Biyani's Think Tank

Concept based notes

Financial and Marketing Management

(BCA II Year)

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Varsha Sharma

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Syllabus

B.C.A. PART-II EXAM, 2007

Paper 211 : Financial and Marketing Management

Nature, scope and objective of Financial Management, Basic Financial Concepts Statement of changes in financial Position. Working capital, cash and total resource basis, Financial Statement Analysis- Ratio analysis, Capital Budgeting: Principles and Techniques, Analysis of risk and uncertainty, Concept and measurement of cost of capital, merger/amalgamation and acquisitions/takeovers, lease financing, Operating financial and combined leverage, capital structure, cost of capital and valuation, designing capital structure, Theory of working capital management, planning of working capital, working capital financing, measurement of cash and marketable securities, inventory management.

Role of marketing in modern organizations, the market environment, market planning, marketing research and information system, understanding the buyer, organizational buying behavior, segmenting and targeting the market, market measurement and forecasting, product management, new product decisions, brand equity, pricing decisions, promotion decisions, advertising management, sales promotion, personal selling, managing the sales force, managing the distribution function, marketing strategy, marketing organization, marketing performance and control.

Content

Unit wise Questions and answers

Case problems

Multiple Choice Questions

Key terminologies

Suggested books

Suggested Websites

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Section –A

Meaning, scope, importance and limitation of financial Management Tasks and responsibilities of a Modern Finance manager.

Q1. What do you understand by financial management? Discuss its role or key areas of finance in brief.

Ans. Introduction: Financial management is has emerged as an interesting and exciting area for academic studies as well as for the practical finance managers. Financial management covers all decisions, taken by an individual or a business firm, which have financial implications. In our simple understanding finance perceives as Money. But in actual terms finance is study of money and its flow.

Meaning:

The world "Financial Management" is the composition of two words i.e. *'Finance'* and *'Management'*.

- *Finance* means the science or study of money and its supply. It is the procuring or raising of money supply (funds) and allocating (using) those resources (funds) on the basis of monetary requirements of the business. Finance is called science of money. It is not only act of making money available, but its administration and control so that it could be properly utilized.
- The word *'Management'* means planning, organizing, coordinating and controlling human activities with reference to finance function for achieving goals/objectives of organization. Thus financial management is defined as the overall administration and management of money and its flow.

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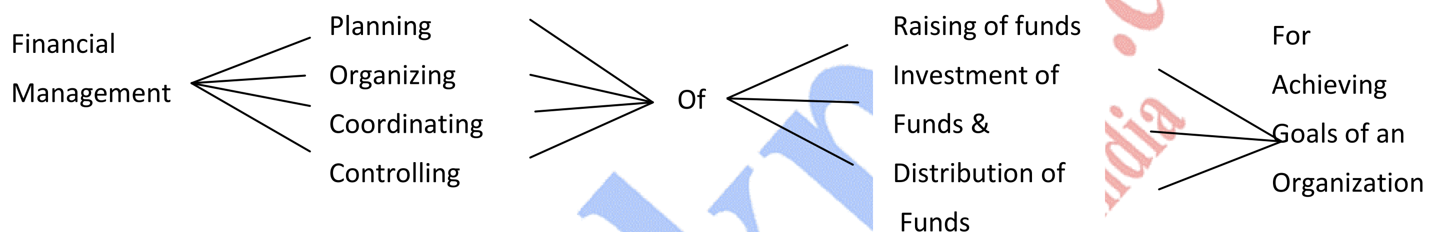
Definition of Financial management: ***Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.***

Diagrammatic Explanation of Financial Management



Explanation of the key areas of finance:

I – Raising of funds – Based on the total requirements of capital/funds for use in fixed assets, current assets as well as intangible assets like goodwill, patent, trade mark, brand etc. crucial decision are:

- When to raise (time)
- Sources from which to raise
- How much (quantum of money)
- In which form (debt or equity)
- Cost of raising funds

II – Investment of funds – Funds raised need to be allocated/ invested in:

- **Fixed assets** – also known as capital assets or capital budgeting decision. These decisions are based upon cost and return analysis through various techniques
- **Current assets** – also known as working capital management. These are assets for day today running the business like cash, receivables, inventory,

short form investments etc. Decision about investment of funds is taken keeping in view two important aspects i.e. Profitability and Liquidity.

III - Distribution of funds - Profit earned need to be distributed in the form of dividend. Higher the rates of dividend, higher world are the price of shares in market. Another crucial decision under it would be the quantum of profit to be retained. The retained profit is cost free money to the organization.

Q.2 What are the key objectives or goals of Financial Management?

Or

Why wealth maximization /value maximization is considered as better objective instead of profit maximization?

Ans There are two objectives of financial management viz

- *Profit maximization*
- *Share holders wealth maximization*

There are two schools of thought in this regard

1. Traditional and
2. Modern.

While tradition approach favors profit maximization as key objective, the modern thinker's favors share holders wealth maximization as key objective of financial management. Traditional thinkers believe that profit is appropriate yardstick to measure operational efficiency of an enterprise. They are of the view that a firm should undertake only those activities that increase the profit.

Aspects of profit maximization:

(i) Profit is an ambiguous concept. Profit can be long term or short term, profit before Tax or after Tax, profit can be operating profit or gross profit etc. The economists concept of profit is different then accountants concept of profit.

(ii) Profit motto may lead to exploitation of customers, workers, employees and ignore ethical trade practices.

(iii) Profit motive also ignores social considerations or corporate social responsibility or general public welfare.

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(iv) Profit always goes hand- to hand with risk. The owners of business will not like to earn more and more profit by accepting more risk.

(v) The profit maximization was taken as objective when business was self financed and self controlled.

Contradictory View: In view of above, modern thinkers consider wealth maximization as key objective of financial management. This is also known as value maximization or net present worth maximizations. This share holder's wealth maximization is evident from increase in the price of shares in the market. They are of the view that wealth maximization is supposed to be superior over profit maximization due to following reasons:

Aspects of wealth Maximization:

- This uses the concept of future expected cash flows rather than ambiguous term of profit.
- In takes in to accent time value of money.
- It also takes care of risk factors associated with project as the discount rate used for calculating present value is generally a risk adjusted discount rate.
- It is consistent with the objective of maximizing owner's welfare.

Conclusion:

Equity shares of a company are traded in stock market and stock market quotation of a share serves as an index of performance of the company. The wealth of equity share holders in maximized only when market value of equity share of the company is maximized. In this context, the term wealth maximization is redefined as value maximization.

At macro level, a firm has obligation to the society which is fulfilled by maximizing production of goods and services at least cost, thereby maximizing wealth of society.

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Q.3 Discuss in brief the responsibilities of a financial manager in present scenario?

Or

Explain in brief key functions of a finance manager or chief finance officer of a large size industrial organization.

Ans. Financial manager is the one who performs the financial management in the company. A finance manager of a large organization has a very crucial responsibility to shoulder as he has to take all decision about raising & utilization of resources have been taken efficiently and at no time resources should remain idle. As the size of organization grows and volume of financial transactions increases, his role and functions assumes greater importance. A financial manager is also known as CFO, i.e. Chief Financial Officer.

The key functions of a financial manger are as follows:

A) Management functions

- **Planning** - A CFO has to make financial planning in the form of short term and long term plans and frame policies relating to sources of finance, investment of funds including capital expenditure and distribution of profit.
- **Organizing**- creating and monitoring proper organizational structure of finance looking to the needs of organization.
- **Coordination** – A CFO has to coordinate with all other department so that no department suffers for want of funds.
- **Controlling** – A CFO has to fix/ set standards of performance, compare actual with standards fixed and exercise control on differences. He can apply techniques of budgetary control and for this; he has to develop a system of collecting/ processing/analyzing information.

B) Functions related to finance:

- **Financial Planning** – A CFO has to make financial planning in the form of short term and long term plans and frame policies relating to sources of finance, investment of funds including capital expenditure and distribution of profit.

- **Financial forecasting** – Creating and monitoring proper organizational structure of finance looking to the needs of organization.

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- **Financial engineering** - A CFO has to keep himself abreast with new techniques of financial analysis and new financial instruments coming in market. In financial engineering, a CFO has to work on finding out solutions to the problem through complex mathematical models and high speed computer solutions.

C) Basic Functions

6A's

- **Anticipating the needs of funds in the organization**
- **Acquisition of funds**
- **Allocation of funds**
- **Administration of finds**
- **Analyzing the performance of funds**
- **Accounting and recording the transactions.**
-

The six A's of Finance can be précised in the following three broad headings:

- **Anticipating and Acquisition of funds** – A Financial manager has to ensure adequate quantum of funds from right source, right cost, right time, and right form and at minimum cost. He is responsible for acquiring the funds with the best possible and minimum cost.

