive Industries :**

Extractive industries extract valuable minerals, ores etc. from the natural elements like soil, water and air. These industries are concerned with the discovery and utilisation of natural resources such as minerals and forests.

**d) Manufacturing Industries :**

Manufacturing industries are concerned with the conversion of raw material into finished goods. They create form utility. The products of primary and extractive industries such as cotton, iron-ore, crude oil, etc. are used as a raw material in these industries.

**e) Construction Industries :**

Construction industries are concerned with the construction work like construction of bridges, dams, canals, roads, harbours, building etc. These industries do not operate in factory buildings but at the site allotted..

**f) Service Industries :**

Service industries produce intangible goods i.e. goods which can't be seen or touches for example transport, insurance, banking etc. These services are essential and useful for the expansion of business.

**II. Commerce :**

Commerce involves all those activities which facilitate transfer of ownership and movement of goods from the centers of production to the centers of consumption. In other word it involves all forms of trade and the services that assist trading. Commerce include trade and aids to trade.

**A) Trade :**

Trade means buying and selling of goods and services. It involves transfer of ownership of goods from the seller to buyer against money. In other words, trade is an exchange of goods and services for a price which the consumers are ready to pay. Consumers may be an individuals, government and industries who need raw materials.

**1. Internal Trade :**

Internal trade is also known as home trade. It is conducted within the country. It can be at local level, regional level or national level.

**a) Wholesale trade :**

It involves buying in large quantities from producers and selling in smaller lots to retailers. The wholesaler is a link between manufacturers and retailers.

**b) Retail Trade :**

Retail trade involves buying in smaller lots from the wholesaler's and Selling in very small quantities to the consumers for personal consumption. The retailer is the last link in the chain of distribution. He established a link between wholesaler and Consumers.

## **2. External Trade :**

The trade carried on between the traders of two different countries is called external trade. It is also called as International trade or foreign trade. It includes following trade.

### **a) Export Trade :**

Export trade involves selling of goods from one country to another. For example, when goods are sold from India to America.

### **b) Import trade :**

Import trade involves buying of goods from a Seller of another country. For example, a buyer from India purchases goods from a seller of china.

### **c) Entrepot trade :**

When goods are imported from one country and then re-exported to some other country, it is called entrepot. For example an Indian trader may buy goods from Bangladesh and then sell it to Pakistan.

## **B) Aids-To-Trade**

Aids to trade constitute another component of commerce. Aids to trade include various agencies which are useful for the conduct of trading activities. There are as follows.

### **a) Warehousing :**

There is a time gap between production and consumption. However, goods which are produced at one time are not consumed at the same time. Hence, it becomes necessary to make arrangement for storage or warehousing. Agricultural commodity like wheat and rice are seasonal in nature but are consumed throughout the year. On the other hand goods such as Umbrellas and woolen cloths are produced throughout the year but are demanded only during particular seasons. Therefore goods need to be stored in warehouses till they are demanded.

### **b) Transport :**

There is a place gap from the place of production to the place of consumption. Goods are produced in one part of the country and Consumption in other parts of the nation. Transport fills the place gap. It meets out the gap between producer and

consumer. It helps the manufacturer to expand their markets from local to regional, regional to national and national to global.

**c) Communication :**

Communications facilitates transfer of information. It involves transfer of messages from one person to another and from one place to another. It can be in oral or writing form of information. Oral communication can take place through telephone or personally. Written communication is possible through letter, fax, e-mail etc. It facilitates quick transfer of messages to take important decisions quickly.

**d) Insurance :**

Insurance reduces the problem of risks. Business is subject to risks and uncertainties. These are inevitable in the field of business. Risks may be due to fire, theft, accident or any other natural calamity. Insurance companies who act as risk bearer cover risks. Insurance tries to reduce risks by spreading them out over a greater number of people. The rate of premium depends upon the type of risks and the period for which the risk is covered.

**e) Banking :**

Banking solves the problem of payment and facilitates exchange between buyers and sellers. Lending and borrowing the funds are the traditional functions of the banks. Banks provide short, medium and long term loans to the needy people. Other functions have started gaining importance such as merchant banking, development banking, credit cards etc. This has further facilitated to trade.

**f) Advertising :**

Advertising as a powerful marketing tool of communication is highly useful to the manufacturer, retailers, consumers and the society at large. Advertising is basically designed to inform, create interest and induce people to act in a particular way. It can be used for communicating both commercial and non-commercial messages. It creates awareness of the product and builds a good brand image in the minds of consumer and society at large.

**g) Salesmanship :**

Salesmanship refers to personal presentations by the firm's sales force for the purpose of making sales and building customer relationships. It facilitates personal selling. The salesmen provide information to the buyers. They convince and persuade buyers to buy goods.



**h) Mercantile Agents :**

In the process of distribution, producers and consumers are unable to have direct contact, as consumers are spread over a vast area; mercantile agents remove this difficulty of personal contact. Mercantile agents are the intermediaries who form a link between the buyers and the sellers. They do not carry business in their own name. These are several types of mercantile agents such as brokers, commission agents, auctioneers, underwriters, insurers, etc.

**Check your Progress**

1. Define the following terms
  - a. Business
  - b. Trade
  - c. Entrepot trade
  - d. Aids-To-Trade
  - e. Mercantile Agents
  - f. Internal Trade
  - g. Production
2. Draw the table showing the Scope of business.
3. Enlist the main features of business.
4. Explain the following functions of business:
  - a. Store keeping
  - b. Marketing
  - c. Finance
  - d. Personnel

---

**1.6 SIGNIFICANCE OF BUSINESS**


---

Business is useful to the society in general and the business firms and consumers in particular as it creates utilities. Let us see the benefits it offers to various groups. There are as follows.

**I. Significance of Business to the Firms :**

Business plays a very important role to business firms. The manufacturer, marketer, trader and even service providers get benefit from business.

Following are the significance of business to business firms.

**a) Accomplishment of objectives :**

Business helps the firms to achieve its various objectives. It creates utility by creating goods and services. These goods and services are consumed by the people for the satisfaction of needs and wants. Thus with increased sales firms can achieve the objectives, like increase in sales, increase in profit etc. Besides earning profits firms are able to achieve its other objectives such as increase in market share, growth and expansion, creating goodwill etc.

**b) Improvement of knowledge and skill :**

Managing business, interacting with people, trying to develop new methods and techniques etc. It helps in improving the knowledge and skills of the employer and employees involved in business. This ultimately benefits to the business organisation as the overall functioning of the business firm improves.

**c) Expansion of business :**

Healthy and sound business practices help the organisation to grow and expand its activities. Firm can introduce new and better products in the market and can expand its activities. Firm can also expand its area of market operations. Market expansion can be right from local to international level.

**d) Product Development :**

Business undertakes marketing research and product research activities regularly for the purpose of product development. Due to these research and development activities, firms are able to introduce new, innovative and better products in the market. Thus advanced products benefit to the consumers as well as business firms.

**e) Improve Relations :**

Sound business practices improve relations of a firm with various sections of the society. Business firms need to maintain good relations with dealers, suppliers, customers, government authorities, media people, and society in general. The survival and success of business is depends upon the business relations with the stakeholders.

**f) Corporate Image :**

Business helps the organisation to create and improve corporate image in the market. Business can create a good reputation about itself in the minds of employees, shareholders, investors, consumers, government and general public. Corporate image is vital to any organisation, as it enhances marketing, financial and social value of a firm. Corporate image helps the firms for long term Survival.

**g) Optimum Utilisation of Resources :**

Resources are the basic inputs which are necessary to produce goods and services. The resources are limited and in short supply. Hence, it should be used in such a way that it will ensure minimum use and maximum output. In achieving its goals business ensures optimum use of scarce resources by utilising it in most profitable areas. Sound business practices enable a firm to make optimum use of resources.

**h) Increase in market Share :**

Every organisation desire of increasing its share in the market. Increase in market share brings in more profits, more respect, better image and increase in market value of shares. Sound business practices enable a firm to increase in market share and create more goodwill in the market.

**i) Increase in profit :**

Every business is subject to risk and uncertainties. Profit is the reward for their risks undertaken by the businessman with the help of business activities a business firm able to earn profits. Profits play a role of return on the investment done by businessman.

**II) Significance of Business to Consumer:**

Business plays a significant role in respect of consumer. Following are the significance of business to consumers.

**a) Better quality of goods and services :**

Now a days, competition has increased tremendously. To face this competition, firms try to make every possible effort to improve the quality of goods and services. Business firms make available quality goods and services required by consumers. Business provides better quality of goods and services to the prospective buyers.

**b) Reasonable price :**

Today's market is a consumers' market where supply exceeds demand for products. In order to attract consumers, business firms offer quality goods and services at competitive prices. They try to offer value for money. Business provides goods and services at right prices.

**c) Better facilities and Services :**

Every business wants to survive in the competitive business world. It tries to provide better facilities and services to the customers at low cost. The services like after sale-service, free home delivery, extended warranties, Sale on installment basis, zero rate of Interest etc. are provided by the business firms. Due to these facilities and services customers are benefited to a great extent.

**d) Customer Satisfaction :**

Modern business has become consumer oriented. Moreover, in order to survive and grow, business organisations thrive to provide consumer satisfaction. Their objective is to retain the old customers as well as to find new customer. Some professional business firms go a step forward to delight its customers by providing additional facilities.

**e) Higher Standard of Living :**

Business generate employment in areas of production, distribution, banking, transport and so on. This increases the level of income and create additional demand for product in the market. This in how business generate demand which in turn result in more jobs and income which finally result in satisfying the number of human wands and increase their standard of living.

**III) Significance of business to society :**

Business plays a significance role towards the society. Following are the significiance of business to the society.

**a) Economic Growth :**

Business activities facilitate economic growth in the country. It undertakes expansion and diversification activities. New products and services are offered to consumers constantly. New business firms are set up thereby leading to accelerated rate of growth.

**b) Regional Development :**

Business firms facilitate to bring about regional development. Government encourages business firms to start operations in under developed areas by giving tax benefits, duty concessions and so on. This leads to a balanced regional development.

**c) Revenue to the Government :**

Business firms provide substantial revenue to the government. Business sector provides revenue through taxes, duties, customs duty, sales tax, corporate tax, Octroi etc. contribute to the income of the government. The government can also generate revenue by way of profits earned by public sector units.

**e) Employment Opportunity :**

Business provides employment to number of people. It provides employment in the activities such as production, distribution, marketing, promotion of products, and so on. It is thus a source of employment to the people. A large section of the population of the world earns its regular income by means of business.

**e) Social Welfare :**

Business helps in social welfare of the society. It can be in the form of starting schools and Colleges, providing donations for starting hospitals, sponsoring various sports and cultural events and so on. In other words they undertake various social welfare programmes and there by reduce the burden of the government.

**f) Capital Formation :**

Business facilitates capital formation in the country. Capital formation takes place as a result of savings and investment in the country. All those connected with business i.e. business firms, employees, traders, service providers and other save part of their income earned from business. These savings are put into investments. These investments lead to capital formation in the country.

**g) Global Relations :**

Business helps to maintain good and cordial relations with other countries. This is because of foreign trade. Foreign trade enables countries to be dependent on each other, which in turn helps to develop good and friendly relations among participating countries. Sound business tries to build a cordial relation with other countries.

## 1.7 TRADITIONAL AND MODERN CONCEPT OF BUSINESS

<b>Traditional Concept of business</b>	<b>Modern concept of business</b>
<p><b>a) Meaning</b> As per the traditional concept, business means production and marketing of goods and services for private gain.</p>	As per the modern concept, business means provision of goods and services for the satisfaction and welfare of consumers and the society at large.
<p><b>b) Scope</b> The Scope of business was restricted to local market.</p>	The scope of business covers national and even global market.
<p><b>c) Objectives</b> The Objectives of business was profit. Business was treated as the end in itself. It was production and distribution for earning profit.</p>	The Objectives of business is consumer satisfaction and service to society. Business is treated as a means to serve the society and rise social welfare.
<p><b>d) Position of Consumer</b> Consumers were neglected and were taken for granted. They were exploited for profiteering. No attention was given to consumer welfare.</p>	Consumers are given priority and business is adjusted as per the needs and expectations of consumers. Consumer welfare is given special attention.
<p><b>e) Social Orientation</b> Social orientation to business was absent.</p>	Business is treated as social institution with social obligation.
<p><b>f) Social Responsibility</b> The concept of social responsibility was absent. Business was not socially responsible.</p>	Business accepts and honors social responsibilities. It is treated as an integral part of social system.
<p><b>g) Nature of concept</b> It is treated as old, outdated and narrow concept as business is treated merely as profit making activity.</p>	It is treated as dynamic and broad concept as it is given social orientation. It is for the satisfaction of human wants.

<p><b>h) Role of profit</b> Profit was the sole purpose in business. Profit alone was the guiding principle in business.</p>	<p>Profit is given secondary position. Profit through service is the guiding principle in business.</p>
<p><b>i) Type of Orientation</b> Traditional concept was businessman oriented i.e. profit oriented. Limited importance was given to consumers and social welfare.</p>	<p>Modern concept is social oriented i.e. consumer oriented. Special importance to consumer satisfaction and social welfare and not merely to profit making.</p>

---

## 1.8 SUMMARY

---

From this chapter it is clear that business is an economic activity which mainly aims at profit making. Modern concept of business tries to have balance between profit making, customer satisfaction and social Interest. Business activity is important to various parties like business, customer, employees, society as well as nation. Thus modern business tries to become a social entity because business is a social system.

---

## 1.9 QUESTIONS FOR SELF-ASSESSMENT

---

- a) Define business. Explain its features.
- b) Explain the functions of a business.
- c) Explain briefly the scope of business.
- d) Discuss the significance of business to the firm.
- e) What are the significance of business to the customer?
- f) Explain the Significance of business to the society.
- g) Distinguish between traditional and modern concept of business.



## OBJECTIVES OF BUSINESS

### Unit Structure

2.0 Objectives

2.1 Introduction

2.2 Definition of Business Objective

2.3 Steps in Setting Business Objectives

2.4 Classification of Business Objectives

2.5 Reconciliation of Economic and Social Objectives

2.6 Distinguish between economic and social Objectives

2.7 Summary

2.8 Questions for Self-Assessment

---

### 2.0 OBJECTIVES

---

After studying the unit the students will be able to:-

- Understand business Objective
- Define business Objective
- Explain the steps in setting business Objectives.
- Study in detailed the classification of business Objectives.
- Know the reconciliation of economic and social Objectives.

---

### 2.1 INTRODUCTION

---

Every business unit should have certain well-defined Objectives. It should conduct various activities in order to achieve such objectives. Profit making, social recognition and business growth are some universal business Objectives. Objectives indicate the destination towards which the business unit desire to move. Running a business unit without well-defined objectives is like travelling without fixed destination. Objectives are the end points towards which the organisation has to move forward. They provide the spotlights over the route along which business activities are to be organized and efforts are to be directed. Business Objectives are not stable over a long period. In fact, they are redefined from time to time as per the environmental changes.



---

## **2.2 DEFINITION**

---

According to D. E. Mc. Farland,

“Objectives are the goal, aims or purposes that organisations wish to achieve over varying period of time.”

---

## **2.3 STEPS IN SETTING BUSINESS OBJECTIVES**

---

Following are the steps involved in formulating business Objectives.

### **1) Analyse Internal Environment :**

An analysis of internal environment helps in fixing realistic Objectives. Internal environmental factors include human resources, financial resources, physical facilities, management structure, internal relationship etc. must be studied, such an analysis helps in understanding strengths and weaknesses of the organisation. The Organisation needs to make every possible efforts to correct weaknesses and to improve the strengths of the organisation.

### **2) Analyse External Environment :**

The Organisation also needs to analyse the external environment. It includes customers, suppliers, competitors, political, economic, social, technological, natural and so on. Such an analysis reveals the opportunities and threats created by the environment such analysis would help the organisation to grab the opportunities and to minimize or defuse the threats.

### **3) Considering resources of the Organisation :**

Setting objectives of business depends on the availability of human and non-human resources with in the business. These resources should be properly considered. The proper consideration of these resources results into optimum utilization of resources, reduction in wastages, reduction in cost and increase in profitability.

### **4) Consider value System :**

The values system followed influences the functioning of the business organisation to a great extent. Value System is a set of consistent ethical values followed by an individual or an

organisation. While setting objectives, value system must be considered.

### 5) Consider management philosophy :

Management philosophy also affects setting of business objectives. A management that adopts an orthodox approach uses traditional and old-fashioned practices to carry on its business. Objectives set by such a management would differ from those set by professional management.

### 6) Awareness of past Objectives :

Past Objectives and achievements of the organisation serve as guidelines for formulating future objectives. Normally an organisation does not deviate too much from the past objectives while setting objectives.

### 7) Setting of objectives :

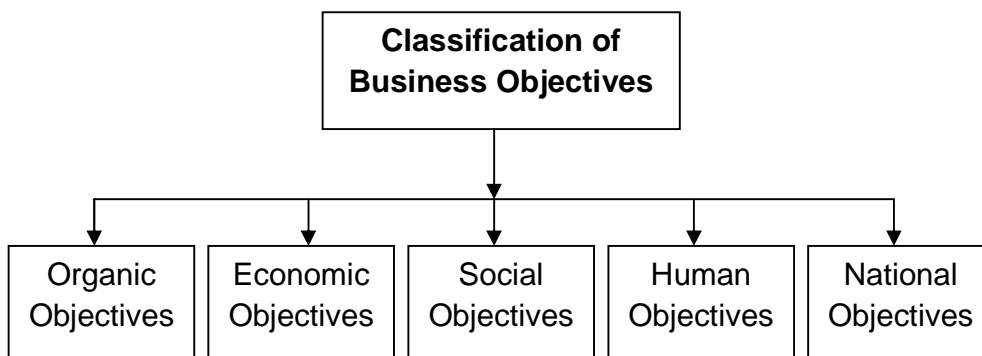
After analysing the internal and external environment, the firm should set the objectives in all the areas. Long term and short term objectives must be set. Further, these must be set on the basis of priority. Once the objectives are decided, it must be informed to all personnel.

---

## 2.4 CLASSIFICATION OF BUSINESS OBJECTIVES

---

Business objectives are many and varied in nature. The success of any organisation depends on how well these are balanced. Business objectives can be broadly classified into five major categories. These have been depicted by a chart given below.



**A) Organic Objectives or Threefold Objectives of business :**

The organic objectives also called as three-fold objectives of business. Organic objectives are the primary objectives relating to a firm. Every firm has to give attention to three basic objectives. These Objectives are as follows-

**1) Survival :**

Survival is the basic objective of every organisation. Other objectives can be thought of only if the organisation survives. Due to globalization, liberalization and privatization, the business environment has become extremely competitive. Further, technological advancements and changing consumer behaviour has made the business environment complex. This has made survival extremely difficult. Constant monitoring of the business situation and strategic planning are necessary for survival in the competitive business environment.

**2) Growth :**

Growth is the second major organic business Objective. Business should grow in all directions over period of time. Growth takes place through expansion or diversification. Expansion involves increase in business by introducing a product which is similar to the existing product line of the business. While diversification involves introducing a product which is totally different.

Growth brings more profit, opportunities for advancement, better utilisation of resources, reputation and goodwill etc. In fact, growth is required for survival 'Grow or Perish' is the requirement of the day which means if the organisation is not able to grow it will be droop out from the market.

**3) Recognition and Prestige :**

Every business organisation desires to have social recognition and prestige. This objective is partly economic and partly social. Prestige of an organisation is due to standard quality of its products, regularity in their supply, reasonable prices and satisfactory service to customers. Recognition indicates public confidence on an organisation. Such recognition is possible only after a long period of useful service to the society.

Business organisations are not satisfied only with profit and growth. It desire to create goodwill and good image in the market. It has publicity and promotional value. A business organisation wants popularity among consumer's, dealers, employees and local community. For this, it has to provide financial support to social, cultural and other activities. In addition, it must be fair and liberal with different social groups.

## **B) Economic Objectives of business :**

The main economic objective of business is profit. To earn profit, there are several other economic objectives, which are to be accomplished. The important-economic objectives of business are as follows.

### **1) Profit :**

The main economic objective of business is to earn profit. Business activity is primarily undertaken for earning profit. It enables a business to realise other objectives of business. Profit is the main motive of all business activities and is necessary for survival, growth and prestige of an enterprise. Profit is an indicator of business performance and a sign of efficiency. It is a reward for bearing risk and uncertainty in business. It is a lubricant which keeps the wheels of business moving.

### **2) Creation of Wealth :**

Creation of wealth is one of the important objectives of business. Creating wealth involves increasing the wealth of the shareholders. It happens only if the business grows steadily whereby the shareholders get higher dividends and there is an appreciation in the market value of the shares.

### **3) Creation of Customer :**

The purpose of business is to create a customer. Customer is the foundation of a business. Business has a important human obligation. Profit can't be earned only by producing the goods. Every businessman has to find customers for high goods or services. Thus, the objective of the business should be to identify the customer for their goods and services. This requires creation of customer in the market and distributes goods and services.

**4) Innovation :**

Innovation means to bring new methods, new ideas and concepts and modern efficient techniques. It mean something new and creative. It is useful in improving quality, reducing costs and satisfying the customer better. It is a continuous process. In order to survive and succeed in today's competitive business environment, a business organisation needs to be innovative.

**5) Utilisation of Resources :**

Effective utilization of resources is the most important economic objective of a business enterprise, It is expected to utilise available resources fully i.e. to the optimum level. The resources available with an enterprise may be limited but they must be utilized fully. The production capacity of plant, machinery, and equipment must be used fully wastages of all kinds should be avoided or minimized. Modern technology should be used for more production and Superior quality production. It leads to bring down the cost of production.

**6) Expansion of Market :**

A business firm may aim at entering in to new market. i.e. domestic as well as in international market. This would enable the firm to survive during recession grow and also gain reputation not only in the domestic markets but also in the international market. A business enterprise may increase its market share by effective distribution network, maintaining good relations with dealers, effective advertising and publicity, providing effective and efficient after-sale-service, effective sales promotion etc.

**7) Growth of business :**

Growth of business activities is one of the economic objectives of business. Growth is desirable for more production and turnover in business. Business expansion also gives advantages of large scale operations. Introduction of new products, setting new production unit, and use modern techniques of production are some methods useful for the growth of business activities. Such growth is necessary for meeting market competition.

**8) New product Introduction :**

A firm may aim at introducing new product lines or brands. The introduction of new products or brands would help the organisation in several ways i.e. increase its overall market share,

face the competition effectively in the market, earn good amount of profit and so on.

### **C) Social Objectives Business :**

Business is a part of a social System. A social system involves people and their Organisations in mutual relationship to each other. Business is an integral part of society.

Following are the social objectives of business

#### **1) Social Objectives towards Customers :**

The Survival and success of any business organisation depends on its customers. One universally accepted social objective of business is to satisfy consumers by providing goods and services as per their needs and expectations. Business activities are essential for meeting the needs of consumers. Business have to supplied quality good at reasonable price to the customer.

#### **2) Social Objectives towards Employees :**

The Social Objective of a business firm towards its employees is to treat them with respect and provide them with the right compensation and facilities. Business should provide better wages, working conditions, good treatment to the employees. It also provide monetary and non-monetary benefits for satisfaction of the employees. This also ensures industrial peace and harmony.

#### **3) Social Objectives towards shareholders :**

Shareholders invest their money in the business in the form of shares, debentures bonds etc. The basic objective is that the shareholder should receive a fair, return on their investment. The Objective of the business is to utilise efficiently the money of the shareholder and give them fair return on their investment in the form of dividend a interest.

#### **4) Social Objectives towards Government :**

A business organisation can't function smoothly without the support and co-operation of the Government. Hence, it becomes necessary on the part of the organisation to fulfill its social duties towards the government. These include payment of taxes and duties, following the rules and regulations framed by the

government from time to time, contributing towards the welfare activities of the government and so on.

#### **5) Social Objectives towards Suppliers :**

The suppliers can play an important role in the success of an organisation by Supplying the right quality and quantity of material at the right time. Therefore, a business firm needs to have social objectives towards supplier in respect of timely payment of dues. Helping the suppliers in their financial requirements by making advance payments.

#### **6) Social objectives towards Dealers :**

Dealers assist business firm by promoting and pushing goods and services in the market at the right time at the right place. It is one of the basic social objectives that goods of special quality be produced and supplied. If this basic demand of the society is met, the business may survive in the long run.

#### **7) Social Objectives towards Society :**

Business organisation gain profit because of the support of the society. Naturally, they are expected to provide financial support for various social, educational and cultural activities. This is also necessary for maintaining cordial relations with the society. Business organizations must also support social welfare programmes.

### **D) Human Objectives of business :**

One of the objectives of business is to look after the interest of the people who make business successful. It has been widely recognised that human beings should be treated as an individual. Businessman should have parental approach towards human being.

Following are the human Objectives of business.

#### **1) Fair wages :**

Employees should be treated as human beings first and then as workers. The employees should be paid fair wages. Apart from this, they should also be given other monetary and non-monetary benefits, incentives and other facilities.

**2) Better working condition :**

The working conditions provided to the employees must be hygienic. Good lighting ventilation, good recreation facilities, better labour management relations etc. provide a healthy work atmosphere. This is necessary so that the health of the workers is not adversely affected.

**3) Workers participation in the management :**

Workers participation in the management has been recognised. Their representation in the management may create healthy co-operation. The problems and disputes can be solved on human grounds. This enables both employees and managers to understand each other's problems and improve relations.

**4) Human Resources Development :**

The management must undertake human resource development programmes. Necessary training should be given to the employees to improve their skills. Suitable conditions should be created to enable them to use their latest talents like creativity, communication skills, decision-making ability etc. This develops their overall personality, which ultimately benefits to the organisation.

**5) Job Satisfaction :**

Business enterprise should provide challenging and interesting job opportunities to the employees. If Jobs are routine and less challenging, then it brings boredom and may lead to labour turnover and absenteeism. Jobs can be made more challenging and interesting through techniques like job enlargement, job enrichment, Job rotation etc. Some times promotions and transfers can also be used to bring job satisfaction.

**6) Motivation :**

The employees should be motivated to work hard. This can be done by offering monetary and non-monetary benefits to them. Monetary rewards includes high salaries, housing allowance, car allowance etc. while non-monetary incentives includes appreciation, recognition, promotions, Job title etc.



**7) Welfare facilities :**

The Organisation should provide to its employees proper welfare facilities like canteen facilities, transport facilities, sports and recreation facilities, education facilities and so on.

**E) National Objectives of business :**

National objectives are the more Specific objectives of business. These are aimed at fulfillment of national needs and aspirations. The government has to implement the national plans and policies in accordance with the accepted priorities. Business organisation should consider these priorities, policies and plans making business decisions.

Following are the important national objectives of business.

**1) Social Justice:**

Social justice means providing equal opportunities to all, protecting the interest of neglected, unorganised and economically backward sections of the society and prevention of any sort of exploitation. For example, a business organisation should do social justice to its handicapped workers, and women employees.

**2) Development of small scale industries :**

Small scale industries are those that require less capital and generate more employment. In the present era of globalization, this sector is adversely affected; In order to boost this industry, big business organizations should assist the growth of small scale industries by purchasing raw material from them.

**3) Self Sufficiency :**

Every business organisation should make use of available natural resources and human resources for economic development. It should reduce the countries dependence on foreign countries by producing goods indigenously or by promoting exports and reducing imports.

**4) Production as per National Priorities :**

Business organizations must make efforts to provide the basic requirement of life i.e. food, clothing and shelter at reasonable prices. In other words, every business organisation

should set its objectives after considering national priorities. Secondly, efforts should be made to reduce the nation's dependence on foreign countries. This could be done by undertaking production indigenously, promoting exports and reducing imports.

#### **5) Social welfare :**

Business Organisation may also support directly or indirectly welfare schemes in the society. The welfare schemes that business has to adopted i.e. adopting schools in backward areas, providing funds for rural development activities such as construction of roads, irrigation etc. organizing health camps etc.

#### **6) Development of Backward Areas :**

Business organisation can contribute towards development of backward areas of the nation. This can be done by setting up industries in such areas. Also, financial and technical assistance can be provided to units in such backward areas. The government, too, encourages the development of backward areas by providing lots of incentives such as tax holidays, low rates of taxation, tax exemptions and so on.

#### **7) National Integration and communal Harmony :**

Business organisation is referred as corporate citizens. Therefore, they should work for national integration and communal harmony. They should not support anti-social elements or communal forces who work against national integration. This is one of the most important national objectives of business.

#### **8) Creation of Employment opportunities :**

Business creates employment opportunities either directly or indirectly. In a country like India where unemployment and disguised employment are at a very high level, it is advisable for the industries to adopt wherever possible labour intensive techniques so as to employ more number of people and thereby reduce the number of people below the poverty line.

### Check your Progress

1. Define the following terms:
  - a. Objectives
  - b. Three fold objectives of Business
  - c. Economic Objectives
2. Draw the chart showing the classification of Business Objectives.
3. Enlist the steps in the process of setting of the business objectives.
4. Fill in the blanks:
  - a. National objectives of business are aimed at fulfillment of ----  
----- and -----.
  - b. Motivation can be done by offering ----- and -----  
--- benefits to the employees.
  - c. Workers participation in the management is the -----  
objective of business.
  - d. Effective utilization of resources is the most important -----  
----- objective of a business enterprise.
  - e. The organic objectives also called as -----  
objectives of business.

---

## 2.5 RECONCILIATION OF ECONOMIC AND SOCIAL OBJECTIVES

---

Business is a part of society and therefore, it has to meet its social obligations along with its economic objectives. It has to balance its economic and social objectives in order to satisfy the various parties or groups i.e. consumers, employees, shareholders, Government, Suppliers, Competitors and society.

The economic and social objectives can be reconciled as under-

### 1) Profit and consumer price :

An important economic objective is to earn more profit. This could be done not by charging high price but by increasing efficiency, reducing wastages, putting the available resources to optimum use, innovations etc. such strategies on the part of the management would enable them to charge reasonable price for the products. This is how a balance can be brought about between the

economic objective of earning profit and the social objective of charging a reasonable price.

## **2) Profit and Research and Development :**

A Business organisation needs to earn profit. A part of the profit needs to be invested in research and development. This would help the organisation to improve the quality. Improvement in quality would not only bring customer satisfaction but also higher sales to the business organisation.

## **3) Business expansion and social Interest :**

Business organisation should bring expansion of business activities not merely for profit maximisation but for serving the customer better. However, expansion of business for securing the benefits of large-scale operations and passing on same portion of benefit to consumers is desirable. Expansion for generation of employment opportunities is also economically and socially desirable.

## **4) Profit and After-Sale-Service :**

Business organisation needs to focus on after sale service, especially in the case of consumer durables. A part of the profit must be spent in training the after-sale-service work force. Additional after-sale-service work force may be appointed by the firm to provide better service to the customers.

## **5) Profit and shareholders' Interest :**

Shareholders expect higher dividend, which is possible only if the profit are high. When the organisation earns higher profits, the employees may demand higher wages. Business organisation need to accept this fact and pay higher wages to the employees by co-relating their performance with the pay. This would motivate the employees to put in their best efforts. Simultaneously, the organisation should also pay higher dividend to the shareholders for the risk undertaken by them by investing in the company. Thus reconciliation between the two objectives could be brought out.

## **6) Profit and Employees welfare :**

Business organisation makes profits due to the efficiency of its work force. Therefore business organisation needs to spend a part of its profits for the welfare of its employees by providing better facilities such as improved working conditions, additional welfare facilities, and increase in salaries etc.

### 7) Profit and Social Development :

Business organisation spends some part of profit for the social development activities. such as donations to schools, colleges, trusts etc. contributions to government at the time of natural calamities, floods, famines etc., and for such other social activities.

### 8) Business expansion and Suppliers :

Business organisation needs support of suppliers for its business expansion plans. It should not try to exploit the suppliers. There are a good number of cases, where large business organisation exploits suppliers by delaying payment, demanding unreasonable higher discount etc.

---

## 2.6 DISTINGUISH BETWEEN ECONOMIC AND SOCIAL OBJECTIVES

---

Economic objectives	Social objectives
<p><b>1) Meaning</b> Economic objectives relate to financial aspects and are directly related to the survival, stability and growth of business.</p>	<p>Social objectives relate to social responsibilities and are directly related to welfare of different social groups.</p>
<p><b>2) Coverage</b> Economic objectives include reasonable profit making, growth, introduction of innovation, reduction in the cost of production and marketing, business stability, prestige and recognition.</p>	<p>Social objectives include regular and continuous supply of goods and services, raising social welfare, support to community, pollution control and justice to investors, consumers and employees.</p>
<p><b>3) Closer to enterprises</b> Economic objectives are closer to enterprises as they are useful for their survival.</p>	<p>Social objectives are closer to the society at large as they are useful for raising social welfare.</p>
<p><b>4) Priority</b> Economic objectives are treated as primary objectives by business organisation.</p>	<p>Social objectives are treated as secondary objectives by business organisation.</p>

<p><b>5) Historical background</b></p> <p>Economic objectives have a long history and are universally accepted by the business community since long.</p>	<p>Social objectives are recent in origin but are not accepted in the right spirit by the business community.</p>
<p><b>6) Effects/Benefits</b></p> <p>Economic objectives bring industrial growth and create employment opportunities.</p>	<p>Social objectives raise social welfare and offer justice to different social groups.</p>
<p><b>7) Role</b></p> <p>Economic objectives bring financial soundness to business organisation.</p>	<p>Social objectives bring social support and recognition to business organisation.</p>
<p><b>8) Scope</b></p> <p>Economic objectives are limited in scope as they are related to an individual enterprise.</p>	<p>Social objectives are wide in scope as they are related to different social groups.</p>
<p><b>9) Effect of neglect</b></p> <p>Neglect of economic objectives brings financial difficulties. Even the survival of an enterprise may come in danger.</p>	<p>Neglect of social objectives leads to non-co-operation from social groups. This may also lead to social criticism and social control.</p>

---

## 2.7 SUMMARY

---

The chapter business objectives explain that every organisation needs aims and targets which are to be achieved by conducting business activities successfully. Objectives give guidelines to the organisation for its activities. Every organisation has to keep eye on its objectives. The same time, organisation does not have only profit making as an objective but also social, national and human objective. Every Organisation has to keep balance between all the types of objectives while carrying on its activities. Modern business is considered as a socio-economic business activity.

---

## 2.8 QUESTIONS FOR SELF-ASSESSMENT

---

- a) Discuss the steps involved in setting business objectives.
- b) Bring out the classification of business objectives.
- c) What are types of organic objectives?
- d) Explain the classification of economic objectives.

- e) Discuss various types of social objectives.
- f) Evaluate important types of Human objectives.
- g) Evaluate different types of National objectives.
- h) How would you reconcile economic objectives with social objectives?
- i) Distinguish between economic and social objects.



## NEW TRENDS IN BUSINESS

### Unit Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Impact of Liberalization
- 3.3 Impact of Privatization
- 3.4 Impact of Globalization
- 3.5 Strategy Alternatives in the changing Scenario.
- 3.6 Restructuring Strategies
- 3.7 Need for Restructuring
- 3.8 Turnaround
- 3.9 Summary
- 3.10 Questions for Self-Assessment

---

### 3.0 OBJECTIVES

---

After studying the unit the students will be able to:

- Understand the new economic reforms adopted by India.
- Know the positive and negative impact of Liberalization, Privatization and Globalization.
- Evaluate the strategy alternatives in the changing scenario.
- Explain the restructuring strategies and its need.
- Discuss the Turnaround

---

### 3.1 INTRODUCTION

---

Indian economy had experienced major policy changes in early 1990's. The new economic reform, popularly known as Liberalization, Privatisation and Globalization i.e. LPG model aimed at making the Indian economy as fastest growing economy and globally competitive. The impact of these is explained as under-



---

## **3.2 IMPACT OF LIBERALIZATION**

---

Liberalization means reduction of Government controls on the private sector. In 1991, the Government of India took several decisions about industrial development which indicated tendency towards more and more privatisation.

The impact of liberalization is explained as follows :-

### **A) Positive impact :**

#### **1) Increase in investment**

Liberalization has greatly increased investment in private sector. The massive size of the investment plans of the companies becomes evident when they are compared with the total investment in the industrial sector.

#### **2) Increase in Economic growth :**

Indian economy during the last decade has witnessed a growth of around 8%. Even though in last couple of years the growth had showed down to around 5% to 6%, it is still relatively high as compared to pre liberalized area where Indian economy was growing at around 2% to 3%.

#### **3) Increase in FDI**

One of the positive outcome of liberalization has been higher in flow of foreign direct investment (FDI) in India. Foreign investors find china more investor-friendly. They still think Indian policy and procedural system is time consuming.

#### **4) Increase in competition :**

Liberalization have brought in an environment of healthy competition in the market place with more number of players, both national and international. The competition in turn has generated wider choice of products, competitive prices and better quality of goods and services. Thus, liberalization has benefited the Indian consumer in a big way.

**5) Delicensing :**

Before liberalization starting an industry in India was a tedious process. Number of compliances in the forms of permissions and licenses were required. This invariably delayed the project and escalated the cost. The focus of liberalization was on reducing these procedural delays caused by various licenses. This has facilitated the quick formation of the companies.

**6) Impact on Indian Business :**

Business activities in India are very much affected due to liberalization. Indian markets are now opened up to foreign companies. Imports are freely allowed. As a result, foreign goods are now easily available to Indian consumers. The demand for foreign goods, certainly affects the market for domestic goods. Our industries can now keep hold on Indian markets only by improving the quality and making the goods competitive in terms of quality price etc. The scope of Indian business improved after liberalization.

**B) Negative Impact :**

On the negative side however there are some serious problems arising out of our New Industrial policy i.e. liberalization. These are as follows-

**1) Demand for foreign product :**

Our markets have been flooded with cheap foreign goods. This have also adversely affected our domestic industries in a big way. People prefer foreign brands and labels, and ignore domestic products, resulting in closure of small medium local manufacturers.

**2) Unemployment :**

Liberalisation has introduced efficient and improved technologies which has made manpower surplus. In a country where manpower is an asset many people have been rendered jobless because of the recent changes.

**3) Industrial Location :**

The Government has given freedom to locate industries anywhere in the country as per the choice of the business firms. This would affect the development of backward areas, as industrialists may not be inclined to set up their units in backward areas due to lack of infrastructure facilities.

**4) Unreliable investments :**

Foreign Direct Investments are the first ones to withdraw their money if they have even some apprehension about government policies. This has been experienced in India recently when nearly one lakh crores have been withdrawn by foreign investors after Vodafone controversy and down grading of Indian economy by global rating agency.

**5) Problem of Deliensing :**

The New Industrial Policy 1991 recommended autonomic expansion without Government permission. This has resulted in heavy expansion of capacities in the 1990's in all sectors of the industry. This in turn has resulted in recession, especially between 1996-2003.

---

**3.3 IMPACT OF PRIVATIZATION**


---

Privatisation refers to a process that reduces the involvement of the government or public sector in the economic activities of a nation. It involves disinvestment of public sector partially or fully by selling its equity to private parties.

The impact of privatisation is explained as follows.

**A) Positive Impact :****1) Improved infrastructure :**

Private Sector focuses on providing better work environment. For this, huge investment is made in improving infrastructure facilities provided to the employees of the organisation. Better infrastructure in turn increases the overall efficiency of the organisation.

**2) Increase in efficiency :**

Most government industries and services are inefficient and are running in losses. Due to privatization, their efficiency is likely to improve as private sector focuses more on increasing productivity, efficiency and lowering or minimises wastages.

**3) Use of Latest Technology :**

Private domestic investors and foreign investors make use of latest technology and know-how for increasing the out put and their profits. Better technology helps in reducing the cost of production.

**4) Less political interference :**

Public sector enterprises are owned and managed by government with growth of private enterprises, government participation in industry is reducing by the day. This has also reduced the political interference in the day to day administration of companies to a great extent.

**5) Increase in foreign Investment :**

Many private companies seek funds through foreign direct investment (FDI) route. It increases foreign investment in the country. A country like India which has a shortage of foreign exchange benefits immensely due to such investment. An increase in foreign investment leads to an improvement in the foreign exchange reserves of the country.

**B) Negative Impact****1) Problem of Dereservation :**

The Government has dereserved the public sector. This has allowed the entry of private sector in those areas which were earlier reserved for public sector. The entry of private sector has resulted in over expansion of capacities, which in turn has resulted in recession, especially, from 1996 to 2003.

**2) Lack of social Responsibility :**

Business is a socio-economic activity. However, in their eagerness to earn maximum profits, private businessmen's; invariably ignore their social responsibilities towards government, employees, shareholders, society etc. This creates discontent among various stakeholders.

**3) High prices :**

Private businessmen are in a position to Spend huge amount on research and development. If they succeed in developing unique product, they are likely to recover the cost from the consumers by charging high prices for the product which they produced.

#### **4) Exploitation of Employees :**

It has been observed that private businessmen are not hesitant to violate various laws especially pertaining to workers. They may not even pay the minimum wage as prescribed by law. Furthermore, the working conditions are not conducive. This adversely affects not only the performance but also the health of employees.

---

### **3.4 IMPACT OF GLOBALIZATION**

---

Globalisation is a wider term and treats world as one economy. Globalisation leads to integration of economies of different countries in a new global economic order. Globalisation of business is the process of linking a country's economy with the world economy.

#### **Meaning :**

“Globalisation as the process of integrating country's economy with global economy with a view to capturing global opportunities for long-term growth and development.”

The impact of Globalisation are as following-

#### **A) Positive Impact**

##### **1) Integration of countries :**

Globalisation leads to integration of countries of the world for business purpose. Trade is made free and there is free movement of goods and services among all countries. The isolation of countries from world trade is removed and this is beneficial to all participating countries.

##### **2) Rapid economic growth :**

Globalization provides opportunities to participating countries to grow and expand production and marketing activities. Concerned countries promote exports and earn substantial foreign exchange. This is again invested in the economy in order to provide higher standard of living to people within the country-

### **3) Reduction of custom Duties :**

The custom duties on imports have been reduced considerably, especially, since 1995. In 1995, the peak customs duty was 40%, which has been reduced to 10% current level due to WTO. Also the quantitative restriction on imports have been reduced. This has resulted in import of quality goods, which has improved standard of living, and also resulted good competition with the domestic industry.

### **4) Transfer of capital and Technology :**

Globalisation facilitates easy transfer of capital from one country to the other due to free convertibility. This is lead to flow of funds to poor and developing countries. Along with capital, technology is also move from developed to developing countries. Such transfer of technology leads to modernization of industries.

### **5) Liberalisation of foreign Investment :**

Government has liberalised foreign investment in Indian companies. At present, foreign investment is allowed even upto 100% in select industries. This has not only generated more foreign capital but also has resulted in upgradation of technology in Indian companies.

## **B) Negative Impact**

### **1) Problem for Domestic companies :**

Domestic companied is come in difficulties due to globalisation. They have to face competition from the foreign companies which are superior with regard to quality and cost. The business of domestic companies come in difficulties due to competition from foreign companies. Even small scale and agro industries may come in danger due to liberal policies with regard to globalisation.

### **2) Problem of Foreign Investment :**

The New Industrial Policy 1991 liberalised foreign investment in India. At present FDI is allowed in several Sectors. However, the MNCs are not very much interested in infrastructural development projects involving long gestation period. Also FDI results in outflow of foreign exchange due to payment of dividents and royalties.

### 3) Problem to the national economy :

Globalisation lead to privatisation, disinvestment in the case of public sector, free entry of foreign goods / companies and limited participation of government in industry and commerce. All such changes may prove harmful to the national economy of developing and poor countries.

### 4) Problem of Foreign Technology :

Globalisation lead to extensive use of capital intensive technology. However, computer technology / automation / modern technology is not create large-scale employment opportunities which are urgently required in developing countries. Thus, unemployment problem is likely to become more serious due to rapid progress towards globalisation. Again there is a possibility to overdependence on foreign technology.

### Check Your Progress

1. Define the following terms
  - a. Globalisation
  - b. Privatisation
  - c. Libralisation
2. Enlist the positive effects of Globalisation
3. Enlist the negative impacts of Privatisation.

---

## 3.5 STRATEGY ALTERNATIVES IN THE CHANGING SCENARIO

---

Organisation need to adopt certain strategy **William F. Glueck** in his book “**strategic management**” has identified the strategic alternatives into four broad groups.

### 1) Stability strategy :

Stability strategy refers to maintaining status quo of existing business operations. It implies continuing the current activities of the firm without any significant change. It aims at slow growth rate. A firm is said to be following a stability strategy. If it is satisfied with the same consumer groups and maintaining the same market share, satisfied with incremental improvements of functional performance and the management does not want to take any risk that might be associated with expansion or growth. Stability strategy is preferred by small businesses or firms in a mature stage

of development stability strategy is pursues doing well. It is less risky, easier and more comfortable.

## **2) Growth strategy :**

'Growth strategy' refers to a strategic plan formulated and implemented for expanding a firm's business. Growth strategy is the much-talked and publicised strategy in the present Indian environment. Growth means an increase in the size or scale of operations of a firm usually accompanied by increase in its resources and output. Business growth is a natural process of adaptation and development that occurs under favourable conditions. In life of any organisation, growth is necessary at some point of time. As a matter of fact, growth is precondition for the survival of a business firm.

Growth strategies can be divided into two broad categories i.e. Internal growth and external growth.

### **a) Internal growth :**

It is growth within the organisation with the help of its internal resources. It is planned and slow increase in the size and resources of the firm. Internal growth is slow and involves comparatively little change in the existing organisation structure. Internal growth strategies include.

- i) Intensification / expansion
- ii) Diversification
- iii) Modernization

### **b) External Growth :**

External growth is fast and allows immediate utilisation of acquired assets. External growth strategies include:

- i) Merger and amalgamations
- ii) Acquisitions and takeovers
- iii) Foreign Collaboration and Joint ventures.

## **3) Retrenchment Strategy :**

Retrenchment strategy, though less frequently used has been pursued by various companies successfully. In retrenchment strategy, unattractive and unwanted areas of business are



sequenced gradually. It is a planned exercise to get rid of unprofitable parts of business which helps the organisation to focus on most profitable and promising areas of business.

Retrenchment strategies can be divided in to two board categories i.e. divestment strategy and liquidation strategy.

**a) Divestment strategy :**

Divestment involves the sale or liquidation of a portion or a major division, or segment of the business unit. It is usually a part of revival, rehabilitation and restructuring plan.

**b) Liquidation strategy :**

A retrenchment strategy considered the most extreme and unattractive is liquidation, Strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment, termination of opportunities where a firm could pursue any future activities and the stigma of failure.

**4) Combination Strategy :**

Combination strategy refers to the combination of stability, expansion and retrenchment strategy applied either simultaneously or sequentially. In every combination, two or more business units come together and adopt uniform policies for achieving common objectives. Combinations are useful for eliminating risks and uncertainties of business. A combination is a “revolution against risks.” Combination strategies involves.

- 1) Horizontal combinations
- 2) Vertical combinations
- 3) Allied combinations
- 4) Service combinations
- 5) Mixed combinations

---

### **3.6 RESTRUCTURING STRATEGIES**

---

Restructuring refers to rebuilding or reorganising a business firm. It's a strategy that may be found useful in all the different phases of the firm's life cycle initial period, growth, maturity and decline. It may also be found useful in postponing the death of the firm i.e. the dissolution or liquidation of the company.

The following are the various strategies of corporate restructuring.

### **1) Merger :**

A merger refers to a combination of two or more companies into one company. It may involve absorption or consolidation. In absorption, one company acquires another company, and in a consolidation, two or more companies join to form a new company.