- **Allocation and Administration of funds** – How much amount of funds are to be invested in current capital as well as in fixed assets (long term assets), this is to be considered by the finance manager while keeping in view liquidity & profitability. He also ensures the administration of finance in different departments.

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- **Analyzing the Performance of funds and thereafter managing the accounts.** – The financial manager has to ensure the performance of the allocation and administration of funds, so as to achieve the objectives of the firm. And finally interpret the results while maintain the records and accounts thereof.
  i. **Evaluation of financial performance & reporting** – A CFO has to periodically review financial performance against set standards, take corrective measures as well as report performance to the board & management for facilitating timely decisions pertaining to finance at top level.
  ii. **Upkeep of records and other routine functions** – A CFO has to look in to following aspects:
  - supervision of cash receipts
  - safe custody of valuables & securities
  - maintenance of account
  - internal audit
  - compliance of govt regulations

D) – Subsidiary functions:

Besides core functions as above, a CFO has to perform following equally important functions such as:

- **Maintaining liquidity** – Adequate liquidity need to be maintained for paying obligations in time as well as meeting day to day expenses and for this, he has to keep close eyes on cash in-flows, cash out flows. Hence cash budget and cash for-casting becomes his important function.
- **Profitability** – For ensuring adequate profit and maximizing share holders wealth a CFO has to look in to:
  - Profit planning
  - Price fixation of goods & services
  - Cost of funds/capital
  - Cost control
- **Risk management** – Preparing strategies for combating risks arising out of
  - Internal &

- External factors

E) Other Functions of Modern Age

- **Achieving corporate goals** – Besides goals of organization goals of different departments have to be achieved to increased market share of company's products.

- **Financial projections / forecasting** – for next 5-10 years consisting of cost & revenues for coming long term period keeping in view companies long term plans.

- **Corporate Governance** – for image building in the eyes of all stake holders of the company, transparency in systems / procedure and adherence of laws as well as rules & regulations.

- **Merger and acquisitions initiative** –
- Including new product lines
- Technological tie-up/ collaboration with foreign firms
- Financial restructuring for increasing profitability
- Tie-up arrangements for greater penetration in new markets in the country & abroad.

Q.4. Explain the scope and significance of financial management in the present day business world.

Ans. The scope and significance of financial management can be discussed from the following angles:

I – Importance to Organizations

- **Business organizations –** Financial management is important to all types of business organization i.e. Small size, medium size or a large size organization. As the size grows, financial decisions become more and more complex as the amount involves also is large.

- **Charitable organization / Non-profit organization / Trust –** In all those organizations, finance is a crucial aspect to be managed. A finance manager has to concentrate more on collection of donations/ revenues etc and has to ensure that every rupee spent is justified and is towards achieving Goals of organization.

- **Government / Govt. or public sector undertaking** – In central/ state Govt, finance is a key/ important portfolio generally given to most capable or competent person. Preparation of budget, monitoring capital /revenue receipt and expenditure are key functions to be performed by the person in charge of finance. Similarly, in a Govt or public sector organization, financial controller or Chief finance officer has to play a key role in performing/ taking all three financial decisions i.e. raising of funds, investment of funds and distributing funds.

- **Other organizations-** In all other organizations or even in a family finance is a key areas to be looked in to seriously by a competent person so that things do not go out of gear.

<u>**II – Importance to all Stake holders:-**</u>

- **Share holders** – Share holders are interested in getting optimum dividend and maximizing their wealth which is basic objective of financial management.
- **Investors / creditors** – these stake holders are interested in safety of their funds, timely repayment of the principal amount as well as interest on the same. All these aspect are to be ensured by the person managing funds/ finance.
- **Employees** – They are interested in getting timely payment of their salary/ wages, bonus, incentives and their retirement benefits which are possible only if funds are managed properly and organization is working in profit.

- **Customers –** They are interested in quality products at reasonable rates which is possible only through efficient management of organization including management of funds.
- **Public** –Public at large is interested in general public welfare activities under corporate social responsibility and this aspect is possible only when organization earns adequate profit.
- **Government** – Govt is interested in timely payment of taxes and other revenues from business world where again efficient finance manager has a definite role to play.

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- **Management** – Management is interested in overall image building, increase in the market share, optimizing share holders wealth and profit and all these aspect greatly depends upon efficient management of financial resources.

III – Importance to other departments of an organization.

A large size company has many departments like (besides finance dept.)

- Production Dept.
- Marketing Dept.
- Personnel Dept.
- Material/ Inventory Dept.

All these departments look for availability of adequate funds so that they could manage their individual responsibilities in an efficient manner. Lot of funds are required in production/manufacturing dept for ongoing / completing the production process as well as maintaining adequate stock to make available goods for the marketing dept for sale. Hence, finance department through efficient management of funds has to ensure that adequate funds are made available to all department and these departments at no stage starve for want of funds. Henc efficient financial management is of utmost importance to all other department ot the organization.

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Chapter 2

Financial Analysis: Financial statements - Income statement and lance-Sheet. Techniques of financial analysis. Ratio analysis, Liquidity, Activity, Profitability and Leverage Ratios.

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Q.1 What is financial analysis technique. Explain.

Ans. Definition and Explanation of Financial Statement Analysis:

Financial statement analysis is defined as the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and the profit and loss account.

There are various methods or techniques that are used in analyzing financial statements, such as comparative statements, schedule of changes in working capital, common size percentages, funds analysis, trend analysis, and ratios analysis.

Financial statements are prepared to meet external reporting obligations and also for decision making purposes. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements.

Tools and Techniques of Financial Statement Analysis:

Following are the most important tools and techniques of financial statement

analysis:

1. Horizontal and Vertical Analysis
2. Ratios Analysis

1. Horizontal and Vertical Analysis:

Horizontal Analysis or Trend Analysis:

Comparison of two or more year's financial data is known as **horizontal analysis**, or trend analysis. *Horizontal analysis* is facilitated by showing changes between years in both dollar and percentage form. Click here to read full article.

Trend Percentage:

Horizontal analysis of financial statements can also be carried out by computing **trend percentages**. *Trend percentage* states several years' financial data in terms of a base year. The base year equals 100%, with all other years stated in some percentage of this base. Click here to read full article.

Vertical Analysis:

Vertical analysis is the procedure of preparing and presenting common size statements. **Common size statement** is one that shows the items appearing on it in percentage form as well as in dollar form. Each item is stated as a percentage of some total of which that item is a part. Key financial changes and trends can be highlighted by the use of common size statements. Click here to read full article.

2. Ratios Analysis:

Accounting Ratios Definition, Advantages, Classification and Limitations:

The ratios analysis is the most powerful tool of financial statement analysis. Ratios simply mean one number expressed in terms of another. A ratio is a statistical yardstick by means of which relationship between two or various figures can be compared or measured. Ratios can be found out by dividing one number by another number. Ratios show how one number is related to another. Click here to read full article.

Profitability Ratios:

Profitability ratios measure the results of business operations or overall

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performance and effectiveness of the firm. Some of the most popular profitability ratios are as under:

- Gross profit ratio
- Net profit ratio
- Operating ratio
- Expense ratio
- Return on shareholders' investment or net worth
- Return on equity capital
- Return on capital employed (ROCE) Ratio
- Dividend yield ratio
- Dividend payout ratio
- Earnings Per Share (EPS) Ratio
- Price earnings ratio

Liquidity Ratios:

Liquidity ratios measure the short term solvency of financial position of a firm. These short term paying capacity of a concern or the firm's ability to meet its current obligat liquidity ratios.

- Current ratio
- Liquid / Acid test / Quick ratio

Activity Ratios:

Activity ratios are calculated to measure the efficiency with which the resources of a firm have been employed. These ratios are also called turnover ratios because they indicate the speed with which assets are being turned over into sales. Following are the most important activity ratios:

- Inventory / Stock turnover ratio
- Debtors / Receivables turnover ratio
- Average collection period
- Creditors / Payable turnover ratio
- Working capital turnover ratio
- Fixed assets turnover ratio
- Over and under trading

Long Term Solvency or Leverage Ratios:

Long term solvency or leverage ratios convey a firm's ability to meet the interest

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costs and payment schedules of its long term obligations. Following are some of the most important long term solvency or leverage ratios.

- Debt-to-equity ratio
- Proprietary or Equity ratio
- Ratio of fixed assets to shareholders funds
- Ratio of current assets to shareholders funds
- Interest coverage ratio
- Capital gearing ratio
- Over and under capitalization

Limitations of Financial Statement Analysis:

Although financial statement analysis is highly useful tool, it has two limitations. These two limitations involve the comparability of financial data between companies and the need to look beyond ratios..

Advantages of Financial Statement Analysis:

There are various **advantages** of financial statements analysis. The major **benefit** is that the investors get enough idea to decide about the investments of their funds in the specific company. Secondly, regulatory authorities like International Accounting Standards Board can ensure whether the company is following accounting standards or not. Thirdly, financial statements analysis can help the government agencies to analyze the taxation due to the company. Moreover, company can analyze its own performance over the period of time through financial statements analysis.

Q.2 What do you mean by leverage?

Ans. Leverage means the employment of assets or funds for which the firm pays a fixed cost or fixed return. The fixed cost or fixed return. The fixed cost or return may be thought of as the fulcrum of a lever. In mechanics the leverage concept is used for a technique by which more weight is raised with less power. In financial management the leverage is there an account of fixed cost. If any firm is using some part of fixed cost capital than the firm has leverage which can be used for raising profitability and financial strength of firm.

Q.3 What is operating leverage? Give the formula of calculating operating leverage and degree of operating leverage?

Ans. Operating leverage is defined as the ability to use fixed operating costs to magnify the effect of changes in sales on its operating profits. If the fixed

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operating costs are more as compared to variable operating costs, the operating leverage will be high and vice- versa. Thus, the term 'Operating leverage' refers to the sensivity of operating profit to changes in sales.
For example, if the sales increase by say 20% and the operating profit increases by 100% it is a case of high operating leverage.

Q.4 What is combined leverage, give its formula?

Ans. The combined leverage may be defined as the relationship between contribution and the taxable income; it is the combined effect of both the leverage.

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Chapter 3

Funds flow analysis-Sources and uses of funds. Preparation of statement of changes in working capital and statement of source and uses of funds.

Q1. What do you understand by fund flow statement .Explain?

Ans. Introduction:

Balance sheet and profit and loss account are the two principal financial statements of a firm. But these two statements are deficient in providing certain useful information required for decision making. Hence there is a need of preparing a separate statement in addition to balance sheet and P & L account. Thus a statement is invented which can provide information about different sources of funds and their various uses or sources of inflows and outflows of funds. Such a statement is called Funds flow statement.

Definition:

A statement of source and application of funds is a technical device designed to analyze the changes in the financial position of business firm between two dates.

<u>Techniques of preparation of fund flow Statement</u>

- Schedule of statement of changes in working capital
- Statement of source and uses of fund or funds flow from operation

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Q.2 How fund flow statement differs from Balance sheet and Income statement. Explain.

Ans. The Fund flow statement differs from balance sheet and income statement in the following way:

Difference between the fund flow statement & balance Sheet

	Fund flow Statement	**Balance sheet**
Nature	Dynamic in nature	Static in nature
Subject matter	It included the items causing changes in the working capital	It includes the balances of real personal accounts of ledger assets and liabilities and shows the total resources of the firm full life period
Utility	Useful in decision making	Examine the soundness of the firm
Users	Internal management	External parties

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preparation	It is the exercise of post balance sheet	End product of all accounting period

Difference between fund flow statement and the income statement

Objective	Funds raised are matched with the uses	Expenses are matched with the income
Dependency	Not helpful in preparing income statement	Helpful in preparing the fund flow statement
utility	It is related to the movement of cash and all other items affecting the working capital	Highlights the operating result of an accounting period and changes in the financial position

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Section-B

Break Even analysis

Q.1 Write a brief note on Break even analysis. Also explain how Break-even point is helpful in assessment of profit of the organization.

Ans: Introduction:

Break –Even Analysis is a method of studying the relationship between sales revenue, fixed costs and variable expenses so as to determine the minimum volume at which production can be profitable.

Definition: Break even point can be defined as that volume of activity at which total sales revenue exactly equals total costs of the output produced or sold.

Methods of computing BEP

There are two methods of computing BEP:

1. Algebraic methods : Contribution margin technique.

   Equation technique

2. Graphic Presentation : Break even Charts

   P/V Graph

Formulae

The Formulas for computing BEP are as follow:

$$BEP = \frac{\text{FIXED COSTS}}{\text{S.P-VARIABLE COST}}$$

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$$BEP = \frac{\text{FIXED COSTS} * \text{S.P.}}{\text{CONTRIBUTION PER UNIT}}$$

$$BEP = \frac{\text{FIXED COST}}{\text{P/V RATIO}}$$

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An Introduction Study of Financial Planning and Forecasting.

Q.1 What does financial planning signifies? Explain the meaning and concept of financial planning for a business. Explain.

Ans: **Introduction :** Financial planning is a growing industry with projected faster than average job growth. Financial managers must be able to analyze the current position of their own firms as well as that of their competition .They must also plan for the company's financial future. The financial manager is responsible for planning to ensure that the firm has enough funds for the needs. A useful tool for planning future cash needs to plan for the continuing profitability. Planning is an inevitable process in any business firm irrespective of its size and nature. So the financial planning encompasses both the business plan as well as analyzes the current as well as future financial position of the firm.

Meaning of financial planning

When you want to maximize your existing financial resources by using various financial tools to achieve your financial goals that is financial planning.
Financial Planning is the process of estimating the capital required and determining its competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

The Definition of Financial Planning
Financial planning is a systematic approach whereby the financial planner helps the organization to maximize his existing financial resources by utilizing financial tools to achieve his financial goals.

Financial planning in mathematical form:

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There are 3 major components:

- Financial Resources (FR)
- Financial Tools (FT)
- Financial Goals (FG)

Financial Planning: FR + FT = FG

In other words, financial planning is the process of meeting your life goals through proper management of your finances. Life goals can include buying a home, saving for your children's education or planning for retirement. It is a process that consists of specific steps that help you to take a big-picture look at where you are financially. Using these steps you can work out where you are now, what you may need in the future and what you must do to reach your goals.

Who is a Financial Planner?

A financial planner is someone who uses the financial planning process to help you figure out how to meet your life goals. The planner can take a `big picture` view of your financial situation and make financial planning recommendations that are right for you. The planner can look at all of your needs including budgeting and saving, taxes, investments, insurance and retirement planning.

A **financial planner** or **personal financial planner** is a practicing professional who prepares financial planning for people covering various aspects of personal finance which includes: cash flow management, education planning, retirement planning, investment planning, risk management and insurance planning, tax planning, estate planning and business succession planning (for business owners). One of the key objectives with which a financial planner works is to provide inflation and risk adjusted returns for its clients

Financial planners are also known by the title financial adviser in some countries, although these two terms are technically not synonymous, and their roles have some functional differences.

When you have a professional relationship with a planner that does not mean that he replaces other professionals such as lawyers or accountants. A planner is a coordinator who works with others in making the planning process work.

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Financial planner's job function

A financial planner specializes in the planning aspects of finance, in particular personal finance, as contrasted with a stock broker who is generally concerned with the investments, or with a life insurance intermediary who advises on risk products.

Q.2. What are the steps and the basic consideration followed in financial planning process. Explain.

Ans. Financial planning is usually a multi-step process, and involves considering the client's situation from all relevant angles to produce integrated solutions. The six-step financial planning process has been adopted.

- ✓ *Determine Current Financial Situation*
- ✓ *Develop your financial goals*
- ✓ *Identify alternative courses of action*
- ✓ *Evaluate alternatives on various considerations*
- ✓ *Identify alternative courses of action*
- ✓ *Create and implement your financial action plan*
- ✓ *Review and Revise the financial plan*

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Financial planning for the client's perspective:

Step 1: Setting goals with the client This step (that is usually performed in conjunction with Step 2) is meant to identify where the client wants to go in terms of his finances and life.

Step 2: Gathering relevant information on the client This would include the qualitative and quantitative aspects of the client's financial and relevant non-financial situation.

Step 3: Analyzing the information The information gathered is analysed so that the client's situation is properly understood. This includes determining whether there are sufficient resources to reach the client's goals and what those resources are.

Step 4: Constructing a financial plan Based on the understanding of what the client wants in the future and his current financial status, a roadmap to the client goals is drawn to facilitate the achievements of those goals.

Step 5: Implementing the strategies in the plan Guided by the financial plan, the strategies outlined in the plan are implemented using the resources allocated for the purpose.