Mergers may be classified as follows-

- a) A horizontal merger
- b) A vertical merger
- c) A conglomerate.

### **2) Amalgamation :**

Amalgamation is a restructuring process in which two or more companies are liquidated and new company is formed to acquire business. In simpler terms, it means that a new company is formed that buys the business of minimum two companies. Amalgamations are considered to be a safe route for sick units who want to save their existence. Many other companies facing possible bankruptcy also opt for amalgamation.

### **3) Acquisitions / Takeovers :**

Acquisitions refers to a situation where one firm acquires the assets and liabilities of another firm. The shareholders of the dissolved firm are paid either cash or given shares in acquiring company. Takeover is a form of acquisition which requires to acquiring of controlling interest of a company with or without the consent of the owners.

### **4) Joint ventures :**

Joint venture is a form of business combination. Here, two or more companies form a temporary partnership for a special purpose. Here, two companies arrive at an agreement on certain issues of mutual interest. New company is not created but suitable working arrangements are agreed upon. Such agreements are beneficial to combining units. It is a fast and economic route for gaining increase competitiveness to combining units.

**5) Portfolio restructuring :**

Portfolio restructuring means making additions to or disposals from company's business. In simple words, it is decomposition of a portfolio's asset mix by selling off undesired asset types i.e. equities, debt or cash. Simultaneously, other types of securities are bought. Portfolio restructuring can be done by divestitures and demergers. It is basically involves modifying the business portfolio through divestitures and demergers.

**6) Financial restructuring :**

Financial restructuring involves a significant change in the financial structure of the firm and / or the pattern of ownership and control. Some of the ways of financial restructuring are going public, Debt-equity swap, leveraged buyout, buyback of shares and so on.

**7) Organisational restructuring :**

Organisational restructuring has become a common practice amongst firms in order to match the growing competition in market. It denotes changing the organization structure of the company for the betterment of business. Some of the forms of organisational restructuring are regrouping of business, business process re engineering, downsizing and out sourcing.

**8) Rehabilitation schemes :**

A sick firm can be revived to improve its financial position by adopting revival schemes some of the important revival schemes are settlement with creditors, divestment, strict control over costs, streamlining of operations, provision of additional capital and so on.

**9) Privatisation :**

Privatisation refers to a process that reduces the involvement of the government or public sector in the economic activities of a nation. It involves disinvestment of public sector partially or fully by selling its equity to private parties.

**CHECK YOUR PROGRESS**

1. Define the following terms
  - a. Stability strategy
  - b. Growth Strategy
  - c. Retrenchment strategy

- d. Combination strategy
- e. Restructuring
- f. Merger
- g. Amalgamation
- h. Portfolio restructuring

2. Fill in the blanks

- a. ----- involves disinvestment of public sector partially or fully by selling its equity to private parties.
- b. Growth strategies can be divided into two broad ----- growth and ----- growth.
- c. Merger and amalgamations is -----growth strategy.
- d. Diversification and Modernization are the examples of ---- -----growth strategy.
- e. ----- means a situation where one firm acquires the assets and liabilities of another firm.
- f. Joint venture is a form of business -----.
- g. Going public, Debt-equity swap, leveraged buyout, buyback of shares etc are the ways of -----.
- h. -----denotes changing the organization structure of the company for the betterment of business.

---

### **3.7 NEED FOR RESTRUCTURING**

---

Following are important reasons for restructuring the business enterprise.

#### **1) Sickness of the unit :**

Whenever a unit becomes sick and is found economically unstable then there is a need for restructuring. Sick unit interested to revive take efforts to restructure.

#### **2) Disinvestment :**

As a measure of restructuring some companies sell a part of their assets in order to get rid of loss making unit or to invite new partner. Alternatively, a company may dispose of some part of equity holding in favour of foreign collaboration.

**3) Intention to retire :**

The existing promoters may be tried of carrying on with the same business. So they may think of retiring and changing the line of business by either entering into export business or any other promising area. Any such move may result into restructuring.

**4) To avoid competition :**

Competition for small companies reduces the margin of profit affecting the normal growth. So, in order to avoid competition the competing units prefer to join hands. Thus restructuring helps to face or avoid competition.

**5) Perceived opportunity :**

Some promoters have strong financial resource which they want to invest in a profitable business such investments give great opportunity to both, the new promoter and the old one. This happens to be a restructuring programme for the old promoter.

**6) Fast growth :**

Whenever there is increase in sales, production, profit and assets of the company. It is said that the company is growing. Sometimes technical and structural limitations act as hardles for internal growth. In such as situation companies have an option for external growth by taking over or joining hands with other companies.

**7) Finance :**

Restructuring in the form of merger or takeover can be used to solve the problem of finance. A company lacking financial resource can join hands with a stable and financially sound company. The funds can be used for modernisation and revive back.

**8) Economic of scale :**

When two companies join together their scale of operation increases. They can make a better and optimum utilisation of all available resources development facilities, marketing and distribution activities etc. This helps them to reduce the overhead cost and production cost. Reduction in overall cost eventually helps to face competition in the market.

---

## **3.8 TURNAROUND**

---

Turnaround strategy can be referred as converting a loss-making unit into a profitable one. According to dictionary of marketing (by D.H. collin) "Tournaround means making the company profitable again."

Turnaround is possible only when the company restructure its business operations. Turnaround strategy is a broader strategy and it can include divestment strategy-where a firm decides to divest or get out of certain business and sells off units or divisions.

Normally, the turnaround strategy aims at improvement in declining sales or market share and profits. The declining sales or market share may be due to serveral factors both internal and external to the firm. Some of these factors may include high cost of materials, lower price utilization for the goods and services, increased competition, recession, managerial inefficiency, etc.

### **3.8.1 Essentials of a successful Turnaround strategy :**

A business can't be turned around without proper planning and the support of the employees, shareholders etc. Following are the essentials of a successful turnaround strategy.

#### **1) Effective leadership :**

To make turnaround successful, there is a need to have good leadership at all levels, especially at the top level management. The CEO needs to be committed and dedicated to the organisation. He needs to be a dynamic person with creative skills to handle the turnaround situation. If need to be, the Board of Directors may change the CEO, and appoint a new leader to handle the situation.

#### **2) Change of managerment :**

The present management should accept the responsibility of the present state of affairs of the company. A new CEO with experience and maturity should be appointed for executing the turnaround strategy effectively. A change in management may bring in new and better ideas which would help the company to come out of red.

#### **3) Relevant to the enterprise :**

Turnaround strategy prepared should be directly related to the problems faced by the enterprise. A good turnaround strategy should be able to deal with the difficulties directly and effectively.

For this, the reasons responsible for the sickness of the enterprise should be studied in depth so as to find out suitable remedial measures.

#### **4) Availability of Resources :**

There must be availability of required resources to make turnaround effective. The turnaround strategy would require proper amount of cash to meet working capital needs and certain fixed capital needs. The business unit may also require skilled manpower to handle newly introduced technical Jobs.

#### **5) Proper planning and execution :**

A good turnaround strategy should contain comprehensive remedial plan and arrangements for its execution. The strategy prepared should have solutions to the basic problems before the enterprise. In addition, necessary funds should be given to those concerned with the execution of the strategy. This facilitates execution of the strategy within a time frame.

#### **6) Proper communication :**

It is essential that the management takes into confidence various groups like the employees, creditors, shareholders and others connected with the sick unit. This is possible through effective communication with these groups. Any information regarding turnaround strategy must be quick, clear and complete. An effective and prompt communication is necessary in order to reduce and remove their objection and reluctance to the turnaround programme.

#### **7) Viability of business :**

The nature of business needs careful consideration before the introduction of turnaround strategy. Sometimes, the business activity may not have bright future due to changed business environment. A business enterprise engaged in such activity is bound to face difficulties from time to time. In short, viability of business activity is an essential requirement of a good turnaround strategy.

#### **8) Good management :**

Turnaround would be successful if it is handled by determined and motivating managers. The top managers must be objective oriented. Self confident, positive in outlook, innovative and creative in thinking and highly active with a good foresight to foresee whether their strategies would be positive in future or not.

### **3.8.2 Steps in turnaround strategy :**

To manage turnaround strategy and to make it successful, the following are the steps that may be followed by business firms.

#### **1) Setting up of a turnaround committee :**

The business firm may set up a turnaround committee or a team to deal with the turnaround strategy. The committee may involve top management personnel, consultant and may include employees' representative. At time, business firms appoint a new CEO to deal with turnaround strategy. The CEO may take the help of some top management personnel to manage the turnaround strategy.

#### **2) Identify problematic areas :**

The problematic areas should be analysed. It could be obsolete technology used by the company, under utilization of production capacity, or continuous decline in sale of some product etc. Only when the problems are identified properly, then organisation can work for proper solutions.

#### **3) Detailed Investigation of problem :**

The turnaround team needs to make a detailed investigation of the various problems. The turnaround team may undertake the activities i.e. discuss with workers to know the problems, conduct consumer research, conduct dealers' survey etc.

#### **4) Enlist critical areas :**

The critical areas which have been identified should be investigated further and list covering those should be prepared. On the basis of their intensity the most important problem should be given top priority and remaining ones should be enlisted in descending order.

#### **5) Prepare restructuring plan :**

A comprehensive restructuring plan should be prepared. While doing so, the strengths and weaknesses of the organisation should be taken into account.

#### **6) Implement the plan :**

Thereafter, the plan must be implemented. For example if the company wants to restructure human resource, it must first identify surplus employees. If possible they must be retained. If not,



they should be retrenched. For this the company must make available necessary fund's in the form of gratuity, pension, provident fund etc. to be paid to them.

### **7) Review :**

The turnaround strategy needs to be monitored at different phases. Monitoring of implementation is a must to ensure early revival. It required, the company may adopt additional measures to overcome the turnaround strategy.

---

## **3.9 SUMMARY**

---

In July, 1991 India adopted new economic reforms consisting of privatization. Liberalization and Globalization. The Government of India took several decisions about industrial development which indicated tendency towards more and more privatisation.

Restructuring and Growth strategies adopted by the companies are for exploration of potential opportunities, with strength, weaknesses and core competencies. It is endorsed to understand various diagnostic tools that are used to identify and evaluate applicable strategies and use of alternatives strategies. A through study of the internal and external strategies is done for corporate excellency.

Application of expansion and diversification plans of the companies helps them to face competition, revitalized their operations, increase their market share and advance their creditability. Merger, Amalgamations, Takeover. Turnaround etc. are several forms of strategic alternatives adopted by companies to enhance and strengthen their corporate image and increase their financial position.

---

## **3.10 QUESTIONS FOR SELF-ASSESSMENT**

---

1. Explain the concepts of Liberalisation, privatisation and Globalisation.
2. Discuss the impact of Liberalisation.
3. What is privatisation? Explain its impact.
4. Discuss the impact of Globalisation.
5. Explain the forms of strategic Alternatives.
6. Discuss the various strategies of corporate restructuring.
7. What are the essentials of a successful turnaround strategy?
8. Discuss the steps in a turnaround strategy.



## BUSINESS ENVIRONMENT

### Unit Structure :

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Feature of Business Environment
- 4.3 Importance of Business Environment
- 4.4 Interrelationship between Business and Environment
- 4.5 Components of Business Environment
- 4.6 Internal Environment
- 4.7 External Environment
- 4.8 Educational Environment
- 4.9 Measure to improve educational standards
- 4.10 Impact of Education on Business
- 4.11 Impact of Business on Education
- 4.12 Summary
- 4.13 Questions for Self-Assessment

---

### 4.0 OBJECTIVES

---

After studying the unit the student will be able :

- To know the term business environment.
- To understand the features of business environment.
- To elaborate the importance of business environment.
- To discuss interrelationship between business and environment.
- To explain internal and external environment.
- To evaluate the measures to improve educational standard.
- To understand the impact of education on business.

---

## 4.1 INTRODUCTION

---

Business environment consists of all those forces or factors both internal and external that affects the working of a business. Business environment refers to the socio-economic surrounding under which business activities are to be conducted. Such environment is the net result or sum total of various political, economic, social, technological, natural and other factors. Environmental factors are largely beyond the control of business enterprises. These are essentially the “givers” within which business enterprises have to operate. The internal factors comprises of firm’s plans and policies, resources like manpower, capital, machineries etc. The external environment comprises of the micro factors such as customers, competitors, suppliers etc. and the macro factors such as economic, political, social, technical and other factors. Analysis of the internal environment helps the firm to identify its strengths and weaknesses and the analysis of external environment helps to identify opportunities and threats. Thus environmental analysis helps to undertake the SWOT analysis i.e. strengths, weaknesses, opportunities and Threats.

---

## 4.2 DEFINITION AND FEATURES OF BUSINESS ENVIRONMENT

---

The environmental factors vary from country to country, even region to region. For example, Social environment in US is different as compared to India. Therefore Multinational Corporation like McDonald’s has modified their products to suit India’s consumption habits.

### 4.2.1 DEFINITION :

**According to Keith Davis, -**

“Environment of the business means the aggregate of all conditions, events and influences that surround and affect it”.

### 4.2.2 FEATURES

The following are the important features / characteristics of business environment.

**1) Dynamic in nature :**

Business environment is flexible and perpetually evolving. It changes frequently due to various external forces i.e. economic, political, social, international, technological, and demographic. Business enterprises have to operate under such dynamic environmental conditions.

**2) Direct and Indirect Impact :**

Business environment may have direct and indirect impact on the working of a business like competition, government policies, customer, etc. can have a direct and immediate effect on the working of a business enterprise. The macro-external factors like social, economic and political factors may have indirect effect on the working of the business enterprise.

**3) Inseparable part of business :**

Business environment refers to the socio-economic surrounding under which business activities are conducted. Business can't work in isolation. Both, business and its environment are interdependent on each other. Business is not only influenced by its environment but also can't function without it.

**4) Internal and External Factors :**

Activities of business enterprises are affected by internal and external factors. The internal factors are controllable in nature. It includes manpower, machinery, management labour relations, etc. The external factors are beyond the control of a business enterprise. But it can adjust its strategies depending upon the changes in external factors.

**5) Complex in nature :**

Business environment is also complicated and unpredictable. Technological changes are taking place at a rapid pace, new legislations are enacted every day and not only are consumers becoming aware of their rights but economies are become global. Such factors have made the environment complex.

**6) Regulates scope of business :**

Environment provides the frame-work within which business enterprises have to operate. Business activities have to be adjusted as per the prevailing environment. For example, manufacturers of

product like cigarettes and alcoholic drinks can't advertise on television. Such regulations must be taken into account.

### **7) Opportunities and Obstacles :**

Environment provides opportunities and creates obstacles in the working of the enterprise. Opportunities may be termed as favourable situations which can help to make more profit and growth. On the other hand, obstacles imply unfavourable environment, which affect the enterprises profitability and growth. Both the situation must be accepted by business enterprise with confidence.

### **8) Environment and planning :**

Business environment and business planning are closely related concepts. In fact, planning is necessary in order to derive maximum benefit from favourable environment. Similarly, planning is useful for dealing with the problems created by unfavourable business environment.

### **9) Multi - Dimensional :**

Changes in environment may have positive and negative impact on the working of business, enterprises. Environmental change may be favourable to some enterprises and unfavourable to others. For example, Government of India has liberalised the entry of foreign countries into India. The foreign firms consider it as an opportunity, whereas, Indian firms consider it as a threat.

---

## **4.3 IMPORTANCE OF BUSINESS ENVIRONMENT**

---

The following are the importance of business environment.

### **1) Identification of Strengths :**

The analysis of the internal environment helps to identify the strengths of the firm. Strength is an inherent capacity of an organization which can be used to gain strategic advantage over its competitors. Every organization must strive to maintain and improve on its strengths.

### **2) Identification of weaknesses :**

The analysis of the internal environment also helps to identify weakness of the firm. A weakness is an inherent limitation of the organization which creates a strategic disadvantage.

Therefore, the firm should identify its weaknesses and correct them as early as possible.

**3) Identification of Opportunities :**

The analysis of the external environment helps to identify the opportunities in the market. An opportunity is a favourable condition in the organisation's environment, which enables it to strengthen its position as we see how liberalization has brought global opportunities for Indian business houses.

**4) Identification of Threats :**

Environmental analysis helps to identify threats from the environment. A threat is an unfavourable condition in the organization's environment that creates a risk or damage to the organization like rapid technological changes that have made technologies used by organizations obsolete. Identification of threat helps to defuse the same.

**5) Effective planning :**

A business organization should have short term as well as long-term plans. Proper environmental analysis about the various environmental factors affecting the business organizations helps such planning effectively.

**6) Facilitates Organising of Resources :**

Proper analysis of environment enables a firm to know the demand potential in the market. Accordingly, the firm can plan and organize the right amount of resources to handle the activities of the organization.

**7) Optimum utilization of Resources :**

The study of business environment is needed as it ensures optimum use of resources available with the business organization. Such study enables an enterprise to take full benefits of policies framed by the government.

**8) Flexibility in operations :**

A study of environment enables a firm to adjust its activities depending upon the changing situation. For example, the environmental analysis may indicate that the nearest competitor adopts flexible credit policy, depending upon the nature of

customers. Therefore, the business firm may also do the same to win the trust of the customer.

**9) Business Expansion :**

The environment analysis provides opportunities for expansion and diversification of business activities. Because environment analysis helps to discover and exploit such opportunities fully when the environment is favourable, new ideas, ventures and schemes may be put into action.

**10) Understand future problems :**

The study of business environment is needed in order to understand future problems and prospects of business well in advance. This enables a business enterprise to face problems boldly and also take the benefit of favourable business situation.

---

#### **4.4 INTERRELATIONSHIP BETWEEN BUSINESS AND ENVIRONMENT**

---

Interrelationship is a meeting point between two subjects. Business and environment are like the two sides of the same coin i.e. one can't survive without the other. Business and environment are independent but interdependent on each other for survival and growth. Environment supplies resources to the business organizations for undertaking production activities. At the same time, products manufactured are sold to the people who are the part of demographic environment. Growth and profitability of business depend on the environment under which business has to operate. Business will be successful when it is adjusted as per the requirements of environmental forces. "To manage business means to manage the environment around the business". This suggests the close relationships between business and its environment. The interface between business and the various types of environment can be briefly explained as follows -

**1) Business and natural environment :**

Business firms depend on natural environment for the supply of resources like raw materials, water, etc. The natural environment also benefits from business. This is because of developments in the field of technology; there is availability of alternative sources of energy. Business firms have also come up with innovations that can substitute natural resources or materials. Such technological

developments and innovations help to preserve and protect the environment

## **2) Business and Economic Environment :**

Business is influenced by the economic policies relating to taxation, money supply, import - export etc. A change in economic policy has both positive and negative effect of industry. A positive change in the policy provides opportunities for growth and expansion.

Business has limited scope to influence the economic environment. However, the Joint efforts through trade association representation to the government, there can be some positive changes in the economic policies affecting the business activities.

## **3) Business and Political environment :**

Political environment factors affect the functioning of a business as it has to modify its policies according to the decisions taken by the government. Moreover these changes can have a lasting impact. For example, when the congress Government headed by Mr. Rao decided to liberalise and open our economy in 1991, small business units were compelled to close down while many were taken over by the multinationals.

Business organizations too influence the political environment. For example, there are some organizations that funds political parties. It is possible that such organizations benefit when the party they fund comes to power.

## **4) Business and demographic environment :**

Demographic environment factors such as age, sex, male, female, rural - urban population, education etc. influence business decisions. The business firms can take business decisions depending on demographic features of population. For example, the income of the people in India is quite low. This affects the purchasing power and has to be taken into account by the manufacturers while fixing the price of their products. On the other hand, business organization also affect demographic environment. For example, business organizations often undertake various community welfare programmes like health camps, literacy drives etc. They thus contribute towards upliftment of the people.



**5) Business and regulatory environment :**

The legal environment has a good influence on business decisions. Business firms need to follow the provisions of various laws or acts affecting their business decisions. It should carry on their business within the frame work given by the legal environment. Business firms can influence legal environment. They can support government in framing various laws and acts. Through proper representations, business firms can influence the framing of laws and acts in the country.

**6) Business and Technological environment :**

Technological environment can influence business decisions. Development in the field of technology can benefit the firms by way of improvement in quality and quantity of goods.

Business can also influence technological developments. Business firms can invest a good amount in research and development to develop new and better technology. Technological development may help firms to come up with new and better type of goods at lower cost of production.

**7) Business and socio-cultural environment :**

Business firms need to monitor closely the socio-cultural environment. The social and cultural environment greatly influences business decisions. An analysis of socio-cultural environment would enable the business firm to design and promote its products and services effectively. For example, in India, people are emotionally attached to their festivals, dance, music and so on. Business firms can dramatise the socio-cultural elements in their advertisements.

**8) Business and international environment :**

Business firms, especially those dealing in foreign trade are affected by international environment. The international environment is affected by international forums like WTO, trading block like NAFTA, ASEAN etc. Due to globalization and liberalization business organization are forced to view business issues from a global perceptive. Hence, business policies and practices may be adjusted to survive in the global environment. Business organizations also have a capacity to influence the international environment but to a limited extent. The business

community can influence their government to represent it effectively at various international forums.

---

## **4.5 COMPONENTS OF BUSINESS ENVIRONMENT**

---

A proper classification of the various environmental factors facilitates the study of business environment. The business environment can be broadly divided into two groups i.e.

1. Internal Environment
2. External Environment

---

## **4.6 INTERNAL ENVIRONMENT**

---

Internal Environment refers to all the factors within an organization which affect its functioning. These factors are generally regarded as controllable i.e. the organization can alter or modify such factors. A firm's internal environment consists of its plans, policies, resources, relations and other internal factors which affect its working.

### **Factors of Internal Environment :**

The following are some of the important factors of internal environment.

#### **1) Vision, mission and objectives :**

A vision statement highlights the long term goals of the organization. It is broad based and provides necessary directions to the business. On the other hand, short term targets are referred to as mission statement. A mission statement provides directions in setting objectives and framing policies of the organization. There must be consistency between the vision statement, the mission statements and the objectives of the organization.

#### **2) Plans and Policies :**

A knowledge of internal environment and how it affects the functioning of the organization is important to understand the use of business plan and policies. Broadly, plans and policies cover functional areas i.e. production, marketing, finance and human resource development. Business plan and policies provide the broad guidelines within which an organization has to work.

**3) Human Resource :**

A successful business is known by its efficient human resources and not by the building and machines. Human resource makes or breaks a business. Care should be taken to recruit result oriented employees.

**4) Physical Resources :**

Physical resources includes machines, equipment, buildings, office premises, furniture and fixture etc. Analysis of the internal environment may indicate the weaknesses of the physical resources, and as such the firm can take an appropriate measure to correct such weaknesses. For example, the obsolete machines may be replaced.

**5) Financial Resources :**

Finance is the life blood of all business activities. Every organization requires adequate fixed and working capital. The organization must have a sound financial policy where the inflow of funds is more than the outflow. In such a case, the organization does not fall into a liquidity trap.

**6) Corporate Image :**

Every organization enjoys an image among the employees. Some refer to their employers as progressive whereas others refer to them as conservative. To make the business acceptable to the society, every business must try to improve its image. Objectives base on enlightened lines certainly help to improve corporate image.

**7) Labour - management relations :**

Both labour and management should try to maintain pleasant relations at workplace. It is important to keep clear line of communication. Differences and conflicts can be settled across the table. Work environment should attract labours to their work.

**8) R & D Facilities :**

Research and Development is the strength of the business. It helps the business to go ahead of the competitors by introducing new products and by improving the existing ones.

### Check Your Progress

1. Enlist the characteristics of business environment.
2. Define the following terms
  - a. Business Environment
  - b. Internal environment
3. "Business and environment are independent but interdependent on each other for survival and growth". Explain.
4. Enlist the important factors of internal environment.

---

## 4.7 EXTERNAL ENVIRONMENT

---

External environment includes all those factors and forces, which are external to the business organization such as economic, socio-cultural, demographic etc. These external factors are beyond the control of the company. Hence they are regarded as uncontrollable factors especially as they are dynamic and keep on changing continuously. There is a constant need to analyse the external environment so as to find out the opportunities and threats. A proper analysis of external environment will enable the firm to grab the opportunities and to defuse the threats. The external environment is broadly divided into Micro Environment and Macro Environment.

### 4.7.1 Micro Environment :

The micro environment consists of all those factors in the firm's immediate environment. The micro environment can have direct impact on the working of a firm.

#### Factors of Micro Environment :

The following are the most important factors of Micro Environment :

#### 1) The customer :

The key to success in marketing of goods depends on consumer - oriented approach. It is important to consider customer's likes, dislikes, needs, preferences, buying motives and expectations. Higher customer patronage brings increased profit to the business.

**2) The competitors :**

A firm has to analyse its competitors' activities. Information about competitors must be analysed with respect to their product designs, pricing, promotion, distribution, etc. Such analysis will enable the firm to design effective marketing - mix.

**3) The Suppliers :**

Suppliers include those who supply inputs like raw materials, and components to the organization. An organization can't function without a smooth supply of its stocks and raw materials. Therefore, it becomes essential to ensure a good relationship with its suppliers to get quality goods at the right price and at right time.

**4) Channel Intermediaries :**

Now-a-days, dealer recommendations play an important role to convince buyers to buy products, especially in the case of consumer durables. The firm has to motivate the dealers to push and promote its products and also to obtain timely feedback about consumers' tastes, preferences, likes, dislikes, etc.

**5) Society :**

The society may also affect company's decisions. The society can either facilitate or make it difficult for a company to achieve its objectives. Business has not only to earn profits but also to serve the society. Society consists of general public, media, government, financial institutions and organised group. Like trade unions, shareholders associations etc. Society directly influences the decisions of a business.

**6) Corporate Resources :**

Corporate resources include employees, funds, materials, machinery and management. These resources are controllable. They can be used as per the guidelines provided by business policies.

**4.7.2 Macro Environment :**

The macro environment consists of the larger factors that affect the day to day functioning of a firm. It relates to demographic, economic, natural, technological, political, cultural, international and legal factors.

**Factors of macro environment :**

The following are the important factors of macro environment.

**1) Economic Environment :**

Economic environment is one components of total business environment. It is the outcome of economic policies. Economic events within and outside the country also affect economic environment.

**2) Political Environment :**

Political environment refers to the situation created by political factors and forces. It suggests the influence exerted by the three political institutions i.e., legislature, executive and judiciary, in shaping, directing, developing and controlling business activities.

**3) Legal Environment :**

The legal environment is comparatively new component of total business environment. Legal environment is the net result of various laws, rules, procedures and regulations made by the government in regard to the formation and operations of business enterprises.

**4) Socio-cultural environment :**

Cultural environment is the result of social forces. Society includes different social groups i.e. customers, investors, local community and employees. The expectations of these groups create cultural environment for business.

**5) Demographic Environment :**

Demographic environment relates to the population and its division on the basis of age, sex, standard of living, size of the family, employment, etc. Market demand, requirements of consumers, etc are based on demographic environment. The study of demographic environment has priority over other areas of business environment as business depends on people.

**6) Natural Environment :**

Natural Environment relates to natural resources like land, water, minerals, port facilities, etc. Business firms are use natural resources like water, land, iron-ore, crude oil, etc. In doing so, two

things happen i.e. Erosion of natural resources and pollution of resources. Business firms should understand these two effects and take necessary measures to control erosion and pollution of natural resources.

#### **7) Technological Environment :**

Technological environment implies the level of technology available in a country. Technology is the systematic application of scientific or other organised knowledge to practical tasks. Technological advancement make it possible to improve the quality of products, increase the output and decrease the cost of the product. Technological changes are rapid and to keep pace with it, businessmen need to be alert and flexible in order to quickly incorporate them in their business organizations.

#### **8) Financial Environment :**

Now-a-days, financial environment greatly influences the working of the firm. For example, poor financial climate in the country dampens the spirit of stock markets. Therefore, corporate firms find it difficult to raise funds from the primary market. The non-availability of right funds affects the growth prospects of corporate firms.

#### **9) International environment :**

Business firms engaged in foreign trade are more affected by changes in the international environment. Business firms, which cater to foreign trade, must constantly monitor implications of international environment on their business.

---

### **4.8 EDUCATIONAL ENVIRONMENT**

---

Education is not stuffing mind with information but to make people enlightened, creative and honest. Education brings flexibility in life and we agree to disagree. Education prepares us to face the challenges of tomorrow and work in the direction to make this world a better place to live in. Education has bridged the gap between people and nations.

The educational environment like business environment is fast changing throughout the world. Now, it is necessary to redefine and restructure education system particularly higher education so as to make it competitive, effective and market friendly.

**Meaning :**

**According to the census of 2011**, “every person above the age of 7 years who can read and write in any one language is said to be literate”.

---

**4.9 MEASURES TO IMPROVE EDUCATIONAL STANDARDS**

---

The following measures are suggested to improve education in order to face the challenges of business, globalization and the society.

**1) Quality of education :**

There is an urgent need to redefine policies and priorities in education, much importance need to be given to improve the quality of education at all levels i.e. right from primary to the professional education.

**2) Role of private sector :**

Considering the financial crunch, the government should gradually withdraw from higher education and allow professionally managed private institutions to take up the job of providing higher education. However, the government must monitor and supervise the working of private institutions to protect interest of the learners. It leads to improve quality of education.

**3) Granting of Autonomy :**

Functional autonomy should be granted to the colleges to design and develop employment oriented curriculum. This would improve the quality of education in India.

**4) Infrastructural Facilities :**

The present inadequacy of infrastructure and financial resources and the increase in demand for higher education. It is suggested to expand distance education system and establish a network of open universities in India.

**5) Reduction in subsidy :**

Subsidy on higher education is to be reduced gradually. This is because higher education benefits only a small percentage of



population. The money saved by reducing subsidy on higher education can be effectively utilized for primary education.

**6) Revision of curriculum :**

Proper steps should be taken to revise curriculum knowledgeable persons should be included in the syllabus framing committee. Assistance must also be taken from the industry at the time of course revision. The revision must take place on regular basis, say in every three years. Also examination reforms to be introduced.

**7) Relation between industries and institutions :**

Business or management schools have to play constructive role in developing managerial talent with competitive skills. There must be an relation between educational institutions and industry.

**8) Learning methods :**

New learning techniques like individualized instructions, group discussion, case study, brain storming sessions, seminars, paper presentation should be incorporated to make courses effective and practical.

**9) Social and Cultural Development :**

The education system must bring social development in the society. It must contribute to character building. Otherwise, education at whatever cost is meaningless. Therefore education should be socially and culturally oriented.

**10) Training to Teachers :**

Teachers must be trained on a regular basis. Teachers should develop new skills to impart education. They need to be student oriented i.e. they should understand the students well and accordingly train and assess them. The teacher should have the right concern and attitude towards the students. Teacher should develop new skills by attending orientation and refresher programmes.

---

## **4.10 IMPACT OF EDUCATION ON BUSINESS**

---

Following are the impact of education on business.

### **1) Rise of professionalism :**

Now-a-days, there has been a good deal of arguments in favour of developing professional managers in India. Advanced education, managerial competence, commitment to national objectives and concern for workers and society are cited as qualities of a professional manager. The shift from owners management to professional management has come to stay in India. Managing a large business today needs educated personnel's.

### **2) Technical Knowledge :**

Education enable managers to become technology friendly in using computers, e-mail, internet, palm top and so on. Business is always information based. The use of advance technology helps managers to work out result oriented decisions.

### **3) Improve productivity :**

Education improves the quality of the workforce. Better quality of work force leads to better quality and quantity of output. This improves the overall efficiency of the organization.

### **4) Work culture :**

Work culture means devotion and dedication to work. It ensures commitment and sincerity in work. The basic purpose is to use available capacity both physical and mental to the fullest extent. Education and training communicates to the workers the message of work is worship and dignity of labour.

### **5) Reduction in cost :**

Educated employees generally keep on developing new tools and techniques of performing the work. This leads to reduction in the cost of production. Consequently it enabled the business organisaion to sell products at reduced prices.

### **6) Creativity :**

Business provide ample opportunities to display individual creativity. One need not do what others have done in the past. Top

management gives many chances to the managers to use their innovative and creative ideas and plans and bring success to the business. Education facilitates use of creative talents.

**7) Optimum Utilisation of Resources :**

By appointing professionally qualified managers business ensures that there is optimum utilization of resources both human and physical. Wastages of all types are either eliminated or minimized. This results into progress and prosperity of the business.

---

## **4.11 IMPACT OF BUSINESS ON EDUCATION**

---

Following are the impact of business on education.

**1) Need for different courses :**

Business has grown manifold. Different functions have to be performed day in and day out. This requires people possessing various skills. For imparting these skills new courses have to be started. So growth of business has necessitated the need for different courses by education institutions.

**2) Dominance of private sector :**

The economic reform gives birth to privatization. Importance to private sector is a global phenomenon. Private sector can take only those educated youth who have been trained to meet the challenges of this business.

**3) Vast potentiality in service sector :**

Service sector is the fastest growing sector in India. Educated personnel's are needed in consultancy, finance, banking, healthcare, communication, maintenance, travel and tourism.

**4) Information revolution :**

The widespread use of computers has made information only a click away. Data bank has become extremely popular where information is collected, stored and made available on demand. Education has to meet this need.

**5) Specialisation :**

Specialisation is the need of the business. A specialist is a person who knows too little of a little thing. Education provides talented specialists by coaching them in specific areas of business like finance, marketing, production, R & D and so on.

**6) Practical knowledge :**

Now a days many educational organizations invite people from the industry as faculty members as they have practical knowledge about functioning of the business enterprises. This helps students to get practical insight to the subject and makes them better equipped to face the market realities.

---

**4.12 SUMMARY**

---

The chapter Business Environment deals with the environmental factors which affects the business working. Today's business world is highly complicated in nature. Every organization has to operate under these environmental factors. These factors are dynamic in nature. Before finalizing business decisions organization has to observe and study the environmental factors. In today's globalised world international environmental factors have a very important role to play. The survive and success of a business unit is depends upon the quality of educational environment.

---

**4.13 QUESTIONS**

---

1. Define Business Environment. Explain its features.
2. What are the importances of business Environment?
3. Explain the interrelationship between business and environment.
4. Explain the factors of Internal environment.
5. Discuss the factors of external environment.
6. Write a note on Educational Environment.
7. What are the measures to improve educational standards in India?
8. Explain the impact of education on business.
9. Evaluate the impact of business on education.



## INTERNATIONAL ENVIRONMENT

### Unit Structure

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Current Trends in the International Trade
- 5.3 World Trade Organisation (WTO)
- 5.4 Trading Blocks
- 5.5 European Union (EU)
- 5.6 North American Free Trade Agreement (NAFTA)
- 5.7 Association of South East Asian Nations (ASEAN)
- 5.8 South Asian Association for Regional co-operation (SAARC)
- 5.9 Oil and Petroleum Exporting countries (OPEC)
- 5.10 Positive impact of Trading Blocs
- 5.11 Summary
- 5.12 Questions for Self-Assessment

---

### 5.0 OBJECTIVES

---

After studying this unit the students will be able to:

- Identify the global Environment.
- Understand the current trends in the International Trade.
- Explain the functions and impact of WTO in the international trade.
- Know in detail about the trading blocs i.e. EU, NAFTA, ASEAN, SAARC & OPEC
- Discuss the positive impact of trading blocs.

---

### 5.1 INTRODUCTION

---

The present International environment is favourable for business growth and expansion. The world economy offers unlimited but challenging opportunities. Business units particularly connected with import-export should continuously monitor the international environment, identify and make use of opportunities for the betterment of company and country. Business unit engaged in import or export trade or domestic units using imported raw

materials, technology or machinery are affected more by a minor change in international environment. Further, business units engaged in export marketing are influenced by depression or boom in international market.

The international environment of business comprises of a country's foreign policy, bilateral relations, international agreements, the policies of trading blocks, import-export policy, monetary policies etc. Other factors like war, civil disturbances political instability etc., have also an effect on international environment. In recent years, the international environment has changed significantly. The developments in transport and communication systems have brought countries closer to each other. Today, global market is emerging out as one single market. Under such situations, companies like multinationals are likely to dominate the world market.

---

## 5.2 CURRENT TRENDS IN THE INTERNATIONAL TRADE

---

There was sudden and sharp decline in world trade from US\$ 16 trillion in 2008 to US\$ 12.4 trillion in 2009. This was mainly on account of recession in the world markets in 2009 triggered by sub prime crisis of USA in 2008. However, there was an impressive recovery in 2010. World trade reached US\$ 15.7 trillion in the first half of 2010, with a value growth of 24 per cent.

World trade volumes which fell by 10.7% in 2009 have recovered with a growth of 12% on 2010 as shown in the following table.

### Trends in Growth in Trade volumes (per cent change)

	2008	2009	2010
World Trade Volume (Goods & Services)	2.8	(-) 10.7	12.0
Imports			
• Advanced Economies	0.5	(-) 12.4	11.1
• Emerging & Developing Economies	8.9	(-) 8.0	13.8
Export			
• Advanced Economies	1.8	(-) 11.9	11.4
• Emerging & Developing Economies	4.4	(-) 7.5	12.8

Source : IMF (World Economic outlook) Jan, 2011.

---

## **5.3 WORLD TRADE ORGANISATION (WTO)**

---

In 1947, 23 countries including India signed the General Agreement on Tariffs and Trade (GATT). GATT was created to reduce global depression and to liberalise and regulate the world trade by reducing tariff barriers. GATT has been replaced by WTO in 1995.

WTO is wider in scope as it includes not only regulation of world trade of goods, but also it regulates trade in services, intellectual property rights and investment. It is concerned with not only reducing or eliminating tariff barriers but also non-tariff barriers such as quotas. In January, 2010, the membership of WTO was 153 countries.

### **5.3.1 OBJECTIVES OF WTO :**

WTO desires to achieve the objectives as decided by GATT. These are as follow-

- 1) Free trade i.e. trade without discrimination.
- 2) Growth of less developed countries.
- 3) Protection and preservation of environment.
- 4) Optimum utilisation of available world's resources.
- 5) Raising living standard of citizens of member countries.
- 6) Settlement of trade disputes among member countries through consultation and dispute settlement procedure.
- 7) Generating employment opportunities at global.
- 8) Enlargement of production and trade.

### **5.3.2 FUNCTIONS OF WTO :**

WTO performs important functions to increase world trade and development. The main functions are as follows-

#### **1) Administration of agreement :**

It looks after the administration of the 29 agreements (signed at the conclusion of Uruguay round in 1994), plus a number of other agreements, entered into after the Uruguay round.

#### **2) Implementation of reduction of trade barriers :**

It checks the implementation of the tariff cuts and reduction of non-tariff measures agreed upon by the member nations at the conclusion of the Uruguay round.

**3) Examination of members' trade policies :**

It regularly examined the foreign trade policies of the member nations, to see that such policies are in line with WTO guidelines.

**4) Collection of foreign trade information :**

It collects information in respect of export-import trade, various trade measures and other trade statistics of member nations.

**5) Settlement of dispute :**

It provides conciliation mechanism for arriving at and amicable solution to trade conflicts among member nations. The WTO dispute settlement body adjudicates the trade dispute that can't be solved through lateral talks between member nations.

**6) Consultancy services :**

It keeps a watch on the development in the world economy and it provides consultancy services to its member nations.

**7) Forum for negotiation :**

WTO is a forum where member nations continuously negotiate the exchange of trade concessions. The member nations also discuss trade restrictions in areas of goods, services, intellectual property, etc.

**8) Assistance of IMF and IBRD :**

It assists International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) i.e. world Bank for establishing coherence in universal economic policy administration.

**5.3.3 POSITIVE IMPACT OF WTO :**

The positive impact of WTO on developing countries like India can be described as follows.

**1) Growth in Merchandise Exports :**

The exports of developing countries like India, China, Brazil etc. have increased since the setting up of WTO. The increase in exports of developing countries is due to reduction in trade barriers i.e. tariff and non-tariff. For example, India's merchandise exports



have increased by 7.8 times since 1995. In 1995 it was 32 US\$ Billion and it was 251 US\$ Billion in 2010-11.

## **2) Growth in services exports :**

The WTO has also introduced an agreement on services called GATS. Under this agreement, the member nations have to liberalise the services sector. Certain developing countries like India would benefit from such an agreement. For example, India's services exports have increased from about 5 billion US\$ in 1995 to 133 US\$ billion in 2010-11. The software services accounted for about 42% of the services exports of India in 2010-11.

## **3) Foreign Direct Investment :**

As per the TRIMs agreement, restrictions on foreign investment have been withdrawn by member nations of WTO including developing countries. Therefore, the developing countries like Brazil, India, China, etc have been benefited by way of foreign direct investment as well as by Euro equities and portfolio investment in 2010-11, foreign direct investment in India was 26 US\$ billion.

## **4) Textiles and clothing :**

It is estimated that the textiles sector would be one of the major beneficiaries of the impact of Uruguay Round. At the Uruguay Round, it was agreed upon by member countries to phase out MFA by 2005. Under MFA, the developed countries like France, USA, UK, Canada etc used to import quotas on textile exporting countries. The MFA has been withdrawn with effect from 1<sup>st</sup> Jan, 2005, and therefore, it would benefit the developing countries including India by way of increase in export of textiles and clothing.

## **5) Benefits of TRIP's Agreement :**

The TRIP's agreements have benefited the developing countries like Brazil, India, China and others. The firms in developing countries have also developed new products and got them patented. Developing countries have also benefited by way of GIs status. For example, India has obtained GIs for products like Darjeeling Tea, Goa Feni and so on.

Therefore, it can be concluded that the WTO has created both a positive and negative impact on developing countries. It is expected that the developing countries like Brazil, India, China, South Korea would greatly benefit from WTO agreements in the coming year, provided they make efforts to improve efficiency and international competitiveness.

---

## **5.4 TRADING BLOCKS**

---

A trading block is a group of countries within a geographical region that associate to promote and manage trade activities. Trading blocs are formed to encourage trade of goods and services among members and to establish a collective bargaining force against non members.

This kind of regional economic integration has intensified over the years. European Union, NAFTA, OPEC, ASEAN, SAARC etc. are some of the prominent trading blocs.

### **5.4.1 Objectives of trading blocs :**

The main objectives of trading blocs are-

- 1) To reduce or if possible to eliminate trade barriers among member nations.
- 2) To promote free transfer of labour, capital and other factors of production.
- 3) To maintain better cultural, social and political ties with each other.
- 4) To assist member nations in any possible way with special reference to international trade.
- 5) To promote growth of the region through mass production and marketing of goods.
- 6) To bargain collectively with the non-members by means of their collective strength.
- 7) To impose common external tariff and non tariff barriers on non-members.

---

## **5.5 EUROPEAN UNION (EU)**

---

### **5.5.1 INTRODUCTION**

This was originally established as European Common market by the treaty of Rome in 1957, and come into operation in 1959. The founder members of the community were France, west Germany, Italy, Belgium, Netherlands and Luxembourg. In 1973 UK joined the community. Today it is known as EU, and Comprises Belgium, Denmark, France, Greece, Ireland, Italy, Nether lands, Portugal, Spain, United Kingdom, Germany, Luxembourg, Finland, Austria and Sweden.

The association has advanced to the extent of removing most trade barriers and allowing free movement of persons and goods within the union. They have also established a European Parliament for which member are selected from each country on

proportionate basis, and are given powers to legislate may issues which are them ratified by the government at percent there are 27 member nations of European Union.

### **5.5.2 OBJECTIVE OF EUROPEAN UNION :**

The main objectives of European union are as follows :

1. To eliminate trade barriers on member nations.
2. To assist member nations during the times of emergencies.
3. To develop cultural and social relations.
4. To promote free transfer of labour and capital among member nations.
5. To bargain collectively with the non-members by means of collective strength.
6. To impose common external barriers on non-members.

---

## **5.6 NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)**

---

### **5.6.1 INTRODUCTION**

The North American Free Trade Agreement (NAFTA) is the most powerful trade bloc in the world. The member of the bloc are USA, Canada, and Mexico. This bloc came into operation in 1994. The NAFTA is basically a trade and investment agreement with a view to reduce barriers on the flow of goods, services and people among the three countries. The agreement covers only goods and services manufactured / produced in North America or if imported goods and services that meet certain local content requirements, the nationality of ownership does not matter, as long as such local content requirements are met.

NAFTA has a total population of 360 millions. Its formulation is an attempt to gain comparative advantage against the enlarged European Union and to at pace the EEA. This trade agreement is quite comprehensive and covers many areas such as tariff reduction, free movement of professional among the member countries, free movement of professionals among the member countries, financial and direct investment matters and consumer safety. There are "side agreements" relating to protection of labour and protection of the natural environment. The NAFTA treaty envisages elimination of all trade and investment restrictions among the member countries over a period of 15 year.

### **5.6.2 OBJECTIVES OF NAFTA :**

The main objectives of NAFTA are as follows :

1. To eliminate trade barriers on trade and facilitate movement of goods and services.
2. To develop cultural and social relations.
3. To remove restrictions on transfer of technology to member nations.
4. To negotiate collectively with non-members on certain foreign trade matters.
5. To promote fair competition in FTA.
6. To provide protection and enforcement of intellectual property rights.
7. To develop industries in Mexico in order to create employment and to reduce migration from Mexico to USA.
8. To assist Mexico in earning additional foreign exchange to meet foreign debts burden measures undertaken by NAFTA.
  - a. Residents of NAFTA nations can invest freely in other NAFTA countries.
  - b. Protection of intellectual property rights of the members countries.
  - c. Free movement of labour from one country to another.
  - d. Pollution control along the USA - Mexico border.
  - e. Standardisation of product standards in member countries.

---

## **5.7 ASSOCIATION OF SOUTH EAST ASIAN NATIONS (ASEAN)**

---

### **5.7.1 INTRODUCTION**

The ASEAN was established on 8<sup>th</sup> August, 1967 in Bangkok by five original member nations that include Malaysia, Indonesia, Philippines, Thailand and Singapur. At present there are 10 members who also include Brunei, Combodia, Laos, Myanmar and Vietnam.

ASEAN original purpose was to preserve peace among its member nations and to respond to the communist threat in the region from china. During the first nine years of its existence, ASEAN's primary focus was political.

The economic co-operation began at the first ASEAN Summit in Bali in 1976, when the declaration of ASEAN accord was signed. The ASEAN countries agreed to co-operate in the supply and purchase of basic commodities, the establishment of preferential trading arrangements, and the stabilization of prices in the region and promotion of export earnings from production of regional commodities.

The ASEAN countries formed the ASEAN free Trade Area (AFTA) in September, 1994. The AFTA initially set to function for 10 years in order to develop inter ASEAN trade.

### **5.7.2 OBJECTIVE OF ASEAN :**

The main objectives of ASEAN are as follows :

1. To accelerate economic growth, social progress and cultural development of member countries.
2. To promote active collaboration and mutual assistance in matters of common interest.
3. To maintain close co-operation with the existing international and regional organization with similar aims.
4. To ensure the stability of the South East Asian Region.

### **Check Your Progress**

1. Define the following terms
  - a. Trading blocs
  - b. WTO
  - c. NAFTA
  - d. European Union
  - e. ASEAN
2. Enlist the functions of WTO

---

## **5.8 SOUTH ASIAN ASSOCIATION FOR REGIONAL CO-OPERATION (SAARC)**

---

### **5.8.1 INTRODUCTION**

Seven nations in the Indian subcontinent region have joined hands to form the South Asian Association for Regional Co-operation (SAARC) in 1985. The SAARC members include India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and Maldives. Its headquarter has been established at Kathmandu. A conference of heads of the countries is held every year but conferences were generally delayed for the one reasons or the other.

Among the SAARC countries, concessional tariff rates have been introduced for 226 trade items. These concessional rates range between 10% to 100%. India gave this concession to 106 items, which is the highest among all SAARC countries. Similarly, other member countries also gave concessional rates.