Step 6: Monitoring implementation and reviewing the plan The implementation process is closely monitored to ensure it stays in alignment to the client's goals. Periodic reviews are undertaken to check for misalignment and changes in the client's situation. If there is any significant change to the client's situation, the strategies and goals in the financial plan are revised accordingly.

In Short, the scope of planning would usually consider the following:

- ✓ Risk Management and Insurance Planning
  - o Managing cash flow risks through sound risk management and insurance techniques
- ✓ Investment and Planning Issues
  - o Planning, creating and managing capital accumulation to generate future capital and cash flows for reinvestment and spending
- ✓ Retirement Planning
  - o Planning to ensure financial independence at retirement including 401Ks, IRAs etc.
- ✓ Tax Planning
  - o Planning for the reduction of tax liabilities and the freeing-up of cash flows for other purposes
- ✓ Estate Planning
  - o Planning for the creation, accumulation, conservation and distribution of assets
- ✓ Cash Flow and Liability Management
  - o Maintaining and enhancing personal cash flows through debt and lifestyle management
- ✓ Relationship Management
  - o Moving beyond pure product selling to understand and service the core needs of the client.

Q.3. What is the objective and importance of financial planning?

Ans. Objectives:

People enlist the help of a financial planner because of the complexity of performing the following:

- Providing financial security and ensuring that all goals of personal finance are met

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- Finding direction and meaning in one's financial decisions;
- Understanding how each financial decision affects other areas of finance; and
- Adapting to life changes to feel more financially secure.

The best results of working with a comprehensive financial planner, from an individual client or family's perspective are:

- To create the greatest probability that all financial goals (anything requiring both money and planning to achieve) are accomplished by the target date, and
- To have a frequently-updated sensible plan that is proactive enough to accommodate any major unexpected financial event that could negatively affect the plan, and
- To make intelligent financial choices along the way (whether to "buy or lease" whether to "refinance or pay-off" etc.).

Before working with a comprehensive financial planner, a client should establish that the planner is competent and worthy of trust, and will act in the client's interests rather than being primarily interested in selling the client financial products for his own benefit. As the relationship unfolds, an individual financial planning client's objective in working with a comprehensive financial planner is to clearly understand what needs to be done to implement the financial plan created for them. So, in many ways, a financial planner's step-by-step written implementation plan of action items, created after the plan is completed, has more value to many clients than the plan itself. The comprehensive written lifetime financial plan is a technical document utilized by the financial planner, the written implementation plan of action is just a few pages of action items required to implement the plan; a much more "usable" document to the client.

Financial Planning has got many objectives in reference with the procedural steps to to look forward to. These are listed as following:

a. Determining capital requirements- This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital requirements have to be looked with both aspects: short- term and long- term requirements.
b. Determining capital structure- The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio- both short-term and long- term.
c. Framing financial policies with regards to cash control, lending, borrowings, etc.

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d. A finance manager ensures that the scarce financial resources are maximally utilized in the best possible manner at least cost in order to get maximum returns on investment.

Importance of Financial Planning

Financial Planning is process of framing objectives, policies, procedures, programs and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as-

1. Adequate funds have to be ensured.
2. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
3. Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.
4. Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.
5. Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
6. Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability an d profitability in concern.

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Short term and Long term sources of Finance: Equity vs. Debt.

Q.1 What are the short term and long term sources of finance? Throw light on their uses and specifications.

Ans. There are two main sources of financing a project i.e.

- Own funds and
- Loan funds.

The cost of a project depends on the nature of project i.e. a project set up for the first time, expansion project, modernization project, diversification project, take over project joint venture project, merger project etc.

The correct estimation of capital costs and working capital requirements is very necessary otherwise the project face serious problems and ultimately the project may remain incomplete or the project may take more time for want of funds. The capital cost may consists of items like land and site development, building and civil works, plant and machinery, technical knowhow fees, miscellaneous fixed assets, interest, provisions for contingencies etc. Similarly, working capital may consists of items like raw material, work in progress, finished products, debtors/receivables, power, fuel, salary & wages ,taxes, duties, overhead expanses and contingencies.

Main sources of finance-

I - **Own funds**

(i) Share capital

- Equity and
- Preference share capital

(ii) Premium on issue of share capital

(iii) Reserves and surplus including retained earnings

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(iv) Subsidy received from central/state governments

II - **Loan funds or debt**

(i) Debentures – convertible, non convertible an partly convertible debentures

(ii) Term loans or long term loans from all India level development financing institutions AIDFI's and state level development financing institutions.

(iii) Unsecured loans – Like commercial paper referred credit-receiving goods, plan & machinery from suppliers on credit and payment in installments.

Sources and the uses of the funds

Sources	**Uses**
• Profit from operation • Increase in the long term liability • Increase in the share capital • Sale of fixed assets • Non trading receipts	• Loss from operation • Decrease in long term liability • Decrease in capital fund • Purchase of fixed assets • Non trading payments

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Working capital management

Q.1. Explain the meaning and concept of working capital and its management.

Or

How working capital management meant a lot in achieving the goals of a firm.

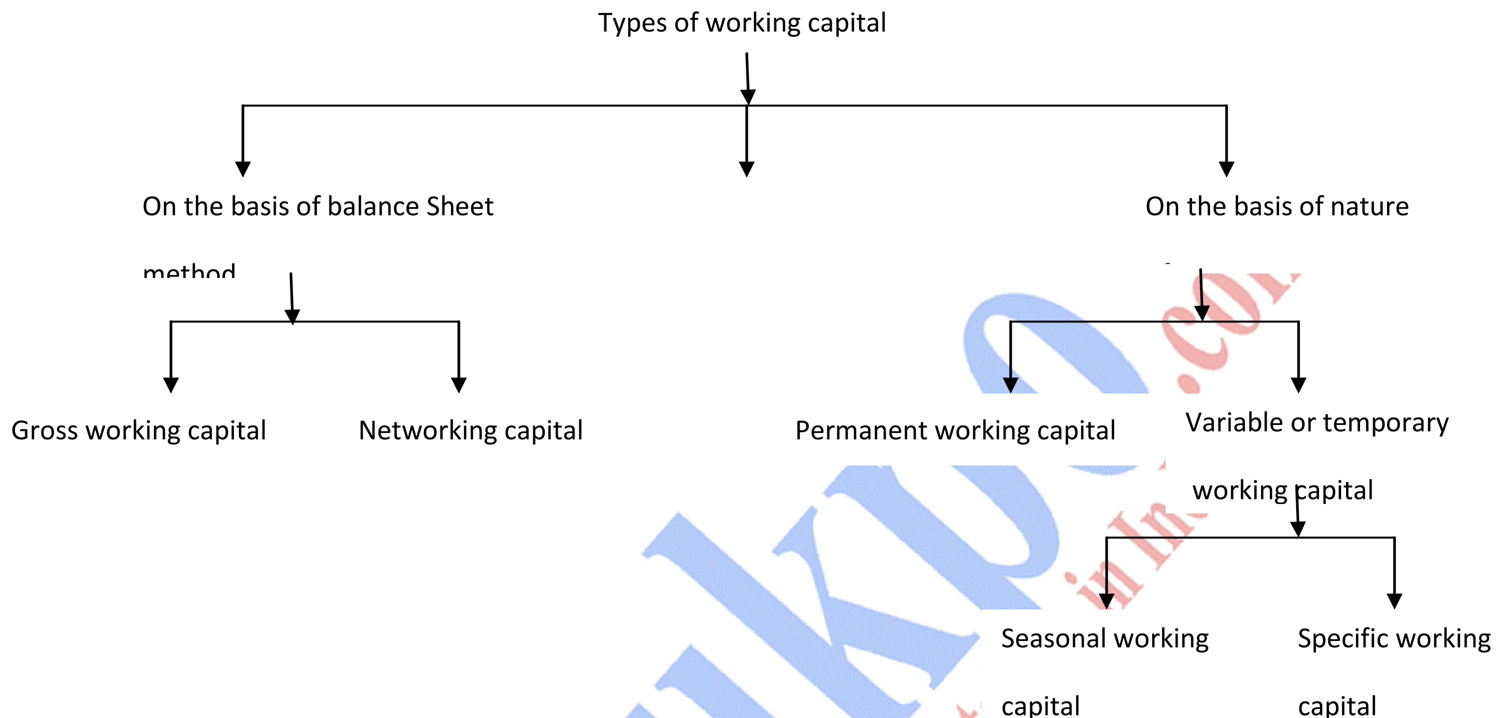
Ans. Introduction:

Working capital in that part of firms capital which is required for financing current assets such as cash, debtors, receivables inventories, marketable securities etc. Funds invested in such assets keep revolving with relative rapidity and are constantly converted in to cash.