To explore trade possibilities among SAARC nations, first SAARC trade fair was held at Pragati Maidan in New Delhi on January 9-14, 1996. The theme of the fair was co-operation for growth. SAARC nations displayed their various products and also their export capacities in this fair.

### **5.8.2 OBJECTIVES OF SAARC :**

The main objectives of SAARC are as follows :

1. To promote welfare of the people of the region and to improve the quality of life.
2. To accelerate economic growth in the region through regional co-operation.
3. To accelerate social progress and cultural development.
4. To promote and strengthen collective self-reliance among the member nations.
5. To contribute to mutual trust, understanding and appreciation of each others problems.
6. To strengthen co-operation with other developing countries.
7. To strengthen co-operation amongst member nations at international forums (such as WTO) on matters of common interests.
8. To co-operate with international and regional organizations with similar objectives.

---

## **5.9 OIL AND PETROLEUM EXPORTING COUNTRIES (OPEC)**

---

### **5.9.1 INTRODUCTION**

OPEC it is an organization of petroleum exporting countries. It was founded in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Its basic objectives were to unify and co-ordinate member's petroleum policies and to provide member states with technical and economic aid. The member countries coordinate their oil production policies in order to help stabilize the oil market and to help oil producers achieve a reasonable rate of return on their investment. This policy is also designed to ensure that oil

consumers continue to receive stable supplies of oil. At present, it has 11 member countries.

OPEC member nations currently supply about 40% of the world's crude oil and 16% of natural gas.

OPEC helps oil producers to achieve a reasonable rate. Further, it aims to manage the supply of oil in an effort to set the price of oil on the world market. This helps in avoiding fluctuations that might affect the economies of both producing and purchasing countries.

There has been a continuous increase in India's share of export to OPEC countries. Saudi Arabia is the main market for Indian goods in the OPEC region.

---

## **5.10 POSITIVE IMPACT OF TRADING BLOCS**

---

Trading blocs and free international trading do not go together. In fact, trading blocs are against the growth of free global / international trade. They adversely affect the process of trade liberalization at the global level. However, trade blocs are also useful for integration of economies of member countries. EU is one popular and successful trade blocs which has brought the integration of economies of member countries. All member countries are getting benefits from this trading bloc. In brief trading blocs have positive and negative aspect. It is mixed blessing. Let us, now briefly note the impact of trading blocs.

### **1) Trade Creation :**

Economists argue that economic integration leads to trade creation. This is because a trading bloc may remove tariff on member nations. As a result a high cost producing country of the bloc can import goods from low cost producing member nation. Due to formation of a free trade area, there is proper allocation of resources, and the nations can take advantage of comparative cost. Due to the comparative cost advantage, trade creation takes place.

### **2) Competition :**

The formation of a trading bloc leads to intense competition between firms of the entire bloc. Due to intense competition, the efficiency of the firms improves. This leads to reduction in prices and improvement in quality.

**3) Economies of large scale :**

Due to economic integration, there can be economies of large scale production and distribution. Firms in the region will try to specialize in these goods and services which they are more capable of producing. This leads to large scale production and distribution, which in turn brings economies of large scale. The economies of large scale are partly passed on to the consumers in the form of lower prices.

**4) Economic Growth :**

The formation of a trading bloc can increase economic growth of the region. Due to reduction of trade barriers, firms in the region would be in a position to produce goods at a lower price. This would increase demand, which in turn would lead to large scale production. The increase in production of goods and services may lead to economic growth in the region.

**5) Employment :**

Due to large scale production and distribution of goods, the employment also increases. There can be direct and indirect effect on employment. The direct effect is in the industries producing goods and services. The indirect effect is due to the increase in employment in the supporting industries such as ancillary units, banking, insurance etc.

**6) Technological Developments :**

Due to economic integration, there can be improvements in technology. As the firms grow they would go for higher technological developments. A part of the increased profits can be utilized for research and developments for the purpose of improving technology that will help to reduce prices, and improve quality.

**7) Investment :**

There can be higher investment. The member nations may reduce or remove restriction on investment. Therefore, there can be an increase in intra regional investments, which in turn would increase the economic development of the region. Also, the region would be in a position to attract more investment from other countries due to its growth potential.

**8) Social and Cultural relations :**

Due to integration, there can be betterment of social and cultural relations in the region. The member countries can improve



their relations with each other through the exchange and social programmes. This will indirectly help for the peace and prosperity of the region.

**9) Better utilization of resources :**

The economic integration would help to make better utilization of resources. Due to the growth of the region, there would be optimum use of physical resources, human resources and financial resources.

The optimum use of resources would in turn lead to higher efficiency and productivity of the various firms in the region.

**10) Consumers welfare :**

A trading bloc facilitates consumer welfare in the region. Due to economic growth the employment opportunities increase, which in turn increase purchasing power, and the people can enjoy higher standard of living. Also, due to trading bloc, the consumers may have to pay lower prices, and at the same time enjoy higher quality products.

---

## **5.11 SUMMARY**

---

In today's globalised world, international environmental factors have a very important role to play. The international institutions like OPEC, WTO, EU, SAARC, ASEAN, NAFTA etc. are the important factors affecting international business.

A trading bloc is a group of countries, which is formed for the purpose of economic, social and cultural developments in the region. EU, NAFTA, ASEAN, SAARC are some of the main trading blocs.

Trade blocs are against the growth of free international trade. However, trade blocs are also useful for integration of economies of member countries. Trade creation, Large Scale Production and distribution, economic growth, employment, technological development, higher investment, betterment of social and cultural relations, better utilization of resources, consumer welfare these are the positive points of impact of trading blocs.

---

**5.12 QUESTIONS**

---

1. Write a note on International Environment.
2. Explain the functions of WTO.
3. Discuss the positive impact of WTO.
4. Write a detailed note on EU.
5. Write a detailed note on NAFTA.
6. Write a detailed note on SAARC.
7. Write a detailed note on ASEAN
8. Write a detailed note on OPEC.
9. What is the positive impact of trading blocs?
10. Give the full forms of:
  - a. WTO
  - b. EU
  - c. NAFTA
  - d. SAARC
  - e. OPEC
  - f. ASEAN



## PROJECT PLANNING

### Unit Structure :

- 6.0 Objectives
- 6.1 Introduction of business planning
- 6.2 Meaning
- 6.3 Steps in Business Planning Process
- 6.4 Project Planning
- 6.5 Importance of project planning
- 6.6 Project Report
- 6.7 Contents of Project Report
- 6.8 Importance of project Report
- 6.9 Feasibility study
- 6.10 Types / Areas of feasibility study
- 6.11 Importance of feasibility study
- 6.12 Summary
- 6.13 Questions for Self-Assessment

---

### 6.0 OBJECTIVES

---

After studying this unit the students will be able to:

- Know the concept and meaning of business planning.
- Understand the steps in business planning process.
- Evaluate importance of project planning.
- Know the concept, contents and importance of project report.
- Explain types and importance of feasibility study.

---

## **6.1 INTRODUCTION**

---

A Business plan is a document that is designed to serve as an overview of how a company will operate and grow its business. A typical business plan contains an executive summary, product or services description, the makeup of the company's management team, market and competition breakdown, marketing and sales strategy and financial planning and forecasting.

---

## **6.2 MEANING**

---

Business planning is a process that involves the creation of a mission or goal for a company as well as defining the strategies that will be used to meet those goals or mission. The process of business planning can be very broad, encompassing each aspect of the operation, or be focused on particular functions within the overall corporate structure.

Business planning refers to a process of deciding in advance in respect of business activities.

---

## **6.3 STEPS IN BUSINESS PLANNING PROCESS**

---

The following are the important steps in business planning process.

### **1) Analysis of Internal Environment :**

In this stage the entrepreneur must analyse the internal environment prevailing in his firm. He must analyse the quality of manpower, machines, etc. He must also analyse management and labour relations, working conditions, management policies and practices, etc. Such analysis indicates strengths and weaknesses of the organization.

### **2) Analyse the external environment :**

The next stage in business planning process is analyse the external environment. It includes analysis of government policies, competitors' strategies, customer preferences etc. Such analysis indicates opportunities and threats to the firm. Therefore the entrepreneur must analyse the external environment.

**3) Set Corporate Objectives :**

The entrepreneur must set corporate objective in line with mission and vision of the organization. The objectives may be short term, medium term and long term i.e. one year, 3 to 5 year and more than five year respectively. The objectives must be specific, realistic, measurable, attainable, and time bound.

**4) Formulate Strategy :**

The entrepreneur and his management team must formulate strategies. A strategy is a long term plan to achieve long term objectives. The corporate strategies are framed by the top management, the divisional heads, the departmental heads and lower level managers.

**5) Analysis of Strategies & Plans :**

The management must analyse the strategies and plans. Cost benefit analysis must be conducted of each and every strategy on plan. Costs can be analysed in terms of production, distribution, and administration expenses. Benefits can be analysed in terms profits, market share, sales, goodwill, etc.

**6) Selection of best Strategy :**

The information from the research will lead to formation of the strategy you choose for your business. Revisit the strategy you created even before your research and dig deeper into decisions on appropriate marketing. Operations, and hiring for the first five years of the company's life. The entrepreneur must select the best strategy or plan.

**7) Implementation :**

The entrepreneur must make suitable arrangement to implement the strategy. Implementation of strategy involves organising and allocation of resources to various activities. Directing and motivating the subordinates to perform effectively.

**8) Review :**

Revisit the entire plan to look for any ideas or wording that is confusing, redundant or irrelevant to the points you are making within the plan. There must be periodic review of performance. The review is required to find out whether the organization is on the

right track to achieve objectives. If required necessary modifications may be made in the strategy.

---

## **6.4 PROJECT PLANNING**

---

Project planning is a process of designing a project in an orderly manner. It means determining the route or the manner in which the project is to be executed. The systematic execution of a project is just not possible without accurate project planning. Project planning starts with the discovery of a business opportunity and comes to an end with the completion of all details required for execution.

Project planning is the result of detailed investigation of various aspects i.e. technical, managerial, marketing and financial of the proposed business activity. Project planning is essential in the case of new project as it gives basic data required for the scrutiny of the proposed project and also for the execution of the project. It brings safety to the project and inures orderly completion.

---

## **6.5 IMPORTANCE OF PROJECT PLANNING**

---

Project planning provides the blue print for starting and managing the project.

Following are the importance of project planning.

### **1) Achievement of strategic goals :**

Every successful project delivers your future organization and helps it to accomplish its strategic goals. It organizations must flourish and keep up with competitive, its members must be effective at project management. Appropriate, careful planning will ensure that projects will not over run deadlines and pile on unexpected costs. Such a situation would only endanger the anticipated corporate benefits of the Organisation.

### **2) Time management :**

It estimates the time required for a project to finish through the time management plan. It is essential to complete the project within specified time in order to achieve the predetermined objectives. Project planning specifies the time required for each and every activity right from establishing the enterprise to undertaking production activity.

**3) Innovation :**

Project planning may encourage creativity or innovation. For example, if the project planning targets are highly challenging, the employees of the company need to come up with innovative ideas to face the challenges and achieve the target.

**4) Identifies Risk :**

It identifies possible risks during the course of the project and makes preparations in case those risks may happen through the risk management plan. It is always better to have an insight about the possible financial, social, physical etc. risk involved in promoting and developing the project.

**5) Motivation :**

Project planning may motivate employees. Due to project planning, the company may achieve higher performance in terms of profits, market shares, etc. Therefore, the company management may motivate the employees by providing additional incentives such as increase in pay, higher bonus etc.

**6) Better coordination :**

It coordinates multiple resources within time and cost restraints almost accurately. For any production activity to be commenced various factors of production are required. Project planning brings clarity in acquiring and utilization of funds thereby ensuring proper coordination.

**7) Investment Decision :**

Project plan supplies vital information about the cost of raising funds, operating cost, expected rate of proposed project, etc. Therefore, project plan can be used by promoters to take investment decisions such as debt equity ratio.

**8) Specifies Quality :**

It gives a clear detail on the standards of the projects and what should be expected from the project through quality management plan. People working down the hierarchy become aware of the standard that is expected about the product and their performance.

## 9) Project Evaluation :

Project plan acts as a controlling device to check the project progress and the project expenditure. Corrective measures can be taken to correct if there any deviations between planned expenditure and actual expenditure of the project.

---

## 6.6 PROJECT REPORT

---

A project report is a written document containing complete information about the proposed project in summary form. It serves as the base for feasibility studies and actual execution of the project. It is generally prepared by the company's own technical experts and professionals, or by outside experts or consultants like Consulting Engineer, Management Consultants, and Chartered Accountants. A project report is very useful to know in detail the technical, marketing and other issues relating to the proposed business proposal. It is useful while submitting proposal for government license and permission. It can be prepared in a standard form or as per specific needs of the clients it should be drafted with proper care. It must be self-explanatory for which tables, charts, engineering maps and drawing etc. can be attached to the report. Bank and other financial institutions insist on such project report along with the loan application for the project. Many banks have their printed project report forms. The concerned party has to supply information in this form and attach the completed form to the loan application. Financial institutions need project report because the lending institution certainly desires to study the soundness of the proposed project before granting a loan. The financial institution appoints experts staff for the scrutiny of project reports.

---

## 6.7 CONTENTS OF PROJECT REPORT

---

1. Name, address and other details of the sponsoring agency.
2. Brief history and summary of proposed project.
3. Salient features of the project with particular reference to land, buildings, plant and machinery and raw materials, availability of labour etc.
4. Technical details of the project which include the details of plant layout, location, manufacturing process, products, etc.
5. Manpower requirement of the project.
6. Financial aspects of the project.



7. Cost of production and profitability.
8. Total income, operative profit and net profit.
9. Information regarding marketing.
10. Importance of the project to the national economy.

---

## **6.8 IMPORTANCE / ADVANTAGES / USES OF PROJECT REPORT**

---

Following are the importance of project report.

### **1) Useful as a reference document :**

Project report is a complete and comprehensive document. It is useful for quick reference during the process of execution of the project.

### **2) Facilitates feasibility study :**

Project report is useful as a base for feasibility study of proposed project. It helps the entrepreneur to evaluate the soundness of the project on technical and on commercial lines. Every project is subject to risk. The entrepreneur will conduct cost benefit analysis of the project. Only if the project is feasible, then only the entrepreneur may decide to venture in the proposed project.

### **3) Useful for securing bank loan :**

Project report is useful for taking bank loan for the execution of the project. It is useful for obtaining loans and advances from banks and financial institutions. Banks would provide loans only after careful analysis of the project report.

### **4) Facilitates modification in the proposed project :**

Project report is useful for modifications or improvement in the proposed project during the course of feasibility study or appraisal of the project.

### **5) Securing Government permission :**

Project report is useful while submitting the proposal for government permission, licence, etc. Project report is also required to be submitted to the government authorities for obtaining government licence, permission and various government clearances.

**6) Acts as a controlling device :**

Project report is useful as a controlling device. It is useful for monitoring the project while under execution. It acts as a controlling device to check the project progress and the project expenditure. Corrective measures can be taken if there are any deviations between planned expenditure and actual expenditure of the project.

**7) Facilitates investment decisions :**

Project report is useful to the promoter to take investment decisions as regards the project to be executed. It is also useful for the investors who provide capital to the proposed project by subscribing to the shares and debentures. The investors may analyse the project report to decide whether or not to invest in such a proposed project.

**8) Facilitates Suppliers :**

Project report is useful to the suppliers of raw material on credit, technical supports and workshop etc. The suppliers of equipment on credit or on hire-purchase basis may also require project report to understand the soundness of the project. They may provide the equipment on rent / credit only when the project has potential in generating funds to repay the credit amount.

**Check Your Progress**

1. "Business planning refers to a process of deciding in advance in respect of business activities". Discuss.
2. Define the following terms
  - a. Business planning
  - b. Project planning
  - c. Project report
3. "Project planning provides the blue print for starting and managing the project". Discuss.
4. Enlist the importance of project report.

---

**6.9 FEASIBILITY STUDY**


---

Feasibility study of a project refers to finding out the practical utility or the future prospects of a project. It is an impartial and a scientific study of the project before its final selection. Feasibility study is undertaken by experts. It may also be undertaken independently by banks or financial institutions. Even the

government agency may conduct feasibility study before granting licence, permission or financial assistance to a new project. Such a study is necessary and useful especially in case of large projects which need huge financial investment. The basic purpose of feasibility study is to find out whether the project is technically, economically, financially and managerially sound. Although every feasibility analysis is different and is tailored to suit the product, its goal is to identify the strengths and weaknesses of a project.

---

## **6.10 TYPES / AREAS OF FEASIBILITY STUDY**

---

Following are the important types / areas of feasibility study.

### **1) Technical feasibility study :**

Technical feasibility relates to the technical aspects of the project. Location, size, layout and technology are the important aspects which are considered in the technical feasibility study. Certain basic requirements of the project such as water supply, fuel, transport, waste disposal are also considered while conducting technical feasibility study. Location is an important consideration, because project fails when located at an inconvenient place. Similarly, an uneconomic size suggested in the project may bring financial loss to the project. In the same way, old and outdated technology affects the quality and cost of production adversely. It is also possible to alter or improve the project from such technical feasibility study.

### **2) Economic / Market feasibility study :**

Economic feasibility study relates to the market and marketing of proposed product. This feasibility study begins with an estimate of market demand which should be as accurate as possible. Over-estimation of demand results in over-investment and low return on the investment made. The success and profit of a project largely depend on the market available for the product both at present and in future. The market potential is extremely complicated due to rival producers, market competition and substitutes available. Even the export market for the product should be estimated if the product is suitable for export trade.

### **3) Commercial / Financial feasibility study :**

Commercial feasibility study relates to the financial aspects of the project. This study is concerned with capital cost estimates,

working capital needs, sales revenue, earning estimates, cash-flow studies and availability of funds for the execution of the project. Financing agencies like banks and financial institutions are interested in the profitability of the project as recovery of loan given is directly related to profitability of the project. The commercial feasibility study is important to the sponsors of the project as one basic purpose while executing the whole project is to earn profit.

#### **4) Managerial Feasibility Study :**

Managerial feasibility study needs to be studied while preparing the technological and economic feasibility study. It is advisable to ensure that all ingredients of efficient management are taken into consideration in the proposed project. The managerial personnel at all levels need careful consideration in this study. In addition attention should be given to other points like organizational structure envisaged for the project, requirement of different categories of personnel and so on. The success and profitability of the project partly depend on managerial competence.

#### **5) Legal Feasibility Study :**

Legal feasibility study not necessarily last, but all projects must face legal scrutiny. When an organization has either internal or external legal counsel, such reviews are typically standard. However, a project may face legal issues after completion.

---

### **6.11 IMPORTANCE / ADVANTAGES OF FEASIBILITY STUDY**

---

Following are the importance / advantages of feasibility study.

#### **1) Facilitates selection of best project :**

The sponsors may have two or three project in hand. They may undertake feasibility study of all the three and compare their feasibility reports. They can easily select the best project or the most promising project and execute the same on priority basis.

#### **2) Suggests future prospects :**

Feasibility study is a complete check-up of the proposed project. It tells clearly its worth, its future success and its practicability and future prospects. This is beneficial to the sponsors

of the project. The sponsors know the possible success or failure of the proposed project well in advance.

**3) Avoids wastages :**

Feasibility study is an effective way to safeguard against wastage of further investment resource. Wastage of resources on unsound / defective project is avoided due to timely feasibility study.

**4) Ensure Safety :**

Feasibility study gives more safety and security to the sponsors of the project. It provides the stakeholders with evidence that the project will be viable. Therefore, it helps in securing funding from lending institutions and other investors.

**5) Changes possible :**

The sponsors can introduce suitable modifications / changes in the existing project so as to make it more promising, safe and secured.

**6) Execution of unsound project avoided :**

Execution of unsound / defective project is avoided due to detailed feasibility study. This also avoids the failure of the project after execution.

**7) Provide information :**

Feasibility study provide necessary information for decision making relating to the operations of the proposed project and other activities in the organization.

**8) Cost of business plan reduce :**

The research and information of the feasibility study will support the business planning stage and reduce the research time. Hence, the cost of the business plan will also be reduced.

---

## **6.12 SUMMARY**

---

Project report is a summary of the entire project planning in a written format. It serves as the base for feasibility studies and the actual execution of the project. It contains all necessary data which helps the financial institutions / banks to appraise the project when

the entrepreneur approaches them for financial assistance. Usually the project report contains the name, address and brief history of the proposed project. It highlights the salient features like land, building, plant and machinery, raw material etc. Technical details like plant layout, location manufacturing process, product etc. are also included. The financial aspect of the project which includes cost of the project, fixed assets, working capital and the source of finance in detailed. It evaluates the cost of production and profitability, total income, operative and net profit etc. The marketing information related to present and future demand, nature of competition and marketing strategies are also explained.

Feasibility study of a project means to find out its future prospects i.e. its viability. It is a critical evaluation of all details of the project as given in the project report. It includes technical, economic, commercial, legal and managerial evaluation of the project. Technical feasibility evaluates the location, size, layout, and technology and the important technical aspects of the projects. Economic or market - feasibility evaluate the market demand for the product / services both at present and the future. The commercial financial feasibility study estimates the capital, working capital, needs, sales revenue, earning estimates, cash-flow and the availability of fund and also the break-even point study. Managerial feasibility looks into the organizational structure, managerial competence required and the requirements of different categories of personnels.

---

### 6.13 QUESTIONS

---

1. What is business planning? Explain the steps in business planning.
2. Discuss the importance of project planning.
3. Explain the importance of project report.
4. Discuss the various types / areas of feasibility study.
5. What is a feasibility study? Explain its importance?
6. Write short notes:
  - a. Feasibility study
  - b. Steps in business planning process.
  - c. Project report
  - d. Project planning



## BUSINESS UNIT PROMOTION

### Unit Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Stages of business unit promotion.
- 7.3 Factors determining location of business unit.
- 7.4 Role of Government in business promotion.
- 7.5 Licensing and Registration of companies.
- 7.6 Filing Returns and other Documents.
- 7.7 Important Legal provisions
- 7.8 Summary
- 7.9 Questions for Self-Assessment

---

### 7.0 OBJECTIVES

---

After studying the unit the students will be able to:

- Elaborate the concept of business promotion.
- Know stages or steps of business unit promotion.
- Understand the factors determining the location of setting up of a business unit.
- Provide you with an overview of the role of government in business promotion.
- Explain licensing and registration of companies.
- Know about filing returns, other documents and important legal provisions.

---

### 7.1 INTRODUCTION

---

Business unit promotion refers to all those activities relating to setting up and promotion of business units.

Business promotion simply refers to all those activities that are required to be undertaken to establish a new business unit for manufacturing or distribution of any product or provide any service

to the people. It starts with conceiving an idea of business or discovering an opportunity for doing a business, assess its feasibility and then take the necessary steps to launch the business unit. This involves ascertaining as to whether all the basic requirements such as land, building, raw materials, machine, equipments etc. are available or not. If they are available one can assemble them, arrange the necessary funds and set up the business unit to give shape to the initial idea of establishing the business.

---

## **7.2 STAGES OF BUSINESS UNIT PROMOTION**

---

The following are the main stages in setting up of a business unit.

### **1) Discovery of business opportunity :**

The task of a promoter starts with his conception of a business activity. Here, the promoter considers available business opportunities and selects the one which is most promising and can be used with limited risk. The promoter also considers the capital requirement for the proposed business activity.

### **2) Size of the business firm :**

The decision about the size of the firm i.e. the scale of operations needs to be taken after finalizing a specific promising opportunity for setting a business unit. The size of the firm is influenced by a variety of factors such as financial, technical, marketing, managerial and so on. The size decided should be most appropriate or ideal.

### **3) Location of a business unit :**

Deciding suitable location is one major step in the setting up of a new business unit. Location means the selection of the region, area and the specific site where the proposed unit is to be located. Selection of the wrong location may prove costly for the business. The various factors that should be taken into consideration are easy availability of raw material and labour, nearness market, supply of power and water, availability of banking, warehousing and communication, transport facilities. One should consider alternate location and select the best among them.



**4) Selection of form of organization :**

In this step, the decision is taken as regards the form of organization of the proposed enterprise. It may be organised as a sole proprietorship, partnership, Joint Stock Company or a co-operative society. While deciding a suitable form, various factors such as capital requirement, managerial skill requirement, size of the business and market available need careful consideration.

**5) Financial and Tax Planning :**

Adequate capital is essential for starting an enterprise and also for its smooth working. Appropriate financial planning ensures financial stability. The promoter should estimate the total financial layout which includes both fixed and working capital requirement and decide its sources. Tax planning helps to minimize tax liability. It depends on the form of organization, the areas where business is to be started as tax holiday and tax concession is given for units in hilly and backward areas.

**6) Physical Facilities :**

In this stage, the promoters have to decide the manner in which the physical facilities are to be arranged for a new enterprise. Promoters are expected to give attention to infrastructure facilities required by a new enterprise. Such as water, electricity, disposal of waste material, machinery, raw material, manpower, training of employees etc.

**7) Legal formalities :**

Setting up of a new enterprise particularly a large enterprise involves various legal formalities. Here, promoters have to study the legal provisions made by the government and local authorities for setting up of new business enterprises.

**8) Organisation Structure :**

Suitable internal organization structure is necessary for the conduct of business activities of an enterprise in an orderly manner. This avoids confusion, duplication of work and wastages of all kinds. While deciding organization structure, attention needs to be given to departmentation, delegation of authority and co-ordination among departments.

**9) Manpower requirements :**

In this stage, the promoters estimate the manpower requirement. It includes skilled and unskilled employees, supervisors, junior executives, managers, professionals and so on. Manpower is essential for efficient working of an organization, similarly, manpower requirement needs to be estimated correctly as the recruitment, selection, training and other human resources development activities are undertaken as per the manpower requirement estimated.

**10) Launching the Enterprise :**

At this final stage, the major portion of promotional work before starting a business enterprise comes to an end, and the actual work of starting the business activity starts. This includes the acquisition of land, the necessary construction work, purchase of machinery, tools and equipment, hiring of manpower, conducting production on trial basis etc.

---

### **7.3 FACTORS DETERMINING LOCATION FOR SETTING UP A BUSINESS UNIT**

---

Business firms need to select the best suitable location for setting up a business unit. Some of the important factors that affect location include the following.

**1) Nearness to raw material :**

Generally, raw material constitute around 50% to 60% of the total cost. Hence it would be advisable for the plant to be located near the source of raw materials. Nearness to the source of raw materials is of special importance when the material is bulky in relation to its value and when the volume & weight are greatly reduced during its processing.

**2) Nearness to market :**

Market is a place where products are sold. Nearness to market helps in reducing cost of transporting finished goods. It is possible to make goods available at the right time. It enables to render quick service and after sale service. Nearness to market is preferred when the product is fragile, perishable or bulky.

**3) Infrastructure facilities :**

Availability of infrastructure facilities like power, water, transport & communication, banking facilities etc. are important determinants for business location. Unavailability or irregular supply or shortage of above factors could adversely affect the production process. Availability of infrastructure facilities increases the efficiency of an enterprise.

**4) Skilled Labour :**

The need for adequate supply of labour is obvious. A good number of industries require skilled labour force such as engineers, managers, computer programmers etc. A business firm should consider the availability of competent and skilled labour in a particular state. However, nowadays, due to mobility of skilled labour, this factor is losing importance. Even though skilled labour is a basic need of an enterprise.

**5) Law and order situation :**

This is one of the most important factors, which business firm consider in locating a business unit in any region. For the smooth functioning of business activities, proper law and order situation is essential. In India, business firms are reluctant to set up business units in the North-Eastern States such as Bihar because of law and order problems.

**6) Government policies :**

The policies of the government like taxation policies, licensing policies, incentives such as subsidies provided etc. go a long way in deciding the location of the plant. For example government may announce tax exemptions to certain industries if they are started in certain areas. This may influence the location decision.

**7) Natural Factors :**

Natural factors affect the location of those industries which require a particular climate or weather conditions. For example, climate is an important factor in tea, coffee, rubber plantation.

**8) Safety Requirement :**

Certain factories may affect the health of the public in neighboring areas where the plant is located. Therefore, such

industries must be located in remote areas away from residential areas. For example, explosive factors must be located away from residential areas.

**9) Financial Facilities :**

Finance is the basic need of each and every industries. Industries require huge capital. It gets attracted to those regions where income of the people is high and they are willing to invest for industrial activities.

**10) Social infrastructure :**

Social infrastructure is required for the development of employees and their families. It adds to the welfare of employees. Social infrastructure facilities include residential complexes, educational institutions, hospitals and health care centres, recreation facilities and so on. Some companies such as TISCO have created such facilities of their own.

**11) Other Factors :**

There are several other factors that may be considered in locating plant such as land cost, drainage and waste disposal facilities, community attitudes, sound industrial relations, expansion potential etc. The business firm considers other factors which decided the location of a business unit.

---

## **7.4 ROLE OF GOVERNMENT IN BUSINESS PROMOTION**

---

The department of industrial policy & promotion was established in 1995. It has been reconstituted in the year 2000 with the merger of the Department of Industrial Development. Earlier Separate Ministries for Small Scale Industries and Agro and Rural Industries. Heavy Industries and Public Enterprises were created in October, 1999.

The role and functions of the Department of Industrial Policy and Promotion primarily include as follows :

- 1) Formulation and implementation of industrial policy and strategies for industrial development in conformity with the development needs and national objectives.

- 2) Monitoring the industrial growth, in general and performance of industries specifically assigned to it, in particular, including advice on all industrial and technical matters.
- 3) Formulation of Foreign Direct Investment (FDI) policy and promotion, approval and facilitation of FDI.
- 4) Encouragement to foreign technology collaborations at enterprise level and formulating policy parameters for the same.
- 5) Formulation of policies relating to intellectual property rights in the field of patents Trademarks, Industrial Designs and Geographical Indications of Goods and administration of regulations, rules made there under.
- 6) Promoting industrial development of industrially backward areas and the North Eastern Region including International Co-operation for industrial partnerships.
- 7) Promotion of productivity quality and technical cooperation.

---

## **7.5 LICENSING AND REGISTRATION**

---

A business enterprise has to follow legal provisions before starting the operations. At present licensing is required only for six industries i.e. alcohol, cigarettes, industrial explosives, defence, drugs and pharma and hazardous chemicals. The various legal provisions relating to licensing and registration of companies include the following.

### **1) Registration under the Indian Companies Act. 1956 :**

A Joint Stock Company needs to register under Indian Companies Act, 1956. The promoter must obtain the incorporation certificate from the Registrar of companies. To obtain the incorporation certificate, a number of documents must be prepared and submitted to Registrar of companies these are memorandum of Association, Articles of Association, List of Directors, written consent of Directors, statutory declaration and other relevant documents.

### **2) Registration under Indian Partnership Act, 1932 :**

A partnership firm may have to register under Indian Partnership Act, 1932. The partnership deed along with other

relevant documents must be filed with the Registrar of firms. In Maharashtra, a copy containing Marathi translation of partnership deed must be filed. On registration, the partnership firm gets legal status.

### **3) Registration under the Bombay Shops and Establishment Act, 1948 :**

The promoter of every establishment shall send to the inspector of the local area concerned, a statement in prescribed form together with prescribed fees, containing name of the promoter and the manager, postal address, name of the establishment, category, fee etc. The registration certificate is then issued to the establishment, which shall be prominently displayed at the establishment.

### **4) Registration of Micro and Small Enterprises :**

Manufacturing units with investment in plant and machinery upto Rs. 25 lakh is known as micro enterprises. Manufacturing units with investment in plant and machinery upto Rs. 5 crore come under small enterprises. Both types of units must be registered with District industries centre (DIC). Such registration is required to avail of benefits or assistance meant for MSEs.

### **5) Obtaining Food and Drugs Administration Licence :**

Promoters of business units dealing in hotels, food and drugs need to obtain FDA Licence, before starting operations. Separate FDA Licence are required for wholesale trade and retail trade in food and drugs items. To obtain FDA licence, application must be made to local FDA authorities, supported by relevant documents together with licence fees.

### **6) Clearance from Pollution Control Board :**

If a business unit is engaged in manufacturing process which may pollute the environment, then in such a case, clearance is required from state Pollution Control Board. The promoters have to make an application supported by relevant documents to obtain clearance from pollution control board..

### **7) VAT and Excise Registration :**

The business firm subject to VAT/CENVAT must register under Bombay Sales Tax, Act. and Central Sales Tax, Act,. Those

firms not subject to VAT such as textile dealer need to not obtain BST and CST Registration. The business unit may also require excise registration. For this purpose, registration may be done with the excise authorities.

### **8) Registration with Directorate General of Foreign Trade (DGFT) :**

Business firm intending to deal in foreign must register with Directorate General of Foreign Trade (DGFT) and obtain Importer-Exporters code number. For this purpose, application must be made to the local DGFT office, along with relevant documents.

### **Check Your Progress**

1. Fill in the blanks
  - a. A Joint Stock Company needs to register under -----
  - b. Manufacturing unit with investment in plant and machinery upto Rs. 25 lakh is known as -----.
  - c. Manufacturing unit with investment in plant and machinery upto Rs. 5 crore is known as -----.
  - d. Micro and Small Enterprises must be registered with -----  
-----.
  - e. The business firm subject to ----- must register under Bombay Sales Tax, Act. and Central Sales Tax, Act.
  - f. Business firm intending to deal in foreign must register with -  
-----.
2. Enlist the main stages in setting up of a business unit.

---

## **7.6 FILLING RETURNS AND OTHER DOCUMENTS**

---

### **1) Permanent Account Number (PAN) :**

After incorporation, the company must obtain its Permanent Account Number (PAN). For this purpose, an application needs to be filed with the Income Tax Department in Form 49A with the necessary documents. PAN is mandatory for opening of Bank Account, filling of Income Tax returns and various other financial transactions.

### **2) Tax Deduction Account Number (TAN) :**

After incorporation, the company must also obtain a Tax Deduction Account Number (TAN). For this purpose, an application

needs to be filed with the Income Tax Department in Form 49B with necessary documents. TAN is required for depositing of TDS/TCS.

**3) Value Added Tax (VAT) :**

Value Added Tax (VAT) registration is required for a trading business. This is to be applied for the local Sales Tax Department in the prescribed forms along with specified fees and necessary documents. On completion of the formalities, a Tax Identification Number (TIN) is granted.

**4) Professional Tax :**

Professional tax is a tax on profession. It is applicable in same states in India and the rate of tax also varies from state to state.

**5) Service Tax :**

Service tax is applicable on an entity which is engaged in providing prescribed services. There are more than 100 services on which services tax is currently applicable. The rate of service tax presently is 10%.

**6) Filing Annual Return :**

The Secretary must file annual return with Registrar of companies within 60 days of Annual General Meeting.

**7) Filing of Forms :**

The Secretary has to file certain forms with the Registrar of companies. For example the Secretary has to file Form 29 and Form 32.

**8) Filing of Annual Accounts :**

The Secretary must file annual accounts with Registrar of companies. Section 220 of the companies Act, requires every company to file with Registrar of companies, 3 copies of balance sheet and Profit & Loss A/c of the company, along with 3 copies of relevant documents annexed thereto. The annual accounts must be filed within 30 days of the Annual General Meeting.

**9) Filing of Corporate Tax Returns :**

Companies i.e. domestic or foreign companies operating in India have to file corporate tax return within a certain period of time.



The corporate tax is payable on the domestic or foreign companies any income which is income received in India, income arises in India and income arises outside India.

---

## **7.7 IMPORTANT LEGAL PROVISIONS :**

---

Companies must follow various legal provisions relating to various Acts such as :

- 1) The workmen compensation Act.
- 2) The Trade Unions Act, 1926.
- 3) The Bonus Act, 1926.
- 4) The payment of wages Act, 1936.
- 5) The Factories Act, 1948.
- 6) The Minimum Wages Act, 1948.
- 7) The Employees State Insurance Act, 1948.
- 8) The Indian Companies Act, 1956.
- 9) The Micro, Small and Medium Enterprise Development Act, 2006.
- 10) The foreign Exchange Management Act, 1999.
- 11) The Industrial Disputes Amendment Act, 2010.

---

## **7.8 SUMMARY**

---

Setting up means, 'the act of taking steps for the formation of something', here in this chapter it means the business unit. The number of stages involved in business unit promotion i.e. discovery of business opportunity, size of the business firm, location, selection of form of organization, financial & Tax planning, physical facilities, legal formalities, organization structure, manpower requirements and launching the enterprise. While promotion of a business unit number of factors also responsible for setting up of an enterprise i.e. raw material, market, infrastructure skilled labour. Law and order situation, Government policies, Natural factors, Safety requirement, finance, social infrastructure and other factors.

Government plays an important role in business promotion. A business enterprises has to follow legal provisions i.e. get licences and make registration before starting the operations. Company also fill the returns forms for its income received in India, income arises in India and income arises outside India from the domestic or foreign companies.

---

**7.9 QUESTIONS FOR SELF-ASSESSMENT**

---

- 1) What are the steps or stages involved in setting up of a business unit?
- 2) Explain the factors affecting business location.
- 3) Discuss the role of government in business promotion.
- 4) Explain the licencing and registration procedure of a business unit.
- 5) Write short note
  - a. Filling returns and other documents.
  - b. Licencing and Registration
  - c. Role of government in Business promotion.
  - d. Business location



## ENTREPRENEURSHIP

### Unit Structure

- 8.0 Objectives
- 8.1 Concept of Entrepreneurship
- 8.2 Nature and Characteristics of Entrepreneurship
- 8.3 Importance of Entrepreneurship
- 8.4 Factors contributing to the growth of entrepreneurship
- 8.5 Differences between the Entrepreneur and the manager.
- 8.6 Intrapreneur
- 8.7 Characteristics of Intrapreneur
- 8.8 Differences between Entrepreneur and Intrapreneur
- 8.9 Summary
- 8.10 Questions for Self - Assessment.

---

### 8.0 OBJECTIVES

---

After studying the unit students will be able:

- To understand the concept of entrepreneurship.
- To know the importance of entrepreneurship.
- To elaborate the factors contributing to the growth of entrepreneurship.
- To distinguish between the entrepreneur and the manager.
- To know the concept of Intrapreneur.
- To differentiate between Entrepreneur and Intrapreneur.

---

### 8.1 INTRODUCTION

---

The term “entrepreneurship” is often used synonymously with “entrepreneur”. Though they are two sides of the same coin, conceptually they are different. The entrepreneur is a business leader and the function performed by him is entrepreneurship.

---

## **8.2 DEFINITION AND NATURE OF ENTREPRENEURSHIP**

---

### **8.2.1 DEFINITION OF ENTREPRENEURSHIP:**

**According to Robert Hisrich** “Entrepreneurship is the process of creating something new and assuming the risks and rewards”.

**According to Peter P. Drucker** “Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end; that is, by the practice”.

### **8.2.2 CHARACTERISTICS OF ENTREPRENEURSHIP :**

The above definitions bring out the nature and characteristics of Entrepreneurship :

#### **1) Innovation :**

A businessman, who simply behaves in traditional ways, cannot be an entrepreneur. Innovation involves problem solving and the entrepreneur is a problem solver. According to Schumpeter entrepreneurship is a creative activity. An entrepreneur is basically an innovator who introduces something new in the economy.

#### **2) Risk and Rewards :**

Entrepreneurship activity is undertaken to assume risks and rewards. Any innovative activity is always subject to risks and uncertainties. If the innovative activity is successful, the entrepreneur will reap rewards, otherwise, the entrepreneur has to assume risks of failure. Therefore, an entrepreneur needs guts to assume risks, and he gets glory when there is success.

#### **3) Managerial skill and leadership :**

Managerial skill and leadership are the most important facets of entrepreneurship. Financial skills are only of secondary importance. A person who is to become an industrial entrepreneur must have more than the drive to earn profit. He must have the ability to lead and manage.

**4) Exploits change into an opportunity :**

An entrepreneur always looks for a change. If there is a potential for a change, he responds to it. He exploits the change as an opportunity for different business. Seeking change and converting into an opportunity is the hallmark of entrepreneurship.

**5) Group Level Pattern :**

Entrepreneurial characteristics are found in clusters which may qualify themselves as entrepreneurial groups. Entrepreneurial activity is generated by the particular family background, experience as a member of certain groups and as a reflection of general values.

**6) Organisation Building :**

Entrepreneurship implies the skill to build an organization. Organization building ability is the most critical skill required for industrial development. This skill means the ability to multiply one self by effectively delegating responsibility to other.

**7) Gap Filling Functions :**

The most significant feature of entrepreneurship is gap filling. It is the Job of the entrepreneur to fill the gap or to make up the deficiencies which always exist in the knowledge above the production function. Some inputs like motivation and leadership are vague and their output is indeterminate. An entrepreneur has to marshall all the inputs to realize the final product.

**8) Social and Economic Development :**

Entrepreneurship activity facilitates social and economic development. Due to entrepreneurship, the production of better quality goods and services take place, which in turn facilitates economic growth of the nation. Also entrepreneurs play an important role in social development by supporting social development activities like health, education, community development, etc.

**9) High Achievement :**

People having high need for achievement are more likely to succeed as entrepreneurs. The achievement motive is, by assumption a relatively stable enduring characteristic of an individual. Achievement motive can be increased by deliberate

efforts. Various studies on psychological roots of entrepreneurship reveal the presence of high achievement among successful entrepreneurs.

---

### **8.3 IMPORTANCE OF ENTREPRENEURSHIP**

---

The importance of entrepreneurship in a developing economy lies in the fact, that an entrepreneur as a change agent is alone responsible for the development. Following are the importance of Entrepreneurship.

#### **1) Economic Development :**

Economic development is a highly dynamic process characterized by continual and of ten changes. As industry grows and income rises, pattern of demand shifts, new product are needed, new opportunities appear for the production of goods within the country, resulting in growth within the country, resulting in growth and development of the nation. Entrepreneurship activity contributes to the economic development of a nation.

#### **2) Social Development :**

Entrepreneurs play an important role in social development of a nation. He contribute funds towards social development activities like health, education, and community development activities. They also generate new and innovative ideas to enhance social development in the society.

#### **3) Regional Development :**

The growth of industry and business leads to a lot of benefits to the society. When the industries are concentrated in selected cities, development gets limited to these cities. When the new entrepreneurs grow at a faster rate, in view of increasing competition in and around cities, they are forced to set up their enterprises in the smaller town away from big cities. This helps in the development of backward regions.

#### **4) Create wealth :**

All individuals who search business opportunities usually, create wealth by entering into entrepreneurship. The wealth created by the same play a considerable role in the development of nation. The business as well as the entrepreneur contributes in some or other way to the economy, may be in the form of products or series

or boosting the GDP rates or tax contribution. Their ideas, thoughts and inventions are also a great help to the nation.

**5) Employment Generation :**

Unemployment is the major problem of our country. The available employment opportunities can cater only 5% to 10% of the unemployed. Entrepreneurs generate employment both directly and indirectly. Directly create employment through self employment as an entrepreneur and indirectly by starting many industrial units they offer jobs to millions. Thus entrepreneurship is the best way to fight the evil of unemployment.

**6) Capital Formation :**

Entrepreneurs facilitate capital formation in the country. The entrepreneur provide employment to people. The employees save a part of their income. The entrepreneurs also save a part of their profits. These savings lead to investment. Investment in term facilitates capital formation, i.e. production of capital goods, which can be used for further production of consumer goods and services.

**7) National Income :**

National Income consist of the goods and services produced in the country and imported. The goods an services produced are for consumption within the country as well as to meet the demand of exports. The domestic demand increases with increase in population and increase in standard of living. The export demand also increases to meet the needs of growing imports due to various reasons. An increasing number of entrepreneurs are required to meet this increasing demand for goods and services. Thus entrepreneurs increase the national income.

**8) Revenue to the Government :**

The entrepreneurs provide revenue to the government. They provide revenue in the form of direct and indirect taxes. The direct revenue comes in the form of personal income tax and corporate tax paid by entrepreneurs. The indirect revenue comes in the form of excise duty, custom duty, service tax etc., paid by the entrepreneurs. The entrepreneurs paid revenue to the government in the various forms of taxes.

**9) Consumer welfare :**

Entrepreneurship activity facilitates consumer welfare. Due to innovative ideas, consumers can enjoy new and better types of goods and services. Also due to employment, purchasing power of the people increases, resulting in more demand for new and better type of goods. Therefore, the standard of living of the society improves.

**10) Provides Satisfaction :**

Although entrepreneurship is a challenging task but in most of the cases the rewards it gives are much more than what one anticipates. It does not only reward an entrepreneur at financial levels but also an personal level. It provides satisfaction to the entrepreneur.

---

## **8.4 FACTORS CONTRIBUTION TO THE GROWTH OF ENTREPRENEURSHIP**

---

The emergence of entrepreneur in a society depends upon closely interlinked economic, social, cultural, psychological, political and personality factors. The factors contributing to the growth of entrepreneurship are as follows :

**1) Economic Policies :**

The economic policies of the government and other financial institutions and the opportunities available in a society as a result of such policies play a crucial role in exerting direct influence on entrepreneurship in view of the haphazard development of economic zones.

**2) Government Incentives :**

Government is encouraging the entrepreneurs to establish their business in backward and tribal areas. This is primarily to arrest the migration of people from the villages to cities and to create employment opportunities locally. Government is promoting such development by giving incentives like tax holidays, subsidized power tariff, raw materials, transportation cost etc.

**3) Social Factors :**

A society that is rational in decision making would be favourable to entrepreneurship growth. Several less developed



countries characterized by the presence of a social set up which is generally hostile to entrepreneurship. Education research and training are given very little importance. The process of division of labour comes to be decided upon by the hereditary principle rather than by aptitudes, skills and attainments of individuals.

**4) Cultural factors :**

If the culture is economically or monetarily oriented, entrepreneurship would be applauded and praised. In the less developed countries, people are not economically motivated. Monetary incentives have relatively less attraction. People have ample opportunities of attaining social distinction by non-economic pursuits. Men with organizational abilities are therefore not dragged into business.

**5) Psychological Factors :**

The psychological factors like high need for achievement, determination of unique accomplishment, self confidence, creativity, vision, leadership etc. promote entrepreneurship among individuals. On the other hand psychological factors like security, conformity and compliance, need for affiliation etc. restrict promotion of entrepreneurship.

**6) Political Factors :**

The political scenario and also the political stability of country influence the growth of entrepreneurship. The political system, which promotes free market, individual freedom and private enterprise, will promote entrepreneurship. It means entrepreneurship growth is depends upon the political factors.

**7) Personality Factors :**

In our country the entrepreneurship is looked upon with suspicion. The result is the personality of the entrepreneur has got greatly affected. Public opinion in the developing nations sees in the entrepreneur only a profit maker and exploiter. Many of the developing nations were exploited by foreigners for centuries. The people and their leaders therefore tend to see in the entrepreneur a suspect personality.

**Check Your Progress**

1. "An entrepreneur as a change agent is alone responsible for the development". Explain.
2. Enlist the factors contributing to the growth of entrepreneurship.
3. Define entrepreneurship.

---

**8.5 DIFFERENCES BETWEEN THE ENTREPRENEUR AND THE MANAGER**

---

**1) Motive :**

Entrepreneur is characterized by concepts such as creativity, innovation and soon, indicators of the desire to create "something from nothing"

A manager is characterized by concepts such as order, organization, procedures and so on indicating the desire to organize and maintain what exists.

**2) Activity :**

Entrepreneur gets directly involved in he business activity. Major areas of the venture are looked after by the entrepreneur himself.

A manager may delegate and supervise the activities of his subordinates. There may less direct involvement in the activities of the organization.

**3) Status :**

An Entrepreneur is not concerned about status symbols in his organization. He may not be influenced by titles or position symbols in the organization.

A manager is concerned about status symbols or titles in the organization. The titles / symbols fulfill ego needs of a manager.

**4) Risk :**

The myths describe entrepreneur as "wild risk takers", although many studies have shown that in fact the typical entrepreneur is very good at assessing risks.

On the other hand, the manager, who sees his task as strengthening and maintaining the company, is naturally afraid of risks and tries to maintain the status quo.

**5) Responsibility :**

An entrepreneur takes up personal responsibility for failures. This is because, he is directly involved in decision - making and action.

A manager may try to avoid responsibility. He may blame internal and external environment for failure. He may even collect selective dates to substantiate the failure.

**6) Decision making :**

The entrepreneurial organization is characterized by its informal, flexible structure, which allows it to adopt to changes required by its rapid growth.

A manager makes decisions after collecting detailed information and reaching operative conclusions, while relying on experts both from within and outside the organization.

**7) Innovation :**

Entrepreneurs always need to be innovative and dynamic. Creative ideas may enable them to succeed in the competitive world.

The manager also needs to be innovative, but not always. Especially managers at lower maintain status quo.

**8) Failures and mistakes :**

Entrepreneur undertakes risky activities. He accepts responsibility for failures. He deals with mistakes and failures.

A manager is cautious in his approach and therefore, he tries to avoid mistakes and surprises.

**9) Approvals :**

An entrepreneur makes his own decisions. No need for approval from others.

A manager at lower and middle level has to obtain approval for decision making from higher authorities.

**10) Corporate culture :**

Entrepreneur believe in dynamic corporate culture. They favour creativity, flexibility in decision making.

A manager does try to establish a well defined corporate culture, based on corporate values on one hand and commercial aims on the other.

**11) Ownership and control :**

Entrepreneur possesses direct ownership and control of resources. Entrepreneur may not have to depend on others for the allocation and utilization of resources.

A manager may lack ownership but they have control over resources of the organization. At times, there is need for allocation of resources from higher authorities.

**12) Organisation Structure :**

The entrepreneurial organization is characterized by its informal, flexible structure, which allow it to adopt to change required by its rapid growth.

The manager, on the other hand, requires a formal and fairly rigid organizational structure, which leaves no room for rapid reactions to business opportunities, but protects the organization from sudden collapse.

---

**8.6 INTRAPRENEUR**

---

In 1985, Gifford Pinchot introduced the term Intrapreneurship. Pinchot states that Intrepeneur is an entrepreneur within an already existing organization. The prime motive of intrapreneurship is independence and to get rewarded for performance. Due to high technology, increasing global competitive pressures, new market opportunities, need for innovation and timely action in rapidly changing business environment a rare new breed of corporate heroes have come to the fore in large organizations called intrapreneurs.

Intrapreneurs are entrepreneurs who stay at home, who catch hold of a new idea for a product, process or service and work to bring their vision to fruition within the framework of the organization.

#### **8.6.1 Meaning :**

An Intrapreneur is defined as “any of the dreamers who do”. Those who take hand on responsibility for creating innovation of any kind within the organization.

The intrapreneur may be a creator or inventor but he is always dreamer who finds out how to turn an idea into a profitable reality. Without them innovation remain merely a potential for the future.

---

### **8.7 CHARACTERISTICS OF INTRAPRENEUR**

---

The following are the important characteristics of intrapreneur.

#### **1) Self Motivated :**

Intrapreneurs are not only self motivated and goal oriented but also respond to corporate recognition and rewards. They need freedom and access to corporate resources.

#### **2) Self-confidents and courageous :**

Many intrapreneurs are cynical about the system, but optimistic about their ability to out-wit it. They are bold, self-confident and courageous.

#### **3) Freedom :**

Intrapreneurs consider traditional status symbol as a Joke but he treasures symbols of freedom.

#### **4) Education :**

Intrapreneur is often highly educated particularly in technical field but sometimes not.

#### **5) Systems :**

The intrapreneur dislikes systems but learns to manipulate it. He works out the problems within the system or bypasses it without learning.

- 6) **Very like an entrepreneur.**
- 7) **Focus on customer.**
- 8) **Patient and willing to compromise.**
- 9) **Better relation with father but still stormy.**
- 10) **Transaction within hierarchy.**

---

## **8.8 DIFFERENCES BETWEEN ENTREPRENEUR AND INTRAPRENEUR**

---

### **1) Meaning :**

Entrepreneur is a person who undertakes business venture and assumes risks and rewards.

Intrapreneur is a person who acts like an entrepreneur within an existing organization.

### **2) Flexibility :**

Entrepreneurship is flexible and agile, focused on establishment and growth.

Corporations have a tendency to be bogged down in self-preservation, the demands of stock holders and senior members dedicated to maintaining the status quo.

### **3) Motive :**

The primary motives of an entrepreneur are independence, innovation and to get rewarded for performance by operating a business venture. The primary motives of an intrapreneur are independence, innovation and to get corporate reward from the organization in which he works.

### **4) Reward :**

All progress, patent rights and profits are available to the entrepreneur.

The employing company owns the progress patents rights, and profits, which may or may not be shared with the intrapreneur.

**5) Activity :**

Entrepreneur gets directly involved in the business activity. Major areas are looked after by the entrepreneur himself.

For an Intrapreneur, there is direct involvement in the project, and there is less of delegation.

**6) Goals :**

Business goals, culture, and operational rules are the sole discretion of the entrepreneur.

Intrapreneur must remain within the boundaries of the business goals, culture, and operational rules.

**7) Ownership and control :**

Entrepreneurs possess direct ownership and control of resources. Entrepreneur may not have to depend on other for the allocation and utilization of resources.

An intrapreneur lacks ownership as he works in an existing organizations, but he has control over allocated resource.

**8) Failure and mistakes :**

Entrepreneur does not hide failures or mistakes. He takes up the responsibility for failures or mistakes.

An Intrapreneur may make an attempt to hide mistakes or to hide risky projects before they are ready.

**9) Approvals :**

An Entrepreneur makes his own decisions. No need for approval from others.

An Intrapreneur may have to take approval for major decisions from top management.

**10) Decision making :**

Corporate agreements, investments and distribution of profits are at the sole discretion of the entrepreneur. This would include any political or social backing.

Corporate agreements, investments, and distribution of profits are the employing company's business, and may include items in opposition to the Intrapreneur's beliefs and preferences.

**11) Resources :**

An entrepreneur makes use of his own resources, whether owned or borrowed.

An Intrapreneur makes use of resources of the firm in which he is working.

---

## **8.9 SUMMARY**

---

Entrepreneurship according to Pete Ducker is neither a science, nor an art. It is a practice. An entrepreneur should have the following characteristics, innovative, risk and reward, goal-oriented, should have managerial skills, ready to face challenges, must have vision and able to take initiative. He should also have physical and mental staming. The government should support entrepreneur through incentive and assistances in the form of concession and subsidies. They are needed to ensure balanced regional development, overcoming inadequate infrastructure, promoting survival and growth and creating employment opportunities. Some of the incentives given by the central government. Entrepreneurship plays an important role in economic development, social development regional development and so on, entrepreneur provide revenue to the government. The emergence of entrepreneurs in a society depends upon closely interlinked economic, social, cultural, psychological, political and personality factors.

In the light of the foregoing, we can summarise that there is a world of difference between the entrepreneur the manager and the intrapreneur, and indeed this was true until the last decade. But, it has become clear in recent years that the ideal manager will be one who knows how to combine certain traits of the manager, such as order and discipline with entrepreneur characteristics such as quick reaction to business opportunities, creativity and the ability to fill employees with a sense of vision and challenge.



---

**8.10 QUESTIONS**

---

- 1) Explain the nature and characteristics of entrepreneurship.
- 2) Define the term entrepreneurship and explain the importance of entrepreneurship.
- 3) What are the factors contributing to the growth of entrepreneurship?
- 4) Distinguish between entrepreneur and manager.
- 5) Distinguish between entrepreneur and intrapreneur.
- 6) Write short notes:
  - a. Characteristics of entrepreneurship
  - b. Intrapreneur



## ASPECT OF ENTREPRENEURS

### UNIT STRUCTURE

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Definition of Entrepreneur
- 9.3 Types of Entrepreneurs
- 9.4 Competencies of Entrepreneurs
- 9.5 Entrepreneurship Training and Development centers in India
- 9.6 Incentives to Entrepreneurs in India
- 9.7 Women Entrepreneurs
- 9.8 Problems faced by women entrepreneurs
- 9.9 Promotion of women entrepreneurs
- 9.10 Summary
- 9.11 Questions for Self-Assessment

---

### 9.0 OBJECTIVES

---

After studying the unit students will be able:

- To understand the concept and definition of entrepreneur.
- To study the various types of entrepreneur.
- To elaborate the competencies of entrepreneur.
- To know the entrepreneurship training and development centers in India.
- To explain the various problems and promotions of women entrepreneurs.

---

### 9.1 INTRODUCTION

---

An entrepreneur is one of the important segments of economic growth. Basically, he is a person responsible for setting up a business unit. In fact, he is the one who has the initiative, skill or innovation and who looks for high achievements. He undertakes

new projects that creates wealth, open up many employment opportunities and leads to the growth of other sectors. Entrepreneurs are found in every economic system and in every form of economic activity as well as in other social and cultural activities. They are found amongst labourers, artisans, exporters, importers, supervisors, engineers, bankers, professionals and also amongst farmers, fisherman and tribals. We find entrepreneurs even among philosophers, politicians and bureaucrats.

---

## 9.2 DEFINITION OF ENTREPRENEUR

---

**According to Peter Drucker** “An Entrepreneurs one who always searches for change, responds to it and exploits it as an opportunity”.

**Encarta world Dictionary defines entrepreneur as** “(risk-taking business person), somebody who sets up and finances new commercial enterprises to make profit”.

---

## 9.3 TYPES OF ENTREPRENEURS

---

The following are the different types of entrepreneurs.

### A) According to the types of business.

#### 1) Business Entrepreneurs :

Business entrepreneur are individuals who conceive an idea for a new product or service and then create a business to turn the ideas into reality. They almost tap both the production and marketing resources to develop a new business opportunity. They may set up a large size or a small size business.

#### 2) Trading Entrepreneurs :

Trading entrepreneur is not concerned with manufacturing work, he only undertakes trading activities. He is basically a marketing person. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among the buyers to purchase his product. He is engaged in both domestic and international trade.

#### 3) Industrial Entrepreneurs :

Industrial entrepreneur is a product oriented man who starts an industrial unit for making some new product. He is a

manufactures who identifies the potential needs of customers and tailors a product or a service to meet the marketing needs. He has the ability to convert economic resources and technology into a profitable venture.

**4) Corporate Entrepreneurs :**

A corporate entrepreneur is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking. He is an individual who plans, develop and manages a corporate body.

**5) Agricultural Entrepreneurs :**

Agricultural entrepreneur is the one who is engaged in the agricultural activities. He uses latest technology to increase the productivity of agriculture and also adopts mechanization. He cover a broad spectrum of the agricultural sector.

**B) According to the use of technology :**

**1) Technical Entrepreneurs :**

Technical entrepreneur is as good as a craftsman. Because of his craftsmanship he develops improved quality of goods. He is concerned and concentrates more in production than marketing. He demonstrates his innovative capabilities in the matter of production of goods and rendering of services.

**2) Non - Technical Entrepreneurs :**

Non technical entrepreneurs are only concerned with developing alternative marketing and distribution strategies in order to promote their business. They are not concerned with the technical aspect of the product in which they deal.

**3) Professional Entrepreneurs :**

Professional entrepreneur is a person who established a business and sells out the running business and starts another venture with the same proceeds. He is not interested in managing or operating the business once it is established. He always conceives new ideas to develop alternative projects.

**C) According to Motivation :****1) Pure Entrepreneurs :**

Pure entrepreneurs is one who may or may not possess an aptitude for entrepreneurs but is tempted by the monetary reward or profit to be earned from the business venture. He is status conscious and wants recognition.

**2) Induced Entrepreneurs :**

An induced entrepreneur is one who is induced to take up entrepreneurial task due to the various policy measures, incentives. Concessions and tax benefits offered by the government to start a venture. A person with a sound project is provided with package of assistances for his project. Today government offers various concessions, incentives and financial assistances to small scale industries that has induced many people to start a small scale industry.

**3) Motivated Entrepreneurs :**

Motivated entrepreneur desire for self - fulfillment motivates new entrepreneur. He come into being because of the possibility of making and marketing some new product for the use of consumers. He is further motivated by reward in terms of profit if the product has a good sale.

**4) Spontaneous Entrepreneurs :**

Spontaneous entrepreneurs are naturally talented. They are persons with initiative, boldness and confidence in their ability that motivates them to undertake entrepreneurial activity. They have a strong conviction and confidence in their inborn ability.

**D) Other Types :****I) According to Growth :**

- 1) Growth Entrepreneurs.
- 2) Super-growth entrepreneurs

**II) According to stages of Development :**

- 1) First Generation Entrepreneurs
- 2) Modern Entrepreneurs

3) Classical Entrepreneurs.

**III) According to Area :**

1) Rural Entrepreneur.

2) Urban Entrepreneur

**IV) According to Gender and Age :**

1) Men Entrepreneurs.

2) Women Entrepreneurs.

**V) According to Scale of Operation :**

1) Small - scale Entrepreneurs.

2) Large - scale Entrepreneurs.

**Check Your Progress**

1. Define the following terms
  - a. Spontaneous entrepreneurs
  - b. Motivated entrepreneur
  - c. Induced entrepreneur
  - d. Pure entrepreneurs
  - e. Professional entrepreneur
  - f. Industrial entrepreneur
  - g. Trading Entrepreneur
2. Fill Pure entrepreneurs in the blanks
  - a. According to stages of development types of Entrepreneur are -----.
  - b. Small - scale Entrepreneurs and Large - scale Entrepreneurs are the types according to -----.
  - c. ----- entrepreneur is as good as a craftsman.
  - d. ----- entrepreneurs are only concerned with developing alternative marketing and distribution strategies.
  - e. ----- is the one who is engaged in the agricultural activities.
  - f. ----- is an individual who plans, develop and manages a corporate body.
  - g. ----- are individuals who conceive an idea for a new product or service

---

## 9.4 COMPETENCIES OF ENTREPRENEURS

---

A successful entrepreneur needs to have an all round personality, which comprises of the following elements :

**1) Risk Taker :**

An entrepreneur should have the capability to take moderate risk in critical situation and learn quickly from the failure. It is to be noted that entrepreneur take moderate risks, as compared to gamblers who take extreme risks.

**2) Organizer :**

Entrepreneurs need to be clever at handling people and situations. They not only need to be resourceful but need to be also good at managing and organizing the resources for starting the enterprise and kept it going. Therefore, entrepreneur requires highest level of organizing abilities.

**3) Innovator :**

An entrepreneur must have innovative ideas. The key to entrepreneurship is innovation. It is the capability to come out with new ideas and make them work in a competitive and consumer-oriented environment so an essential quality of an entrepreneur is that he must be innovative.

**4) Technical Knowledge :**

An entrepreneur must have sufficient technical knowledge. An entrepreneur with a high level of administrative ability, human relations, communication skill, creative and technical knowledge stand a much better chance of success. Technical knowledge also implies knowledge about the product, process or technology used in manufacturing.

**5) Energetic :**

An entrepreneur should have the ability to put in long hours of work, for which his energy level must be high, physical and mental fitness plays an important role. This means that there cannot be any compromise on hard work if an entrepreneur has to reach his goals. That is why he has to be perseverant and committed to his goals.

**6) Patience:**

Patience means steadiness, endurance and perseverance in the performance of a task. A good amount of patience is necessary in any type of occupation. Patience does not mean just waiting or tendency to stop working or delaying decisions. Patience means doing the work and then waiting for the result. In other words an entrepreneur should not wait for actions but can certainly wait for result of his efforts.

**7) Decision making skill :**

An entrepreneur should have the ability to take and implement decisions quickly but not hastily. He is required to take minor or major decisions. A successful entrepreneur is one who takes a right decisions at the right time and implements if efficiently and effectively.

**8) Human Relation :**

An entrepreneur must maintain good relations with his customers. He must also maintain good relations with his employees if he is to motivate them to perform their jobs at a high level of efficiency. In order to maintain good human relation he should have emotional stability, personal relations, tact fullness and consideration.

**9) Open - mindedness :**

Open - mindedness means a free and frank approach in accepting one's errors and then making efforts to rectify the same. A successful entrepreneur is open to constructive criticisms. He is willing to learn from his past experience and mistake and moulds himself for better future.

**10) Communication skill :**

An entrepreneur should have the ability to communicate effectively. Good communication means both the sender and the receiver of the message understand each others. He is more likely to succeed if he can communicate effectively with his employees, creditors, suppliers and customers.

**11) Vision and foresight :**

Every entrepreneur needs to be a visionary in order to turn his dreams into realities. They must be able to visualize and



forecast future events and plan accordingly. Besides an entrepreneur is one who can analyse future need and trends and turn them into an advantage.

**12) Motivator :**

A entrepreneur should be a motivator. He has to influence people and make them think in his ways and act accordingly. He motivates his people to act to achieve the end result.

---

## **9.5 ENTREPRENEURSHIP TRAINING AND DEVELOPMENT CENTERS IN INDIA**

---

In order to accelerate the speed of self employment and entrepreneurship development, the government has established various centres or institutes to impart training and development to entrepreneurs. Some of these are as follows :

**1) District Industries Centres (DICs) :**

The focus of attention for industrial development was mainly as large cities and state capital. Therefore, it was felt necessary to provide all the services and facilities to village and small industries under one roof. Accordingly, the DICs were established in 8<sup>th</sup> May, 1978 in order to cater to the needs of small units in rural areas.

The head of the DICs are general managers who are assisted by managers working under them. For every Taluka in the District, industries inspectors are appointed by the government who visit the office of the Panchayat Samiti once in a week. To guide the entrepreneur in order to solve their problems.

**Functions of DIC :**

- ❖ Identification and development of new entrepreneurs.
- ❖ Conducts training programmes.
- ❖ Offer technical advice to new entrepreneurs.
- ❖ Conducts industrial potential surveys.
- ❖ Evaluates the proposals received from entrepreneurs.
- ❖ Assists entrepreneurs in marketing their products.
- ❖ Assists export promotion of products.
- ❖ Undertakes product development for small industries.

**2) Small Industries Development Organization (SIDO) :**

Small Industries Development Organization (SIDO) was established in 1954. It provides training for entrepreneurship. It undertakes entrepreneurship development programmes through

small industries service centers. It also provides support in the areas of credit, marketing technology and infrastructure to small industries. It provides number of facilities to small industries these are as follows :

- ❖ Quality control and testing.
- ❖ Training for entrepreneurship development.
- ❖ Preparation of project and product profiles.
- ❖ Technical and managerial consultancy.
- ❖ Assistance for exports.
- ❖ Pollution and energy audits.
- ❖ Economic and market survey.

### 3) **Entrepreneurship Development Institute of India (EDIT) :**

Entrepreneurship Development Institute of India (EDIT) was established in 1983 at Ahmedabad in order to create the institutional infrastructure for entrepreneurship development. It is sponsored by apex financial institutions, namely the industrial Development Bank of India, the Industrial Finance Corporation of India, the industrial credit and Investment Corporation of India, and State Bank of India. It is committed to entrepreneurship education, training and research. It strives to provide innovative training techniques, competent faculty support, consultancy services, Quality teaching and training material.

### 4) **National Small Industries Corporation (NSIC) :**

National small Industries Corporation (NSIC) was established in February 1955. NSIC is an ISO 9001 : 2000 certified company. It has been working to promote the growth of small scale industries and industry - related small scale services in the country.

The main **functions** of the corporation are -

- ❖ Higher purchase of machinery
- ❖ Marketing.
- ❖ Industrial Estates.
- ❖ Exhibitions.
- ❖ Production cum training.

### 5) **Small Industries Service Institutions (SISIs) :**

The SISIs are the field offices of SIDO. Set up in the early 1950s. These institutes give on the spot technical assistance and guidance to small-scale units to solve their technical problems.

They also advise small units on new and improved techniques of production and in the use of modern machinery and equipment. There is a network of 28 SISIC in all the states to carry out its functions. The following are the services provides by SISIs.

- ❖ Technical advisory services.
- ❖ Management consultancy services.
- ❖ Economic advisory services.
- ❖ Managerial services.
- ❖ Marketing
- ❖ Entrepreneurial Development Programme.

#### **6) National Institute for Entrepreneurship and Small Business Development (NIESBUD) :**

The National Institute for Entrepreneurship and small Business Development (NIESBUD), located at Ahmedabad was set up in 1983. Indian Central Government started an organization called NIESUD with the main motto of co-ordinating activities related to entrepreneurship and small business development. The following are the major activities of the NIESBUD.

- ❖ Developing model syllabus for training.
- ❖ Facilitating and supporting central and state governments.
- ❖ Conducting programmes.
- ❖ Helps other entrepreneurs development.

#### **7) Centre for Entrepreneurship Education and Development (CEED) :**

Centre for Entrepreneurship Education and Development (CEED) ws launched in December, 1995, as an innovation centre that assist governments. Organizations and communities in helping people to achieve their potential through entrepreneurship. The following are the services of CEED.

- ❖ Technical assistance.
- ❖ Entrepreneurship consulting.
- ❖ Entrepreneurship training courses.
- ❖ Micro-finance systems.
- ❖ Resources publications.
- ❖ National Institute of Small Industry Extension Training (NISJET).
- ❖ Federation of Indian chamber of commerce and industry (FICCI).
- ❖ Rural Entrepreneurship Development Institute (REDI).

---

## 9.6 INCENTIVES TO ENTREPRENEURS IN INDIA

---

Entrepreneurs in India are offered a number of incentives in order to boost them to contribute to economic development. The term “incentive” means encouraging productivity. The objective of incentive is to motivate an Entrepreneur to set up a new venture in the larger interest of the nation and the society. Incentives include concessions, subsidies and bounties. Subsidy denotes a lump sum, which is given by the government to an entrepreneur to cover the cost. The term ‘bounty’ denotes financial aid given to an industry to help it to compete with other units in the country or in a foreign market. These incentives push an entrepreneur towards decisive decision and action.

Following is the list of incentives and subsidies offered by the government of India to entrepreneur :

### 9) Incentives in Operation :

- ❖ Interest free loans.
- ❖ Exemption from property tax.
- ❖ Incentives to NRIs.
- ❖ Special incentives to women entrepreneurs.
- ❖ Exemption from income tax.
- ❖ Interest free sales tax loans.
- ❖ Sales tax exemptions.
- ❖ Land and building at concessional rates.
- ❖ Price preference to SSI units.
- ❖ Exemption from stamp duty.
- ❖ Provision of seed capital.
- ❖ Allotment of developed / constructed shed.
- ❖ Allotment of controlled or subsidized raw materials.
- ❖ Concessional water.
- ❖ Special facilities for import of raw materials.
- ❖ Taxation benefits.
- ❖ Excise concessions.

### 10) Subsidies in Operation :

- ❖ Export / import subsidies and bounties.
- ❖ Subsidy for research and development works.
- ❖ Capital investment subsidy.
- ❖ Transport subsidy.
- ❖ Interest subsidy.
- ❖ Subsidy for power generations.
- ❖ Subsidies to artisans and traditional industries including handlooms.

- ❖ Subsidy for buying test equipment.
- ❖ Subsidy for industrial housing.
- ❖ Subsidy / assistance for technical consultancy.
- ❖ Subsidizing the cost of market studies / feasibility studies or reports.
- ❖ Subsidized consultancy services.
- ❖ Subsidy for market studies.
- ❖ Subsidy for quality standards.

---

## 9.7 WOMEN ENTREPRENEUR

---

In India, participation of women as industrial entrepreneur has increased from 70s. Majority of them are engaged in the unorganised sector like agro-based industries, handicrafts, handloom and cottage based industries.

The government of India has defined a women entrepreneur as “an enterprise owned and controlled by a woman having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women”.

---

## 9.8 PROBLEMS FACED BY WOMEN ENTREPRENEURS

---

Women entrepreneurs face a series of problems right from the beginning till the enterprise functions some of the problems faced by women entrepreneurs are as follows :

### 1) Problem of Finance :

Women entrepreneurs always suffer from inadequate financial resources and working capital. They are lacking access to external funds due to absence of tangible security and credit in the market. Women entrepreneurs also face the problem of obtaining working capital for financing day to day operation of their enterprise.

### 2) Marketing Problems :

Since women cannot run around for marketing, distribution and money collection, they have to depend on middle men for the above activities. These middlemen pocket large chunk of profit. They exploit the women entrepreneurs. They also lack skills in pricing and promotion.

**3) Family Responsibilities :**

In India, the involvement of a women in the family leaves little time and energy for business. The success of a married woman depends upon supporting husband and family. There arises a role conflict prevent them from taking prompt decisions in business.

**4) Lack of Education :**

In India literacy among women is very low. Due to lack of education majority of women are unaware of technological development, marketing knowledge, etc. Lack of information and experience creates further problems in setting up and running a business enterprise.

**5) Social Attitude :**

One of the biggest problems women entrepreneurs is the social attitude in which she has to live and work. There is discrimination against women in India despite constitutional equality. Women do not get equal treatment in male-dominated Indian society and male ego puts barriers in their progress. Entrepreneurship has traditionally been seen as a male preserve.

**6) Problem of Raw material :**

Women entrepreneur find it difficult to procure new material and the necessary inputs. The failure of many women co-operatives in 1971 such as those engaged in basket making were mainly due to the inadequate availability of forest based raw materials.

**7) Low Risk Bearing Ability :**

Normally, women entrepreneurs have low risk bearing ability. This is because, women in India lead a protected life. They are less self-dependent as compared to males. Secondly, they have to balance between household life and business work. Therefore, the risk bearing capacity of women gets reduced.

**8) Competition :**

Women entrepreneurs have to face severe competition from organized industries and male entrepreneurs. Despite the fact that women entrepreneurs are good in keeping their service prompt and delivery in time, due to lack of organizational skills compared to

male entrepreneurs women have to face constraints from competition.

**9) Limited mobility :**

The women entrepreneurs have limited mobility as compared to male entrepreneurs. Business women need a good deal of traveling for conferences, meetings, negotiations, etc. However, the attitude towards women is bit reserved in India. For example, a single woman asking for a room in a hotel is still looked upon with suspicion.

**10) Lack of self confidence :**

Women entrepreneurs because of their inherent nature, lack self-confidence which is essentially a motivating factor in running an enterprise successfully. They have to strive hard to strike a balance between managing a family and enterprise. Low level of confidence leads to low level achievement and advancement motivation to engage in business operations and running a business concern.

**11) Problems of Technology :**

The women entrepreneurs face the problems of technology. They often use outdated technology. This is mainly due to lack of funds, and lack of awareness of modern technology. Therefore, the overall performance of women enterprises gets affected.

**12) Limited management skills :**

Management has become a specialized job which only efficient managers perform. Women entrepreneurs are not efficient in managerial functions like planning, organizing, controlling, coordinating, staffing, directing, motivating etc. of an enterprise. Therefore, less and limited managerial ability of women has become a problem for them to run the enterprise successfully. It means women entrepreneurs face the problem of management of an enterprise.

**Check Your Progress**

1. "A successful entrepreneur needs to have an all round personality". Explain.
2. Give the full forms and functions of the following:
  - a. NIESBUD
  - b. CEED

- c. SISIs
  - d. DICs
  - e. NSIC
  - f. EDIT
  - g. SIDO
3. "Women entrepreneurs face a series of problems right from the beginning till the enterprise functions". Explain.

---

## 9.9 PROMOTION OF WOMEN ENTREPRENEURS

---

With a view that women entrepreneurs should come forward in industrial field and become self-sufficient, government and financial institutions have announced many schemes of providing assistance. Some of the important schemes for women entrepreneurs are as follows :

### 1) Entrepreneurship Development Programmes :

To upgrade skills of potential women entrepreneurs, various institutions undertake Entrepreneurship development Programmes (EDPs). The entrepreneurship development programme encourage potential women entrepreneurs to set up small enterprises. Some of the training and development institutins are NIESBUD, SIDO, EDII & NISIET.

### 2) Seed capital scheme :

In order to start own business this scheme is undertaken by the government. Government provides funds @ 10% to unemployed youths and women. The seed capital provided is 10% to 15% of the total cost of the project. The percentage of seed capital is 22.5% for backward class candidates. The women is treated unemployed even if their husbands are doing business or service.

### 3) Training and Extension Services :

The programmes for training and extension services for women entrepreneurs will be organized by IDBI through designated / approved agencies independently and / or in association with other development agencies like. Entrepreneurship Development Institute of India, Technical consultancy Organisations (TCOs), Central / State Social Welfare Boards and KVIC.



**4) Income Generating Scheme :**

The Department of women and child Development implements this scheme. It provides assistance for setting up training - cum - income generating activities for needy women to make them economically independent.

**5) Scheme on Trade Related Entrepreneurship Assistance and Development (TREAD) for women :**

The government of India launched a scheme entitled "Trade Related Entrepreneurship Assistance and Development (TREAD) during the 9<sup>th</sup> plan period. The scheme aims at economic empowerment of women through trade related training information and counseling. This scheme provides for marketing development and financial loans through NGOs. The assistance is provided for Self-employment ventures by women.

**6) District Industrial Centres :**

The concept of District Industrial Centres, was proposed in the 1977 Industrial Policy. The DICs become operational since 1979. the DICs provide special assistance to women entrepreneurs of SSI units in respect of training, research, and marketing assistance.

**7) Mahila Arthik Vikas Mahamandal (MAVIM) :**

The main object of this corporation is the economics and personality development of needy women in state of Maharashtra. This corporation gives necessary training and employment opportunities to enable the women to earn and become self-sufficient. The corporation will work as one of the institution for economic development of women. Every activity of the corporation shall be for making women economically stronger and self-sufficient. The corporation will be always searching for self-employment and group industries opportunities for women. MAVIM will take a lead in organizing institute for women all over Maharashtra state so that a strong organization for women can be created.

**8) Self - Employed Women Association (SEWA) :**

Self-Employed Women Association (SEWA) is an organization of poor, self-employed women workers. It is a trade union registered in 1972. The women in this organization earn a

living through their own labour and self businesses. They do not obtain regular salaried employment with welfare benefits like workers in the organized sector.

The main objective of SEWA is to organize women workers for full employment where by workers can obtain job security, income security, food security and social security. SEWA is both an organization and a movement. It is a combination of three movements labor movement, co-operative movement and women's movement.

---

## 9.10 SUMMARY

---

Entrepreneurs are found in every economic system and in every form of economic activity as well as in other social and cultural activities. They classified as per types of business, use of technology, motivation, growth, stages of development, area, gender, age, scale of operation, etc. A successful entrepreneur need to have an all round personality. The government has set up various centres or institutes to impart training and development to entrepreneurs so as to improve their knowledge, attitude and skills.

In India, participating of women as industrial entrepreneurs has increased from 70s majority of them are engaged in the un-organised sector like agro-based industries, handicrafts, handloom and cottage based industries. Women entrepreneurs face a series of problems right from the beginning to till the enterprise functions. Some of the problems are - problem of finance, lack of education, social attitude, low risk-bearing capacity, limited mobility, etc. It is possible to promote women entrepreneurs in India. With proper governmental and societal support, these women can create sustainable organized and growth - oriented enterprises with a vision.

---

## 9.11 QUESTIONS

---

- 1) Explain the different types of entrepreneurs.
- 2) Discuss the role of entrepreneurship training and development centres in India.
- 3) Write a note on competencies of an entrepreneur.
- 4) Write a note on incentives to entrepreneurs in India.
- 5) What are the problems faced by women entrepreneurs in India.
- 6) Explain the promotion of women entrepreneurs.



## CONCEPT OF SERVICES

### Unit structure :

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Meaning & Definition
- 10.3 Features and Characteristics of Services
- 10.4 Difference between Goods and Services
- 10.5 Classification of Services
- 10.6 Scope of Service
- 10.7 India's Global Trade of Commercial Services
- 10.8 Service Sector in India
- 10.9 Summary
- 10.10 Questions

---

### 10.0 OBJECTIVES

---

After studying the unit the students will be able to:

- Understand the concept of service.
- Know the main features of services.
- Explain the difference between goods and services.
- Understand the scope of services.
- Classify the services.
- Discuss about the importance of service sector in India.

---

### 10.1 INTRODUCTION

---

A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production.

Services are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing about a desired change in – or on behalf of – the recipient of the service.

---

## 10.2 MEANING AND DEFINITION

---

More amusingly, services have been described as “something that may be bought and sold, but which cannot be dropped on your foot.”

### **Definition and Meaning:**

The term services is not limited to personal services like auto servicing, beauty parlors, Medical Services, legal service, Consultancy services etc. On the contrary, it has other connotations according to management gurus. Services have been defined in several ways but there does not exist any universal definition. Some definitions have been mentioned below:

‘Establishments’ primarily engaged to provide various services to individuals, businesses and government establishments, other organizations, hotels and other lodging places, establishments providing personal services as per individual requirement, entertainment services. Educational institutions, membership organizations and other miscellaneous services are included’ **-Saser, Olson and Wyekoffs**

‘Services refer to social efforts which include government to fight five giant evils, want, disease, ignorance, squalor and illness in the society.’ **-Sir William Beveridge**

‘Services can also be defined as an action(s) of organization(s) which maintain and improve the well – being and functioning of people”. **Hasenfield**

‘Services are activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods.’ **-American Marketing Association**

**Philip Kotler and Bloom (1984)** Philip Kotler and Bloom defined service as “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical

product.” This definition more or less follows the earlier ones. The focus was given to the absence of ownership as a special feature of services, which has significant business implications.

**Christian Gronroos (1990)** According to Gronroos “a Service is an activity or series of activities of more or less intangible nature that normally, not necessarily take place in interactions between the customer and service employees and / or physical resources or goods and / or systems of the services provider, which are provided as solutions to customer problems.”

These definitions make it clear that services are activities, benefits or satisfactions given to the individual and the society in a larger perspective. The applications of all these definitions apply to the sale of products to consumers, which may be tangible or intangible in nature.

---

### **10.3 FEATURES AND CHARACTERISTICS OF SERVICES**

---

For services marketing, the distinguishing features or characteristics of services are important in the design of an appropriate marketing mix. The core characteristics are defined below:

#### **1. Intangibility:**

Even though many services include tangible aspects such as an airline seat, a classroom, a restaurant table and food, the service performance leading to a customer’s experience is intangible. The benefits of buying a service are from the nature of the performance. In comparison to physical goods, services cannot be stored or readily displayed. They are difficult to communicate, cannot be protected through patents and prices are difficult to set. The intangible nature of services often means that customers have difficulty in evaluating and comparing services. As a result they may use price as a basis for assessing quality and they may place greater emphasis on personal information sources. All this leads to consumers having higher levels of perceived risk.

#### **2. Inseparability:**

Because services are processes, deeds or acts, customers are involved in the production of a service. Also other consumers may be involved in the production environment and centralized mass production is difficult, particularly if the service is more

complex or customized. For most services both the buyer and the seller need to be at the same place at the same time for the service to occur. Because centralized mass production is difficult, consumers often have to travel to the point of service production. For example, it is hard to imagine a haircut without both customer and hairdresser. For a bank clerk or hairdresser the manner in which the service is produced is an essential element of the total promotion of the service.

Thus the behavior and attitude of other consumers may have an impact upon the nature and experience of a service. For example, a loud or over – demanding customer can deflect the service staff’s attention and impact the quality of service delivery to other consumers. In this circumstance it may be difficult for the service providers to control the quality and consistency of the service, unless the staff has been trained to deal with such situations in a precise and effective manner.

### **3. Perishability:**

Given the intangible nature of services, they cannot be inventoried, stored warehoused or re – used. A lawyer cannot store parts of his or her knowledge for others to use while the lawyer is in court or on holiday. The hairdresser cannot store haircuts so that when a rush occurs on a Sunday morning all customers can have their hair cut at once. Thus the availability of enough opportunities for service delivery at relevant times is important for service managers.

### **4. Customer participation:**

Service production is not a one – sided activity. Customers are co – producers of service. The production quality of the service greatly depends upon the ability, skill and performance of the employees as well as the ability and performance of the customer. In the service interaction, although the employees and the customers do not play an equal part in production, the role of the customer cannot be overemphasized. Service firms should make the customers aware of the service package and the production process through proper communication media. They should take necessary steps to train customers, if necessary, to provide quality experience of the service. Perfection from the organization’s side in service production cannot ensure positive results unless the consumers are involved with the process.

Therefore, specific and special orientation to different groups of customers is necessary.

#### **5. No Ownership:**

Service consumers will have experiences but not ownership. Since the services are intangible and perishable, the question of ownership doesn't arise. But this characteristic will add to the problems of the service marketer. Convincing the customer with tangible goods on which he will have ownership through transfer of title is much easier than selling an experience where nothing remains after consumption, except the memory of it. Customer dissonance would be higher in the case of services than of goods.

#### **6. Variability or Non – Standardization or Heterogeneity.**

The service industry suffers from a curious characteristic – Variability – that greatly affects its offer. The service offer is never consistent in its quality and delivery. The same service product is never delivered in the same way to the same customer across two different time periods; a customer perceives the service transaction as having a different quality when delivered from two different places – or even on two different occasions at the same service outlet. By its very nature, it can never be an identical, repeatable experience every time – only an approximation thereof. This is so unlike goods, where the customer is convinced that the product that he buys is the same- irrespective of where he has purchased it and whom he has purchased from. The Dove bath soap that Mrs. Roy buys from her retailer in Mumbai would be the same if she bought it in Chennai during her business trip or in Kodaikanal, Tamil Nadu while holidaying. Thus, while there is homogeneity or some kind of standardization in the product features of goods, a service offer lacks them.

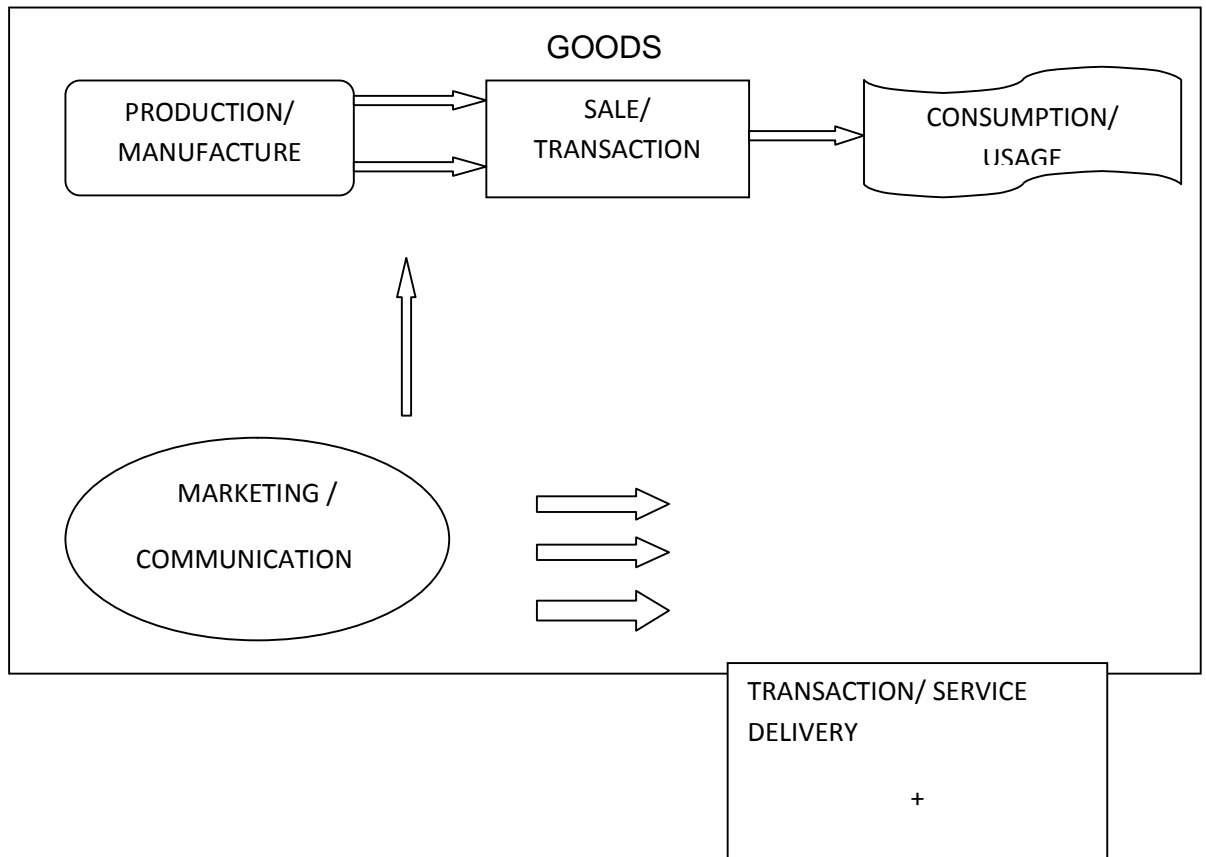
---

### **10.4 DIFFERENCE BETWEEN GOODS AND SERVICES:**

---

Goods are defined as those which can be physically experienced, verified and treated or exchanged with or without making profits. This includes necessities like food, clothes, and books, other domestic and industrial items which can be stored and are tangible in nature.

Services, on the other hand, are activities, benefits or satisfactions which are available to consumers through sale. For example, hotel business, personal care, legal or medical services, banking and insurance services, etc. cannot be stored at any place and one has to hire someone else to perform the services. The result is a positive social existence.




---

## 10.5 CLASSIFICATION OF SERVICES

---

Classification of services helps service managers to cross their industry boundaries and gain experience from other service industries which share common problems and have similar characteristics. Solutions to problems and breakthroughs in similar service industries can then be applied by managers to their own service businesses.

At the simplest level we can categorize services by exclusion: Services are that part of the economy left over after the exclusion of agriculture, manufacturing and mining.



A description of services typically includes the following industry sectors:

- Retailing and wholesaling.
- Transportation, distribution and storage.
- Banking and insurance
- Real Estate
- Communications and information services.
- Public utilities, government and defense.
- Health Care.
- Business, professional and personal services.
- Recreational and hospitality services.
- Education.
- Other non – profit organizations.

However, such listings are not very helpful in identifying the features relevant to the marketing of services.

Many other approaches have been used to classify services. Classification schemes use a wide range of factors such as:

- Type of service.
- Type of seller.
- Type of purchaser
- Demand characteristics.
- Rented v/s Owned services.
- Degree of intangibility
- Buying motives.
- Equipment based versus people based.
- Amount of customer contact.
- Service delivery requirements
- Degree of customization.
- Degree of labour intensity.

### **Check Your Progress**

#### **1. State whether following statement are True of False.**

- a. A service is any act or performance that one party can offer to another that is essentially tangible and does not result in the ownership of anything.
- b. It is very easy to make each service experience identical.

- c. Service provider always visit the customers site to provide services.
- d. Service deliverers involve the pure service rendered by the professional staff like doctors in hospitals, teachers in academics.
- e. Services can be produced in anticipation of demand.
- f. Service analysts are the people who are entrusted with the task of concurrent review and evaluation of services in the organization
- g. Services can be touched as they are intangible.
- h. The potential service product is the lowest level of a service product.

## 2. FILL IN THE BLANKS

- a. \_\_\_\_\_ is a type of economic activity that is intangible, is not stored and \_\_\_\_\_ does not result in ownership.
- b. You cannot own and store a service like you can \_\_\_\_\_.
- c. Services are generally \_\_\_\_\_.
- d. Services cannot be separated from the \_\_\_\_\_.
- e. The production and consumption of services may take place at \_\_\_\_\_.
- f. \_\_\_\_\_ \_\_\_\_\_ is the element of the service mix which allows the \_\_\_\_\_ consumer again to make judgments on the organization.
- g. \_\_\_\_\_ \_\_\_\_\_ are the personnel who provide the supporting \_\_\_\_\_ managerial services like administration. ,
- h. \_\_\_\_\_ \_\_\_\_\_ are the personnel employed in manual jobs in the \_\_\_\_\_ service organizations such as nurses in hospitals.
- i. Services may be classified on the \_\_\_\_\_ basis.
- j. Service sector provides revenue to Govt. by way of \_\_\_\_\_.

---

## 10.6 SCOPE OF SERVICES

---

When discussing strategies to market manufactured goods, marketers usually address four basic strategic elements; product, price, place (or distribution), and promotion (or communication). Collectively, these categories are often referred to as the 4 Ps of the marketing mix. However, the distinctive nature of service performances, especially such aspects as customer involvement in production and the importance of the time factor, requires that other strategic elements be included. To capture the nature of this challenge, we will be using the 8 Ps model of integrated service management, which highlights the strategic decision variables facing the manager of a service organization.

### **Product Elements:**

Managers must select the features of both the core product (either a good or service) and the bundle of supplementary service elements surrounding it, with reference to the benefits desired by customers and how well competing products perform. In short, they must be attentive to all aspects of the service performance that have the potential to create value for customers.

### **Place, Cyberspace, and Time:**

Delivering product elements to customers involves decisions on the place and time of delivery as well as on the methods and channels employed. Delivery may involve physical or electronic distribution channels (or both), depending on the nature of the service being provided. Use of messaging services and the Internet allows information – based services to be delivered in cyberspace for retrieval by telephone or computer wherever and whenever it suits the customer. Firms may deliver service directly to customers or through intermediary organizations, such as retail outlets that receive a fee or percentage of the selling price to perform certain tasks associated with sales, service and customer contact. Speed and convenience of place and time for the customer are becoming important determinants in the service delivery strategy.

### **Process:**

Creating and delivering product elements to customers requires the design and implementation of effective processes that describe the methods and sequence of actions in which service operating systems work. Badly designed processes are likely to

annoy customers when the latter experience slow, bureaucratic, and ineffective service delivery. Similarly, poor processes make it difficult for frontline staff to do their jobs well, result in low productivity, and increase the likelihood of service failures.

**Productivity and Quality:**

These elements, often treated separately, should be treated strategically as interrelated. No service firm can afford to address either element in isolation. Productivity relates to how inputs are transformed into outputs that are valued by the customer, whereas quality refers to the degree to which a service satisfies customers by meeting their needs, wants and expectations. Improving productivity is essential to keep costs under control, but managers must beware of making inappropriate cuts in service levels that are resented by customers (and perhaps by employees, too). Service quality as defined by customers is essential for product differentiation and building customer loyalty. However, investing in quality improvement without understating the tradeoff between incremental costs and incremental revenues may hurt profitability.

**People:**

Many services depend on direct, personal interaction between customers and a firm's employees (such as getting a haircut or eating at a restaurant). The nature of these interactions strongly influences the customer's perceptions of service quality. Customers will often judge the quality of the service they receive based on their assessment of the people providing that service. They may also make judgments about other customers they encounter. Successful service firms devote significant effort to recruiting, training and motivating their personnel. Firms often seek to manage customer behavior too.

**Promotion and education:**

No marketing programme can succeed without effective communications; this component plays three vital roles: providing needed information and advice, persuading target customers of the merits of a specific product, and encouraging them to take action at specific times. In services marketing, much communication is educational in nature, especially for new customers. Companies may need to teach these customers about the benefits of the service, as well as where and when to obtain it, and provide instructions on how to participate in service processes.

Communications can be delivered by individuals, such as salespeople and trainers, or through such media as TV, radio, newspapers, magazines, poster, brochures, and Web sites. Promotional activities may serve to marshal arguments in favor of selecting a particular brand or use incentives to catch customers' attention and motivate them to act.