Other names: Working capital is also known as circulating capital, revolving capital, short term capital or liquid capital.

Meaning and Definition:

Working capital is a financial metric which represents the amount of day-by-day operating liquidity available to a business. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. It is calculated as current assets minus current liabilities. A company can be endowed with assets and profitability, but short of liquidity, if these assets cannot readily be converted into cash



Explanation :

- **Gross working capital** – Refers to firms investments in current assets which are converted in to cash during an accounting year such as cash, bank balance, short term investments, debtors, bills receivable, inventory, short term loans and advances etc.
- **Net working capital** – Refers to difference between current assets and current liabilities or excess of total current assets over total current liabilities.
- **Regular or permanent working capital** – Refers to minimum amount which permanently remain blocked and can not be converted in to cash such as minimum amount blocked in raw material, finished product debtors etc.
- **Variable or temporary working capital** – Refers to amount over and above permanent working capital i e difference between total working capital les permanent working capital.
- **Seasonal working capital** - Refers to capital required to meet seasonal demand e.g. extra capital required for manufacturing coolers in summer, woolen garments in winter. It can be arranged through short term loans.

- **Specific working capital** – Refers to part of capital required for meeting unforeseen contingencies such as strike, flood, war, slump etc.

Q.2 List out the various determinants of working capital?

Or

Explain in brief important factors which help in estimating requirements of working capital in an organization.

Ans. Important factors or determinants of working capital are:

i. **Nature of business:** firms dealing in luxury goods, construction business, steel industry etc need more capital while those dealing in fast moving consumer goods (FMCG's) need less working capital.

ii. **Size of business:** large size firms need more working capital as compared to small size firms.

iii. **Level of technology:** use of high level technology leads to fastening the process and reduce wastage and in such case, less working capital would be required.

iv. **Length of operating cycle:** longer is the operating cycle; higher would be the need of working capital.

v. **Seasonal nature:** firms dealing in goods of seasonal nature, higher capital during peak season would be required.

vi. **Credit policy:** If credit policy followed is liberal more working capital would be required and if the same is strict less working capital would be required.

vii. **Turnover of working capital:** If rate of turnover is more, less working capital would be required and this rate is less, more working capital would be required.

viii. **Dividend policy:** If a firm retains more profit and distributes fewe amounts as dividend, less working capital would be required.

ix. **Profit margin:** If rate of margin of profit is more, less working capital would be required.

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x. **Rate of growth**: If growth rate is high and firm is continuously expending/ diversifying its production & business, more working capital would be needed.

xi. **Other factors like** :

- Means of transport
- Availability of water, power nearly
- Political stability

Coordination of activities also effect estimation of requirements of working capital.

Ques.3 Working capital is the lifeblood of any business." Comment. (Significance/Importance of adequate working capital

Ans: Effects of Adequate capital

- Prompt payment to supplies & benefit of cash/ trade discount.
- Increase in good will/ image
- Easy loans from banks
- Increase in the efficiency of employee's executives/ directors.
- Increase in the productivity as well as profitability

Inadequate or short working capital

- Stock out situation may arise
- Loosing customers
- Less profit
- Down fall of good will / image

Excess working capital

- Unnecessary piling of stock due to which loss of interest on amount blocked, theft, pilferage
- Lead to inefficiency of management
- Adversely effect production and profitability

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- Dissatisfaction to share holders

Schedule of change in working capital

Working capital will increase when there is increase in current assets and decrease in current liability & working capital will decreases when there is decrease in the current assets and increase in current liability.

Net increase in the working capital is treated as a uses of funds and the net decrease in working capital is treated as source of funds

Statement of change in Working capital

Item	Previous year	Current year	Effect on the working capital	
Current assets • Cash at bank • Cash in hand • Stock • Debtors • Bills receivables' • Advance payment • Short term investment • Prepaid expenses • Accrued income Total (A)				
Current liabilities • Short term loans • Bank overdraft • Creditors • Bills payable • Outstanding expenses • unclaimed dividend Total (B)				

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Q.4 Write short note on Operating cycle–

Ans Operating Cycle refers to capital/ amount required in different forms at successive stages of manufacturing operation/ process. It represents cycle during which cash is reconverted in to cash again. In manufacturing process, cash is required for purchasing raw material- raw material is converted in to work in progress – which is converted in to finished product – finished products are sold on credit- than cash is realized out of credit sale. Total time taken in completing one cycle helps in ascertaining working capital requirements.

Q.5 What do you understand by "Financing of Working Capital?

Ans. Financing working capital refers to arranging working capital in an organization i.e. different sources from which working capital has to be raised. For this purpose, we have to classify working capital in to two main categories i.e.

I – Temporary/ Short term/ variable working capital

II – Permanent /fixed/ Long term working capital

Arranging or financing both these categories would be different as explained below:

I – **Financing temporary / short term / variable working capital** – different sources of financing this type of working capital are:

i. Commercial banks:- in the form of short term loan like shc term credit limit, overdraft limit, pledge loan etc.

ii. Indigenous bankers/private money lenders in case of small business organization

iii. Trade credit :- Receiving goods on credit from suppliers

iv. Installment credit: - goods/ assets are purchased and payment is made in installments.

v. Advances from customers/ agents :- against orders received for supplying goods

vi. Deferred income :- i.e. incomes received in advance

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vii. Commercial paper:- issuing unsecured promissory note

viii. Public deposits: - accepting deposit for short period i.e. 3 month, 6 months etc.

II – **Permanent /fixed/ long term working capital** – Different sources for financing such capital are.

i. Shares – In the form of equity shares, preference shares, deferred shares etc.

ii. Debentures – debentures may be of different type ie secured, unsecured, redeemable, unredeemable convertible, non-convertible etc.

iii. Ploughing back of profit- retaining profit for growth. It is a internal source and a source which is cost free.

iv. Public deposits – accepting fixed deposits from public for a period of one year and above.

v. Loan from financing institutions – term loan from institutions like:

- Commercial banks

National state level financing institutions like IFCI, IDBI, State Finance corporations, SIDC's etc.

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Section-C

Management of cash and marketable securities.

Q.1. Explain in brief all aspects of management of cash in a business organization.

Ans. Efficient management of cash is crucial to the solvency of business. It impli making sure that all business generated revenues are efficiently controllea and utilized in best possible manner to result in gains to the organization. Cash management is concerned with optimizing amount of cash available to the company & maximizing interest on spare funds not required immediately by the company.

Objectives of cash management:-

- Ensuring availability of cash as per payment schedule
- Minimize amount of idle cash
- Effective control of cash (Maximizing interest on cash/funds not required immediately by the firm)

Motives of holding cash:-

(i) **Transaction motive**: - Refers to cash required for making payments like wages, operating expenses, taxes, dividend, interest etc.

(ii) **Precautionary motive:**- To make payment for unpredictable contingencies like strike, lockout, fire, sharp rise in prices etc.

Speculative motive:- To take advantages of unexpected opportunities e.g. purchase of raw material at reduced prices on cash basis, buying securities at a time when prices have fallen etc.

Importance /advantages of efficient management of cash:-

- firms goodwill is maintained by meeting obligations in time

- cash discount can be availed
- healthy relations can be maintained
- Unforeseen events can easily by face.

Scope of cash management: - In includes:

- Cash planning & forecasting
  - Cash budged
  - Cash flow statement
  - Ratio analysis
- Managing cash flows
  - Inflows
  - Out flows
- Determining optimum level of cash
- Investing surplus cash.

Cash budget: - A statement showing estimate of cash receipts, cash disbursement and net cash balance for a future period of time. It is a time based schedule & covers a specific period.

There are two methods of preparing cash budget

(i) Cash budget for a short period (up to one year) A statement projecting cash inflows and flows for a firm over various interim periods (months, quarters). For each period, expected cash inflows are put against expected out follows to find out if there is any surplus or deficiency.

(ii) Long term cash budget (3 to 7 year) under this method profit and loss account is adjusted to know estimates of eash receipts/ payments

This cash budgets helps in

- planning for borrowings
- planning for repayment of loans
- distribution of dividends
- estimation of idle cash
- better coordination of timings of each inflows & out flows
- identification of cash surplus position and planning for alternative investments in advance

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Collection and disbursement methods to improve cash management efficiency.

Collection methods:

Concentration banking – improving flow of cash by establishing collection centers at different places i.e. multiple collection centers instead of single centre. Even the local cheques received are collected fast and amount is deposited in bank. The bank in the head office of firm is known as concentration bank.