**Physical Evidence:**

The appearance of buildings, landscaping, vehicles, interior furnishing, equipment, staff members, printed materials, and other visible clues all provide tangible evidence of a firm's service quality. Service firms need to manage physical evidence carefully, because it can have a profound impact on customers' impressions. In services with few tangible elements, such as insurance, advertising is often employed to create meaningful symbols.

**Price and other User Costs:**

This component addresses management of the expenditures and other outlays incurred by customers in obtaining benefits from the service product. Responsibilities are not limited to the traditional pricing tasks of establishing the selling price to customers, they also include seeking to minimize other burdens that customers may bear in purchasing and using a service, including time, mental and physical effort, and unpleasant sensory experiences, such as noises and smells.

**Services Sector contribution to the Indian Economy**

The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP for it accounted for around 53.8% in 2005. The contribution of the Services Sector in Indian GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further the Indian Services Sector's share in the country's GDP has increased from 43.695% in 1990-1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP. India's share in worldwide service exports is expected to almost triple itself from current the 2.3 % to 6 % by 2012, if the present annual growth rate of 28% has been maintained. India's global exports of commercial services during the last 10 years can be seen from the table below –

---

## 10.7 INDIA'S GLOBAL TRADE OF COMMERCIAL SERVICES

---

*US \$ (Billion)*

Years	Exports
1997	8.9
1998	11.0
1999	14.0
2000	16.0
2001	16.8
2002	19.1
2003	23.1
2004	38.5
2005	68.0
2006	73.0
2007	86.0
2008	106.0

**Source: WTO**

Strong and consistent emphasis on self-reliance in its economic development programmes over the years by the Government of India has enabled India to build up a huge and versatile cadre of professionals with expertise and skills across a vast and wide-ranging spectrum of disciplines like Health Care, Tourism, Education, Engineering, Communications, Transportation, Information Technology, Banking, Finance, Management and a host of others. A sizeable part of this workforce of professionals makes up the country's growing consultancy sector which is offering its accumulated experience and expertise at home and abroad.

---

## 10.8 SERVICES SECTOR IN INDIA

---

India ranks fifteenth in the services output and it provides employment to around 23% of the total workforce in the country. The various sectors under the Services Sector in India are

construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate.

### **The Reasons for the growth of the Services Sector contribution to the Indian GDP**

The contribution of the Services Sector has increased very rapidly in the Indian GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has ensured sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which, in its turn has made the sector contribute more to the Indian GDP.

### **The Services Sector in India must be given a boost**

The Services Sector Growth Rate in Indian GDP registered a significant growth over the past few years. The Indian government must take steps in order to ensure that the Services Sector Growth Rate in Indian GDP continues to rise or this will ensure the growth and prosperity of the country's economy.

India's economy is the eleventh largest in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). The country's per capita GDP (PPP) was \$3,176 (IMF, 127th) in 2009. Following strong economic reforms from the socialist inspired economy of a post-independence Indian nation, the country began to develop a fast-paced economic growth, as free market principles were initiated in 1990 for international competition and foreign investment. Economists predict that by 2020, India will be among the leading economies of the world.

India was under social democratic-based policies from 1947 to 1991. The economy was characterized by extensive regulation, protectionism, public ownership, pervasive corruption and slow growth. Since 1991, continuing economic liberalization has moved the country toward a market-based economy. A revival of economic reforms and better economic policy in the first decade of the 21st century accelerated India's economic growth rate. In recent years, Indian cities have continued to liberalize business regulations. By

2008, India had established itself as the world's second-fastest growing major economy. However, as a result of the financial crisis of 2007–2010, coupled with a poor monsoon, India's gross domestic product (GDP) growth rate significantly slowed to 6.7 percent in 2008-09, but subsequently recovered to 7.2% in 2009-10, while the fiscal deficit rose from 5.9% to a high 6.5% during the same period. India ranks 51<sup>st</sup> in the Global Competitiveness Report. The country has major stock and commodities exchanges like BSE, NSE, USE and a few other exchanges as well.

India's large service industry accounts for 57.2% of the country's GDP while the industrial and agricultural sector contribute 28% and 14.6% respectively. Agriculture is the predominant occupation in India, accounting for about 52% of employment. The service sector makes up a further 34%, and industrial sector around 14%. The labour force totals half a billion workers. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, potatoes, cattle, water buffalo, sheep, goats, poultry and fish. Major industries include telecommunications, textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, information technology enabled services and pharmaceuticals.

Previously a closed economy, India's trade has grown fast. India currently accounts for 1.5% of world trade as of 2007 according to the WTO. According to the World Trade Statistics of the WTO in 2006, India's total merchandise trade (counting exports and imports) was valued at \$294 billion in 2006 and India's services trade inclusive of export and import was \$143 billion. Thus, India's global economic engagement in 2006 covering both merchandise and services trade was of the order of \$437 billion, up by a record 72% from a level of \$253 billion in 2004. India's trade has reached a still relatively moderate share of 24% of GDP in 2006, up from 6% in 1985.

---

## **10.9 SUMMARY**

---

The Service sector is the lifeline for the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. In alignment with the global trends, the Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times.



---

## 10.10 QUESTIONS

---

1. Define service and explain its characteristics.
2. How does service differ from product? Make a comparative analysis.
3. Explain the various basis of classification of services.
4. What is the scope of services?
5. Explain the importance of Services.
6. Explain the importance of Services in Indian context.
7. Write short notes:
  - a. Scope of services
  - b. Difference between product and services



## MARKETING MIX

### Unit Structure :

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Meaning and Types of Service Expectations
- 11.3 Services and the Marketing Mix
- 11.4 Marketing Mix Elements
- 11.5 Summary
- 11.6 Questions

---

### 11.0 OBJECTIVES

---

After studying the unit students will be able to:

- Understand the concept Customer Expectations of services.
- Know the meaning and types of service expectations.
- Explain the elements of marketing mix.

---

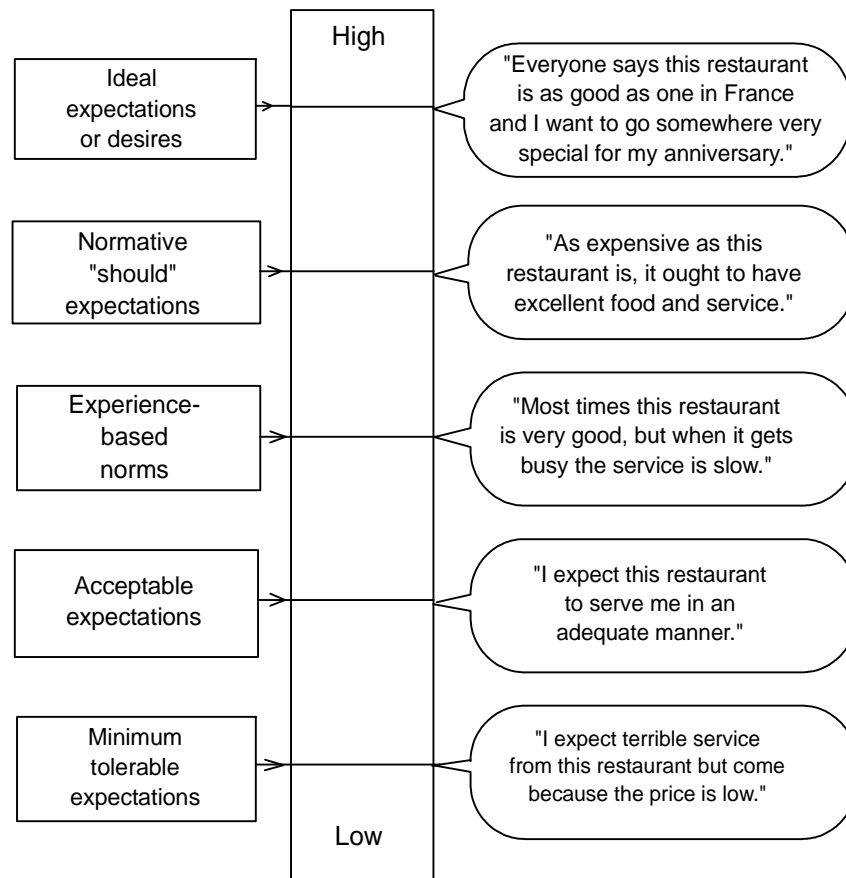
### 11.1 INTRODUCTION

---

Customer expectations are beliefs about service delivery that function as standards or reference points against which performance is judged. Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services marketers. Knowing what the customer expects is the first and possibly most critical step in delivering quality service. Being wrong about what customers want can mean losing a customer's business when another company hits the target exactly. Being wrong can also mean expending money, time, and other resources on things that don't count to the customer. Being wrong can even mean not surviving in a fiercely competitive market.

Among the aspects of expectations that need to be explored and understood for successful services marketing are the following: What types of expectation standards do customers hold about services? What factors most influence the formation of these expectations? What role do these factors play in changing expectations? How can a service company meet or exceed customer expectations?

**FIGURE - Possible Levels of Customer Expectations**




---

## 11.2 MEANING AND TYPES OF SERVICE EXPECTATIONS

---

To say that expectations are reference points against which service delivery is compared is only a beginning. The level of expectation can vary widely depending on the reference point the customer holds. Although almost everyone has an intuitive sense of what expectations are, service marketers need a far more thorough and clear definition of expectations in order to comprehend, measure, and manage them.

Let's imagine that you are planning to go to a restaurant. The Figure shown above, a continuum along which different possible types of service expectations can be arrayed from low to high. On the left of the continuum are different types or levels of expectations, ranging from high (top) to low (bottom). At each point we give a name to the type of expectation and illustrate what it might mean in terms of a restaurant you are considering. Note how important the expectation you held will be to your eventual assessment of the restaurant's performance. Suppose you went into the restaurant for which you held the minimum tolerable expectation, paid very little money, and were served immediately with good food. Next suppose that you went to a restaurant for which you had the highest (ideal) expectations, paid a lot of money, and were served good (but not fantastic) food. Which restaurant experience would you judge to be best? The answer is likely to depend a great deal on the reference point that you brought to the experience.

Because the idea of customer expectations is so critical to evaluation of service.

---

### **11.3 SERVICES AND THE MARKETING MIX**

---

The increased attention to the application of marketing in the service sector has brought into question what the key components or elements of a marketing mix for service are or what they should be. If the elements chosen to develop a marketing mix for a service are not comprehensive, it is likely that a service quality gap will occur between the market requirements and the firm's marketing offer.

It is therefore appropriate to reconsider the traditional marketing mix in the context of service. The 4Ps of the marketing mix are derived from a much longer list developed from the Harvard Business School in the 1960s. The original list consisted of twelve elements, including product plan, pricing, branding, channels of distribution, personal selling, advertising, promotions, packaging, display, servicing, physical handling, fact finding and analysis. Over time, the marketing mix concept gained considerable acceptance and the 4Ps were adopted to capture the key elements.

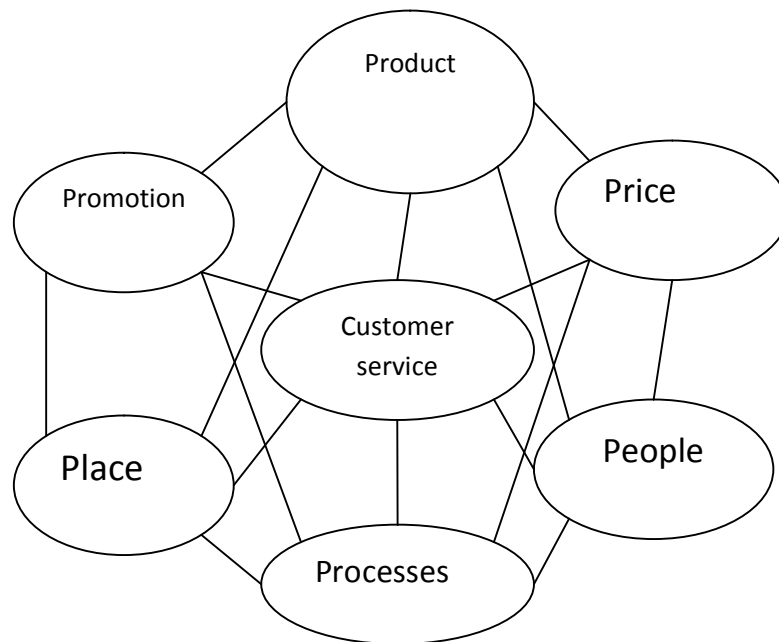
However, it has been argued that simplifying the original list offers a seductive sense of simplicity which may lead to neglect of some key relevant elements. As a result many authors have added

to the basic 4Ps framework. Lists of additional marketing mix elements have been added which extend the 4Ps framework to five, seven and eleven key elements which should be considered in the marketing mix. Several authors have argued that a different marketing mix is needed for services. Some writers have suggested specific marketing mix elements for service industries like banking and airlines, whilst others have suggested different elements for professional service.

Our view of the Marketing mix accords closely with that of a colleague, Simon Majaro, who argues that three factors determine whether or not a specific element should be included in a firm's marketing mix. These include the following.

- **The level of expenditure** on a given ingredient in the marketing mix, i.e. how important that element is in the firm's overall expenditure.
- **The perceived level of elasticity** in customer responsiveness; for example, in the case of a monopoly or government body, prices may be set externally and thus need not be included in the marketing mix.
- **Allocation of responsibilities** is based on the belief that a well defined and well structured marketing mix needs a clear cut allocation of responsibilities.

We consider the 4Ps model unnecessarily restrictive; an expanded marketing mix is more appropriate. At the same time we should recognize the diversity of the services economy, which includes both services firms as well as manufacturing firms to whom services are important. We advocate the expanded marketing mix shown in the figure below. This reflects the traditional elements of the marketing mix – product, price, promotion and place, plus three additional elements – people, processes and the provision of customer service. We regard this as a framework particularly appropriate for service, but also relevant for non – service industries, given the importance of the service dimension in most manufacturing companies.




---

#### 11.4 MARKETING MIX ELEMENTS:

---

The marketing mix concept is a well established tool used as a structure by marketers. It consists of the various elements of a marketing programme which need to be considered in order to successfully implement the marketing strategy and positioning in the company's markets. The discipline of considering the integration of the elements of the marketing mix, as well as the individual various elements, helps to ensure that there is consistency within the marketing strategy as a whole.

Traditionally, most marketers have considered four basic components or elements of a marketing mix; product, price, promotion and place, however, within services marketing, as explained earlier, it is useful to extend this list to include other key ingredients. A consideration of each element of marketing mix and how they fit together forms the basis of marketing programme.

Having outlined the element of marketing mix for services we will now consider each of them in more detail. The underlying concept in developing each of these elements is to use them to support each other, to reinforce the positioning of the product and to deliver appropriate service quality to achieve competitive advantage.

## Product

In discussing products and services there is often confusion over terminology, so it may be useful to repeat a point made earlier. A product is an overall concept of objects or processes which provide some value to the consumer; goods and services are subcategories which describe two types of products. Thus the term 'product' is frequently used in a broad sense to denote either a manufactured good or product, and a service.

In fact customers are not buying goods or services- they are really buying specific benefits from the total offering. We term this total offering to customers as 'the offer'; it represents those benefits that customers derive from the purchase of goods or services. Most services (or goods) are not pure; thus the use of the term 'the offer' or 'the offering' can avoid some of the problems of semantics. In practice, in different service industries, the terms, product, service product are all used. Even within the same service organization, such terms may be used interchangeably.

- The core or generic product: This consists of the basic service product, e.g. a bed in a hotel room for the night.
- The expected product: This consists of the generic product together with the minimal purchase conditions which need to be met. When customers buy an airline ticket they expect, in addition to a seat on the aeroplane, a range of additional elements, including comfort clean lavatories and arrival on time.
- The augmented product: This is the area which enables one product to be differentiated from another. For example, IBM has a reputation for excellent customer service although they may not have the most technologically advanced core product. They differentiate by adding value to their core product in terms of reliability and responsiveness.
- The potential product: This consists of all potential added features and benefits that are or may be of utility to buyers. It includes the potential for redefinition of the product to take advantage of new users and the extension of existing applications. This could involve building in switching costs which can make it difficult or expensive for customers to switch from their existing service provider.

Thus a service product is a complex set of value satisfactions. People buy services to solve problems and they attach value to them in proportion to the perceived ability of the service to do this.

### **Price**

Price plays a pivotal part in the marketing mix of a service because pricing attracts revenues to the business. Pricing decisions are significant in determining the value for the customer and play a role in the building of an image for the service. Price also gives a perception of quality. Pricing decisions are often made by adding a percentage mark up on cost. This approach, however, loses the benefits which a pricing strategy can offer within the marketing strategy. Service firms, at least within deregulated markets need to use pricing more strategically to help gain competitive advantage.

Pricing decisions have an impact on all parts on all parts of the supply / marketing channels. Suppliers, sales people, distributors, competitors and customers, all are affected by the pricing system. Further pricing affects buyers' perceptions of the service offered. For example, a hotel chain servicing the tourist package holiday market will offer cheap prices and its customers will have a lower expectation of service quality a for a premium priced hotel.

Pricing decisions for services are particularly important given the intangible nature of the product. The price charged for a service signals to customers the quality of the service that they are likely to receive. Thus, a restaurant that places its menu on its window for prospective customers to view is giving customers information about what they can expect in terms of quality of food and service levels as well as cost.

### **Place**

The location and channels used to supply services to target customers are two key decision areas. Location and channels decisions involve considering how to deliver the service to the customer and where this should take place. This has particular relevance to services as very often they cannot be stored and will be produced and consumed at the same point. 'Place' also has importance as the environment in which the service is delivered, and how it is delivered are part of the perceived value and benefits of the service.



Service marketers should seek to develop appropriate service delivery approaches that yield competitive advantage for their firms.

- Location is concerned with the decisions a firm makes about where its operations and staff are situated. The importance of location for a service depends upon the type and degree of interaction involved.

When the customer has to go to the service provider, site location becomes very important. For a service business such as a restaurant, location may be one of the main reasons for patronage. In this type of interaction, service providers seeking growth can consider offering their services at more than one location.

- Sellers' and buyers' agents or brokers, e.g. stockbrokers and affinity groups.
- Franchises and contracted service deliverers, e.g. fast food, car service and dry cleaning.

The choice of both distribution and channels for services largely depends on the particular requirements of the market and the nature of the service itself. Technology has in some instances, changed the advantage to be gained by proximity of a service to the customer market. For example, electronic banking has removed some of the need for banks to be located on high streets and also the requirement for long opening hours to deliver their services. Many banking transactions can now be performed easily without personal contact. Technology has allowed changes in the location decision in many service industries, but the decision on where and how to distribute services is often still dependent on the needs of the customers.

Some services are required in clusters of associated services and products and so proximity to other service offerings can play a major role. This is particularly the case in services for businesses where provision of a fast and integrated service requires not only proximity to the client but also access to other business services. This applies to some communications and business agencies.

Service delivery channels are often the service providers. This highlights the importance of the selection of the appropriate delivery channel. If a franchised delivery system is chosen, then the choice of franchisee is of great importance to ensure the quality of

the service. Stringent requirements are therefore often applied to franchisees to maintain the standard of service. Training of service deliverers is thus vital to provide consistency of quality. This poses a particular problem to those services where service providers may have relatively low qualifications and may not remain in one job for long (e.g. the hotel and catering trade.)

### **Promotion**

The promotion element of the services marketing mix forms a vital role in helping to communicate the positioning of the service to customers and other key relationship markets. Promotion adds significance to services; it can also add tangibility and help the customer make a better evaluation of the service offer.

The promotion of services encompasses a number of major areas. These areas known as the communications mix or promotions mix, include the following elements:

- Advertising
- Personal selling
- Sales promotion
- Public relations
- Word of mouth.
- Direct mail.

The choice of the communications mix for service involves decisions on such issues as whether to advertise, use personal selling or numerate publicity through greater public awareness by such means as through editorials, publication and press activity. The choice of medium is determined by decisions on how to create the most favorable awareness amongst the target audience.

---

## **11.5 SUMMARY**

---

Marketing is a process of perceiving, understanding, stimulating and satisfying the needs of specially selected target markets by channeling an organization's resources to meet those needs. Marketing is thus a process of matching an organization's resources to the needs of the market. Marketing is concerned with the dynamic interrelationships between a company's products and services, the consumers' wants and needs, and the activities of competitors. The marketing mix concept is a well established tool used as a structure by marketers. It consists of the various elements of a marketing programme which need to be considered

in order to successfully implement the marketing strategy and positioning in the company's markets. The discipline of considering the integration of the elements of the marketing mix, as well as the individual various elements, helps to ensure that there is consistency within the marketing strategy as a whole.

---

### 11.6 QUESTIONS:

---

1. Explain the various consumer expectations about services.
2. Explain briefly the finding of Accentor on importance of Service in determining consumer's buying decision.
3. Explain the marketing mix for services.
4. Write short note on:
  - a) Place element in service
  - b) Physical element in services
  - c) Promotion of services
  - d) Pricing of services
  - e) Consumer expectation of services
5. **State whether following statement are True or False.**
  - a. Service quality is not a reason why consumers leave a provider or choose a new one.
  - b. To create a better customer experience tangible elements are also delivered with the service.
  - c. The corporate image of service provider does not influence pricing.
  - d. Promotion element does not have any impact on customer loyalty.
  - e. Place and time does not play any importance in service mix.
6. **FILL IN THE BLANKS**
  - a. A \_\_\_\_\_ approach enables companies to understand their customers more deeply.
  - b. The product in service marketing is \_\_\_\_\_ in nature.
  - c. In India service sector contribute about \_\_\_\_\_% of GDP.
  - d. \_\_\_\_\_ is the primary level of service product.
  - e. In India, the service sectors contribute about \_\_\_\_\_% of total employment in India.



## SERVICES STRATEGIES

### Unit Structure :

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Principles of Service Marketing
- 12.3 Service Development Life Cycle
- 12.4 Demand and Supply Management in Services
- 12.5 Understanding Capacity Constraints
- 12.6 Opportunities in the Service Sector
- 12.7 Challenges in the Service Sector
- 12.8 Questions

---

### 12.0 OBJECTIVES

---

After studying the unit the students will be able to:

- Know the principles of service marketing.
- Understand service development cycle
- Explain the demand and supply management in service sector.
- Discuss about the opportunities in service sector
- Know the challenges to service sector.

---

### 12.1 INTRODUCTION

---

Service industries are facing the challenge of managing long term customer interactions at multiples service touch point. Through marketing research the challenge can be accepted by the service industries.

Marketing research is a systematic approach to solve marketing problems. The American Marketing Association define marketing research "The systematic gathering, recording and

analyzing of data about problems relating to marketing of goods and services.”

---

## 12.2 PRINCIPLES OF SERVICE MARKETING

---

When we observe the process of selling a service we realize how difficult it is to sell a service and how scary it is to buy one. Apart from the differences in characteristics between products and sales another difference is in the after sale experience.

**1. Focus on the service itself.** The service companies spend too much on promotion or spreading the word and do not concentrate on their primary focus, the services. The importance of promotion shouldn't be ignored but most of the times it is either done too quickly or the effort on promotion exceeds the attempts made to improve the service. If the focus is primarily on constant improvement on service then promotion a marketing efforts are cheaper, easier and effective.

**2. Facing the reality.** To assume that our service is bad rather than good drives us to continually improve our services. Most of the service industries are not aware of their service problems or they are under the illusion that their service quality is good.

Typically most of the small industries and mid-sized ones are finding it difficult to maintain the adequate level off service.

**3. Selling a service is like selling a relationship.** When we are selling a service we are not only selling our expertise. This is so as the client does not always have the expertise to evaluate our expertise. Instead we should focus on selling a-relationship because that is the only way it works. When we are selling a service we are selling a relationship.

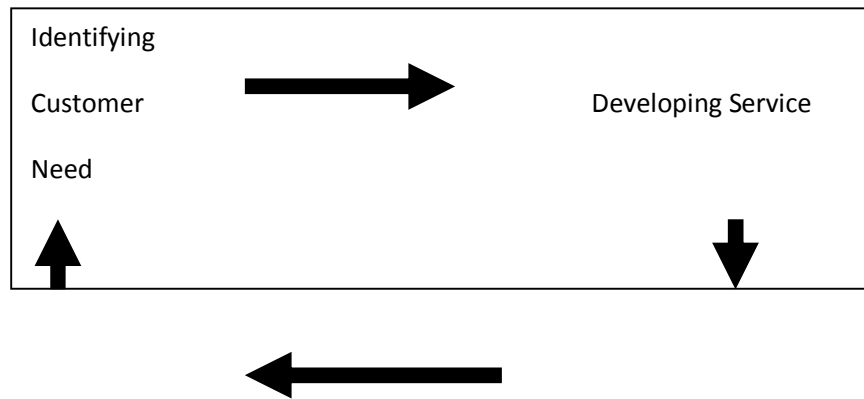
**4. Focus on Innovation.** The service industry not only needs to deliver what the customer needs or wants but also what he would love to have. Very few service industries reach the stage of innovation. In this stage the industry creates something which its customers have not thought could even exist.

---

## 12.3 SERVICE DEVELOPMENT LIFE CYCLE

---

**The diagram identifies the four phases of the service Development Lifecycle:**



### **Service Development Lifecycle**

#### **1. Identifying customer needs:**

The starting point is the market research phase of Identifying the Customer Pain Point. During this phase the customer's pain points and requirements are captured.

#### **2. Developing service**

The next phase, developing the Service, takes these needs and tries to convert them into a set of service components that form the heart and soul of the customer engagement.

#### **3. Marketing and selling**

The third phase, Marketing and Selling, develops the customer-facing portfolio used to communicate and sell the service product to a customer. Once the service is purchased by a customer,

#### **4. Delivering and supporting**

The fourth phase, Delivering and Supporting, is used to implement the service. Insight gained during this implementation phase is used as input into the identification of new customer pain points, leading to the development of additional services.

---

## **12.4 DEMAND AND SUPPLY MANAGEMENT IN SERVICES**

---

The fundamental issue underlying supply and demand management in services is the lack of inventory capability. Unlike manufacturing firms, service firms cannot build up inventories during periods of slow demand to use later when demand increases. This lack of inventory capability is due to the Perishability of services and their simultaneous production and

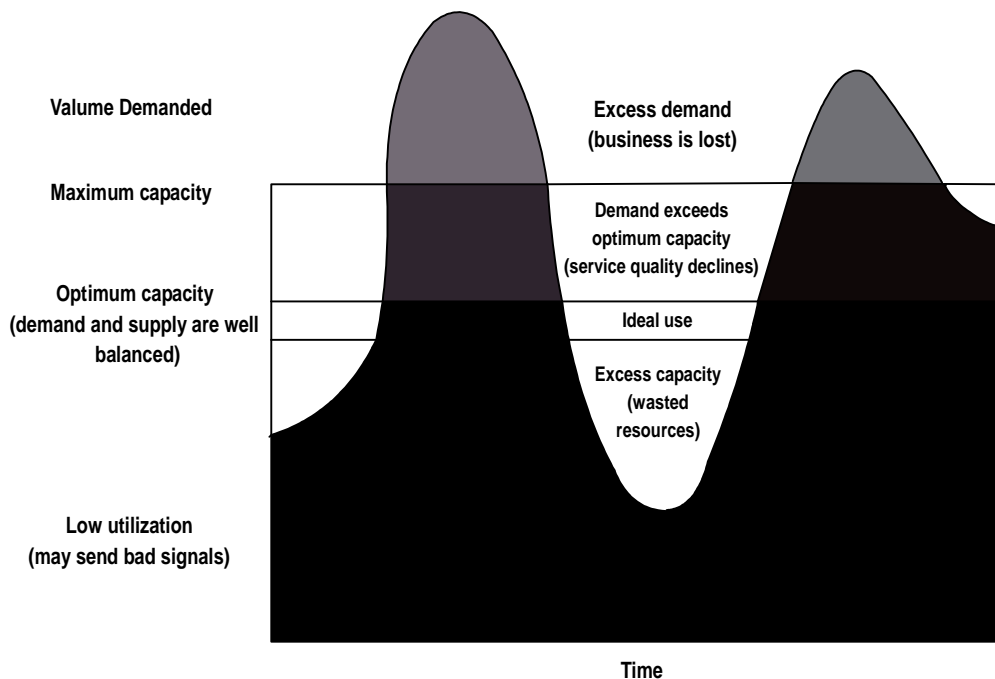
consumption. An airline seat that is not sold on a given flight cannot be resold the following day: the productive capacity of that seat has perished. Similarly, an hour of a lawyer's billable time cannot be saved from one day to the next. Services also cannot be transported from one place to another or transferred from person to person. Thus the Ritz-Carlton's services cannot be moved to an alternative location in the summer months—say, to the Pacific Coast where summers are ideal for tourists and demand for hotel rooms is high.

The lack of inventory capability combined with fluctuating demand leads to a variety of potential outcomes, as illustrated in the Figure below. The horizontal lines in the Figure below indicate service capacity, and the curved line indicates customer demand for the service. In many services, capacity is fixed; thus capacity can be designated by a flat horizontal line over a certain time period. Demand for service frequently fluctuates, however, as indicated by the curved line. The topmost horizontal line in the Figure below represents maximum capacity. For example, in our opening vignette, the horizontal line would represent the Ritz-Carlton's 281 rooms, or it could represent the approximately 70,000 seats in a large university football stadium. The rooms and the seats remain constant while demand for them fluctuates. The band between the second and third horizontal lines represents optimum capacity—the best use of the capacity from the perspective of both customers and the company (optimal versus maximal capacity utilization is discussed later in the chapter). The areas in the middle of the Figure below are labeled to represent four basic scenarios that can result from different combinations of capacity and demand:

1. **Excess demand.** The level of demand exceeds maximum capacity. In this situation some customers will be turned away, resulting in lost business opportunities. For the customers who do receive the service, its quality may not match what was promised because of crowding or overtaxing of staff and facilities.
2. **Demand exceeds optimum capacity.** No one is being turned away, but the quality of service may still suffer because of overuse, crowding, or staff being pushed beyond their abilities to deliver consistent quality.

3. **Demand and supply are balanced at the level of optimum capacity.** Staff and facilities are occupied at an ideal level. No one is overworked, facilities can be maintained, and customers are receiving quality service without undesirable delays.
4. **Excess capacity.** Demand is below optimum capacity. Productive resources in the form of labor, equipment, and facilities are underutilized, resulting in lost productivity and lower profits. Customers may receive excellent quality on an individual level because they have the full use of the facilities, no waiting, and complete attention from the staff. If, however, service quality depends on the presence of other customers, customers may be disappointed or may worry that they have chosen an inferior service provider.

**FIGURE - Variations in Demand Relative to Capacity**



Not all firms will be challenged equally in terms of managing supply and demand. The seriousness of the problem will depend on the *extent of demand fluctuations over time*, and the *extent to which supply is constrained*. Some types of organizations will experience wide fluctuations in demand (telecommunications, hospitals, transportation, restaurants), whereas others will have narrower fluctuations (insurance, laundry, banking). For some, peak demand can usually be met even when demand fluctuates (electricity, telephone), but for others peak demand may frequently exceed



capacity (hospital emergency rooms, restaurants, hotels). Those firms with wide variations in demand (cells 1 and 4 in the Table below), and particularly those with wide fluctuations and demand that regularly exceeds capacity (cell 4), will find the issues and strategies in this chapter particularly important to their success. Those firms that find themselves in cell 3 need a "one-time-fix" to expand their capacity to match regular patterns of excessive demand. The example industries in Table below are provided to illustrate where *most* firms in those industries would likely be classified. In reality, an individual firm from any industry could find itself in any of the four cells, depending on its immediate circumstances.

To identify effective strategies for managing supply and demand fluctuations, an organization needs a clear understanding of the constraints on its capacity and the underlying demand patterns.

**TABLE - Demand versus Supply**

Extent to Which Supply Is Constrained	Extent of Demand Fl	Actuations over Time
	Wide	Narrow
	1	2
Peak demand can usually be met without a major delay.	Electricity, Natural gas, Telephone, Hospital maternity unit, Police and fire emergencies	Insurance, Legal services, Banking, Laundry and dry cleaning
	4	3
Peak demand regularly exceeds capacity.	Accounting and tax preparation, Passenger transportation, Hotels, Restaurants, Hospital emergency rooms	Services similar to those in 2 that have insufficient capacity for their base level of business

---

## 12.5 UNDERSTANDING CAPACITY CONSTRAINTS

---

As we see later in the chapter, there are some creative ways to expand and contract capacity in the short and long term, but at a given point in time we can assume service capacity is fixed. Depending on the type of service, critical fixed-capacity factors can be time, labor, equipment, facilities, or (in many cases) a combination of these.

### **Time, Labor, Equipment, Facilities**

For some service businesses, the primary constraint on service production is *time*. For example, a lawyer, a consultant, a hairdresser, and a psychological counselor all primarily sell their time. If their time is not used productively, profits are lost. If there is excess demand, time cannot be created to satisfy it. From the point of view of the individual service provider, time is the constraint.

From the point of view of a firm that employs a large number of service providers, *labor* or staffing levels can be the primary capacity constraint. A law firm, a university department, a consulting firm, a tax accounting firm, and a repair and maintenance contractor may all face the reality that at certain times demand for their organizations' services cannot be met because the staff is already operating at peak capacity. However, it doesn't always make sense (nor may it be possible in a competitive labor market) to hire additional service providers if low demand is a reality at other times.

In other cases, *equipment* may be the critical constraint. For trucking or air-freight delivery services, the trucks or airplanes needed to service demand may be the capacity limitation. During the Christmas holidays, UPS, Federal Express, and other delivery service providers face this issue. Health clubs also deal with this limitation, particularly at certain times of the day (before work, during lunch hours, after work) and in certain months of the year. Telecommunications companies face equipment constraints when everyone wants to communicate during prime hours on holidays. For network service providers, bandwidth, servers, and switches represent their perishable capacity.

Finally, many firms face restrictions brought about by their *limited facilities*. Hotels have only a certain number of rooms to sell, airlines are limited by the number of seats on the aircraft, educational institutions are constrained by the number of rooms and the number of seats in each classroom, and restaurant capacity is restricted to the number of tables and seats available.

**TABLE - Constraints on Capacity**

<b>Nature of the Constraint</b>	<b>Type of Service</b>
Time	Legal Consulting, Accounting, Medical
Labor	Law firm, Accounting firm, Consulting firm, Health Clinic
Equipment	Delivery services, Telecommunications, Network services, Utilities, Health club
Facilities	Hotels, Restaurants, Hospitals, Airlines, Schools, Theaters, Churches

Understanding the primary capacity constraint, or the combination of factors that restricts capacity, is a first step in designing strategies to deal with supply and demand issues.

---

## **12.6 OPPORTUNITIES IN THE SERVICE SECTOR**

---

The services sector contributes significantly to the growth of the economy. It provides employment, generates foreign exchange and contributes to the GDP of a nation. In India and in several other countries the services sector offers great opportunities, which are due to the following reasons:

**1. Liberalization of Policy:** The Industrial Policy of 1991 has liberalized the Indian economy, including the services sector. The services sector is opened up to the private sector. For example, the banking, insurance, telecommunications, airlines, etc., have been privatized. Prior to 1991, these sectors were the monopoly of public sector. Due to privatization, there is good competition between the private sector and the public sector. The Competition has improved efficiency of the firms. Therefore, liberalization of the Indian economy has opened up opportunities for private parties in the services sector.

**2. Fast Growth in the Services Sector:** The services sector is growing at a faster rate as compared to primary and the secondary sector. The growth in services sector provides good opportunities to the existing firms and to those who want to enter into the services sector. Currently the services growth rate is about 10% despite economic slowdown in the world.

India is the second fastest emerging country in the services growth, behind China. In some of the services sectors, the growth is very high. For instance, at present, the overall growth in the IT services is over 20% per year.

**3. Increase in Earning Capacity:** There is huge potential for growth in the services sector due to increase in disposable income, increasing urbanization, and growing middle class.

According to one study, India's middle class would increase to 267 million by 2015, and over 580 million by 2025, and further to 600+ million by 2030.

India's middle class is likely to overtake US, China and Europe in terms of consumption in the years to come. A study by H. Kharas - (The Emerging Middle Class in Developing Countries) indicates that by 2020 India is likely to get the third rank for consumption behind China, and USA and by 2030; India is likely to be the number 1 in terms of total consumption, followed by China and USA.

The study by H. Kharas indicates that by 2020 India would have 11% (US \$3733 billion) of the global share in terms of consumption, and by 2030 India's share in global consumption would increase to 23% (US \$ 12777 billion).

**4. Foreign Direct Investment:** The service sector is likely to gain considerably due to FDI inflows, which gives good opportunities for professionals to enter into the services sector.

The Government has allowed FDI even upto 100% in certain sectors. For instance, sectors like exports, consultancy, advertising, tourism, etc., FDI is allowed upto 100%. In sectors like private banking and telecom, FDI is allowed upto 74%. FDI brings certain benefits to Indian partners such as:

**5. Increase in Export Earnings:** The services export sector provides good opportunities for entrepreneurs. This is because the services export sector is witnessing tremendous growth despite global slowdown in 2008- 09 and 2011-12.

The services export sector contributes about 35% of the total exports of India. For instance, in 2010-11 the merchandise exports were US \$ 250 billion and services exports were US \$ 133 billion. The services exports are growing at the rate of about 20% per year. Among the services exports, the software exports accounted for over 40% of the total services exports followed by business services, travel and transportation.

**6. Population Growth:** India is fastest growing in terms of population. At present, India is second largest in population terms after China. India is likely to take world Number 1 position in population by 2030. The growth in India's population would be a great opportunity for certain service sectors such as education, insurance, banking, retail and so on.

**7. Free Trade Agreements:** India is looking forward to conclude a pact with ASEAN nations for opening up trade in services and liberalization of investment norms in the near future. India has already signed FTA with ASEAN nations in the goods sector in 2009 and came into force since 2010.

The India-ASEAN free trade agreement in services will open up a host of business opportunities and projects, especially in construction for Indian business firms. Construction of bridges, canals, roads, water-treatment plants, construction of buildings would provide a good opportunity for Indian firms in the 10 ASEAN member nations (Malaysia, Philippines, Indonesia, Thailand, Singapore, Brunei, Laos, Cambodia, Vietnam, and Myanmar). Indian entrepreneurs in the telecom, consultancy, accounting, health, etc., would also get opportunity once the free trade agreement is finalized in the near future.

India is also in negotiations to sign free trade agreements in goods and services with European Union (27 nations) and also with Australia. Once, the free trade agreements are finalized and come into operation, Indian entrepreneurs would have good opportunities in such countries.

**8. Growing Professionalism:** India is growing pool of competent professionals. Various management institutes are grooming up professionals in the field of banking, insurance, hospitality, logistics, media, and so on. The availability of competent professional has a strong effect on the growth of services sector in India. Therefore, Indian entrepreneurs would have good opportunities in the service sector in the years to come.

---

## 12.7 CHALLENGES IN THE SERVICE SECTOR

---

The services sector is facing a number of challenges mainly on account the unique characteristics. Some of the challenges are as follows:

**1. Intangibility:** The intangibility characteristic of services creates certain challenges such as:

- Demonstration of services is difficult.
- Pre-purchase evaluation is not possible.

**2. Inseparability:** Services cannot be easily separated from the service provider. This characteristic of services creates certain problems such as:

- Restricts geographical reach.
- Physical presence of the customer and service provider is essential.

**3. Inconsistency:** Service performance may vary from one person to another within the same organization. This Characteristic of services creates certain problems such as lack of standardization and quality control.

**4. Perishability:** Services are highly perishable. Therefore, there is a mismatch between demand and supply. This characteristic of services poses certain challenges such as - Services cannot be kept in inventory.

**5. Managing High Demand:** At times, a service firm may get very high demand, especially during the peak timings. Therefore, there is need to manage demand and capacity.

**6. Customer Retention:** Service providers face the challenges of customer retention. Customers may switch over to the competitors. Therefore, a service firm needs to undertake customer satisfaction surveys, and make changes in marketing mix, including introduction of new and innovative services.

**7. Managing Workforce Diversity:** Diversity among employees is an asset because it brings to the organization a range of skills and talents. At the same time, individual differences pose a challenge to managers. Managers must be sensitive to individual differences and manage them effectively.

**8. Employees' Retention:** Nowadays, there is growing attrition among service sector employees, especially in software, advertising, consultancy, media, etc. Certain amount of employee turnover is good for the organization because it gives chances to talented outsiders to join the organization. However, frequent employee turnover is bad for the organization as it increases selection and training costs, and it also affects the performance of employees. Therefore, the service providers need to introduce certain measures to overcome the problem of employee retention.

---

## 12.8 QUESTIONS

---

1. What are the various principles of Service Marketing?
2. Explain the service development cycle in detail.
3. How should demand and capacity in service industry be managed?
4. Define marketing research. Explain the role of marketing research in service marketing.
5. Explain the various opportunities in the service sector.
6. What are the challenges in the Service sector?
7. Explain the various challenges of service sector in India.
- 8. State whether following statements are True or False.**
  - a. The starting point is the market research phase of Identifying the Customer Pain Point.
  - b. Balancing the supply and demand sides of a service industry is easy
  - c. Service providers need to conduct marketing research.

- d. Since service cannot be transported, the consumer must be brought to the service delivery system or the system to the consumer
- e. Generally, a firm collects marketing research data from secondary data.
- f. Generally services are produced and consumed separately.
- g. Idea generation is an important step in service development cycle.
- h. At the pre launch period, the service marketer can conduct satisfaction surveys.

9. FILL IN THE BLANKS

- a. The identification of the customer \_\_\_\_\_ can involve the use of formal and informal market research methods.
- b. The service marketers face the challenges of \_\_\_\_\_.
- c. Generally, a company collects data from \_\_\_\_\_.
- d. The second phase of the Service Development Lifecycle is developing the \_\_\_\_\_.
- e. Services are direct; they cannot be \_\_\_\_\_.
- f. The problem of inseparability of services requires \_\_\_\_\_ of the customers.
- g. There is a high degree of \_\_\_\_\_ interaction in the production of service.
- h. Customers satisfaction surveys help to retain \_\_\_\_\_.





## INTRODUCTION TO RETAILING

### Unit Structure :

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Organized and Unorganized Retailing
- 13.3 Trends In Retailing
- 13.4 Growth of Organised Retailing in India
- 13.5 Survival Strategies for Unorganized Retailers
- 13.6 Summary
- 13.7 Questions

---

### 13.0 OBJECTIVES

---

After studying the unit students will be able to:

- Understand the concepts Organized and Unorganized Retailing.
- Know the trends in relating.
- Explain the growth of organized retailing in India.
- Elaborate the reasons for slow growth of organized retailing in India.
- Explain the survival strategies for unorganized retailers.

---

### 13.1 INTRODUCTION

---

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US\$450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

India's retailing industry is essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics

industry employs about 40 million Indians (3.3% of Indian population).

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets. Even single-brand retail was limited to 51% ownership and a bureaucratic process.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Wal-Mart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores.

In June 2012, IKEA announced it has applied for permission to invest \$1.9 billion in India and set up 25 retail stores. Fitch believes that the 30 percent requirement is likely to significantly delay if not prevent most single brand majors from Europe, USA and Japan from opening stores and creating associated jobs in India.

On 14 September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states. This decision has been welcomed by economists and the markets, however has caused protests and an upheaval in India's central government's political coalition structure. On 20 September 2012, the Government of India formally notified the FDI reforms for single and multi brand retail, thereby making it effective under Indian law.

On 7 December 2012, the Federal Government of India allowed 51% FDI in multi-brand retail in India. The Feds managed to get the approval of multi-brand retail in the parliament despite heavy uproar from the opposition. Some states will allow foreign supermarkets like Wal-Mart, Tesco and Carrefour to open while other states will not.

## 13.2 ORGANIZED AND UNORGANIZED RETAILING

### 13.2.1 MEANING

Organized retailing, in India, refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.

Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local corner shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

### 13.2.2 Distinguish between organized Retailing and Unorganized Retailing.

	<b>Organized Retailing</b>	<b>Unorganized Retailing</b>
<b>1. Meaning</b>	Organized retailing refers to trading activities undertaken by licensed.	Unorganized retailing refers to the traditional formats of retail industry.
<b>2. Market Share</b>	Organized retailing is around 7% in India.	Unorganized retailing comprises around 93% of retail market.
<b>3. Dominated by</b>	Organized retailing is dominated by big retailers like malls, hypermarkets, supermarkets etc.	Unorganized market is dominated by Mom and Pop Stores. Around 96% of retailers have shop area less than 500 square feet.
<b>4. Product Type</b>	They mainly sell branded products.	They sell branded as well unbranded products.
<b>5. Investment</b>	Investment in organized retailing is huge.	Investment in unorganized retailing is less.
<b>6. Area</b>	Organized retailing is mainly in metro, tier II and tier III cities.	Unorganized retailing is spread throughout the country.
<b>7. Scientific</b>	Organized retailing involves scientific planning and execution. This ensures that the resources are utilized in an effective manner.	Unorganized retailing is unscientific in nature. Wastages can occur due to overstocking, stocking of non – saleable products etc.

<b>8. Value</b>	Organized retailing tries to provide more value to the customers by bringing operational efficiencies.	Unorganized retailing is basically an effort to reach customer without much effort to add to the value to goods and to the customers.
-----------------	--	---

---

### 13.3 TRENDS IN RETAILING

---

The trends in retailing are briefly stated as follows:

**1. High Growth Rate:** According to the Global Retail Development Index (GRDI) 2012 of AT Kearney - India remains a high potential market with annual retail growth of 20 per cent expected over the next five years. The Indian retail industry is pegged at US\$ 500 billion in 2012 and is expected to reach US\$ 1.3 trillion by 2020.

The NCAER, study based on its Market Information Survey of Households (MISH), has projected Indian retail industry to grow to about US \$ 590 billion by 2011-12 and further to over US \$ 1 trillion by 2016-17

**2. Trends in Food and Grocery Business:** Food and grocery stores account for the largest share of retail (about 3/4th of total retail business). In 2007, nearly 99 per cent of food and grocery market is in the unorganized sector. But this may change in the next few years as it is estimated that food and grocery revenue in the organized retailing market would multiply five times, taking the organized shares of the market to 30 per cent.

**3. Share in GDP and Employment:** Retail is India's second largest sector after agriculture, accounting for over 15 percent of the country's GDP and around 6 to 8 percent of employment. Retail in India is at the crossroads. It has emerged as one of the most dynamic and fast growing industries with several players entering the market. Heavy investments in this sector are taking place with the entry of corporate giants like Tatas, Birlas, Ambanis (Reliance), Rahejas, and others. Therefore, the future is promising; the market is growing, government policies are becoming more favourable and emerging technologies are facilitating operations. As such the share of retail share in India's GDP and employment is likely to go up.

Retailing in India is gradually inching its way to becoming the next boom industry. The whole concept of shopping has altered

in terms of format and consumer buying behavior, ushering in a revolution in shopping.

**4. Trends in FDI:** On 14th September 2012, the government of India announced the opening of FDI in multi brand retail, (upto 51%) subject to approvals by individual states.. This decision has been welcomed by economists and the markets. However, this decision has caused protests in India especially by the opposition parties. On 20th September 2012, the Government of India formally notified the FDI reforms for single brand (100%) and multi brand retail (51%), thereby making it effective under Indian law.

**5. Training to Retail Personnel:** Prior to 2000, there was hardly any emphasis on training in the retail sector. With the entry of organized retailers, emphasis is placed on training and development of retail personnel. The need for specialized skills is increasingly felt in the areas of:

- Strategic management - strategizing, targeting and positioning, marketing and site selection, among others
- Merchandise management - Vendor selection, inventory management, pricing and so on
- Store management - Layout, display, customer relationship, inventory management, etc.
- Administrative Management - Human resources, finance, marketing and so on

With the need for specialized skill set, retailing has become a specialized area of knowledge and training. A number of training institutes have been set up in India.

**6. Share of Organized Retail:** The share of organized retail is likely to go up from the current 7% to about 25% of the total retail business by 2020. This is due to the increasing investment in organized retail by corporate, favourable government policies towards organized retailing, and at the same time closing of traditional retail outlets, especially in metros.

Over the next few years, the share of the organized retail will go up mainly due to the following factors:

- Favourable government policies towards organized retailing.
- Consumer preference to shop in favourable environs of organized outlets.
- Increasing investment by the corporate in the retail sector.
- Availability of quality reality space in metros.

**7. Increased Interest by Overseas Retailers:** There is a growing interest of overseas retailers to set up retail outlets in India. For example:

- Wal-Mart has huge plans for retail business India. Wal-Mart, the world's largest retailer, and Bharti Enterprises have signed a Memorandum of Understanding (MoU) to explore business opportunities in the Indian retail industry.
- New York-based high-end fashion retailer Saks Fifth Avenue has tied up with realty major DLF Properties to set up shop in a mall in New Delhi.
- Tommy Hilfiger, retailer of apparels, has already set up stores in metros and planning for more such stores in the near future.

**8. Technology in Retailing:** There is a growing trend of the use of IT in retailing business. Computerization is increasingly used in almost all operations in the organized sector, such as billing, inventory management, accounting, and so on. It is technology that will help the organized retailer score over the unorganized players, giving both cost and service advantages.

---

## **13.4 GROWTH OF ORGANISED RETAILING IN INDIA**

---

### **13.4.1 INTRODUCTION**

Organized retail is expected to grow from 7% to 14-18 % of the total retail market by 2015, according to a McKinsey & Company report titled 'The Great Indian Bazaar: Organized Retail Comes of Age in India'.

The Retailer' report from Ernst & Young 2009 highlights that organized retail sector's penetration level is 85% in US, 80% in France, 66% in Japan, 20% in China and, merely 5-6% in India. This confirms that India is at an early stage of evolution in the organized retail space and has a huge growth potential.

Many big players are already here in India. For instance, hypermarkets like Spencer's and Big Bazaar, departmental stores like Shopper's Stop and Lifestyle and Supermarkets like Apna Bazaar and Food Bazaar have set up shops and are busy expanding.

### **13.4.2 FACTORS RESPONSIBLE FOR GROWTH OF ORGANIZED RETAILING IN INDIA**

Some of the factors responsible for growth of organized retailing are:

**1. Rapidly growing middle class consumers**

In India, there is a rapid growth in the number of middle class consumers. These consumers seek value added products at decent prices and convenience in shopping. Modern retailers offer a wide range of products, good ambience, value added services etc. to such consumers. Hence they prefer to buy their requirements from modern retail outlets such as supermarkets, shopping malls, hypermarkets etc.

**2. Rising Incomes**

Over the past decade, India's middle and high income population has grown at a rapid pace of over 10% per annum. Such a growth has taken place not only in cities and towns but also in rural areas. As a result, there is an increase in the demand for better quality consumer goods.

**3. Media explosion**

There has been an explosion in media. Due to satellite television and Internet, Indian consumers are exposed to the lifestyles of more affluent countries. This has increased their aspiration levels and expectations. They now demand more choice, value for money, service and convenience.

**4. Increase in nuclear families**

Indian society is undergoing lots of changes. There is a rise in number of nuclear families, especially in urban areas., It is common to see the entire family going for shopping together. They look out for shopping places which have the right mix of shopping, eating joints and entertainment. Shopping malls provide all these facilities under one roof. Hence their popularity is increasing day by day.

**5. Increase in number of working women**

The urban women today are literate, professionally qualified and working. They have to maintain the right balance between home and work. Such consumers do not have much leisure time and want everything under one roof. Further they look for speed and efficiency. Modern retail outlets, which offer one-stop shopping, are therefore becoming popular.

**6. Value for money**

Organized retail outlets deal in volumes. As a result they are able to enjoy economies of scale in production and distribution. Further they eliminate wholesalers in the distribution process. As a result they can offer products at competitive rates. For instance, Big Bazaar, offers products at cheaper prices.

### **7. Emerging rural market**

The rural market in India is fast emerging as a retail consumption area. The rural consumers are now more aware. The rural middle class is steadily increasing. Thus due to huge potential in rural retailing, organized retailers have developing new products and marketing strategies to serve rural consumers.

### **8. Entry of the corporate sector**

Large business houses like the Tatas, ITC, RPG group, Reliance, the Piramals, the Birlas, Rahejas etc. have entered the retail sector in a big way. They are in a position to provide quality products at competitive rates, promotional offers, quality salespeople, entertainment, etc.

### **9. Entry of Foreign retailers**

The retail sector in India has drawn the interest of many global retailers. Due to liberalization policies adopted by the government, many multinational companies have entered our country through joint ventures, franchising or even self-owned stores. Further, the government has allowed up to 51% FDI in 'single brand' retail. This will further boost organized retailing.

### **10. Technological Impact**

Technology is one of the dynamic factors that has affected the retailing industry. Computerization of various operations in a retail store, use of bar coding, MIS, Electronic Article Surveillance System, closed circuit televisions etc., have changed the face of retailing.

Debit cards, credit cards, smart cards etc., have made shopping easier for consumers. Technology has further facilitated online shopping and tele-shopping. In short, emerging technologies have given a momentum to organized retailing.

## **13.4.3 REASONS FOR SLOW GROWTH OF ORGANISED RETAIL IN India**

In India organized retail is largely an urban phenomena. Organized retailing accounts for only 7% of the retailing industry in India. The pace of its growth is still slow. Some of the reasons for this slow growth are:

### **1. Lack of recognition as an Industry**

Retail is not yet recognized as an industry in India. This hampers the availability of finance to the existing and new players.

### **2. High costs of real estate**

There has been a constant increase in real estate prices. Moreover, real estate prices in some cities in India are amongst the



highest in the world. Hence the retail space is available at high lease rentals which reduce the profit earned by retailers.

**3. Lack of adequate Infrastructure**

Infrastructure facilities are not yet developed in India. Poor roads, lack of warehousing facilities, power shortage etc. hamper the development of food and fresh grocery.

**4. Complex taxation system**

The sales tax rates vary from state to state. Organized retailers have to face multiple tax system. Due to this, it becomes expensive to transfer goods from one store to another.

**5. Restrictions on foreign direct investment**

FDI is not permitted in pure retailing. Global retailers can enter India only by way of a franchise with an Indian partner or through technological alliances. This has restricted the growth of retail in India.

**6. Huge geographical and regional differences**

India is a vast country (7th largest in the world and second highly populated one). There exists huge diversity. Hence it becomes difficult for retailers to cater to the needs of such a diverse population.

**Check Your Progress**

**1. State whether following statement are True or False.**

- a. Organized retailing refers to trading activities undertaken by licensed retailers
- b. Organized retailing tries to provide more value to the customers by bringing operational efficiencies.
- c. Currently, the organized retail is enjoying a large market share of the total retail trade in India.
- d. India is one of the biggest organized retail markets in the world.
- e. The entry of corporate sector in retail trade has given a big boost to the unorganized retail sector.
- f. The operating costs of organized retail are lower as compared to unorganized retail.

**2. FILL IN THE BLANKS**

- a. At present, FDI is allowed upto \_\_\_\_\_ % in single brand retail.
- b. \_\_\_\_\_retailing refers to the traditional formats of the retail industry.

- c. Indian retailers face the challenges of \_\_\_\_\_.
- d. Retailer has to develop innovative solution for managing the \_\_\_\_\_chain problems.
- e. Due to \_\_\_\_\_television and Internet, Indian consumers are exposed to the \_\_\_\_\_lifestyles of more affluent countries.
- f. The share of organized retail is about \_\_\_\_\_% of the total retail trend in India.

---

## **13.5 SURVIVAL STRATEGIES FOR UNORGANIZED RETAILERS**

---

### **1. Right Positioning**

The effectiveness of the retailer's communication of the offering to the target customers determines how well the retailer gets positioned in their minds. At this stage, the communication has to be more of relative nature. This implies that the message conveyed to the target customers must be effective enough in differentiating the retailer's offering from that of the malls without even naming them.

### **2. Effective Visual Communication**

Retailer has to place more emphasis on visual display, merchandising, lighting, signage and specialized props. The visual communication strategy might be planned and also be brand positioned. Theme or lifestyle displays using stylized mannequins and props, which are based on a season or an event, are used to promote collections and have to change to keep touch with the trend. The merchandise presentation ought to be very creative and displays are often on non-standard fixtures and forms to generate interest and add on attitude to the merchandise.

### **3. Strong Supply Chain**

Critical components of supply chain planning applications can help manufacturers meet retailers' service levels and maintain profit margins. Retailer has to develop innovative solution for managing the supply chain problems. Innovative solutions like performance management, frequent sales operation management, demand planning, inventory planning, production planning, lean systems and staff should help retailers to get advantage over competitors.

### **4. Changing the Perception**

Retailers benefit only if consumers perceive their store brands to have consistent and comparable quality and availability in relation to branded products sold in malls. Retailer has to provide more assortments for private level brands to compete with organized retailing. New product development, aggressive retail

mix as well as everyday low pricing strategy can be the strategy to get edge over competitors' brand.

#### **5. Electronic Cash Register (ECR)**

ECR is a commonly used for billing by most retailers. An entry-level billing system can also generate 11 types of stock reports; ECR is best suited for small retailers. It speeds up the billing process and saves customers' time.

#### **6. Pleasant Experience**

The customer touch-points which involve the interaction of a customer with a store need to be properly managed. These involve the interactions before he reaches the store, while at the store and after leaving the store. Positive experience at the retail outlet will bring back the consumer again & again.

#### **7. People and Physical Evidence**

Since a retail store is an integral part of the service industry, the people they employ and their physical evidence should be such that the customer comes often. It shouldn't look like that the customer is buying from the road. If he goes to a store, it should look at least like a store so improve the ambience at retail outlet.

#### **8. Loyalty programme**

A loyalty programme is something which can attract a customer again and again to a store. It encourages a customer to spend more to buy more. More loyalty programme should be introduced by retail outlets.

#### **9. Customization**

Customization on the basis of their demographics and psychographics is becoming the name of the game as all these retailers have databases of loyal customers. Customization makes consumer feel important as the product or service is tailored to suit individual expectation.

---

### **13.6 SUMMERY**

---

Organized retailing refers to trading activities undertaken by licensed retailers.

Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing.

The factors responsible for growth of organized retailing In India are: a rapid growth in the number of middle class consumers, growth in the middle and high income population, an explosion in media, rise in number of nuclear families, literate, professionally qualified and working urban women, eliminating wholesalers in the

distribution process, emerging rural market, entry of the corporate sector in retail marketing, entry of Foreign retailers, improved technology.

Though the Organized retailing is growing in India its growth is slow due to reasons like: Lack of recognition as an Industry, High costs of real estate, Lack of adequate Infrastructure, Complex taxation system, Restrictions on foreign direct investment, Huge geographical and regional differences etc.

As the organized retailing is growing in India the unorganized retailers are using the business strategies such as: Right Positioning, Effective Visual Communication, Strong Supply Chain, Changing the Perception, Electronic Cash Register (ECR), Pleasant Experience, People and Physical Evidence, loyalty programme, Customization etc.

---

### **13.7 QUESTIONS**

---

1. Define retailer and explain his functions.
2. Distinguish between organized retailing and unorganized retailing.
3. Explain the various trends in retailing.
4. Discuss the survival strategies for unorganized retailing in India.
5. What are the various factors responsible for the growth of organized retailing in India?
6. What are the various reasons for slow growth of organized retailing in India.



## RETAIL FORMAT

### Unit Structure :

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Retail Format
- 14.3 Store Planning - Store Design and Layout
- 14.4 Types of Floor Layout
- 14.5 Summary
- 14.6 Questions

---

### 14.0 OBJECTIVES

---

After studying the unit the students will be able to:

- Explain the Retail format.
- Know the concepts store planning, Design and Layout
- Explain the important aspects of Store planning.
- Understand the guidelines for effective Store Layout Design.
- Explain the types of layout.

---

### 14.1 INTRODUCTION

---

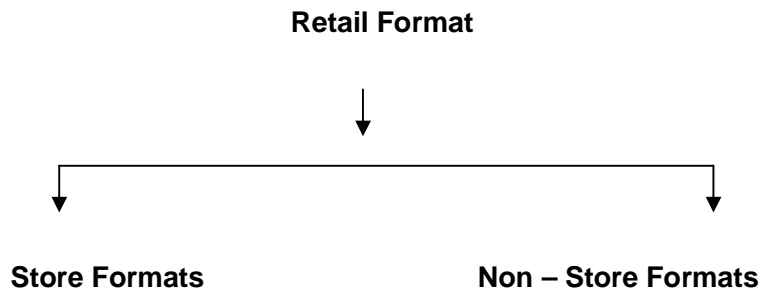
The word 'retail' is derived from the French word 'retailer' which means to cut off a piece or to break bulk. A retailer is a dealer or a trader who sells goods in small quantities. A retailer links the producers and the Ultimate consumers and provides services to both. Lakhs of retailers are spread throughout the country. They form an important link in the distribution of goods.

David Gilbert has defined retail as "any business that directs its marketing efforts towards satisfying the final consumers based upon the organization of selling goods and services as a means of distribution."

---

## 14.2 RETAIL FORMAT

---



### A. STORE FORMATS

There are various stores based retail formats that operate in India:

1. **Shopping Malls:** They are the largest form of organized retailing today. They are located mainly in metro cities, in proximity to urban outskirts ranging from 60,000 sq. ft. to 7,00,000 sq. ft. and above. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include, Inorbit, Hyper City, Prime Mall and so on.
2. **Specialty Stores:** Chains such as the Bangalore based Kids Kemp, RPG's Music World and the Times Group's music chain Planet M, are focusing on specific market segments and have established themselves strongly in their sectors.
3. **Discount Stores:** As the name suggests, discount stores or factory outlets, offer discounts on the MRP through selling in bulk reaching economies of scale or excess stock left over at the season. The product category can range from a variety of perishable/ non perishable goods.
4. **Department Stores:** These are large retail store offering a variety of services and merchandise organized in separate departments and occupies prominent positions in the heart of town or as anchor stores in out-of- town malls. Departmental Stores are expected to take over the apparel business from exclusive brand showrooms. Among these, the biggest success is K Raheja's Shoppers Stop, which started in Mumbai and now has more than seven large stores (over 30,000 sq. ft.) across India and even has its own in store brand for clothes called Stop!.
5. **Hypermarts / Supermarkets:** Hyper mart is a store that combines a supermarket and a department store. It is a gigantic retail facility that carries a big range of products under one roof,

including fresh groceries and apparel. When planned, constructed and executed correctly, hyper mart caters to routine weekly shopping needs in one trip. Example: Big Bazaar.

**6. Convenience Stores:** These are relatively small stores with an area of 400-2,000 sq. feet located near residential areas. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day, seven days a week. Prices are slightly higher due to the convenience premium.

**7. Multi Brand Outlets:** MBOs, also known as Category Killers, offer several brands across a single product category. These usually do well in busy market places and Metros. For example in electronics - Vijay Sales.

**8. Independent retailer:** An independent retailer is one who owns and operates only one retail outlet. The owner of the shop is assisted by a few local staff or family members. Many independent stores are passed on from one generation to the other. Stores like the baniya, kirana store and panwala are examples of independent retailers. The independent retailer often has a direct rapport with most of his customers.

**9. A chain retailer:** When two or more outlets are under a common ownership it is called a retail chain. These stores offer similarity in products, ambience, advertising, promotions etc. Examples in India include Louis Phillipe, Van Heusen, Globas, Planet M, Arrow etc.

**10. Franchise:** A franchise is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct business under an established name and as per a particular business format. In return, the franchisee has to pay a fee or compensation to the franchisor. For instance, Pizza Hut, NUT, Mc Donald's, Domino's, Baskin Robins etc.

**11. Leased departments:** These are also termed as 'shop-in-shops.' When a section of a department in a retail store is rented to an outside party, it is called a leased department. In India, many large department stores operate their perfumes and cosmetics counters in this manner.

**12. Consumer Co – Operative:** A Consumer co – operative is a retail organization owned by its member customers. Their objective is to provide commodities at a reasonable price. Examples of co –

operatives in India are Sahakari Bhandar, Apna Bazaar, Kendriya Bhandar etc.

## **B. NON-STORE FORMATS**

Non-store retailing is a form of retailing in which sales are made to consumers without using stores. While only 10% of retail sales are made through non-store channels, sales in non-store formats are growing faster than store sales.

### **The various types of non-store formats include:**

**1. Automatic Vending Machines:** Vending Machine retailing is a non- store format in which goods or merchandise are stored in a machine and dispensed to customers when they deposit cash or use a credit card.

The automatic vending machines are mostly found in developed countries like USA, UK, Japan, etc. However, nowadays, they have made in roads in developing countries like India as well.

Initially, impulse goods with high convenience value such as cigarettes, soft drinks, candy, newspapers, and hot beverages were offered. However, a wide array of products such as hosiery, cosmetics, food snacks, postage stamps, paperback books, record albums, camera film, etc., are now available through machines, especially in developed countries. Vending machines can expand a firm's market by reaching to customers where and when they cannot come to a store.

**2. Electronic Retailing:** Electronic retailing is a retail format in which the retailer and customer communicate with each other through an interactive electronic network. After an electronic dialogue between the retailer and customer, the customer can order merchandise directly through the interactive network or by telephone and the merchandise is typically delivered to the customer's home. Payment can be made with the help of credit card or debit card or cash on delivery.

The main benefits to the customer include lower costs because the electronic retailer generally sells the goods at discounted prices. The main disadvantage is that the customer cannot examine the goods before placing the order.



**3. Direct Selling:** The direct selling involves direct personal presentation, demonstration, and sale of products and services to consumers, usually in their homes or at their workplace.

Direct selling is distinct from direct marketing because it is about individual sales agents dealing directly with clients. Direct marketing is about business organizations seeking a relationship with their customers without going through an agent or retail outlet.

Direct selling often uses multi-level marketing (salesperson is paid for selling and for sales made by people he recruits or sponsors) rather than single-level marketing (salesperson is paid only for the sales he makes by himself).

**4. Direct Marketing:** In direct marketing, the marketing is done directly to the customers without the help of an agent. There is no intermediary involved. Direct marketing involves:

**(a) Mail Order Retailing** - The order from the customers is received through the mail, and accordingly the goods are delivered to the customer and the payment is collected. However, Indian customers hardly place orders through the mail.

**(b) Television Shopping** - Details about the products such as features, uses, price, and guarantee/warranty are explained on the television network. Phone numbers are provided to order. If the buyer is convinced, the buyer places the order and accordingly the goods are delivered at buyer's address and payment is collected.

### Check Your Progress

1. Define the following terms:
  - a. Automatic vending machine
  - b. Direct marketing
  - c. Direct selling
  - d. Hyper mart
  - e. Discount stores
  - f. Shopping malls
  - g. Convenience Stores
  - h. Multi brand outlets
  - i. Franchise
2. Give the examples of Store format.

---

## 14.3 STORE PLANNING - STORE DESIGN AND LAYOUT

---

Store planning involves location of the store, store design and layout, the type of merchandise to display and sell, etc. Store planning goes beyond the process of building the structure of the store; it is a process which involves every aspect of designing the store. The store must be planned from the view point of the customers who would patronize the store.

### Guidelines for Store Planning (Design and Layout)

**1. Location:** A store's location should always be a part of store planning. The store should be preferably in a prime location which is easily accessible to the customers. Avoid locating the store at a secluded place. The store's decor and merchandise should also reflect the store's location.

It is always advisable to locate the store at a place where there are other similar stores. There are chances that the customers who are loyal to neighbourhood stores may visit your store as well, especially, when they may not find their product choice in the store which they regularly visit. Also, the ambience of your store may attract them to your store.

**2. Signage:** The signage displaying the name and logo of the store must be inserted at a place where it is visible even from a distance. The signage may be placed at different sides of the store, especially, when the store has different sides facing the road/street. Too much information must be avoided.

**3. Colour:** The store must have the right colour on the walls both external and internal. Generally dark shades may be avoided. Preferably, light and subtle shades may be used. The colour sets the mood of the store, which in turn influences the mood of the customer shopping in the store.

**4. Entrance and Exit:** There must be proper entrance and exit. In small stores, the entrance and exit is normally one and the same. In large stores, there must be an emergency exit. Do not stock anything at the entrance or exit of the store.

**5. Flooring and Ceiling:** The store need to have decent floor tiling, and the ceiling must be properly done. The floor and the

ceiling must be kept clean. Stains must be avoided on the floor and on the ceilings. In some stores, carpets may be laid.

**6. Fixtures:** Fixtures must be installed properly in the retail store. Fixtures inside the store should have an aesthetic look and must be able to store and display the store's merchandise. Customers may focus not only the merchandise but also on the fixtures of the store. The fixtures should enable to display the products to their fullest extent, and should provide easy access for customers. The shelves should not be too high and the racks should not be too full.

**7. Lighting and Music:** The store should be adequately lighted so that the products are easily visible to the customers. Also, light music may be played at the store. Loud music must be avoided. During festival season, good lighting effect needs to be created within and outside the store.

**8. Arrangement of Merchandise:** The merchandise must be well arranged and organized on the racks. The shelves must carry necessary labels which would enable the customers to locate the products. Avoid overloading in the racks.

Products should be grouped logically. For example, in a readymade garments shop, the gents clothing may be stocked at one place and the ladies wear must be stocked at another place. Also, kids' wear may be displayed separately. In a grocery store, cereals and breakfast food could be in one aisle. Bread and biscuits should be near the payment counter.

**9. Fragrance:** The store may use light fragrance. Avoid bad odour inside the store, as it may drive away the customers and the store would lose sales.

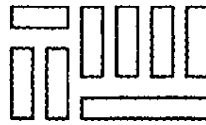
---

## 14.4 TYPES OF FLOOR LAYOUT

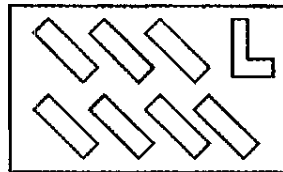
---

The layout of the store should be easy to move and should lead the customers to the merchandise with ease. There are various forms of floor plans:

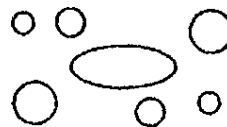
**(a) Straight Floor Plan** - Where the merchandise in shelves/ racks is arranged in a straight line, which you normally comes across in most of the store. The straight floor plan provides enough space for the customers to move and shop freely.



**(b) Diagonal Floor Plan** - The shelves/racks are kept diagonal to each other for the manager to have a watch on the customers. The diagonal floor plan enables the customers to move freely to select the merchandise.



**(c) Angular Floor Plan** - The fixtures and at times even the walls are given a curved look. It gives a stylish look to the store. Such layouts are often seen in high end stores, or malls, where premium Scotch whisky or wine bottles are displayed. It can be also used in case of garments as well.



**(d) Mixed Floor Plan** - It is a combination of straight, diagonal, and angular floor space. Shopping malls may adopt this type of floor plan.




---

## 14.5 SUMMERY

---

Retail formats includes the Store formats and Non store formats. The various stores based retail formats operating in India are: Shopping Malls, Specialty Stores, Discount stores, Department stores, Super markets, Convenience stores, Multi brand outlets, Independent retailer, Chain retailer, Franchise, Leased departments, Consumer co-operative.

Non-store retailing is a form of retailing in which sales are made to consumers without using stores. This form includes: Automatic Vending Machines, Electronic retailing, Direct selling and Direct marketing.

Store planning involves location of the store, store design and layout, the type of merchandise to display and sell, etc.

While deciding the Design and Layout of the store following points should be considered: store's location, the signage displaying the name and logo of the store, the right colour on the walls, proper entrance and exit, decent floor tiling, and the ceiling, Fixtures, Lighting and Music , Arrangement of Merchandise, light fragrance.

The various types of floor layout are Straight Floor plan, Diagonal Floor plan, Angular Floor plan and Mixed Floor plan.

---

## 14.6 QUESTIONS

---

1. Explain in detail the retail store format.
2. Explain various types of store format.
3. Explain various types of non store format.
4. What is store planning and design and layout?
5. Explain the important aspects of store planning.
6. Explain various types of layout.
- 7. State whether following statement are True or False.**
  - a. An independent retailer is one who owns and operates only one retail outlet
  - b. Convenience stores enable consumers to make purchases quickly.
  - c. In direct selling, there is no personal contact with the ultimate consumer
  - d. In Telemarketing the product is not advertised on television
  - e. Store planning and design is a process which does not involve every aspect of designing the store. .
  - f. Exit of a store must be overcrowded with goods.
  - g. The decor of the store includes the color scheme of the area, pasted and displayed signs, and other special finishes such as lighting, flooring etc.

- h. Grid (Straight) Design is best used in retail environments in which majority of customers shop only in a certain part of the store
- i. Curving/Loop (Racetrack) Design exposes shoppers to the greatest possible amount of merchandise by encouraging browsing and cross-shopping.
- j. Facility management at a mall involves only infrastructure management.
- k. A store layout is the design in which a store's interior is set up.
- l. Department store is a form of non stores format.

### 8. FILL IN THE BLANKS.

- a. When two or more outlets are under a common ownership it is called a \_\_\_\_\_.
- b. \_\_\_\_\_ departments are also termed as 'shop-in-shops'.
- c. A consumer \_\_\_\_\_ is a retail organization owned by its member customers.
- d. The \_\_\_\_\_ of the store includes the color scheme of the area, posted and displayed signs, and other special finishes such as lighting, flooring ETC.
- e. \_\_\_\_\_ Design is best used in retail environments in which majority of customers shop the entire store.
- f. \_\_\_\_\_ Layout Works best when merchandise is of the same type, such as fashion apparel.
- g. \_\_\_\_\_ Layout is based on single main aisle running from the front to the back of the store.



## RETAIL SCENARIO

### Unit Structure :

- 15.0 Objectives
- 15.1 Retail Scenario in India and Global context
- 15.2 Entry of MNCS
- 15.3 India Retail Reforms
- 15.4 Mall Management
- 15.5 The Core of Mall Management
- 15.6 Retail Franchising
- 15.7 FDI in Retailing
- 15.8 Retail Management as a Career
- 15.9 Retail Management: Eligibility and Course Areas
- 15.10 Questions

---

### 15.0 OBJECTIVES

---

After studying the unit students will be able to:

- Know the Prospects and challenges in India.
- Explain the retail reforms in India.
- Discuss about Mall management.
- Know about FDI in retailing.
- Know the careers in Retailing.

---

### 15.1 RETAIL SCENARIO IN INDIA AND GLOBAL CONTEXT

---

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. India has highest number of outlets per person (7 per thousand) Indian retail space per capita at 2 sq ft (0.19 m<sup>2</sup>)/ person is lowest in the world Indian retail density of 6 percent is highest in the world. 1.8 million households in India have an annual income of over Rs.45 lakh (US\$81,900).

While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods. Indian apparel retailers are increasing their brand presence overseas, particularly in developed markets. While most have identified a gap in countries in West Asia and Africa, some majors are also looking at the US and Europe. Arvind Brands, Madura Garments, Spykar Lifestyle and Royal Classic Polo are busy chalking out foreign expansion plans through the distribution route and standalone stores as well. Another denim wear brand, Spykar, which is now moving towards becoming a casual wear lifestyle brand, has launched its store in Melbourne recently. It plans to open three stores in London by 2008-end.

The low-intensity entry of the diversified Mahindra Group into retail is unique because it plans to focus on lifestyle products. The Mahindra Group is the fourth largest Indian business group to enter the business of retail after Reliance Industries Ltd, the Aditya Birla Group, and Bharti Enterprises Ltd. The other three groups are focusing either on perishables and groceries, or a range of products, or both.

- REI AGRO LTD Retail: 6TEN and 6TEN kirana stores
- Future Groups-Formats: Big Bazaar, Food Bazaar, Central, Fashion Station, Brand Factory, Home Town, E-Zone etc.
- Raymond Ltd.: Textiles, The Raymond Shop, Park Avenue, Park Avenue Woman, Parx, Colourplus, Neck Ties & More, Shirts & More etc.
- Fabindia: Textiles, Home furnishings, handloom apparel, jewellery
- RP-Sanjiv Goenka Group Retail-Formats: Spencer's Hyper, Spencer's Daily, Music World, Au Bon Pain, Beverly Hills Polo Club
- The Tata Group-Formats: Westside, Star India Bazaar, Steeljunction, Landmark, Titan, Tanishq, Croma.
- Reliance Retail-Formats: Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Autozone, iStore
- K Raheja Corp Group-Formats: Shoppers Stop, Crossword, Hyper City, Inorbit Mall



- Nilgiri's-Formats: Nilgiris' supermarket chain
- Shri Kannan Departmental Store (P) Ltd ., : Groceries, Clothing, Cosmetics [Western Tamil Nadu's Leading Retailer]
- Lifestyle International-Lifestyle, Home Centre, Max, Fun City and International Franchise brand stores.
- Pyramid Retail-Formats: Pyramid Megastore, TruMart
- Next retail India Ltd (Consumer Electronics)(www.next.co.in)
- Vivek Limited Retail Formats: Viveks, Jainsons, Viveks Service Centre, Viveks Safe Deposit Lockers
- PGC Retail -T-Mart India [4], Switcher, Respect India, Grand India Bazaar,etc.,
- Aditya Birla Group- Formats: more., acquired Pantaloon from Future group, acquired Trinetra (Fabmall and Fabcity)
- Vishal Retail Group-Formats: Vishal Mega Mart
- BPCL-Formats: In & Out
- Shoprite Holdings-Formats: Shoprite Hyper
- Paritala stores bazar: honey shine stores
- Kapas- Cotton garment outlets
- AaramShop - a platform which enables hybrid commerce for thousands of neighborhood stores.
- Gitanjali- Nakshatra, Gili, Asmi, D'damas, Gitanjali Jewels, Giantti, Gitanjali Gifts, etc.

---

## 15.2 ENTRY OF MNCS

---

### A spice market

The world's largest retailer by sales, Wal-Mart Stores Inc and Sunil Mittal's Bharti Enterprises have entered into a joint venture agreement and they are planning to open 10 to 15 cash-and-carry facilities over seven years. The first of the stores, which will sell groceries, consumer appliances and fruits and vegetables to retailers and small businesses, is slated to open in north India by the end of 2008. See also for more Detail Pick/Müller Carrefour, the world's second largest retailer by sales, is planning to set up two business entities in the country one for its cash-and-carry business and the other a master franchisee which will lend its banner, technical services and know how to an Indian company for direct-to-consumer retail.

The world's fifth largest retailer by sales, Costco Wholesale Corp (Costco) known for its warehouse club model is

also interested in coming to India and waiting for the right opportunity.

Tesco Plc., plans to set up shop in India with a wholesale cash-and-carry business and will help Indian conglomerate Tata group to grow its hypermarket business.

### **Prospects and Challenges in India**

A McKinsey study claims retail productivity in India is very low compared to international peer measures. For example, the labor productivity in Indian retail was just 6% of the labor productivity in United States in 2010. India's labor productivity in food retailing is about 5% compared to Brazil's 14%; while India's labor productivity in non-food retailing is about 8% compared to Poland's 25%.

Total retail employment in India, both organized and unorganized, account for about 6% of Indian labor work force currently - most of which is unorganized. This about a third of levels in United States and Europe; and about half of levels in other emerging economies. A complete expansion of retail sector to levels and productivity similar to other emerging economies and developed economies such as the United States would create over 50 million jobs in India. Training and development of labor and management for higher retail productivity is expected to be a challenge.

To become a truly flourishing industry, retailing in India needs to cross the following hurdles:

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favours small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Lack of Retailing Courses and study options
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

In November 2011, the Indian government announced relaxation of some rules and the opening of retail market to competition.

---

### 15.3 INDIA RETAIL REFORMS

---

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers..

The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalization reform passed by an Indian cabinet in years;
- Single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- Both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- All multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- Multi-brand retailers must have a minimum investment of US\$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;
- The opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure.

A Wall Street Journal article claims that fresh investments in Indian organized retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

It is expected to help tame stubbornly high inflation but is likely to be vehemently opposed by millions of small retailers, who see large foreign chains as a threat. The need to control food price inflation—averaging double-digit rises over several years—prompted the government to open the sector, analysts claim. Hitherto India's food supplies have been controlled by tens of millions of middlemen (less than 5% of Indian population). Traders add huge mark-ups to farm prices, while offering little by way of technical support to help farmers boost their productivity, packaging technology, pushing up retail prices significantly. Analysts said allowing in big foreign retailers would provide an impetus for them to set up modern supply chains, with refrigerated vans, cold storage and more efficient logistics. "I think foreign chains can also bring in humongous logistical benefits and capital," Chandrajit Banerjee, director-general, Confederation of Indian Industry, told Reuters. "The biggest beneficiary would be the small farmers who will be able to improve their productivity by selling directly to large organized players," Mr Banerjee said.

---

## **15.4 MALL MANAGEMENT:**

---

### **15.4.1 Introduction:**

If we look at the customer's perspective, there are two major benefits that every customer seeks out of shopping in Mall. One is an overall experience and the other is a whole variety of goods under one roof.

These two expectations cannot be met satisfactorily either by the Mall developer or the Retailer. But if roles are clearly defined and each one develops a core competence, then a fantastic synergy can arise between the two parties. The Mall and the Retailer should work out a strategy where the Mall focuses on enhancing the overall experience and the Retailer focuses on the delivering a good variety of products. To formalize this association, there would have to be a clear definition of expectations and most importantly sharing of profits.

### **15.4.2 Specifying Expectations:**

- Redefinition of relationship between malls and retailers. It is no more the tenant landlord relationship that existed traditionally. Both need to consider each other as partners or associates, where one party's growth is greatly dependent on the other.

- Malls and Retailers work together to offer the customers the complete experience. This complete experience would include products that can offer value for money on the one hand and attractive entertainment on the other hand.
- Through mutual discussions, collaborative strategy is defined and areas of core competence are identified. Each one seeks to improve and perfect the specific area of Competence. For e.g. Mall Developer could take up the responsibility of organizing promotions, while the retailer plans the merchandise according to the promotions requirements.

#### **15.4.3 Merchandise**

The Mall management would also have to restructure the way, products are sold in their malls. One of the ways could be to create mini malls within malls. For e.g. all stores in related categories could be placed in close proximity, so as to offer a better variety to the customers and at the same time increase impulse sales. Thus Apparel stores, Accessories stores and Shoes stores could be placed together and thus create complete segments of related products within the Mall. The malls could now organize specific promotion events for these ones or categories.

#### **15.4.4 Financials**

While financial strategies would always be specific to the Mall and Retailers, this strategy in its basic form incorporates the following strategies:

1. Sharing of expenses between the Retailer and Mall would be undertaken, retailers include a fixed fee to be paid by all the Retailers to the Mall developer. This fee would be over and above the rentals being paid already. As a justification to the costs the strategic team may be held accountable for either footfalls or certain minimum number of events in a year. Since these events would always be held in consultation with the retailer, he would stand to benefit directly from these events.
2. Another strategy for financial collaboration could be by way of Revenue sharing. The Mall developer gets cut out of the revenues of the Retailers during a specific promotion.

#### **15.4.5 Indian experience**

In India, mall management is more like a mix of the functions, property and asset management. There is a property on which a mall is built, retailers are called in who establish their shops and then the asset is maintained.

Mall management largely encompasses several activities/ functions that go into the maintenance of the mall. This covers

facilities management functions, operation management, marketing management, accounts management and customer service. It is basically a combination of services that factor in people, place, processes and technology in a particular building. Professional mall management results in the best possible utilization of resources available.

Mall management begins with taking care of issues such as positioning, tenant mix, infrastructure facilities, the kind of environment required and finance management. It also takes care of issues like positioning, zoning that include tenant mix and placement within mall, promotions and marketing.

The demand for superior shopping experience goes parallel with superior mall management, which is inclusive of appropriate maintenance of retail space using the latest technology, trained manpower, standard operating practices and schedules.

Customer service is also an important function of mall management. Customers are not only mall visitors but also retailers who have bought space in the mall. A mall has to keep these internal as well external customers happy through various activities. Generally there are two types of consumers who visit malls - focused buyers and impulse buyers. Mall management activities are designed from the perspective of both these buyers.

Providing value-added services is also an important part of mall management. Value-added services include simple activities like lighting, safety and security, making the mall, kid and senior citizen-friendly, which in turn make the mall desirable for visitors and add a personalized touch.

---

## **15.5 THE CORE OF MALL MANAGEMENT**

---

### **15.5.1 Skilled operations necessary**

A mall, by virtue of the business, is such that it needs to be handled, secured and managed in the hands of skilled people.

As retail experts point out that mall management as a concept has just begun to emerge in India as a possible route to maximize profitability and reduce overheads. Being in such nascent stage, India has no formal training module designed for mall management.

There are very few mall management companies here at present. Large real estate developers and retail chains either have their own mall management divisions or have contracts with international consultants. In developed markets like the US and

Europe, mall management is an established independent service line.

A specialist's property management skills enable property owners to receive the benefit of master planning and development expertise, which is critical to ensure that malls are positioned for long-term growth and success.

### **15.5.2 Few training Schools**

Since the concept is still picking up, formal training courses in mall management are also not too many. Although several institutes have rolled out short-term courses in retail and mall management, including IIM-Indore and IIM-Calcutta, the formal inputs and experience will take some time to get to the desired levels.

Today, for a large section of the urban population, a mall is a place to splurge, pay a visit on the weekends, shop and spend cash in the food court. Even as we move into the second phase of mall development, it is actually the concept of properly practiced mall management that will give existing and future players an edge in the sector.

### **Check Your Progress**

#### **1. State whether following statement are True or False.**

- a. The organized retail industry in India evolved in 1890s
- b. Facility management at a mall involves only infrastructure management.
- c. The primary goal of the most retailers is to sell the right kind of merchandise.
- d. Customer service is also not an important function of mall management
- e. Generally there are two types of consumers who visit malls - focused buyers and impulse buyers.

---

## **15.6 RETAIL FRANCHISING**

---

### **15.6.1 MEANING**

“A franchise operation is a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obliged to maintain a continuing interest in the business of the franchisee in such areas as know-how and training; wherein the franchisee operates under a common trade name, format and/or

procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources.”

### - Definition by International Franchise Association

#### Meaning

Franchising is more than distributorship

- \* Extends to an entire operation or method of business
- \* Greater assistance, control and longer duration
- \* Distributor merely re-sells products to retailers or customers

#### Growth of Franchising

- \* Singer Sewing Machine – first franchise (mid-19th century)
- \* Automobile (e.g. Ford), petroleum products (e.g. Shell), soft drinks (e.g. Coca Cola)
- \* Food and restaurants (e.g. McDonald’s, Starbucks)

#### Growth of Franchising

- \* Home markets saturated – attractive opportunities overseas
- \* Lack of/relaxation of regulations in most countries
- \* Expansion of international trade
- \* Exposure to international media

### 15.6.2 TYPES OF FRANCHISE

- \* 3 main types of franchise:
  - \* Product distribution franchise;
  - \* Business format franchise; and
  - \* Management franchise.

#### 1. PRODUCT DISTRIBUTION FRANCHISES

\* A product distribution franchise model is very much like a supplier-dealer relationship.

\* Typically, the franchisee merely sells the franchisor’s products. However, this type of franchise will also include some form of integration of the business activities.

#### 2. BUSINESS FORMAT FRANCHISING

\* In a business format franchise, the integration of the business is more complete.

\* The franchisee not only distributes the franchisor’s products and services under the franchisor’s trade mark, but also implements the franchisor’s format and procedure of conducting the business.



**3. MANAGEMENT FRANCHISE**

- \* A form of service agreement.
- \* The franchisee provides the management expertise, format and/or procedure for conducting the business.

**15.6.3 Importance of franchise**

- \* Franchises offer important pre-opening support:
  - \* Site selection
  - \* Design and construction
  - \* financing (in some cases)
  - \* Training
  - \* Grand-opening program
- \* Franchises offer ongoing support
  - \* Training
  - \* National and regional advertising
  - \* operating procedures and operational assistance
  - \* Supervision and management support
  - \* increased spending power, access to bulk purchasing and economies of scale

**Check Your Progress****1. FILL IN THE BLANKS.**

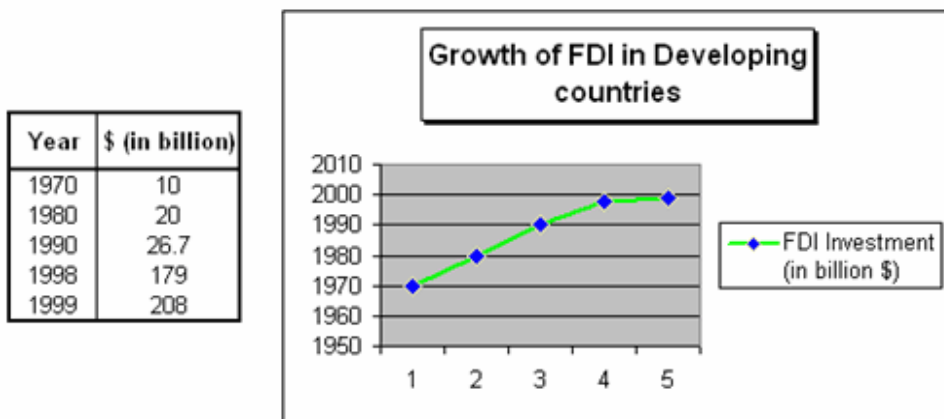
- a. \_\_\_\_\_ is the prime mover of the retail revolution.
- b. The Mall and the Retailer should work out a strategy where the Mall focuses on \_\_\_\_\_ the overall experience and the Retailer focuses on the delivering a good \_\_\_\_\_ variety of \_\_\_\_\_.
- c. \_\_\_\_\_ mall management results in the best possible utilization of resources available.
- d. A \_\_\_\_\_ usually lasts for a fixed time period and serves a specific territory or geographical area surrounding its location.
- e. \_\_\_\_\_ creates another source of income for the franchisor.
- g. Under franchising, the franchisor transfers \_\_\_\_\_ to the franchisee.

## 15.7 FDI IN RETAILING

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company. Eg. An American company taking major stake in a company in India, their ROI is based on the performance of the project.

In the past decades, FDI was concerned only with highly industrialized countries. US was the world's largest recipient of FDI during 2006 with an investment of 184 million from OECD (Organization for Economic Co-operation and Development) countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in FDI investments. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. This is because of the following reasons:

- Availability of cheap labor.
- Uninterrupted availability of raw material.
- Less production cost compared with other developed countries.
- Quick and easy market penetration.



### FDI in the Retail sector:

Retailing is one of the world's largest private industry. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a countries product or service to enter into the global market.

**Cheaper production facilities:**

FDI will ensure better operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price.

**Availability of new technology:**

FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points.

---

**15.8 RETAIL MANAGEMENT AS A CAREER**

---

In the Information, Communication & Entertainment (ICE) age shopping has become a hobby for the new generation. The whole concept of shopping has altered with time, in terms of format and consumer buying behaviour. Thanks to rapid urbanization and sprawling shopping malls, Multi formats of retail stores and huge complexes that have emerged at an ever increasing speed in every upcoming city, retailing has grown into one of the largest sectors in the global economy.

Retail Industry, one of the fastest changing and vibrant industries in the world, has contributed to the economic growth of many countries. The term 'retail' is derived from the French word retailer which means 'to cut a piece off' or 'to break bulk'. Retailing is a vital part of the business industry that involves selling products and services to consumers for their individual or family use. Retailing can also be defined as the timely delivery of goods demanded by consumers at an affordable and competitive price. It is a vertical and people-oriented business industry. Retail business in India boomed in the 80's and within a short span of time, Indian retail sector has been rated as the fifth most attractive, emerging retail market in the world. Indian retail sector which account for over 10 percent of the country's GDP (gross domestic product) and around eight percent of employment, is expected to grow at a compound rate of 30 per cent over the next five years.

Retailing process involves a direct interface with the customer and the coordination of business activities from the design stage of a product to its delivery and post-delivery service. Generally, retail business can be classified into several types depending on their size, shape, product lines, amount of service they offer and price they charge etc. Some among them are specialty stores, supermarket/ malls, factory outlets, franchises,

chain stores, discount stores, lifestyle & personal products, furnishing household appliances & groceries stores etc.

With the tremendous growth of economy, retail management has emerged as one of the fastest growing careers in India. The enormous expansion in the retail sector during the past few years has thrown up a big demand for skilled professionals in the field. It is an industry looking for people at all levels, from the school pass out with basic skills, to the well qualified supply chain and retail management professionals. One can take up a job depending on one's interest and aptitude, since retail industry is an array of activities starting from marketing to branding. This makes retail profession one of the most demanding careers of the era.

The working time and atmosphere all depends upon the company one works for. One could start his career as a management trainee, and with hard work and right attitude, could reach the manager posts of different departments. Advertising agencies, Airlines, insurance companies, banks etc are some other areas where one can find jobs, apart from retail shops. One can even start one's own business and be an entrepreneur.

#### **Job prospects in Retail Sector are:**

- **Customer Sales Associate:** It is the entry-level post of retail business. But as every retail shop is completely dependent upon the sales they get, this is one of the important posts in this profession. To be a good sales person, one should have good knowledge about the products, the shop, the customers etc.
- **Department Manager / Floor Manager/ Category Manager** - These are some of the posts one could handle in the store.
- **Store Manager:** Store managers sometimes called General Manager or Store Director, are responsible for managing an individual store and its day-to-day functioning. The store manager is in charge of the employees of the store and he himself may report to a District or Area manager or the store's owner.
- **Retail Operation Manager:** It is the duty of a retail manager to plan and coordinate the operations of the outlet. This involves the layout of merchandise, monitoring the retail orders and stock, analyzing the supply etc. Candidates with Master Degree can start off as retail managers.

- **Retail Buyers and Merchandisers:** They are the persons who select and buy the goods for the retail shop. They should understand the needs of the customer, should be aware of the trends in the market, and should possess great enthusiasm and energy.
- **Visual Merchandisers:** These people give the brand a face, so they hold one of the very important positions in the industry. Being a part of concept and design one could also be a technical designer, product developer and store planner.
- **Manager Back-end Operations**
- **Logistics and Warehouse Managers**
- **Retail Communication Manager**
- **Manager Private label Brands**
- **Retail Marketing Executives:**

Trained and talented retail management professionals are always in great demand not only in India but abroad also. Big brands have opened retail chains throughout the cities & rural areas that offers huge job openings. A professional with excellent communication skills and a flair for convincing people can be recruited as store managers, customer care executives, merchandise officers, public relations executive and so on, in a multinational company.

---

## **15.9 RETAIL MANAGEMENT: ELIGIBILITY AND COURSE AREAS**

---

There are options for taking up a degree or diploma in retail management, for those who choose the career. Various institutes offer courses in retail management such as MBA in retail management, Post Graduate Diploma in Retail Management and so on. Candidates having a high school, graduation or its equivalent, plus two or degree can apply for certificate, diploma or bachelors courses in Retail Management respectively. Retailers Association of India (RAI), is the first independent body of retailers in India.

A course in retail management helps one to learn the concepts of retailing, which would be helpful for future undertakings as well as practical experiences. Marketing strategies, Accounting, Business mathematics, ethics and law, Customer relation, visual Merchandising, Merchandising, Retail communication, Mall Management and Retail buying and operations are some of the topics related to Retail management courses. The courses will also provide information on merchandising, finance management, electronic retail, supply chain management etc.