Lock Box system – A firm takes on rent post office boxes in selected areas and instructs customers to mail their payment in these boxes. The bank of the firm is authorized to open these boxes, pick up mails and deposit cheques in the account of firm and sends a list of cheques received for the record of firm.

Disbursement methods –

(i) **Centralized disbursement centre** – Establishing a centraliz disbursement centre at head office of firm and all paymer only through this centre. This would help in consolidating all funds in a single account and making a proper schedule of payments/ handling funds.

(ii) **Payment on due date** – all payment on their due dates (not early & not late) strictly according to agreed terms so that there is no loss of cash/ trade discount and credit worthy ness of firm is maintained.

(iii) Proper synchronization of receipts and payments

(iv) **Utilizing float** – float indicates difference between bank balance and firms bank account & bank pass book. It arises due to time gap between cheque written/issued and time when it is presented or time gap between cheque deposited and time when credit is actually given by the bank to the firm this float may be

Postal float – Time required for receiving cheque from customers through post

Deposit float –Time required processing the cheques received and depositing them in bank.

Bank float – Time required by banker to collect the payment from customer's bank.

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Models of cash management:

(i) **Bamoul Model: -** It is like EOQ model of inventory control. According to this model, optimum level of cash is one at which carrying cost of cash or cost of receiving cash is minimum. Carrying cost of cash refers to interest for gone on marketable securities. This is also called opportunity cost. Cost of receiving cash or transaction cost is the cost of converting marketable securities in cash.

(ii) **Hiller Orr model** – This model is based on assumption that cash balance changes randomly over a period of time in size. This model prescribes two levels i.e. upper limited and lower limit. Optimum balance of cash lies between upper and lower limit. When cash balance reaches upper limit, cash equal to difference between upper limit and optimum limit, it should be invested in marketable securities. When cash balance reaches to lower limit, cash equal to difference between optimum limit and lower limit, finance manager should immediately sell marketable securities so that cash balance reaches normal level.

Treasury management (TM)

T.M mainly deals with working capital management and financial risk management. The working capital management includes cash management and decide asset liability mix. Financial risk includes forex and interest and interest rate management. Hence, key goal of TM is planning organizing and controlling cash assets to satisfy financial objectives of organization. The goal is to:

- Maximize return on available cash
- Minimize interest cost
- Mobilize as much cash as possible for corporate returns.

Key responsibilities of T.M.

- Maintaining good relations with banks and other financing institutions
- Managing cost while earning optimum return from any surplus fund.
- Providing long term and short term funds for business at minimum cost.
- Managing interest rate risk in accordance with firms/groups policy
- Advising on all matters of corporate finance including capital structure, merger & acquisitions etc.

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Functions of a treasury manager

1. Cash management: - efficient collection & payment of cash.
2. Fund management: - Planning and sourcing of short/medium/long term funds.
3. **currency management** :- managing foreign currency risk in a multinational company by T.M
4. **Banking function**: - negotiating with banks and maintaining good contact with banks.

Q.2 Explain the concept of Marketable securities

Ans. Cash surplus left in excess of daily cash requirements need to be invested in readily **marketable short term securities.** These securities are also called cash equivalents. Investments in such securities are made keeping in view the following objectives:

- to earn interest for holding period
- to convert securities in cash as & when required
- increase return on excess cash through investments
- to maintain a proper mix of investments

These short term marketable securities include

- Treasury bills
- Certificate of deposits
- Money market mutual funds
- Bill discounting

Key criterions for investing for surplus cash in marketable securities are:

1. Liquidity or marketability: - converting securities in cash in minimum time and minimum transaction cost.
2. Safety: - i.e. Absence of risk. One should be prepared to sacrifice extra return for sake of safety
3. Yield/profit /return:- Maximum possible income from investment in such securities

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Receivables and inventory management

Q1 What do you understand by "Management of receivable"? Explain in brief its scope and costs associated with it.

Ans. Receivables are created on account of credit sales. They are represented in the balance sheet in the form of sundry debtors, trade debtors, and book debts, accounts receivable, bills receivable etc. Receivables constitute around 15 to 20% of assets or around 1/3 of working capital in a big organization and substantial amount of working is blocked in this asset. Hence, their efficient management occupies great significance in financial management.

Receivable Management means matching the cost of increasing sales with the benefits arising out of increased sales and maximizing return on investment of firm under this head. Hence, the prime objective of receivables management is to:

- Optimize return on investment
- By minimizing costs associated with receivables

Features of receivables

- They involve risk based on present economic value and seller expects the same value ot a later date
- Implies futurity

Benefits of receivables

- Growth in sales- If a firm does not sell on credit, sales cant grow
- Increase in profit – Growth in sales leads to increase in profit. At times, credit sales are at a price more than price of cash sales
- Enables to face competition in market

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Costs associated with receivables are:

1. Carrying cost – cost of amount blocked in the form of

- Interest if amount is borrowed
- Opportunity cost if amount blocked is out of retained earnings.

2. Administrative costs – Cost incurred on maintaining staff, for keeping records and for process of collecting amount from debtor's e.g.

- Salary to staff
- Cost of collecting information about debtors
- Record keeping
- Cost of collecting cheques
- Cost on phone calls, reminders follow up
- Cost on office space, equipments etc and expenditure on staff assigı the duty of collection of amount from debtors.

3. Delinquency cost - cost on following up with delinquent debtors, reminders, legal charges etc.

4. Default cost – cost of debtors becoming bad debts

Factors effecting investments in receivables

(i) Level of sales – Higher the sales, high would be amount of credit sales & receivable would also be high

(ii) Nature and conditions of business – In competitive market, more credit sales in consumer durables like furniture, refrigerators etc.

(iii) Credit policy of firm – If credit policy is liberal, more would be amount of receivables

(iv) Terms of credit - Terms of cash & trade discount and period in which payment is expected from debtors.

(v) Capacity of credit department – With reference to :-

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- Scrutiny of orders placed by customers
- Assessing creditworthiness for which collecting information from various sources
- Timely collection of receivables from debtors

Scope of Receivables Management – There are three part under which scope of receivables management can be discussed i.e. Formulation of credit policy, credit evaluation and credit control. This scope has been presented in the form of a chart on next page.