Indian Institutes offering Programmes/courses in Retail Management:

- B.Sc. in Fashion Merchandising and Retail Management (B.Sc.-FMRM)
- M.Sc. in Fashion Merchandising and Retail Management (M.Sc.-FMRM)
- M.B.A. -Retail Management
- Bachelor of Fashion Retail Management
- Post Graduate Certificate in Retail Management (P.G.C.R.M)
- Post Graduate Diploma in Marketing and Retail Management (P.G.D.M.R.M)
- Post Graduate Diploma in Retail Management (P.G.D.R.M)
- Post Graduate Programme in Fashion Retail Management

---

### **15.10 QUESTIONS**

---

1. Give an overview of retailing in India.
2. Explain retail prospects in India.
3. Explain the challenges faced by retailers in India.
4. Write a note on mall Management.
5. What is retail franchising? Explain the types of retail franchising.
6. Write a note on FDI in retailing.
7. Explain the advantages of allowing FDI in retailing.
8. Explain various career options in retailing.



## INFORMATION TECHNOLOGY ENABLED SERVICE SECTOR

### Unit Structure :

- 16.0 Objectives
- 16.1 Introduction
- 16.2 Meaning and Objectives of BPO and KPO
- 16.3 LPO (Legal Process Outsourcing)
- 16.4 ERP (Enterprise Resource Planning)
- 16.5 Summary
- 16.6 Questions

---

### 16.0 OBJECTIVES

---

After studying the unit students will be able to:

- Know about ITES sector.
- Understand the meaning and objectives of BPO and KPO.
- Explain the term LPO and its objectives.
- Understand about ERP, its advantages and disadvantages.

---

### 16.1 INTRODUCTION

---

#### ITES Sector – Meaning

ITES, Information Technology Enabled Service is defined as outsourcing of processes that can be enabled with information technology and covers diverse areas like finance, HR, administration, health care, telecommunication, manufacturing etc.

An obvious advantage of BPO is the immediate cost savings (over 30 per cent) and yet a steadfast focus on high quality standards. This also allows the in-house team (of the overseas client) to focus their expertise on more value-added work while delegating the lower-end work to more cost-effective resources. For India, it is a new job creator. It is estimated that the total number of jobs created so far as a result of outsourcing, primarily call centre

operations, is about 180,000. Of these, the U.S. and the U.K. together have a share of over 86 per cent. By 2010, the share of non-call centre outsourcing is placed at 50 per cent of the total number of jobs created. One estimate places the KPO jobs alone at over a quarter of a million by then.

At the same time, companies abroad are skeptical about outsourcing high-end services for varied reasons such as data security, quality and professionalism in a remote location, political and regulatory climate. Collaborative approach clearly, this is an evolutionary process and certain roadblocks that exist need to be taken care of. Companies need to adopt a collaborative approach to tackle such issues. For instance, Scope has addressed these issues by adopting a relationship-based model. In this model, concerns on quality and timeliness have been addressed by Scope through a process of pilots and phased transfer of work. Technology — hardware and software — is world class. International certifications such as ISO and BS7799 also help. Likewise, Service Level Agreements that are mutually fair have been put in place.

What helps the India case is the ready access to a large intellectual pool with expertise in areas such as research and analysis, not to mention reasonable English language skills (that need honing) and strong domain expertise. But finally, it is the management that plays a vital role in enabling the smooth operationalisation of such remote knowledge partnerships.

There is tremendous potential in the KPO space. Only companies that have a strong pedigree, domain expertise, clear focus on the high-end space, a proactive solution orientation and a collaborative mindset will emerge as the winners.

---

## **16.2 MEANING AND OBJECTIVES OF BPO AND KPO**

---

### **16.2.1 MEANING**

While outsourcing is present in numerous business functions, including manufacturing, legal, financial and human resources, it is the term BPO (Business Process Outsourcing) that is largely in the news on a daily basis. India's capabilities in this area have been moving towards enhancing the nature of the work done. From mere data entry kind of work, the focus has shifted to



transaction processing. Now, there is a nascent move towards knowledge process outsourcing (KPO).

BPO stands for business process outsourcing and KPO stands for knowledge process outsourcing.

An advanced stage of BPO is [KPO \(knowledge process outsourcing\)](#). KPO includes those activities that require greater skill, knowledge, education and expertise to handle. For example, whereas an insurance company might outsource data entry of its claims forms as part of a BPO initiative, it may also choose to use a KPO service provider to evaluate new insurance applications based on a set of criteria or business rules; this work would require the efforts of a more knowledgeable set of workers than the data entry would.

Unlike in BPO where the focus is on executing standardized routine processes, KPO involves processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgment and decision making. Examples of KPO functions are intellectual property or patent research, R&D in pharmaceuticals and biotechnology, data mining, database creation, and a range of analytical services such as equity research, competitive intelligence, industry reports and financial modeling. Many of these activities lend themselves to remote execution from anywhere.

Typical users of KPO services include market research and consulting firms, investment banks and financial services institutions, industry associations, media, publishing and database firms, and corporate planning departments of large Fortune 500 companies. Several global players such as McKinsey, Goldman Sachs, Reuters, IMS Health, Harris Interactive, Ipsos, Maritz, AC Nielsen, TN0S and the WPP group are already using India as a remote base.

The KPO Value Chain Typically, the extent of off shoring is a function of the degree of e-enablement possible and the quality of the human capital required. Some activities such as paralegal and medical transcription require low quality human capital as compared to activities such as data mining and analysis, engineering design and e-learning. The latter are also highly amenable to IT enablement. Other services such as legal consulting, intellectual property research and strategic consulting require the highest level of human capital and are the least

amenable to IT enablement. A veritable gold mine Companies in the KPO space thus need to make the transition from offering services that require low human capital quality and low IT enablement to those that require a high degree of human capital and IT enablement. The National Association of Software and Service Companies projects that the total global off shoring market opportunity by 2008 will touch \$141 billion. Of this, data search, integration and management will account for \$18 billion. Medical, legal content and associated services represent an opportunity of \$2 billion. However, Scope e-Knowledge Center estimates that only 45-50 per cent (about \$65-70 billion) of the total off-shoring opportunity is likely to be realized even by 2010. According to Scope, the global offshore BPO (non-IT) revenue in fiscal 2003 was close to \$9 billion and this is expected to grow by about 35 per cent a year through 2008.

### **16.2.2 OBJECTIVE OF BPO / KPO**

The objective of BPO includes:

- To reduce the cost of operations by delegating the non – core activities to a third – party service provider.
- To put the resources available with the organization to better use thereby increasing its profitability.
- To avail the specialized services of the third – party service provider.
- To enable the organization to focus exclusively on core services.
- To strengthen strategic business relationship with a number of organizations. This can ensure consistently economical service for a long period of time.
- TO free management from day – to – day operations
- To increase flexibility to meet changing business conditions.

---

### **16.3 LPO (LEGAL PROCESS OUTSOURCING)**

---

Legal outsourcing, also known as Legal Process Outsourcing (LPO) refers to the practice of a [law firm](#) or [corporation](#) obtaining legal support services from an outside law firm or legal support services company (LPO provider). When the LPO provider is based in another country the practice is called [off shoring](#) and involves the practice of [outsourcing](#) any

activity except those where personal presence or contact is required e.g. appearances in court and face-to-face negotiations. When the LPO provider is based in the same country the practice of outsourcing includes agency work and other services requiring a physical presence such as court appearances. This process is one of the incidents of the larger movement towards outsourcing. The most commonly offered services have been agency work, document review, legal research and writing, drafting of pleadings and briefs, and patent services.

The concept of legal process outsourcing is based on the division of labour principle, prevalent in law firms, where various time consuming and onerous processes like due diligence are delegated to paralegals, document reviewers or interns. This allows the firm to address the various legal issues that arise on a daily basis while being able to streamline productivity.

The process involves a contract, with due consideration, between both firms.

The following are the various methods by which the process could be initiated:

- **Direct Contract** – This is the most straight forward means of establishing contact. The firm needing legal services directly approaches the legal process outsourcing vendor.
- **Managed Outsourcing** – This is a case where the firm establishes contact with a legal process outsourcing vendor and retains a traditional law firm to coordinate the vendor's activities and to ensure quality control.
- **Required Outsourcing** – This form of outsourcing occurs when the firm mandates a certain level of outsourcing in the legal process, either to reduce costs or to fulfill statutory requirements.
- **Multi-sourcing** – This involves segregating the work assigned to LPO providers in order to reduce risk and take advantage of each provider's strengths. This approach is helpful in cases where expertise is required on matters of jurisdiction and merits having more than one provider “on deck” also allow a service recipient to obtain more favorable pricing. On the other hand, multi-sourcing can be more complicated than other approaches. Successfully managing

multiple, competing providers requires strong and effective governance procedures.

### Check Your Progress

1. Define the following terms:
  - a. BPO
  - b. KPO
  - c. LPO
  - d. Multi-sourcing
  - e. Managed outsourcing
  - f. Required outsourcing
  - g. [Off shoring](#)
  
2. **Fill in Blanks.**
  - a. \_\_\_\_\_ involves delegation of internal business process to an outside service provider who owns, administers and manages it according to pre-decided parameters.
  - b. \_\_\_\_\_ enables the management to hand over non-core activities of the business to a third party.
  - c. \_\_\_\_\_ is, essentially, high-end business process outsourcing.
  - e. \_\_\_\_\_ Outsourcing which includes internal business functions such as human resources or finance and accounting.
  
3. Distinguish between BPO and KPO.

---

## 16.4 ERP (Enterprise Resource Planning)

---

### 16.4.1 MEANING

Enterprise Resource Planning (ERP) systems integrate internal and external [management information](#) across an entire organization embracing [finance/accounting](#), [manufacturing](#), sales and service, [customer relationship management](#), etc. ERP systems automate this activity with an integrated [software](#) application. The purpose of ERP is to facilitate the flow of information between all business functions inside the boundaries of the organization and manage the connections to outside stakeholders.

ERP systems can run on a variety of [computer hardware](#) and [network](#) configurations, typically employing a [database](#) as a repository for information.

#### 16.4.2 Origin of "ERP"

In 1990 [Gartner Group](#) first employed the [acronym](#) ERP as an extension of [material requirements planning](#) (MRP), later [manufacturing resource planning](#) and [computer-integrated manufacturing](#). Without supplanting these terms, ERP came to represent a larger whole, reflecting the evolution of application integration beyond manufacturing. Not all ERP packages were developed from a manufacturing core. Vendors variously began with accounting, maintenance and human resources. By the mid-1990s ERP systems addressed all core functions of an enterprise. Beyond corporations, governments and non-profit organizations also began to employ ERP systems.

#### 16.4.3 Expansion

ERP systems experienced rapid growth in the 1990s because the [year 2000 problem](#) and introduction of the [Euro](#) disrupted legacy systems. Many companies took this opportunity to replace such systems with ERP.

ERP systems initially focused on automating [back office](#) functions that did not directly affect [customers](#) and the general public. [Front office](#) functions such as customer relationship management (CRM) dealt directly with customers, or [e-business](#) systems such as e-commerce, e-government, e-telecom, and e-finance, or [supplier relationship management](#) (SRM) became integrated later, when the Internet simplified communicating with external parties.

#### 16.4.4 Characteristics

ERP (Enterprise Resource Planning) systems typically include the following characteristics:

- \* An integrated system that operates in real time (or next to real time), without relying on periodic updates.
- \* A common database, which supports all applications.
- \* A consistent look and feel throughout each module.

- \* Installation of the system without elaborate application/data integration by the Information Technology (IT) department.

#### 16.4.5 Advantages

The fundamental advantage of ERP is that integrating myriad businesses processes saves time and expense. Management can make decisions faster, and with fewer errors. Data becomes visible across the organization. Tasks that benefit from this integration include:

- \* Sales forecasting, which allows inventory optimization.
- \* Chronological history of every transaction through relevant data compilation in every area of operation.
- \* Order tracking, from acceptance through fulfillment
- \* Revenue tracking, from [invoice](#) through cash receipt
- \* Matching [purchase orders](#) (what was ordered), inventory receipts (what arrived), and [costing](#) (what the vendor invoiced)
- \* ERP can greatly improve the quality and efficiency of a business. By keeping a company's internal business process running smoothly, ERP can lead to better outputs that benefit the company such as customer service, and manufacturing.
- \* ERP provides support to upper level management to provide them with critical decision making information. This decision support allows the upper level management to make managerial choices that enhance the business down the road.
- \* ERP also creates a more agile company that can better adapt to situations and changes. ERP makes the company more flexible and less rigidly structured in an effort to allow the different parts of an organization to become more cohesive, in turn, enhancing the business both internally and externally.

#### 16.4.6 Disadvantages

- \* Customization is problematic.
- \* Re-engineering business processes to fit the ERP system may damage competitiveness or divert focus from other critical activities.

- \* ERP can cost more than less integrated or less comprehensive solutions.
- \* High ERP switching costs can increase the ERP vendor's negotiating power, which can result in higher support, maintenance, and upgrade expenses.
- \* Overcoming resistance to sharing sensitive information between departments can divert management attention.
- \* Integration of truly independent businesses can create unnecessary dependencies.
- \* Extensive training requirements take resources from daily operations.
- \* Due to ERP's architecture (OLTP, On-Line Transaction Processing) ERP systems are not well suited for production planning and supply chain management (SCM)
- \* Harmonization of ERP systems can be a mammoth task (especially for big companies) and requires a lot of time, planning and money.

---

## 16.5 SUMMERY

---

Generally the business processes are [information technology](#)-based, and are referred to as ITES-BPO. Here ITES stands for Information Technology Enabled Service. [Knowledge process outsourcing](#) (KPO) and [legal process outsourcing](#) (LPO) are some of the sub-segments of business process outsourcing industry.

BPO is distinct from information technology (IT) [outsourcing](#), which focuses on hiring a third-party company or service provider to do IT-related activities, such as application management and application development, data center operations, or testing and quality assurance.

An advanced stage of BPO is [KPO -- knowledge process outsourcing](#). KPO includes those activities that require greater skill, knowledge, education and expertise to handle.

**Legal outsourcing**, also known as **legal process outsourcing** (LPO) refers to the practice of a [law firm](#) or [corporation](#) obtaining legal support services from an outside law firm or legal support services company (LPO provider).

---

## 16.6 QUESTIONS

---

1. What is ITES?
2. What is BPO? Explain its objectives.
3. What is KPO? Explain its objectives.
4. What is LPO? Explain its scope.
5. What is ERP? Explain its scope.
6. Write short notes:
  - a. BPO
  - b. LPO
  - c. ERP
7. **State whether following statements are True or False.**
  - a. ITES, Information Technology Enabled Service, is defined as outsourcing of processes that can be enabled with information technology and covers diverse areas like finance, HR, etc.
  - b. BPO enables the management to concentrate on non core business areas.
  - c. Legal Process Outsourcing (LPO) is one of the value added BPO services.
  - d. Enterprise resource planning (ERP) systems integrate internal and external management information across an entire organization, embracing finance/ accounting, manufacturing, sales etc.
  - e. Back Office Outsourcing includes customer related services such as contact centre services.





## **BANKING AND INSURANCE SECTOR**

### **Unit Structure :**

- 17.0 Objectives
- 17.1 Introduction
- 17.2 Automated Teller Machine (ATM)
- 17.3 Debit Card
- 17.4 Credit Card
- 17.5 Internet Banking
- 17.6 Opening of Insurance Sector for Private Players
- 17.7 Impact of FDI on Banking and Insurance Sector in India
- 17.8 Summary
- 17.9 Questions

---

### **17.0 OBJECTIVES**

---

After studying the unit students will be able to:

- Understand the meaning, features and advantages of ATM.
- Know the meaning, features and advantages of Debit card
- Explain the meaning, advantages and disadvantages of Credit card.
- Elaborate the term Internet banking.
- Discuss the impacts of FDI on Banking and Insurance sector in India.
- Explain about the Opening of Insurance Sector for Private players.

---

### **17.1 INTRODUCTION**

---

The Banking and Insurance sector in India has always been the most preferred avenues of employment. In the current decade the Banking sector has emerged as a resurgent sector in the Indian economy.

Today, banks have diversified their activities and are getting into new products and services that include opportunities in ATM card, Debit card, credit cards, Internet banking, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity, etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries. Liberal policies, Government support and huge development in other economic segments have made the Indian banking industry more progressive and inclusive with regard to global banking standards.

A well developed and evolved insurance sector is a boon for economic development of a country. It provides long-term funds for infrastructure development and concurrently strengthens the risk-taking ability of the country. India's rapid rate of economic growth over the past decade has been one of the most significant developments in the global economy. The penetration is quite less in India as against its peers and hence, the Indian insurance market provides ample opportunities to domestic and international players to harness the profitable avenues in the same. India tops all the countries in terms of life insurance density, according to the World Economic Forums' Financial Development Report 2012.

The banking and insurance industry is challenged by competitive pressures, changes in customer loyalty, stringent regulatory environment and entry of new players, all of which are pressuring the organizations to adopt new business models, streamline operations and improve processes.

---

## **17.2 AUTOMATED TELLER MACHINE (ATM)**

---

### **17.2.1 MEANING:**

An Automated Teller Machine or Automatic Teller Machine (ATM), is a computerized telecommunications device that provides the clients of a financial institution with access to financial transactions in a public space without the need for a cashier.

ATM is a computerized machine that enables a bank's customers to access their account for withdrawing cash, and to carry out other financial and non-financial transactions without visiting the bank's branch.

All banks have introduced the ATM facility. Banks provide on-site and off-site ATM facility to their customers. It is to be noted that the total number of ATMs of public sector banks is quite higher as compared to new private sector banks and foreign banks in India.

### 17.2.2 Procedure of ATM transactions

For transacting at an ATM, the customer inserts or swipes the card in the ATM and enters personal identification number (PIN) issued by the bank. The PIN is the numeric password which is provided to the customer by the bank while issuing the card.

### 17.2.3 Types of Cards:

There are various types of cards that can be used at an ATM. The cards include:

- \* ATM Debit Cards
- \* ATM Credit Cards
- \* ATM Prepaid Card

### 17.2.4 Features of ATM:

The main features of an ATM are:

**1. Services:** The ATM provides various facilities to the bank's customers:

- \* Account balance information
- \* Transfer of funds from one account to another.
- \* Cash withdrawal
- \* Cash deposit
- \* Mini bank statement of bank transactions.

**2. Multipurpose:** The ATM card of one bank can be used at any bank ATM within India under the Shared Payment Network System. For instance, a person holding Bank of Baroda ATM can withdraw the money from SBI ATM. The amounts are accordingly adjusted by the banks. The savings bank account holders can transact a maximum of five transactions free in a month at other bank's ATM. Beyond the five transactions, the customer can be charged by his/her bank.

**3. Cash Withdrawal:** Banks issuing ATM card impose withdrawal limits. The customer is informed of the withdrawal limit. Beyond the withdrawal limit, the customer cannot withdraw the cash.

**4. Customer Support:** Customers can complain the bank regarding deficiency in ATM services. For instance, if a customer is wrongly debited for amount which he has not withdrawn, he/ she can complain to the bank. As per RBI instructions banks have to resolve customer complaints by re-crediting the customer's account within 7 working days from the date of complaint. The customer can take recourse to the local Banking Ombudsman if the complaint is not resolved by his/her bank within the stipulated period.

#### **17.2.5 Advantages of ATM:**

**1. 24 x 7 Banking Services:** The customers can avail of 24 x 7 banking services. For instance, the introduction of ATMs has enabled the customers to obtain 24 x 7 banking services with reference to withdrawal of money, transfer of funds, etc. Customers no longer have to wait in queue to withdraw money nor they have to operate the services only during the banking hours. There fore, ATMs not only, provide quick service but also convenience to the customers.

**2. Convenience to Customers:** The ATMs has reduced the physical presence of customers in the bank during the banking hours. The customers need not wait in queue to withdraw cash from the bank. Due to ATM, there are fewer customers in the bank during the banking hours, and therefore, the customers that visit bank get quick service.

**3. Travel without Cash:** ATM facilitates withdrawal of cash from the bank account whenever and wherever a customer needs it. This means one can travel anywhere without cash. If the location has ATM, one can withdraw money with the help of ATM card. Therefore, an ATM card holder does not have the botheration to carry lots of cash during long distance travel, especially while on a holiday tour.

**4. Good Quality Currency Notes:** ATM withdrawals enable a customer to get good quality or fresh currency notes from the ATM machine. The customer may not get soiled notes from the ATM machine.

---

## 17.3 DEBIT CARD

---

### 17.3.1 MEANING

A debit card is a plastic card issued by a bank to its customers. With the help of debit card, a customer can make payment for goods and services, and the amount gets deducted from the bank balance of the bank's customer. Thus, a debit card can be used as an alternative payment method to cash when making purchases.

### 17.3.2 Features of Debit Card

- 1. Easier to Obtain Debit Card:** Obtaining a debit card is often easier than obtaining a credit card. For issuing credit card, the bank has to check the credit worthiness of the customer. In case of debit card, there is no need for such verification of credit worthiness.
- 2. Personal Identification not Required:** Using a debit card instead of writing cheques saves you from showing identification or giving out personal information at the time of the purchase transaction at the payment counter of the merchant.
- 3. Cash-less Transactions:** Using a debit card frees you from carrying cash or a cheque book. Using a debit card means you no longer have to carry travelers' cheques or cash when you travel.
- 4. Easily Accepted by Merchants:** Debit cards may be more readily accepted by merchants than cheques, especially in other states or countries wherever your card brand is accepted.
- 5. Threshold Limit:** Use of debit card is not usually limited to the existing funds in the account to which it is linked. Most banks allow a certain threshold over the available bank balance, which can cause overdrawn amount fees.
- 6. Universal Usage:** Like credit cards, debit cards also have universal usage. For instance, the international debit card issued by Bank of Baroda is accepted at over 32000 Visa Electron ATMs in India and 1 million ATMs worldwide. The card is also accepted at 3,50,000 merchant outlets in India and around 29 millions globally.

### 17.3.3 Advantages of Debit Card

- 1. Convenience in Payments:** The debit card provides tremendous convenience in payments and helps the customers reduce the amount of cash they need to carry. Besides that customer always stays in control of his finances as he can spend only what he has in his account. It also gives an unparalleled access to his account, whenever he wants, wherever he goes.
- 2. No Interest / service Charges:** in case of debit card, there is any interest charge and service charge. However in the case of credit cards, there are interest charges on the unpaid balances at the end of the month, and sometimes even service charges.
- 3. Suits to the Indian Psyche of Limited Expenditure:** Generally, the debit cards suits the Indian psyche of limited expenditure. Most of the Indians do not want to spend lavishly. The debit card allows only limited payment, and that too upto the balance amount in the bank account. However, credit cards may encourage expenditure beyond the means of the customer, because under credit card, line of credit is offered by the bank to the customer.
- 4. Instant Withdrawal of Cash:** Debit cards allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash. Therefore, debit cards can enjoy all the advantages of ATM cards. Merchants (shopkeepers) may also offer cash- back facilities to customers, where a customer can withdraw cash along with their purchase.
- 5. Less Identification and Scrutiny by Merchants:** Like credit cards, debit cards are accepted by merchants with less identification and scrutiny than personal checks, thereby making transactions quicker and hassle free.
- 6. Payment is not Dishonoured:** Payment through the debit card is always honoured by the bank upto the balance of the account holder. Therefore, merchants accepting the debit cards do not have to bother about the honouring of payment. However, in the case of personal cheque, the payee may not get the payment due to dishonour of cheque.

---

## 17.4 CREDIT CARD

---

### 17.4.1 MEANING

A credit card is a payment card issued to users as a system of payment. It allows the cardholder to pay for goods and services. The issuer of the card creates a revolving account and grants a line of credit to the customer or user. The line of credit enables the user to make payment to a merchant.

### 17.4.2 Advantages of Credit Card

- 1. Convenience:** The main benefit to credit card holder is convenience. Compared to debit cards and cheques, a credit card allows short term credit to customers who need not calculate the balance in her/his account before each transaction. However, the total amount to be paid to the merchant does not exceed the maximum credit line for the card.
- 2. Rewards:** Many credit cards offer rewards and benefits package. For instance, credit cards can offer reward points which may be redeemed for cash, or for products. Users of credit cards can get special discounts which customers who make cash payment may not get, such as at petrol pumps for fuel, or at restaurants/hotels, booking of air tickets, etc.
- 3. Benefits to Merchants:** For merchants, a credit card transaction is often secure than cheque payment. This is because; the issuing bank commits to pay the merchant the moment the transaction is authorized regardless of whether the customer defaults on the credit card payment.
- 4. Protection of Purchases:** Credit cards may also offer you additional protection if something you have bought is lost, damaged, or stolen. Both your credit card statement (and the credit card company) can vouch for the fact that you have made a purchase if the original receipt is lost or stolen. In addition, some credit card companies offer insurance on large purchases.
- 5. Emergencies:** Credit cards can also be useful in times of emergency. For instance, if there is an accident or breakdown of your car, and you need money to face emergency situation, the credit card may come to the rescue.

**6. Universal Acceptance:** Most of the credit cards are accepted internationally. This means, a holder of credit card can use it for make purchases within the country, as well as in international market subject to a certain limit.

#### **17.4.3 Disadvantages of Credit Card**

**1. Overspending:** Credit cards can be dangerous for individuals who are not good at budgeting. The temptation is very easy to overspend because you don't need to pay for your purchases upfront. Regardless of how much money is actually in your bank account, you can make purchases up to your maximum credit card limit. Somehow signing a piece of paper at the time of purchase doesn't always feel like you are actually spending money. This is exactly the mentality that the credit card companies want users to adopt.

Especially the youngsters become compulsive buyers and tend to overspend because of the ease of using credit cards. Cards can encourage the purchasing of goods and services people do not need or cannot really afford.

**2. High Interest Rates and Increased Debt:** Credit card companies charge you an enormous amount of interest on each balance that you don't pay off at the end of each month. The interest rate on unpaid balance is about 20% p.a. This is how the credit card companies make their money and this is how most people in India and other countries get into debt and even bankruptcy.

**3. Credit Card Fraud:** Like cash, sometimes credit cards can be stolen. They may be physically stolen (if you lose your wallet) or someone may steal your credit card number (from a receipt, over the phone, or from a Web site) and use your card to rack up debts. The good news is that, unlike cash, if you realize your credit card or number has been stolen and you report it to your credit card company immediately, you will not be charged for any purchases that someone else has made.



---

## 17.5 INTERNET BANKING

---

### 17.5.1 Meaning

Internet banking is also called as online banking or e-banking. It allows customers of a bank to conduct banking transaction through a website operated by the bank.

### 17.5.2 Customer's Access to On-line Banking

To access bank's online banking facility, a customer must have personal internet facility. The customer must register with the bank for on-line banking. The bank allocates customer number and the customer must set up password. To access online banking, the customer needs to go the bank's website, enter the online banking facility using the customer number and password.

### 17.5.3 Internet Banking Services

The internet banking services can be divided into two groups:

- \* **Transactional services** like hind transfer, payment of bill, investment relating to purchase or sale, loan application and transactions.
- \* **Non-transactional services** like stop payment of a cheque, obtaining online statements of banking transactions, ordering for a cheque book, viewing account balances, and so on.

### 17.5.4 Advantages of Internet Banking:

1. **Convenience to Customers:** Internet banking provides convenience to customers to undertake banking transactions. Customers can undertake banking transactions while at home, office, or even during traveling.
2. **24 x 7 Banking:** Internet banking is available all the time, i.e., 24 x 7. One can undertake banking throughout the year at any time of the day or even at night. The only thing which one needs is internet facility and registration with the bank for on-line facility.
3. **Monitoring the Account:** Internet banking enables the customer to monitor the banking transactions at any time. This facility keeps the bank account safe. The customer can come to know of any fraud before it is too late. If fraud is noticed, the customer must immediately report to the bank.

4. **Bill Payment:** The bill payment in respect of electricity bill, house maintenance bill, mobile bill, etc., can be done efficiently with the help of on-line banking facility. Under standing instructions, a bank can directly make payment to the creditors. Due to efficient bill payment system, a customer need not wait in a queue to pay bills. Also, a customer need not keep receipts of all bill payments, as one can easily view all the payments through the net.

5. **Endorsement of Bank's Products:** Internet banking is also a great medium for the banks to endorse their products and services. The products/services include loans, investment options, etc.

6. **Fast and Efficient:** Online banking is very fast, effective and efficient. Over the Internet, you can make transactions that are typically executed and performed at a much faster pace than at ATM's. These services also give you the option of handling several different bank accounts from one site itself. Most online banking sites are compatible with programs like Microsoft Money and Quicken, which makes management of assets more effective.

#### 17.5.5 Disadvantages

1. **Technology Related Problems:** Internet banking may be affected due to technology related problems. For instance, one cannot use internet facility, if the bank's server is down. There may be also loss of internet connectivity in between the transaction operations.

2. **Initial Difficulty:** Understanding the usage of internet banking might be difficult for a beginner at the first instance. There are some sites which offer a demo as to how to use internet banking facility. However, a person who is new to internet banking might face some difficulty at the beginning to operate the facility. Therefore, there is lack of adaptability to internet banking in India.

3. **Need for Internet Connection:** One cannot operate on-line banking transactions, when there is no internet facility. Therefore, those who do not have internet connection would not be able to take the advantage of on-line or internet banking.

4. **Hacking:** Security of transactions is a problem. Hackers may obtain account information of the bank's customers and hack the account. This means hackers may commit internet fraud and siphon off money from the customer's bank account.

5. **Password Security:** For operating on-line banking, password is a must. The customer needs to memorize the password rather than recording it on diaries or somewhere else. There are chances that the password may be misused when someone gets to know it. This may create a loss to the customer.

6. **Lack of Trust:** The biggest problem is that most people lack trust. Quite often, a customer wonders whether or not he/she performed the on-line banking transaction properly. Of course, you can overcome any uneasiness by printing the transaction receipt. This receipt will conform whether or not your transaction has gone through successfully.

### Check Your Progress

1. Define the terms
  - a. ATM
  - b. Debit card
  - c. Credit card
  - d. Internet Banking
  - e. PIN
2. Distinguish between Debit card and Credit card.
3. Fill in the blanks:
  - a. Payment of bill is a -----service provided by Internet banking.
  - b. Stop payment of a cheque, obtaining online statements of banking transactions, ordering for a cheque book are the -----service provided by Internet banking.
  - c. To access bank's online banking facility, a customer must have -----.
  - d. Internet banking is also called as -----or -----.
  - e. The various types of ATM cards are -----.
  - f. As per RBI instructions banks have to resolve customer complaints relating to ATM by re-crediting the customer's account within ----- working days from the date of complaint.

---

## 17.6 OPENING OF INSURANCE SECTOR FOR PRIVATE PLAYERS

---

### 17.6.1 INTRODUCTION

In 1991, when rapid changes took place in many parts of the Indian economy, nothing happened to the institutional structure of insurance: it remained a monopoly of the Government.

In 1993, Malhotra Committee was set up headed by Mr. R. N. Malhotra (the then Governor of the Reserve Bank of India).. In 1994, Malhotra Comihittee recommended for the liberalization of the Indian insurance. sector. The Committee recommended that the insurance sector to be opened to the private-sector.

Only in 1999, a new legislation came into effect signaling a change in the insurance industry structure. Therefore, in 1999 private insurance companies were allowed back into the business of insurance with a maximum of 26% FDI.

In 1999, The IRA bill is renamed the Insurance Regulatory and Development Authority (IRDA) Bill which was cleared by the Govt. In 2000 IRDA Bill became an Act with the assent of the President of India.

### **17.6.2 Private Firms in the Indian Insurance Sector**

The Indian Insurance Industry has undergone several changes in trends and policies in the year 2010. The \$ 41 billion industry is considered the fifth largest life insurance market, and is-growing at a rapid pace of 32-34% annually, according to the Life Insurance Council.

State-owned Life Insurance Corporation (LIC) of India has recorded about 37% growth in its new business premium to US\$ 15.1 billion during April to January FY 2010, the data from IRDA stated. Overall, 23 life insurers in the country collectively mopped US\$ 21.35 billion as new first year premium during the period, a 26% increase from US\$ 17 billion during April-January 2009-2010.

Out of this, the 22 private life insurers together accounted for US\$ 6.26 billion worth of new business in April-January 2010-11, compared to US\$ 5.91 billion in the year ago period, a growth of about 6%.

Among the private life insurance players, SBI Life saw its premium collections from new business grew by 9% to US\$ 1.1 billion during the period, while ICICI Life's premium collections from new businesses grew to US\$ 1.15 billion April-January 2010-11, from US\$ 964 million during the same period last year.

### **However only 0.2% of population covered**

Currently, in India only two million people (0.2% of the total population of 1 billion) are covered under Medclaim, whereas in

developed nations like USA about 75% of the total populations are covered under some insurance scheme. With more and more private companies in the sector, the situation may change soon.

India insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian insurance sector has been allowed to flourish, and as Indians become more familiar with different insurance products, this growth can only increase, with the period from 2010 - 2015 projected to be the 'Golden Age' for the Indian insurance industry.

1. HDFC Standard Life.
2. Tata-AIG General
3. BirlaSunLife
4. Bajaj-Allianz General
5. SBI Cardiff Life
6. ICICI-Lombard and so on.

---

## **17.7 IMPACT OF FDI ON BANKING AND INSURANCE SECTOR IN INDIA**

---

Foreign direct investment (FDI) is direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operations of a existing business in that country.

### **17.7.1 Investment up to 74% in private banks**

"The Indian government brought into effect liberalized norms for foreign direct investment (FDI) in the financial sector allowing up to 74 percent investment in private banks.

At all times, at least 26 percent of the paid up capital will have to be held by residents, except in regard to a wholly-owned subsidiary of a foreign bank. The guidelines would apply to all existing private sector banks.

The notification clarifies that in the case of FII, the earlier restriction of investment limit of 49 percent with the approval of the board of directors followed by a special resolution by the general body would remain.

### 17.7.2 NRIs-

In the case of NRIs, individual holding is restricted to five percent and the aggregate limit cannot exceed 10 percent. However, NRI holding can be allowed up to 24 percent, provided the banking company passes a special resolution to that effect in the general body.

In the post liberalization period, the Government of India has allowed FDI in private banking sector upto 74% and in the private insurance sector upto 26% of the total equity. The FDI in insurance sector may increase to 49% in the near future, once the Parliament clears the proposal.

### 17.7.3 Importance (Positive Impact) of FDI

1. **Transfer of Technology:** The foreign partner transfers technology and process to the domestic. The transfer of technology would help to improve quality, improve quantity (due to speed) and reduction of costs. This helps to improve productivity of the domestic banks / insurance firms.
2. **Professional Skills:** The foreign partner may depute professional managers to assist the management of the domestic bank / insurance firm. The foreign bank / insurance firm may also provide training to the staff of its domestic partner. This will help to improve efficiency of the personnel, which in turn can generate higher returns.
3. **Economic Development:** FDI in banking / insurance sector facilitates economic development of a nation. Due to FDI, the domestic bank can provide more funds (loans/advances) to firms. This increases the production of goods and services, which in turn enhances economic growth of the nation.
4. **Employment:** FDI helps to create direct and indirect employment.
  - \* Direct employment in the banks / insurance firms where FDI is deployed.
  - \* Indirect employment in the sectors in primary and secondary sectors. Due to employment, the purchasing power of the employed increases and therefore, they can enjoy higher standard of living.

5. **Corporate Image:** Foreign banks / insurance firms invest equity in select domestic banks / insurance firms. Therefore, the corporate image of the domestic banks (in which FDI is undertaken) improves not only in the domestic market but also in international markets.
6. **Revenue to Government:** Due to FDI, the domestic bank / insurance firm can lend more funds in the market to provide insurance. The business firms can expand their business activities due to the credit / insurance provided by the banks / insurance firms. Expansion of business may enable to earn higher returns. As a result the Govt, may earn higher revenue by way of direct and indirect taxes.
7. **Customer Service:** FDI brings in modernization and professionalism. Therefore, customers get better services due to professional approach of the staff.
8. **Entry in Overseas Markets:** FDI may enable private banks / insurance firms to set up branches abroad. The Indian banks can take the advantage of goodwill of the foreign partner to set up branches in overseas markets. Setting up bank branches / insurance branches abroad facilitates the growth and expansion of Indian players.
9. **Improvement in Efficiency:** FDI may generate higher efficiency in the banking / insurance sector. The efficiency of the staff may improve due to the following reasons:
  - \* Training and development.
  - \* Technology up gradation.

#### **17.7.4 Problems faced by the Indian Banking Sector:**

- Inefficiency in management
- Instability in financial matters
- Innovativeness in financial projects or schemes
- Technical development happening across various foreign markets
- Non – performing areas or properties
- Poor marketing strategies
- Changing financial market conditions

---

## 17.8 SUMMERY

---

The services provided by banks have become more easy and convenient. ATM, Debit card, Credit card, Internet banking are some of the popular services.

ATM is a computerized machine that enables a bank's customers to access their account for withdrawing cash, and to carry out other financial and non-financial transactions without visiting the bank's branch.

Credit cards are financial instruments, which can be used more than once to borrow money or buy products and services on credit. Basically banks, retail stores and other businesses issue these. Credit card is a way to "pay later."

Debit cards operate like cash or a personal check. Debit card is a way to "pay now." When we use a debit card, our money is quickly deducted from the bank account. Debit cards are accepted at many locations, including grocery stores, retail stores, gasoline stations, and restaurants. It's an alternative to carrying a checkbook or cash. With debit card, we use our own money and not the issuer's money. In India almost all the banks issue debit card to its account holders.

Internet banking or E-banking allows customers of a [financial institution](#) to conduct financial transactions on a secure website operated by the institution. Customers can check the account, transfer the funds or make various payments through internet banking.

---

## 17.9 QUESTIONS

---

1. Write a note on ATM.
2. Explain the advantages and limitations of ATM.
3. What is a debit card? Explain its advantages and disadvantages.
4. What is credit Card? Explain its advantages and disadvantages.
5. What is internet banking? Explain internet banking in India.
6. What are the various services which could be availed through e – banking.
7. Write a note on 'opening of insurance sector for private players.'
8. What is FDI? Explain its impact on banking sector in India.



9. What is FDI? Explain its impact on insurance sector in India.

**10. State whether following statement are True or False.**

- a. An Automated Teller Machine or Automatic Teller Machine (ATM), is a computerized telecommunications device that provides the clients of a financial institution with access to financial transactions in a public space with the need for a cashier.
- b. In a debit card you have to pay only one time fee with no extra interests or surcharges like late fee.
- c. Foreign direct investment (FDI) is direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.
- d. Foreign Direct Investment (FDI) in the insurance sector is capped at 36 percent.
- e. The debit card encourages lavish expenditure as compared to credit card.
- f. Most banks in India do not issue AMT cards.
- g. Internal banking offers banking services only to fixed hours.
- h. At present, FDI is allowed only in the case of single brand retail.

**11. Fill in the blanks.**

- a. \_\_\_\_\_ATMs are typically more advanced, multi-function machines that complement a bank branch's capabilities.
- b. A \_\_\_\_\_card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services.
- c. foreign Direct Investment is seen as an important source of inflows.
- d. \_\_\_\_\_ Banks have the largest number of ATMs in India.
- f. \_\_\_\_\_ is issued to customers who have a bank balance.



## LOGISTICS AND NETWORK

### Unit Structure :

- 18.0 Objectives
- 18.1 Introduction
- 18.2 Meaning and Definition
- 18.3 Introduction to Networking
- 18.4 Importance of Networking
- 18.5 Challenges of Networking
- 18.6 Logistics Sector in India
- 18.7 Summary
- 18.8 Questions

---

### 18.0 OBJECTIVES

---

After studying the unit students will be able to:

- Know the meaning and elements of Logistics.
- Understand the meaning of Networking.
- Explain the importance of Networking.
- Elaborate the challenges of Networking.

---

### 18.1 INTRODUCTION TO LOGISTICS

---

Logistics is the management of the flow of resources, between the point of origin and the point of destination in order to meet some requirements, i.e. of customers or corporations. The resources managed in logistics can include physical items as ,food, materials, equipment, liquids and staff as well as abstract items as information. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, warehousing and oftentimes security

---

## 18.2 MEANING AND DEFINITION

---

### 18.2.1 MEANING AND DEFINITION

The logistics network is a vast system of companies /organisations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer.

**Philip Kotler defines logistics as** "planning, implementing, and controlling the physical flows of materials and finished goods from the place of origin to the point of use to meet the customer needs at a profit."

**The International Council of Logistics Management defines logistics as** "the process of planning, implementing, and controlling the efficient and effective flow and storage of raw materials, in-process inventory, finished goods and related information from the point of origin to the point of consumption to meet customer requirements."

### 18.2.2 Elements of Logistics:

The elements of logistics network are as follows:

**1. Facility Location and Network Design:** The logistics department must design the location of facilities from where the logistics operations would be carried out and their interconnection.

The logistics department should decide about the location, size and number of logistics facilities like material handling facilities, manufacturing plants, warehouses, wholesale and retail outlets. These aspects of logistics would affect other aspects like levels of inventory, transportation, packaging and delivery.

**2. Information:** Logistics is essentially an information-based activity of inventory movement across a supply chain. Information systems play a vital role in delivering superior service to customers. Use of the Information Technology (IT) tools for information, identification, access, storage, analysis, retrieval and decision support in logistics enables firms to compete effectively.

**3. Customer Order Processing:** The purchase order placed by the buyer contains details of quality and quantity of product,

price, delivery schedule, payment terms, and other terms as agreed upon. The customer order processing must verify the following:

- \* Delivery schedule.
- \* Location of delivery.
- \* Specifications of the product.
- \* Payment terms and conditions including credit period, etc.

**4. Inventory Management:** It is concerned with maintaining enough inventories to meet customer requirements. Inventory management tries, to achieve a balance between customer satisfaction and costs of maintaining inventories. The firm should not maintain too high inventories or too low inventories. If too high inventories are maintained, it would affect working capital requirements, and if too low inventories are maintained, it may affect delivery schedules. Therefore, inventory management is concerned with maintaining the right level of inventory to meet customer requirements at lowest cost.

The following activities are involved in inventory management:

- Analysis of on-hand inventory.
- Communicating the quantity, quality and timing of material requirements with the supply points.
- Obtaining the right quality and quantity of materials at the right time.

**5. Warehousing:** It refers to storage of finished goods until they are delivered in the market. Warehousing is an important element in logistics. It is directly linked to the firm's ability to deliver the desired level of customer requirements. Major decisions in warehousing are:

- \* Location of warehousing facilities
- \* Size and number of warehouses.
- \* Design and layout of warehouses.
- \* Ownership of warehouses - company owned or hired.

**6. Transportation:** Transportation is the most basic component of logistics. It facilitates the movement of goods from supplier to the buyer. The physical movement of goods can take place through various transportation modes such as air, road, rail, water, and pipeline (for gas). The mode of transportation depends on certain factors such as:

- \* Cost of transportation.
- \* Urgency of the product to customers.
- \* Nature of goods.
- \* Location of the customer.

**7. Material Handling:** The speed of the inventory movement across the supply chain depends on the material handling methods. Mechanization and automation in material handling enhance the logistics system productivity. Improper method of material handling will add to the product damages and delays in deliveries and incidental overheads. Considerations for selection of material handling system include the volumes to be handled, the speed required for material movement and the level of service to be offered to the customer.

**8. Logistical Packaging:** It is an important element of physical distribution of a product. It differs from product packaging, which is based on marketing objectives. Logistical packaging facilitates protection to the product during transit. Certain decisions have to be taken in respect of logistical packaging such as:

- \* Materials used for packaging.
- \* Cost of packaging.
- \* Design of packaging.
- \* Marking and labelling.

---

### **18.3 INTRODUCTION TO NETWORKING**

---

Business networking is leveraging the business and personal connections to bring a regular supply of new business.

Many businesspeople contend business networking is a more cost-effective method of generating new business than advertising or public relations efforts. This is because business

networking is a low-cost activity that involves more personal commitment than company money.

Business networking can be conducted in a local business community, or on a larger scale via the Internet. Business networking websites have grown over recent years due to the Internet's ability to connect people from all over the world. Internet companies often set up business leads for sale to bigger corporations and companies looking for data sources.

---

## **18.4 IMPORTANCE OF NETWORKING**

---

Studies have shown that 27% of new hires at companies often happen as a result of referrals and people believe that 80% of these jobs are the result of some form of networking. Networking can be the simple exchange of information between people at a restaurant or coffee shop, or it can just as easily take place when somebody posts an announcement about a job on a website. Following is the importance of Networking:

### **1. Shared Knowledge**

Being a part of a network and sharing ideas leads to shared knowledge. There is usually more than one way of accomplishing a goal and receiving feedback and discussing other points of view really expands your knowledge base and allows you to see things from a broader perspective.

### **2. Opportunities**

Networking always results in the creation of opportunities, the thing is, you have no idea when or where they may materialize, which is why it's important to be an action taker, ready to seize on a beneficial opportunity when it does come along.

### **3. Connections**

People within a network of friends will have connections with many other people they have encountered in their own lives. When someone they know has a need and can benefit from products and services offered by someone within the network, that person will likely get the call.

#### **4. Promotion**

From blog post to product launches, you have people who will assist you in the promotion of goods and services. This saves you time and removes the risk of over promoting your own content and products. There is also the benefit of additional traffic to your site and an increase in subscribers and sales.

#### **5. Online business expansion**

Social networking sites like Twitter and Face book are teeming with people and opportunities to connect with others who are traveling a similar path.

Visit their blogs and interact with them, becoming a part of a few communities. This will enhance your flow of traffic and expand your overall online presence

#### **6. Information**

Information is an outcome of networking. When you go to network parties you are almost guaranteed to gain information. This will give you business leads.

#### **7. Skills**

Developing skills is a benefit of networking. Networking is a skill in itself. The more you network, the better you do and the more chances there are that you will grow.

#### **8. Raising your profile**

Being visible and getting noticed is a big benefit of networking. You. can then help to build your reputation as a knowledgeable, reliable and supportive person by offering useful information or tips to people who need it. You are also more likely to get more leads and referrals.

#### **9. Positive Influence**

The people that you hang around with and talk to do influence who you are and what you do, so it is important to be surrounding yourself with positive, uplifting people that help you to grow and thrive as a business owner.

Networking is great for this, as business owners that are using networking are usually people that are really going for it, positive and uplifting.

### **10. Increased confidence**

By regularly networking, and pushing yourself to talk to people you don't know, you will get increased confidence the more you do this. This is really important as a business owner, because your business growth is dependent on talking to people and making connections.

---

## **18.5 CHALLENGES OF NETWORKING**

---

Following are the challenges of Networking:

### **1. Staying ahead**

The business world in no way stops advancing and neither should you. Listen to everybody that has knowledge inside the marketplace and keep an eye out for brand new or approaching modifications in technology. Network marketing is really a rapidly shifting world and you have to be able to stay ahead of the curve for the most financial gain possible.

### **2. Collaborating with community forums**

It is necessary to sign up for and collaborate with network marketing community forums. Executives need to use these discussion boards and provide suggestions to genuine problems people might be encountering.

### **3. Developing your personality**

Improving your business starts with improving yourself. Work on your mindset along with the way you present yourself to your consumers. In network marketing, people don't purchase items from an organization but from an individual. Pay attention to your physical appearance, the way in which you sound on the phone or your style when you compose e-mails.

### **4. Convincing people**

Find ways to connect with the people you might be trying to network with. If they sense that you are simply looking to build your own business, they are not going to be going interested in the opportunity. However, if you show them that networking is going to



be mutually beneficial then they are more likely to say yes to your proposals.

### **5. Building credibility**

Networking isn't about selling your company from the time you meet. It's about building a sense of credibility about you and then cultivating a relationship. And building credibility requires more than an exchange of business cards and adding one another as connections on LinkedIn.

### **6. Online & offline**

Going online is a great way to make initial contact, but contact is not enough to create an optimal relationship. Building successful relationships is possible through online networking alone, but face-to-face networking or follow-up tends to work better.

### **7. Ongoing Process**

It is of absolute important to remember that networking is an ongoing process. Meeting somebody once does not quite make for an instant solid relationship. You will need to make the continuous effort to re-connect with them..

---

## **18.6 LOGISTICS SECTOR IN INDIA**

---

The Indian logistics sector faces a number of challenges. The challenges are mainly on account of infrastructural problems. However, there are other issues that pose a challenge to the logistic sector:

### **1. The infrastructural bottlenecks:**

Infrastructure is one of the biggest challenges faced by the Indian logistics sector and has been a major deterrent to its growth. Infrastructural problems like bad road conditions, poor connectivity, inadequate air and sea port capacities and lack of development of modes of transports like railways and alternates like inland water transport and domestic aviation have been constant irritants. Due to the infrastructural bottlenecks costs per transaction in Indian logistics sector is very much high compared to those in the developed markets.

Transport by road forms an important component of freight movements within India, with a large chunk of goods, over 65

percent, being moved by road. The poor infrastructure has severely crippled the smooth functioning of logistics operations. With narrow and congested highways, poor surface quality of roads and 40 percent of villages not having access to all-weather roads, the efficiency of the transport system is severely affected.

Pathetic road conditions combined with the fact that India is perhaps one of the least connected regions in the world constitute a major impediment. Poor connectivity via roads and railways to ports, warehouses and logistics hubs is major infrastructural bottleneck. Movement of goods within the country is fraught with delays and risks.

The bulk of Indian foreign trade is carried by sea routes and the existing port infrastructure is insufficient to handle trade flows effectively. The current capacity at major ports is overstretched and their infrastructural upgrades are being made at very slowly pace. While Shanghai's ports can turnaround a container ship in 8 hours, the same ship in Mumbai takes 3 days.

The Indian government has started paying attention to the problems being faced by the logistics sector and has initiated several infrastructural projects to mitigate their woes. Projects like rail freight corridors and development of the inland waterways as a means of developing alternative modes of transport are being planned. Some important steps are being taken in augmenting the rural infrastructure like connecting majority of the habitations with all weather roads, construction of new roads and upgrading of existing ones etc. New port and a large container handling facilities are on the cards. But all these are still not sufficient to cater to the growing needs of the economy.

## **2. Delays and Spoilage:**

Huge traffic jams and a large number of documentation have resulted in delays and spoilage of certain goods. In contrast to this, vehicles in western parts of the world move much faster and have swifter and easier documentation. It is to be noted that vehicles in the western parts of the world run at three times the speed of vehicles in India.

## **3. Inter-State Check Posts:**

Inter-state check posts, surprise checks and unauthorized hold ups on highways (some due to security reasons while others

are to establish the authenticity of the cargo as declared) create problems.

#### **4. Problems of Warehousing:**

In India, warehousing has also been typically dominated by small players with small capacities and poor deployment of handling, stacking and monitoring technologies. While it has had detrimental effect on almost all sectors, the food sector has been the one that has suffered the most due to low investment in cold storage chains and allied machinery. Erratic power supply have also meant low dependence on technology and a more manual operation.

#### **5. Problem of Unorganised Sector:**

In India, a major part of transportation is handled by the unorganised sector. It is estimated that about 85% of the road transport facilities are provided by unorganised sector. Due to the unorganised sector presence, there is poor handling and delays in delivery of goods. This is because; the unorganised sector does not adopt professional approach towards their operations.

---

### **18.7 SUMMERY**

---

Logistics is the management of the flow of resources, between the point of origin and the point of destination in order to meet some requirements.

Facility Location and Network Design, Information, Customers order processing, Inventory management, Warehousing, Transportation, Material handling, Logistical packaging are the elements of Logistics.

Business networking is leveraging the business and personal connections to bring a regular supply of new business.

Networking is important as it leads to shared knowledge, creates opportunities, connects people, promotes goods and services, enhances online business, gains information, develops skills, builds reputation, helps to grow and thrive as a business owner, and increases confidence.

The challenges of Networking are staying ahead, collaborating with community forums, developing personality,

convincing people, building credibility, going online and offline, ongoing process.

The Indian logistics sector is facing a number of challenges such as: The infrastructural bottleneck, Delays and spoilages, Interstate check posts, problems of warehousing, problems of unorganized sector.

---

## 18.8 QUESTIONS

---

1. What is logistics?
2. What is business networking? Explain its importance.
3. Explain the guidelines for successful networking.
4. What are the challenges of networking?
5. Write a note of Element of Logistics.
6. **State Whether following statement are True of False.**
  - a. Logistics is the management of the flow of resources, between the point of origin and the point of destination in order to meet some requirements.
  - b. Networking is about selling your company from the time you meet people.
7. **Fill in the Blanks.**
  - a. \_\_\_\_\_ is the science of planning, organizing and managing activities that provide goods or services.
  - b. Business \_\_\_\_\_ is leveraging your business and personal connections to bring you a regular supply of new business.



## INTRODUCTION TO E - COMMERCE

### Unit Structure :

- 19.0 Objectives
- 19.1 Introduction
- 19.2 Meaning & Definition
- 19.3 Objectives of E-Commerce
- 19.4 Features / Natures of E-Commerce
- 19.5 Functions of E- Commerce
- 19.6 Scope of E – Commerce
- 19.7 Importance of E-Commerce
- 19.8 Limitations of E-Commerce
- 19.9 Summary
- 19.10 Questions

---

### 19.0 OBJECTIVES

---

After studying the unit students will be able to:

- Understand the meaning and definition of E- Commerce.
- Explain the features of E-commerce.
- Elaborate the functions of E-commerce.
- Know the scope of E-commerce.
- Explain the importance of E-commerce.
- Know the limitations of E-commerce.

---

### 19.1 INTRODUCTION

---

Change is the rule of nature and commerce cannot be an exception for it. Literally speaking commerce is trade and aids to trade. In other words buying and selling of goods and services and for the purpose of doing these two activities softly and smoothly, other activities such as transportation, insurance, warehousing, finance, labeling, branding, marketing, advertising etc. are required.

The involvement of all these in the process of buying and selling is called commerce.

In fact it is a very old concept and it dates back to human civilization. Since then it started developing from one form to another form (i.e. from barter stage up to the world economy stage) but it hard steady and gradual change which is known as commerce evolution.

At the initial stage of 21<sup>st</sup> century there was introduction of liberalization, globalization and privatization (LPG concept.) it was the drastic change in commerce scenario. Due to this the market became boundary less; the whole world became a single market. Being distances reduce between two countries there was dare need to have speedy and quick communication system with which transaction between two countries or among the countries can easily take place. From the view point of whatever developed technology is used for the purpose of information and transaction is electronic mode information. This change in business system for information is known as E-commerce. That is Electronic commerce. It is revolutionizing way of business and consumer transact across the globe through this way. It is expected that it will grow to a greatest extent in a near future and lots of people connected through.

IT industry has become the most robust industry in the worlds is a part and parcel of economic aspect. It increases productivity, particularly in the developed countries and therefore it is a key driver of global economic growth.

The Information Technology in the business solution are available and affordable for businesses which is both large and small. The adopting it businesses can reduce the product cost, commercial cost, communication cost and services cost. The Indian Information Technology industry is playing very important role in putting India on the globe map. Further, it leads sectors to grow from 4% to 7% during 2009-10 and expected to grow up to 10% in near future. It is also useful for customer relationship. That is why E-commerce has become the need of the time now a days.

---

## 19.2 MEANING AND DEFINITION.

---

E-commerce is said to bring about a paradigm shift in the world of trading. It cuts down the channels of intermediaries between the producer and the customer. It reduces the cost of marketing and bring customer closer and closer to the business with the help of ICT i.e. Information, Communications and Technology.

E-commerce is nothing but it is buying and selling of goods and services on the internet, complements traditional trade.

E-commerce can best be described as buying and selling of goods and services over the internet. This includes both B2B and B2C transactions. It is very flexible and keeping pace with the changing world.

It is also known as electronic shopping. It includes doing business online or buying product and services through web store fronts. The product may be trading of any physical product such as car, tractor etc. the services may be distance education, online medical consultation with a hospital outside the country or arranging excursion etc. E-commerce is a business conducted exclusively through an electronic format. It is also a particular type of E-business focusing around individual business transactions that use the net as a medium of exchange. E-commerce is purchasing and selling, perusing and servicing, transferring goods and making payment of products, service and information over the internet, intranets, extranets and other network between and internetworked enabled enterprises and its prospects, customers, suppliers and other business partners. Therefore E-commerce can be considered as a system, as a sales approach, as a strategy, as a technology or a separate business.

“Formulating commercial transaction at a site remote from the trading partner and than using electronic communication to execute that transaction.”

**“David Whitely”**

“The seamless applications of information and communication technology from its point of origin to its end points along the entire value chain of business processes conducted electronically and design to enable accomplishment of business goal”

**“Wigand”**

E-commerce can be broadly defined as any form of business transactions in which the parties interact electronically rather than by physical exchange of documents or direct meeting amongst officials.

It is also defined as a modern business methodology that addresses the desires of firms, consumers and management to cut cost while improving the quality of goods and increasing the speed of services.

In simple we can define E-Commerce as the sharing of business information, maintaining business relationship and conducting business transaction by means of network.

---

### **19.3 OBJECTIVES OF E-COMMERCE**

---

1. To employ professionally qualified personnel to design the websites, Write the soft ware, create the contents, operate and maintain the site.
2. To improve customer service and increase customer satisfaction.
3. To build websites to develops brands or increase exiting marketing program.
4. To provide product servicing at affordable price.
5. To control hardware and software costs.
6. To reduced supply costs, improve quality and fastest delivery of ordered goods.

---

### **19.4 FEATURES / NATURES OF E-COMMERCE.**

---

Feature means discussing that particular concept with all aspect. It includes its functions, importance, scope etc. With the help of above noted discussions and definition we can conclude the following features of E-commerce.

#### **1. UBIQUITY**

Ubiquity means comprehensiveness or it makes anything available anywhere or at anytime. Online shops never close. No doubt online shopping has given setback to traditional businesses in some ways but helped it in other ways. The most favorable thing is clicks-and get the things. You can order online and pick it up at the shop .due to E-commerce business are compelled to adopt online system or vanish from business scenario. Another negative point is that small families are not benefited by this as traditional businesses were serving. But now no companies can made compulsory to the stores a quota for sell as they use made earlier.



## **2 GLOBAL REACH**

It is a great feature of e-commerce. Its meaning is by sitting at one place you can make purchase from anywhere in the world. This is an opportunity given to businesses to reach other markets and to billions of potential customers. In case of traditional business advertisements were given through different means like radios, televisions' etc and reaches at the customer's door. But now the web is created and has opened another world for business and advertising. Traditional businesses now advertising on online that is more affordable and reaches to maximum consumers than television or radio. There are some Sites like Google and other which are giving advertising where customer can reach at a click and huge expenses are saved by businesses.

## **3 UNIVERSAL STANDARDS**

Universal Standards means standard accepted by universe or worldwide. This is a revolutionary stage accepted by every country throughout the world that they use identical technical standard which help to maintain uniformity of transaction relating to information sharing, e-payment, e-learning etc. It gives us all the ability to connect at the same level and it provides network externalities that will benefit everyone. Universal standards are a part of global reach; so it is one big marketplace, where lower entry costs and minimal search costs as compared to traditional commerce are occurring. So this how e-commerce has benefited to traditional businesses' into improving on their customer service. Anywhere. If Staples does have something you need in stock will actually order it for you and personally deliver it to your door.

## **4 RICHNESS**

Richness is the intricacy and satisfaction giving part of the message. And it exists when we think about marketing and other sales premises. In fact at the time of marketing and selling product there is need of inculcating inner feelings which is possible with physical sales. There customer can see product and pay personal attention and feel happy themselves. But now the web and e-commerce has made it possible to deliver the same kind of "feeling" or message without the face to face interaction. And I thought that this has made possible by traditional businesses through greater improvement in their customer service so they can make a traditional shopping experience richer than ever before. The store like Areopostale, DEB and Wal-Mart appoints shopping helpers to enhance customers shopping experience.

## 5 INTERACTIVITY

Interactivity means seller engage customers online without an actual face-to-face communication or experiences but like face to face interactions. This kind of interactivity of e-commerce is quite suitable and beneficial as business interacts on a much large scale. E-commerce can collect information from consumers more easily and efficiently with forms and surveys. There are some businesses which have conducted surveys with all their receipts and offer a discount to the customers in next shopping trip for filling it out.

## 6 INFORMATION DENSITY

Information density gives consumers better quality information and more about customer's .I felt it is part of interactivity. Because most of the companies use to offer buy at best price by giving comparison between two companies prices .as we know that e-commerce prices are more transparent so traditional business are also trying to compete with e-commerce by making traditional shopping more easier with the help of customers information

## 7 PERSONALIZATION AND CUSTOMIZATION

Personalization and customization means giving message as per customers likes preferences, choices, and their needs and wants. There are some websites which designs their homepage with full information of selected products &customers. They also advertise the some products which are matching with customers' needs and requirements. Personalization and customization is very much hard to traditional business to do because it is like richness (complexity and content of message)here traditional businesses must have to set up some specialty shops to satisfy the customers and e-commerce helps to these business to survive and grow in today's business environment by providing personalization and customization facility.

---

## 19.5 FUNCTIONS OF E- COMMERCE

---

Following are the functions of E-commerce:

### 1. GLOBAL SOURCING:

It is one of the important features of E-commerce that it has global reach. It means the users of internet are spread out through over the world. With the help of the e-commerce technology has

allowed transactions to across national boundaries. It mostly employs temporary workers across all levels such as IT workers, legal services, public relations, and media personnel.

**2. CUSTOMER SATISFACTIONS:**

For any business, customer's happiness is important. They cannot be lured. They much aware of. E-commerce gives top priority to customer's satisfaction by delivering products and services fast. No doubt customer's desires are unpredictable but important to analysis. E-commerce through online research tries to understand the needs and wants of customers and accordingly prepares the business.

**3. FACILITY OF E-MAIL:-**

E-mail continues to be the leading driver of E-commerce. It is commonly used in online communication. Therefore email has emerged as an effective communication medium and marketing device large number of transactions in e-commerce is conducted through email.

**4. ELECTRONIC DATA INTERCHANGE (EDI):-**

it is one of the functions of e-commerce to facilitate the working of an information system called EDI. This information system links a company, with which it has some kind of transactions and enables the data to be transmitted and received without rekeying. It is different from email in the sense that it transmits actual transaction such as transaction date, amount, senders name, receivers name etc. EDI takes place when a business transmits computer-readable data in a standard format to another business.

**5. SAFETY AND SECURED TRANSACTION: -**

E-commerce provides safety and security to business transactions. Nobody should have easy access to the transactions done on the NET. Good amount of privacy is maintained to avoid forging transaction. Confidentiality of transaction is the main element of ecommerce to make it successful.

**6. MOTIVATING BUSINESSMEN:-**

Now a day's most of the businessmen are planning to put their business online. No doubt some research is to be undertaken to find out opportunities on online business and select a business which will help him to achieve his target. If he doesn't have

experience then he can use soft ware packages, which are user-friendly and are easily available. With the help this he leads his business to a greater extent and will be able to motivate to customer to buy product and services.

**7. FACILITATES E-BANKING:**

An important aspect of E-commerce is fast growing e-banking. Under e-banking services are provided to customers electronically, which are of two types a) online banking transactions and b) electronic fund transfer.

Online banking means customer can withdraw amount from his account without writing cheque.

Electronic funds transfer means transmission of financial transactions, both debit and credit, between banks and customers or banks and companies.

**8. FACILITATES E-SHARE TRADING:**

In India, physical share trading was existing. In the year 1994 National Stock Exchange introduced electronic share trading. Here, process of trading remains same for both, physical and electronic. The difference is in communication. Under electronic trading transmission of data is from earth station to satellite and back to broker's office and again in reverse direction. So Ecommerce has gained a lot through this prompt and reliable technology.

**9. OTHER FUNCTIONS:**

Ecommerce performs certain functions like e-shopping, providing After Sale Service, e-journals etc. all these functions are giving comfort, convenience and easiness to the customers and business units.

---

**19.6 SCOPE OF E – COMMERCE**

---

Scope of E commerce means where E-commerce is implemented or utilized in a field. Now a day it has very vast scope, it is applicable to various functions of day to day activities, for example email, barcodes, World Wide Web or electronic data interchange. To know scope of E-Commerce following points can be discussed.

**1. ONLINE RETAILING:-**

E- Commerce helps to grow online retailing. Online retailers exploit opportunities and do fast business with lower marginal profit. It gives high customers satisfaction and helps to increase total sales. Online transaction lead to increase trust and comfort with ethical business therefore every shoppers trying to opt for online transaction as familiar brand, simplified ordering and return processes availability all the times of goods and services.

**2. ONLINE RESEARCH:-**

Online research is becoming main part of the E-commerce. Paper questionnaire is given on web page and result are automatically posted to a data base, this kind of survey is economical and speedy. These research can be used more visuals and video, such type of collecting information develops interactivity. Online research is reliable and cost effective.

**3. FACILITATES E-PROCUREMENT:-**

Procurements means to fill up or recruit. In a business, business needs two types of materials known as direct and indirect materials. Direct materials are basic to the production and it decides or determines features and capabilities of firm products. It includes Raw materials and machineries. Indirect materials supports the business, it is needed for operations affecting cost. It includes office supplies and spare parts of machineries. E-commerce facilitates procuring these materials electronically

**4. SERVICES OF AGENT:**

the use of agents in E-Commerce has become necessary to provide user friendly E-Commerce solution to customers. For example now a days in such a growing online marketing situation customer needs certain tools to help them to short down the choices of the products. There are certain tools or software programs which called as agent are taking note of it an accordingly as per users preferences matching their choice against the available products which gives maximum satisfaction to the customers.

**Check Your Progress**

1. "Now a day E-commerce is applicable to various functions of day to day activities". Explain.
2. Enlist the functions of E-commerce.
3. "E-Commerce is the sharing of business information, maintaining business relationship and conducting business transaction by means of network". Discuss.

---

## 19.7 IMPORTANCE OF E-COMMERCE

---

In today's technological era, E-Commerce plays very important roles as it gives maximum satisfaction in marketing, production, advertising or communication system of business and helps to both customer as well as business man. Besides this there are other functions or benefit given by the E-Commerce is as under.

### 4. Connecting all:

E-Commerce is not an independent but relied on network connectivity. Therefore business unit can expand beyond its geographical location and can be transacted to any part of the world. It has global market therefore there is a increase sales turnover, for example amazon.com is purely internet based book store has developed more than any established book stores.

### 5. Locate the product quickly:

Locate the product quickly ,the title itself indicate its meaning that for finding product immediately there are some search boxes, customer by clicking only once find out the desired or expected product and met his/her needs. This is one of important function of E-Commerce helps customer.

### 6. Lower cost

In a marketing people considers cost as a sensitive parts. E-Commerce lowers the cost. It's effects is customers are able to get products with a discounted price. Here some of the ways with what E-Commerce reduces cost are:

**A. Advertising and marketing:-** these activities will be undertaken on search engine, paper click and some social media traffic which incurs less cost.

**B. Less personnel :** - it means there is a no need of a men to deal with check out, billing, payment or inventory management, therefore there is a cost saving. There is no need of physical assets for a purpose of running business activity like prominent physical location etc..

### 7. New customers:

With the help of E-Commerce new customers can be easily established, it is not necessary that seller need to built brandy and

relationship as in the case of physical relationship. It is driven by traffic from search engine.

#### **8. Large scale operations:**

E-Commerce enjoys the benefit of large scale operations. Economies of large scale mean savings by undertaking large transaction. Under E-Commerce there is a lower co-ordination cost which compels seller to sale goods at low price. The sellers than to earn good profit because of large volume transaction and this is possible because of e-Commerce.

#### **9. Boost to economy**

E-Commerce giving support to economy to develop at a greater extent by reducing search cost. It's effects is buyers is able to find out best suppliers and seller is also getting needy buyers. Therefore large transaction is going to take place with which economic can develop.

#### **7. Provide niche marketing :**

Because of the E-Commerce it is possible to a buyer as well as seller to locate niche product. Online it is only matter of the customer for the products in the search engine.

#### **8. Remain open all the time :**

Store timing are now 24/7/365. E-Commerce websites can run all the time. From the marketer's point of view, this increases the number of order they receive. From the customer's point of view, an "always open" store is more convenient.

---

## **19.8 LIMITATIONS OF E-COMMERCE**

---

Electronic commerce is also characterized by some technological and inherent limitation, because of this number of people are unable to use such a develop system. It will be clearer with the help of following points.

#### **1. LACK OF INSPECTION :**

while purchasing on net or online shopping, goods cannot be inspect therefore people don't have the confidence to purchase product online. They go far away from the type of transactions.

#### **2. LOW COVERAGE :**

it is one of the major disadvantages of E-Commerce that it has low coverage because steel internet facility is not widely spread out in every part of the country therefore very few people are able

to take advantages of it. Most of the people are not having personal computer, for that this kind of facilities is very unknown.

**3. UNCERTAIN DELIVERY :**

the time period required for delivery physical product can also be a quit significant in case of E-Commerce. Lot of phone calls and E-Mails may be required till you receive your desired products, further retailing the product and getting the refund can be more difficult and time consuming than physical purchasing.

**4. NOT SUITABLE FOR ALL PRODUCTS :-**

E Commerce purchasing is not suitable to the perishable goods, Jewelries and antiques.

**5. INSECURITIES :-**

Customers are afraid to send their credit card number or the internet, they are having the fear in the mind that the number will be misuse, they feel uncomfortable viewing merchandise on computer screen or other than inspecting in person.

**6. OUTDATED LAWS:-**

The legal environment, in which the E-Commerce is conducted, is in full off unclear and conflicting laws. Moreover laws have not been updated to deal with cyber crime. Therefore there is a need to address technical issues to built up customers trust otherwise the life of the E-Commerce is in dangerous.

---

## **19.9 SUMMERY**

---

E-commerce means any form of business transactions in which the parties interact electronically rather than by physical exchange of documents or direct meeting amongst officials.

Ubiquity, Global reaches, Universal standards, Richness, Interactivity, Information density, Personalization and customization etc. are the main features of E-commerce.

The functions of E-commerce are Global sourcing, Customers satisfactions, facility of e-mail, electronic data interaction, safety and secured transactions, motivating businessmen, facilitate e-banking and e-share trading etc.

Online relating, Online research, e-procurement, Services of agents etc. are the areas where e-commerce is implemented.

In today's technological era, E-Commerce is giving maximum satisfaction in marketing, production, advertising or communication



system of business as it is connecting all, locates the product quickly, lowers the cost, easily establishes new customers, enjoys the benefit of large scale operations, boosts to economy, provides niche marketing, remain open all time.

Some technological and inherent limitations are there such as: lack of inspection, low coverage, uncertain delivery, limited suitability, insecurities, outdated laws etc.

---

### **19.10 QUESTIONS**

---

1. What is E-Commerce? State its main objectives.
2. Define E-Commerce. Discuss its features.
3. Explain in details in functions of E-Commerce.
4. State the Importance of E-Commerce in today's changing business.
5. What is the scope of E-Commerce? Explain in details.
6. What are the advantages and limitations of E-Commerce?
7. How is E-Commerce different from traditional commerce?



## PRESENT STATUS OF E-COMMERCE IN INDIA

### Unit Structure :

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Electronic Commerce Activities
- 20.3 B2B - Business to Business
- 20.4 Business to Consumers E-Commerce (B2C)
- 20.5 Consumers to Consumers E-Commerce (C2C)
- 20.6 Present Status of E-Commerce in India
- 20.7 The Factors Responsible for the N of E-Commerce
- 20.8 E-Commerce Transition Challenges in India
- 20.9 Reasons for Poor Response of E-Commerce in India
- 20.10 Online Marketing Research
- 20.11 Summary
- 20.12 Questions

---

### **20.0 OBJECTIVES**

---

After studying the unit students will be able to:

- Understand the E-commerce activities
- Explain the types of E-commerce.
- Explain factors responsible for the growth of E-commerce in India.
- Elaborate the present status of E-commerce.
- Understand transition to E-commerce in India.
- Explain the E-transition challenges for Indian corporate.
- Understand the concept nline marketing research.

---

## **20.1 INTRODUCTION:**

---

In the previous chapter we have studied e-commerce and its basic knowledge and became aware of or well versed with e-commerce. In this chapter we proposed to study its type and present position in India.

The present marketing is in a revolutionary form. The reason behind it is fastest growing information technology (IT), specifically to the business it is e-commerce. E-commerce has tremendous potentials to influence businesses. New business have no choice but must have to sow the seeds of e-commerce and stream role themselves in changing business environment to reap the fruits of e-commerce and develop at high level. E-commerce activity has well supported by rising internet and World Wide Web (www) sites through the transformation of global commerce.

No doubt e-commerce is growing substantially on the internet. In nearest future millions of companies and individuals will be bidding, buying, selling, brokering, advertising or collaborating on daily basis as the internet merger with the other branches of information highway. It may gives lower cost of implementation and maintain a procurement infrastructure. It also supports or helps to those who will see the opportunities, understand the medium and creatively put it to work for them, will definitely succeed in the digital economic of tomorrow.

E-commerce has no hard or fast meaning or its definitions'. Some experts have seen it from their perception and have given meaning; say for example common people have understood this term as buying and selling of goods or services electronically or on line. The people who are related to communication say it is transmission of information, products or services or payment through telephone network or any other media. From the businessmen point of view e-commerce is the use of technology to automate business transaction and work-flow, where as the customers stand point is product displayed in and online store, read information about the product and see the websites for purchase the product. Here we can conclude that e-commerce has not only among some group but it may be between many groups. Therefore it is necessary to study the different type of e-commerce. Before studding the different type let us see the activities involved in e-commerce

---

## **20.2 ELECTRONIC COMMERCE ACTIVITIES**

---

E-commerce is a range of online business activities that includes explaining products or services and providing mechanisms

for customer to buy those products and services from web sites. It encompasses online shopping and online purchasing. There are four major sequential activities related to the potential customers. They are as under:

**1 Product or service search :-**

The prospective customer searches for the expected or desired products or services on internet. The search process can be simple short for the products.

**2 Price search.**

Once the appropriate product or service is searched, then the customer turns towards price of the products or services. They search for price offerings on the required product over the net. While Searching price customer may get the desired price product only when if the product is for common customer or low customer involvement for purchasing. There is a less scope for branded product or preferences of the products are very strong.

**3 Actual purchase:-**

After the appropriate product or service is found, then the price search end and customer makes actual purchase either in the physical world or over the internet.

**4 Payment:-**

Making payment of the products or services is the final step in e-commerce. Here customer makes payment either in physical world or over the internet.

---

## **20.3 B2B - BUSINESS TO BUSINESS**

---

Following are the different type of e-commerce, they are as under.

- 1 B2B - Business To Business
- 2 B2C – Business To Customers
- 3 C2B – Consumer To Business
- 4 C2C – Consumer To Consumer
- 5 P2P– Peer To Peer

### **20.3.1 B2B - BUSINESS TO BUSINESS:-**

In traditional firm, the process of dealing with suppliers or distributors involves lots of paper works and it was costly as well as delayed process. In modern businesses net has eliminated all these and automated the processes, gave solution to cost and delayed problems. It is also possible to companies to offers better services to each other and improves their efficiency.

At present most of the businesses are adopting the B2B e-commerce to get service work done, to link suppliers, factories, distributors and retailers directly. This type of e-commerce is related to a company buying or selling online. In short it is an automated exchange of information between different organizations. In this type of business invoices are received, orders placed and payments are made using internet connections. Details of businesses are received through their websites. This type of business has large volume transactions.

At present B2B represents much larger fractions of total internet marketing. Businesses adopt technology faster than consumers and are gaining importance in reengineering their business processes and developing or expanding globally.

### **20.3.2 BENEFITS OF B2B TRANSACTIONS**

Following are some of the benefits enjoyed by a business firm on account of B2B transactions.

#### **I. Less cost of distribution:-**

B2B transactions reduce the cost of marketing and selling of the business unit. For the sale of the product, business need not maintain selling staff or need not to advertise products frequently to attract the customer.

#### **II. Minimized inventory level:-**

Here business used to utilize the just-in-time method of maintaining inventory. Business need not to maintain large inventory in anticipation of demand. Because under this system, seller can maintain inventory level as per order received online and buyer also no need to buy large amount of inventory but can order only when it is required.

#### **III. Increase productivity :-**

There may be increase in productivity of an employee of the buying firm as the firm need not to maintain inventory and getting raw material on time without any gap or delay.

#### **IV. Wide coverage:-**

Online services are available round the clock i.e. 24x 7 schedules. Therefore the buyers from anywhere in the country or world can easily and as per their convenience access and complete the transactions.

#### **V. Customers loyalty:-**

The seller can maintain good loyalty, when the customers are made to feel some special and are provided with quick and quality services. If consumers once developed the bond or loyalty,

then it is very difficult to shift it from one business to another business.

### **20.3.3 TOOLS AND TECHNIQUES FOR B2B ENTERPRISE.**

While doing B2B transactions between firms, they use different marketing strategies which were not easily possible to traditional businesses. Some of the common tools are given below.

#### **I. Pricing model:-**

Under this, buyers are given substantial discounts and incentives. This discounts and incentives provide to distributors or other elements in distribution chain are often passed on to the customers. In addition businesses quotes free items on the net.

#### **II. Service model:-**

Some business, specifically those who are dealing in software are offering their packages through net. They put critical data on web which can be used easily anywhere in the world with very minimum charges.

#### **III. Personalized model:-**

There are number of webs which are providing personalized services to its users, right from the selection, placing order, execution of order to after sale service.

#### **IV. Comparison model:-**

E-commerce has made it possible that users can see number of webs and can locate the cheapest products to suit their personal specification.

---

## **20.4 BUSINESS TO CONSUMERS E-COMMERCE (B2C)**

---

### **20.4.1 MEANING**

This type of e-commerce deals with companies selling products to the customers through net. It is direct selling to customers through internet. This type of transactions are rapidly increasing as there is increased computer literacy, personal computer, laptops and internet connectivity as increased and became common. This type of e-commerce is used when business is a suppliers and customer is a purchaser. This is the retailing transaction with individual's shoppers. The basic concept behind this is that the online retailers and marketers can sell their products to the online customers by using crystal clear data which is made available via various online marketing tools. For example online

pharmacy giving free of charge medical consultation and selling medicine to patients. This is known as B2C.

Generally these businesses offer catalog and online shopping cart and business is able to accept payment through its websites. The consumer then has immediate access to the service online or the product is shift to consumer directly. The main intention behind this is to remove intermediaries and established direct customer relationship.

#### **20.4.2 ADVANTAGES OF B2C E-COMMERCE**

There are certain advantages gained on the part of B2C e-commerce by the parties involved in. some advantages are given below.

- a) Shopping can be faster.
- b) It is more convenient.
- c) Offerings and prices can change instantaneously.
- d) Call centers can be integrated with websites.

#### **20.4.3 SCOPE OF B2C**

Internet is the magic, with one click or press we can reach anywhere in the world. That is why it is called as VIRTUAL WORLD. Therefore businesses are using it for their marketing ideas and reaching across the world. The scope of the B2C means who and where e-commerce is used or its uses are. This will be made clear with the help of following points.

##### **I. Demographic segments:-**

Now days, there is a big portion of the society which are easily accessing to the internet facilities. This trend is not only increasing in India but also in the whole world. And this is not only used by a specific income group but diversified income group people.

##### **II. Websites for kids/ children's.:-**

With a rapid development, internet marketers have identified opportunities in different class of the people specifically they have chosen the children or teenage as this are using more internet and computer facilities. These groups are technology friendly so they can force to their parents to purchase this facilities.

##### **III. Number of elderly buyers:-**

The people above 50 years are fastly becoming internet savvy. This peoples are using these facilities for different purposes like Investment, travel sites or financial services. Their needs and youngsters need are totally different.

#### IV. New marketing approaches;-

Earlier customers were very passive audience. They purchase the product with available information but now people are getting ample and correct information through net. Therefore marketers by recognizing the significance of internet and people trend to use it, they make their web sites more attractive and informative so that people can easily be persuaded.

---

### 20.5 CONSUMERS TO CONSUMERS E-COMMERCE (C2C)

---

#### 20.5.1 MEANING

The introduction of new economic has helped to create individualistic and independent society. C2C model of e-commerce is the example of it. In this type individuals consumers preparing their own websites and entering into online transactions with other consumers.

For example eBay's transactions. Here eBay is online market maker and provides platform to the customers without any intermediaries on daily basis. Olx.com and quicker.com are also examples of C2C.

In this business auctions of personal possession are very common such as painting, old music records, antiques furniture etc. here prices are determined by market force and these transactions non-business entities complete the process by using the websites. C2C is conducted through classified advertisement, auctions and collectible shows. In Mumbai residential properties are sold with the help of C2C models. The payment is made online where people can send and receive money online with convenient and safety.

In India, C2C is used in limited scale because consumers anticipate cheating and danger of unethical transactions. Therefore there is a need to enact new laws to give security to the customers. While undertaking C2C model transactions some basic activities are required which are as follows

#### 20.5.2 THE ACTIVITY INVOLVED IN C2C PROCESS:-

##### a) Registration :-

The consumers who want to sell and the consumer who wants to buy have to register with the site.



**b) Auctions:-**

The auctions take place at the sites. The different buyers quote the rates for buying the products offered by the seller.

**c) Sale:-**

The highest bidder will be eligible for to purchase the product. He has a right to denie the product before making the final payment.

**d) Payment:-**

The buyer makes the payment through credit card or debit card by following virtual sites process. The payment is remitting to the buyers after deducting service charges.

**Check Your Progress****1. Define the following terms:**

- a. E-commerce
- b. B2B
- c. B2C
- d. C2B
- e. C2C
- f. P2P

**2. Fill in the blanks:**

- a. Olx.com and quicker.com are the examples of -----.
- b. eBay's is ----- makers.
- c. -----it is called as VIRTUAL WORLD.
- d. -----is direct selling to customers through internet.
- e. ----- encompasses online shopping and online purchasing.
- f. Under the -----model buyers are given substantial discounts and incentives.
- g. ----- model includes providing personalize services to its users, right from the selection, placing order, execution of order to after sale service.
- h. ----- type of e-commerce is relates to a company buying or selling online.
- i. ----- is an automated exchange of information between different organization.

**3. Enlist the activities involved in C2C process.**

---

## 20.6 PRESENT STATUS OF E-COMMERCE IN INDIA

---

Over the years e-commerce has grown significantly in India, Specifically the B2B e-commerce. No doubt e-commerce had a slow start but of late it has picked in a great form. It has very bright future in India because of low cost of personal computer, increase in internet service provider and peoples approaches towards shopping online. Recent report indicates that online retailers have registered an average 18% growth, and the coming year seems to be surprise for online shopping. There are increased users of internet the report shows that the number of internet users has touched the hundred million and will continue to grow substantially. Online shopping initiatives are tremendously increasing pursuing working professional's, women and children. The growth rate of online shoppers does not include the users of mobile phone and public computer who have brought products from mobile shopping applications.

Bay India has stated that launching a product online helps to reach even to the remote part of the country. With the advent of 3G and hi speed connectivity in India, demand even in small cities has recorded noticeable. There is a huge untapped opportunities online as over 100 million people in India access the internet.

E-shopping in India has been integrated with social media. A report by Nielsen state that about 13 million Indians check product review online. Out of these 6 millions used social media sites for the purpose.

Online channels are playing an important role of connecting people with unexploded market. There are certain segments like apparel and luxuries products have registered unprecedented growth in 2011, jewellery, electronic appliances and hardware products have shown promising growth trends as well.

Pricing importance increasing in shoppers of the coupon sites indicate that pricing is playing the role of catalyst in bringing more and more shoppers online. Many of these shoppers have shown affinity towards affordable online goods, which was prices lesser than the market price. Some of the largest retails subcategories revealed that coupons category was the largest with 7.6 million visitors as consumers rapidly adopt daily deals sites. Consumer's electronics ranked next with 7.1 million visitors, growing at 12 percent over the previous year, while 5.8 million online users visited comparison shopping sites, an increase of 25 percent from the previous year.

---

## 20.7 THE FACTORS RESPONSIBLE FOR THE N OF E-COMMERCE

---

Following are the factors responsible for the growth of e-commerce in India.

**i. Growth of internet users;-**

The internet users have rapidly growth in India. The internet users include internet subscriber and others who are using internet from other sources. If we look at the numbers increased rapidly then we come to know the necessity of internet to the India. In the year of 2000 internet users were nearly 20 lakhs where as 2012 it reaches 150 lakhs.

**ii. Awareness of E-commerce:-**

There is growing awareness of e-commerce in India. If we look at B2B e-commerce even the small and medium scale enterprises are using net facilities. There is also growing awareness among the end customers because of advertisements by online shopping sites.

**iii. Growth of middle class :-**

The size of middle class is rapidly increasing in India. The growth of it is resulted in increase in income level of people. Its overall result, the numbers of users of internet for online shopping are increasing significantly.

**iv. Computer education:-**

The computer education has increased considerably in India. Most of the schools, especially in urban areas impart computer education. Therefore teenagers and youngsters find it easier and convenient to browse the internet, this helps to search the information and place the order.

**v. Growth of service sectors;-**

There has been a good growth of service sectors like banking, insurance, telecom, airlines, etc. the service sectors are increasingly resorting to advanced technology for business transactions. For example in India, Over 95% of the bank branches have been computerized. So it is possible for bank to offer internet facilities to its customers. Also airlines, insurance firms and other have opened websites to offer information about their services. The customers can log in to the site and may transact business online with the service firms.

**vi. Impact of western life styles:-**

In India, especially youth in the urban areas are influenced by western culture to some extent. The Indian youth would like to

enjoy the taste of latest design and fashions therefore they may use online shopping sites.

**vii. Growing competitions :-**

There is a growing competitions in India among Indian businesses and between Indian and foreign firms. There are number of foreign brands available in Indian markets. Therefore business units make every possible effort to induce customers to buy their products. Then it may be physically or through online.

---

## **20.8 E-COMMERCE TRANSITION CHALLENGES IN INDIA**

---

India has growing digitals consumers, majorly it includes young, male and children's playing games and reading news online. The average transactions on the very busy Indian railway sites are quite noticeable while the popular online book store flip kart has recorded growth in 2011. Online media on mobile is also fast catching up.

E-commerce, in India, offers both big promise and many challenges for future. Some of the challenges are given below.

**1. Challenges preparing in web advertising.**

Web is the medium of information in today's developed world. Most of the firm are using online web advertising and reaping the profit. A firm can advertise through its own web sites or buy banner ads on other web sites. Up to this time only few peoples were using web ads but now it is the growing fast and almost all brands are given on their own web sites. Maintaining web address ads is the prestige and image of the company so every business is trying to prepare high involvement and interactive media that is web.

**2. Challenges in maintaining security:-**

E-commerce is mainly based on internet and internet is unregulated and uncontrolled. It has easy access and global communication therefore It provides wide range of risk and threats to the systems operating on it. The challenges before E-commerce is guarantee security through maintaining confidentiality of information, integrity through authentication, providing resources to authorized parties and keeping records of operations and transactions.

**3. Challenges in implementing cyber law:-**

Criminal natures activity are very common own internet. Cyber law is important because it touches almost all aspects of the transaction and activities relating to the internet. E-commerce must

learn to operate their business within the framework of the law which will install confidence and trust among online customers.

#### **4. Challenges in online trading:-**

Online trading is one more important shopping, which provides easy access to the brands which are not available in a particular term specifically outside metro cities. Their customers by using e-commerce fill-up the gap between distribution systems. Moreover internet gives them control over the buying process therefore Indian corporate sector must gear up to the development and operate e-commerce satisfactorily to both customers and intermediaries.

#### **5. Challenges in popularizing M-commerce:-**

M-commerce means any activity conducted over the wireless network through mobile devices. It includes cellular phones pager devices laptops and personal digital assistant. It is possible to identify the location of the person using hand held devices. The location identifiable connectivity offered by m-commerce has increased the coverage of e-commerce. The 24 hours service makes M-commerce readily patronized by customers. These kinds of services offered by m-commerce are attracting to the corporate in India.

#### **6. Challenges due Lack of trust of customers;-**

In India most of the customers doubt the quality, delivery price and after sale service relating to the goods purchased online therefore online marketers need to create good amount of confidence in the mind of potential customers.

#### **7. Challenges due to Price wars:-**

E-commerce may lead to commerce war. Because online marketers offering heavy discounts to the customers to attract them towards their product and services. This activity may adversely affect to the bottom line of the online firms. So online marketers need to be cautious and accordingly make the offers. However such type of arisen price war is temporary in nature and it does not affect to the efficient firms in long run.

---

## **20.9 REASONS FOR POOR RESPONSE OF E-COMMERCE IN INDIA**

---

Following are the reasons for poor response of E-commerce in India:

### **1. Manipulation :-**

Commercial bulletin boards allow individuals to post messages. So it is not possible to anyone to identify the true

identity of the individual behind the message. There is a possibility for manipulation by an individual or a company.

## **2. Scams and frauds:-**

There are many scams and frauds took place in cyber place. For dealing with internet there is a no need that one is to be expert in computer. So companies, by giving highly attractive scheme on bulletin boards stimulate people to make quick and easy money here novices are trapped.

## **3. Misconduct:-**

There are many unlicensed broker who wants to make quick money. Here brokers may give much exaggerated claim to influence the potential investors.

## **4. Regular irritation;-**

Marketers offer very high claims. This high claims sometime irritates the customers.

---

## **20.10 ONLINE MARKETING REASERCH**

---

### **20.10.1 MEANING**

Marketing research is an important tool for any organization trying to explore commercial opportunities. It provides market intelligence and increases competitiveness of the business and the maximize the profit. Marketing research is systematic study of a particular problem where in the problem related data in collected recorded and classified analyzed and interpreted so that solution will be given to the problem.

Online marketing research is collecting primary data online through internet surveys, online focus groups, and web based experiments or tracking consumer's online behavior. Here the respondent may be requested to fill up questionnaire made available on the internet. It helps a company to learn more about its target audience in regards of their buying behavior or other aspects.

### **20.10.2 TYPES OF ONLINE MARKETING RESEARCH:-**

Following are the types of online marketing research.

#### **1) Web survey:-**

Under these companies prepares a questionnaire and post it on its website. Here companies by offering attractive incentives ask to answer the questions. It includes e-mail, web link, and web pop-ups.

**2) Quantitative research:**

Under this type of research companies try to measure consumers' response precisely. It is applicable to phenomena that can be expressed in terms of quantity. It is economical to companies to conduct marketing surveys online.

**3) Online focus groups :**

Under this type a small group of people gather online with a trained moderator to chat about a product, service or organization. With the help of moderator customer attitude and behavior can be judged. Here customer requires laptop or web connection participation or to log in. This is suitable to rich class people who has time problem and wanted to avoid travelling.

**4) Online data bases:-**

This type of online research provides secondary data. It is stored on disks or CD-ROM. It is updated regularly and network links allow the sharing of this data. For example consultancy services have such type of data relating to their business line which can be readily accessed.

Online marketing research has certain advantages and limitations which are given below.

**20.10.3 ADVANTAGES OF ONLINE MARKETING RESEARCH****1) Wide geographical coverage:-**

Online marketing research enables the marketers to collect information from different area's customers. This is not possible under field marketing research. Here the researcher can easily reach to national or international audience to collect information relating to the customer's problems or choices, references etc. and accordingly the data can be used for appropriate marketing mix decisions.

**2) Cost effective:-**

Online marketing research is cost effective as it is collected with the help of internet. There are no expenses incurred on an account of postage. The data is transmitted instantly as and when the respondents complete the online questionnaire.

**3) Easy accessibility:-**

Online marketing research can get in touch with any and every person then it may be business executives or big business men who are rarely available. Even high-tech professionals can find it convenient to reply online questionnaire.

**4) Accuracy :-**

Online marketing research make a researcher able to easily access to information collected from large sample audience. In general it is stated larger the sample size greater the accuracy of the data. Simultaneously this method does not appoint field surveyor therefore the buyers free information is collected. In simple word this method is accurate data is researcher.

**5) Good co-ordination among respondent :-**

In this method good customer relationship is exists. So whenever customers ask to provide quick feedback on a particular issue they do it fast. On this basis company can make changes in marketing mix and accordingly take new decision to increase the save of the company.

**20.10.4 LIMITATIONS OF ONLINE MARKETING RESEARCH****1) Lack of response:-**

Some time it happens that some customers are not willing to answering the questionnaire. In this case the researcher may be unable to get response from required number of people.

**2) Limited use:-**

Though online marketing research covers wide area but it suffers from restricted use that it does not have face to face interaction. Here the researcher who is in need of face to face interaction it is restricted.

**3) Termination:-**

Online respondent can suddenly terminate the answering of questionnaire without explanation. They may shift to other site. Some time they may answer question as per their convenient.

**4) Problem of technology:-**

Online marketing research is totally technology based activity. Sometimes the responded may be facing the problems of outdated computers or problems on internet connections. For example at the time of downloading questionnaire, if it takes more time then customers get frustrated and sometimes he may shutdown his computer, it affects the quality of research work.

**5) Not suitable for certain products:-**

Online marketing research is not suitable for certain product like laundry product which is targeted to middle lower or lower income groups. Here the real customers for such products are housewives of middle lower or lower income groups but these housewives are not having internet facility to provide response or they may not having the computer knowledge to respond.



---

## 20.11 SUMMERY

---

E-commerce is a range of online business activities that includes explaining products or services and providing mechanisms for customer to buy those products and services from web sites. The major sequential activities related to the potential customers are: Product or service search, Price search, Actual purchase and payment.

The different types of e-commerce are:

1. B2B - Business To Business
2. B2C – Business To Customer
3. C2B – Consumer To Business
4. C2C – Consumer To Consumer
5. P2P– Peer To Peer

Over the years e-commerce has grown significantly in India. Growth of internet users, Awareness of E-commerce, Growth of middle class, Computer education, Growth of service sector, Impact of western life style, Growing competition etc are the reasons of growth of e-commerce in India.

E-commerce, in India is offering many challenges for future. Some of the challenges are: preparing in web advertising, maintaining security, online trading, popularizing M-commerce, challenges due to lack of customers, challenges due to price wars.

Online marketing research is collecting primary data online through internet surveys, online focus groups, and web based experiments or tracking consumer's online behavior.

The types of online marketing research are: Web survey, Quantitative research, Online focus groups and Online data bases.

Wide geographical coverage, cost effectiveness, easy accessibility, accuracy, good co-ordination among respondent are some of benefits of online marketing research.

The limitations of Online marketing research are: Lack of response, limited use, termination of answers, problem of technology etc.

---

## 20.12 QUESTIONS

---

- 1) What are the different types of e-commerce? Explain B2C.
- 2) Why is B2B most popular form of e-commerce?
- 3) What are the tools and techniques of B2B enterprises? Explain.
- 4) What is the scope of B2C?

- 5) Write a note on C2C model.
- 6) What are the challenges involved in e-transition for Indian corporate?
- 7) What is online marketing research? Explain the different types of online marketing research.
- 8) Explain the advantages and limitations of online marketing research.