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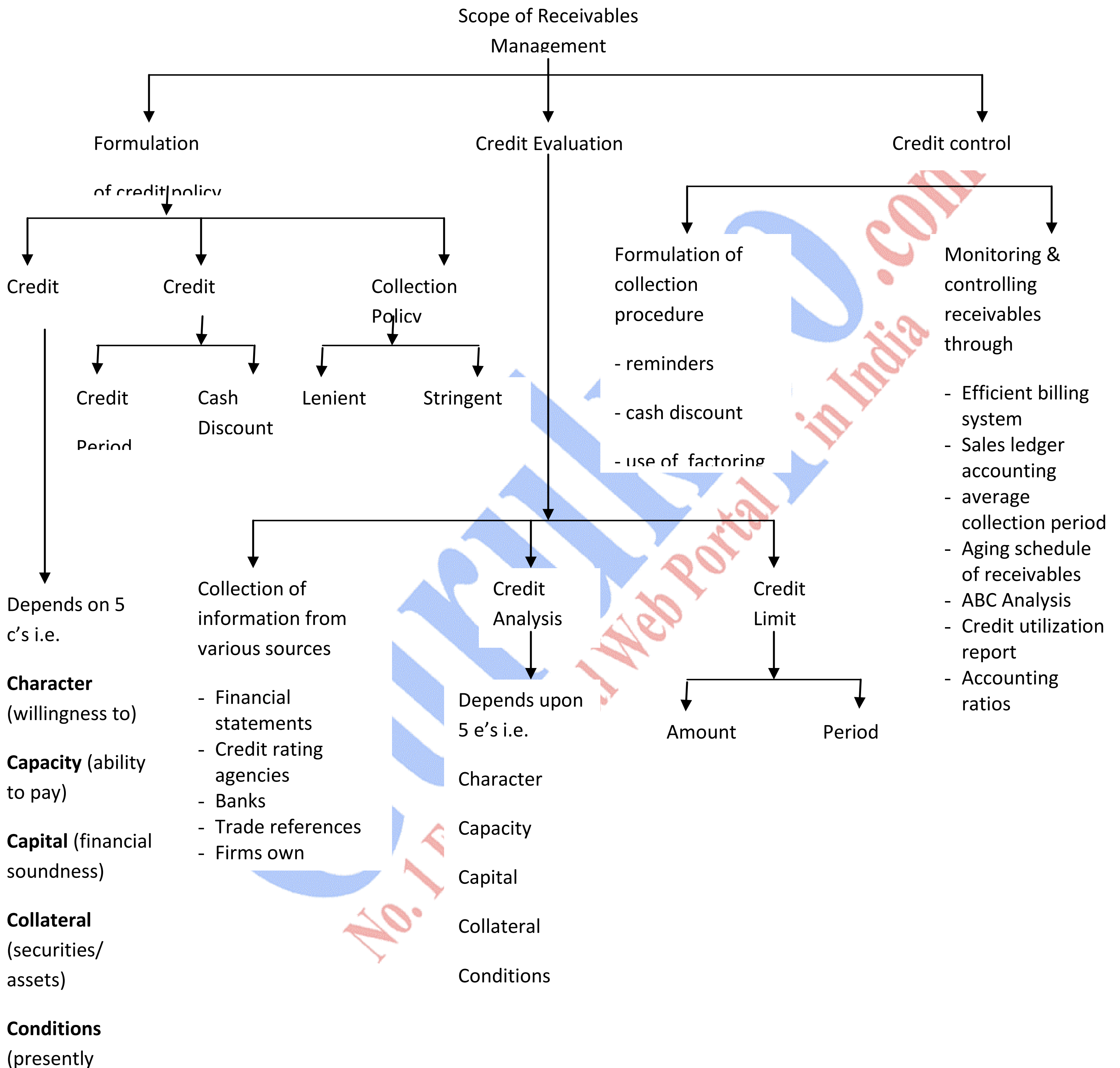
Scope of Receivables Management
Formulation of credit policy
Credit Evaluation
Credit control
Credit
Credit
Collection Policy
Credit Period
Cash Discount
Lenient
Stringent
Formulation of collection procedure
- reminders
- cash discount
- use of factoring
Monitoring & controlling receivables through
- Efficient billing system
- Sales ledger accounting
- average collection period
- Aging schedule of receivables
- ABC Analysis
- Credit utilization report
- Accounting ratios
Depends on 5 c's i.e.
Character (willingness to)
Capacity (ability to pay)
Capital (financial soundness)
Collateral (securities/ assets)
Conditions (presently
Collection of information from various sources
- Financial statements
- Credit rating agencies
- Banks
- Trade references
- Firms own
Credit Analysis
Depends upon 5 e's i.e.
Character
Capacity
Capital
Collateral
Conditions
Credit Limit
Amount
Period

Q.2 What do you understand by term "inventory" and "Inventory management "? Explain the key objectives of inventory control.

Ans. Inventory means stock of goods in the form of raw material, stores or supplies, work in progress and finished product waiting for sale. Important features of inventory are.

- If accounts for large share of working capital
- Risk factor is high in holding inventory
- If involves many types of costs.
- It influences price and income of the firm as well as profitability.
- It involves almost all functional areas of management i.e. purchase, production, marketing & finance.

Various types of risks associated with inventory are.

- risk of price fluctuation
- risk of deterioration of quality of goods
- risk of obsolescence
- risk of pilferage & loss

Inventory management – means efficient management/ control of capital invested in inventory for obtaining maximum return by keeping inventory costs at minimum.

Objectives of inventory control – are two i.e.

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Operating objectives	**Financial objective**
(i) Regular flow of material	(i) Minimum investment or maximization Of returns on investments
(ii) Minimization of risks due to Stock out.	(ii) Minimizing inventory costs.
(iii) Avoid obsolescence of stored Goods due to change in demand, Technology	

Key functions of inventory control are:

- effective use of financial resources
- economy in purchasing
- uninterrupted production of goods & services
- protection against loss of material
- prompt delivery of goods to customers
- eliminating redundant inventory
- providing information to management for decision making

Dangers of over stocking of inventory

- **Blocking of funds** – which may lead to reduction in profit due to interest cost or opportunity cost
- **Increase in holding cost** – besides interest rent of space, insurance, loss on account of theft pilferage etc.
- **Loss of liquidity** – as it is difficult to sell stores, woks in proposes as well as semi-finished goods.
- **Dangers of under stocking of inventory/stock out/ shortage of inventory items**
- Loss of profit due to loss of sales
- Loss of future sales as customers may go else where
- Loss of customers confidence resulting to loss of good will

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- Loss of machine and men hours as they may remain idle which lead to frustration in labour may force, unnecessary stoppage in production, extra costs in urgent replenishment of items.

Q.2. Explain in brief different types of costs associated with inventory. Also explain different techniques of inventory control.

Ans. Following are the key types of costs associated with inventory:

(i) **Material cost** – Which include cost of purchasing material/ Goods including transportation cost, sales tax, octroi, handling cost (loading unloading) etc.

(ii) **Ordering costs**: Clerical & administrative costs such as salary, postage, stationary telephone etc associated with purchasing, cost of requisition of material for order, follow up, receiving/evaluating quotations, checking of material when received (quality/quantity) accounting costs such as checking supplies against orders, making payment, maintaining records of purchase etc. setup costs when items are manufactured internally.

(iii) **Carrying costs**- storage cost e.g. Rent, lighting heating, refrigeration, labour costs in handling material, store staff equipments, taxes, depreciation, insurance, product deterioration obsolescence spoilage, breakage, pilferage, audit & accounting cost and lastly interest cost on capital or opportunity cost.

(iv) **Stock out costs or shortage of material** – Which include loss of profit due to loss of sale, loss of future sales, loss of loosing goodwill in the eyes of customers and loss of man and machine hours.

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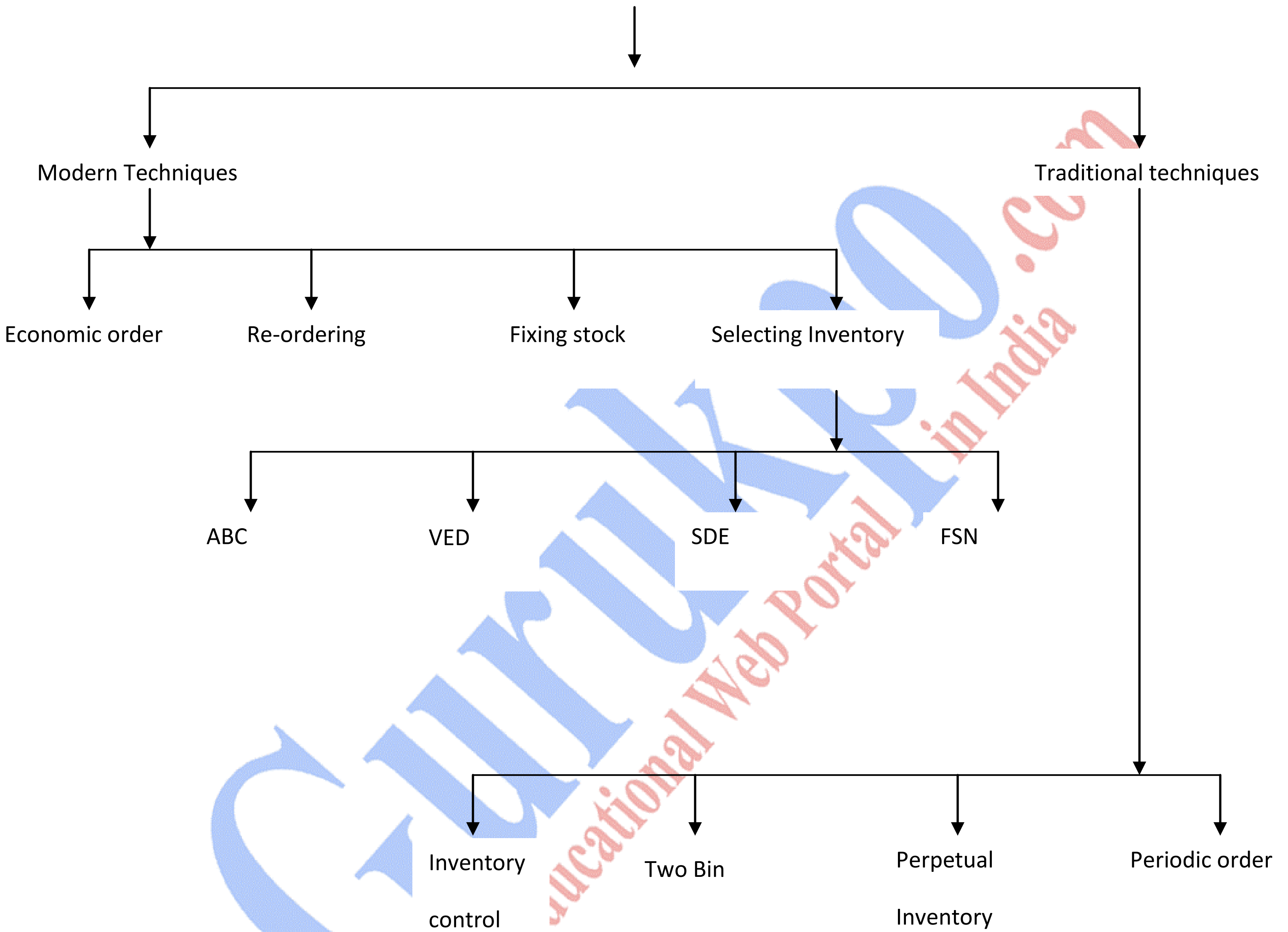

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EOQ - Optimum size of an order for replenishment of an item of inventory is called EOQ

ROP - Re-ordering point is the level of inventory at which an order should be placed for replenishment of on item of inventory.

Stock levels - Fixing levels like minimum, maximum, re-order and danger level.

ABC analysis – Always Better control. All items of inventory are divided in to three categories i.e. 'A', 'B', & 'C'.

Category		'A'	value	70% to 80%	Where quantity is			5% to 10%
"	"	'B'	" "	20%	"	"	"	20%
"	"	'C'	""	10%	"	"	"	70%

VED Analysis – Vital, Essential & Desirable (used for spare parts)

SDE Analysis

- Scarce (items in short supply)
- Difficult (items cant be procured easily)
- Easy (items which are easily available)

FSN Analysis

- Fast moving (stock to be maintained in large quantity)
- Slow moving (not frequently required by production dept.)
- Non-moving (items which are rarely required by production dept)

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Elementary study of capital budgeting including methods of evaluating capital expenditure proposal under certainty.

Q.1 What do you understand by the term Capital budgeting? Explain its concept.

Ans. Introduction:

A firm incurs two types of expenses i.e.

Revenue expenditure – The benefits of which are supposed to be exhausted within the year concerned and their planning and control is done through various functional departments

Capital expenditure – The benefits of which are expected to be received over long period a series of years in future like building, plant, machinery or to undertake a program on

- Research and development of a product
- Diversification in to a new product line
- Replacement of a machine
- Expansion in production capacity
- Promotional campaign

Capital expenditure involves investment of substantial funds for longer period and the benefits of such investment are in the form of increasing revenues or decreasing costs. Wrong decision under this head may effect future earnings, employment capacity, quantity and quality of production. Hence, long term planning and right decision to incur or not to incur such expenditure is a crucial responsibility of management.

The techniques used by management to carry out this responsibility is known as capital budgeting. Hence planning and control of capital expenditure is termed as capital budgeting.

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Definitions:

According to Milton "*Capital budgeting involves planning of expenditure for assets and return from them which will be realized in future time period*".

According to I.M pandey "*Capital budgeting refers to the total process of generating, evaluating, selecting, and follow up of capital expenditure alternative*"

Nature / Features of Capital budgeting decisions

(1) **Long term effect** - such decisions have long term effect on future profitability and influence pace of firms growth. A good decision may bring amazing/good returns and wrong decision may endanger very survival of firm. Hence capital budgeting decisions determine future destiny of firm.

(2) **High degree of risk** - decision is based on estimated return. Changes in taste, fashion, research and technological advancement leads to greater risk in such decisions.

(3) **Huge funds** – large amount/funds are required and sparing huge funds is problem and hence decision to be taken after proper care/analysis

(4) **Irreversible decision** – Reverting back from a decision is very difficult as sale of high value asset would be a problem.

(5) **Most difficult decision** – decision is based on future estimates/uncertainty. Future events are affected by economic, political and technological changes taking place.

(6) **Impact on firms future competitive strengths** – These decisions determine future profit/ cost and hence affect the competitive strengths of firm.

(7) **Impact on cost structure** – Due to this vital decision, firm commits itself to fixed costs such as supervision, insurance, rent, interest etc. If

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investment does not generate anticipated profit, future profitability would be affected.

Q.2 Discuss the objectives of using Capital budgeting techniques and the factors affecting the decision making.

Ans. Objectives of capital Budgeting

(1) **Share holder's wealth maximization**. In tune with objectives of financial management, its aim is selecting those projects that maximize shareholders wealth. The decision should avoid over/under investment in fixed assets.

(2) **Evaluation of proposed capital expenditure** – Capital budgeting helps in evaluating expenditure to be incurred on various assets to measure validity of each expenditure

(3) **Controlling costs** - by evaluating expenditure costs can be controlled.

(4) **Determining priority** – arranging projects in order of their profitability enabling the management to select most prof[illegible]e project.

Factors affecting capital Budgeting Decisions (CBD)

(1) **Technological changes** – Before taking CBD, management will have to undertake in-depth study of cost of new product /equipment as well productive efficiencies of new as well as old equipment.

(2) **Demand forecast** – Analysis of demand for a long period will have to be undertaken before CBD.

(3) **Competitive strategy** – If a competitor is going for new machinery /equipment of high capacity and cost effective, we may have to follow that.

(4) **Type of management** – If management is innovative, firm may go for new equipments/ investment as compared to conservative management.

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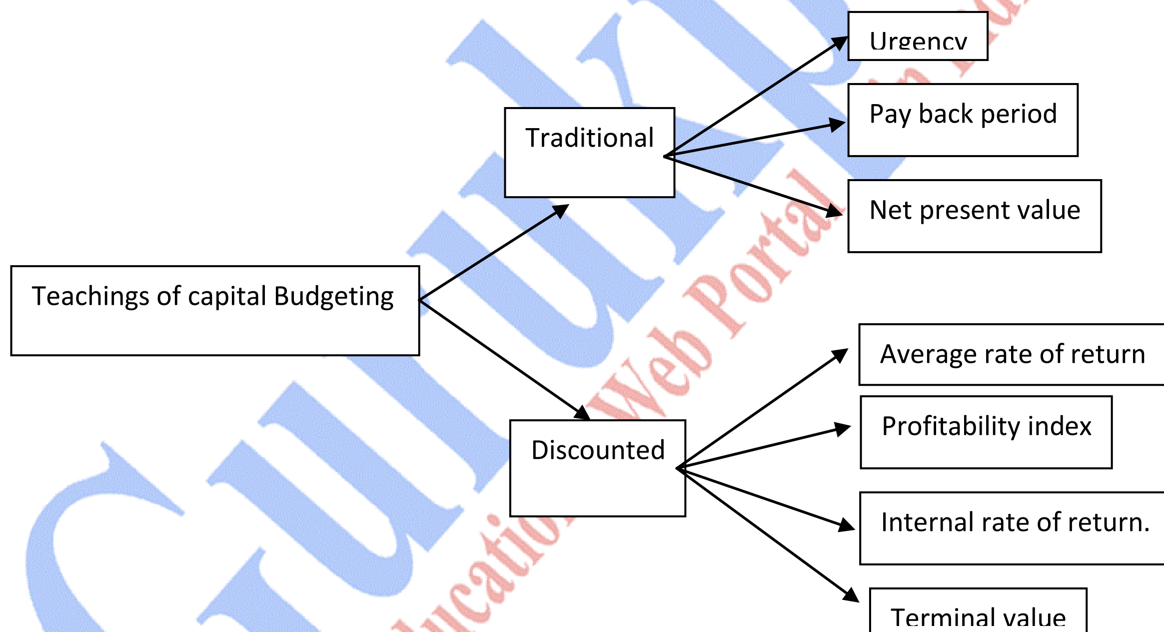
(5) **Cash flow** – cash flow statement or cash budget helps a firm in identifying time when a firm can make investment in CBD.

(6) **Other factors-** Like fiscal policy (tax concessions, rebate on investments) political salability, global situation etc.

Q3 What are the various methods used in Capital Budgeting? What are its merits and Demerits?

Or

How capital budgeting is helpful in making investments decisions. Explain.



Capital budgeting decision may be thought of as a cost-benefit analysis. We are asking a very simple question: "If I purchase this fixed asset, will the benefits to the company be greater than the cost of the asset?" In essence, we are placing the cash inflows and outflows on a scale (similar to the one above) to see which is greater.

A complicating factor is that the inflows and outflows may not be comparable: cash outflows (costs) are typically concentrated at the time of the purchase, while

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cash inflows (benefits) may be spread over many years. The *time value of money* principle states that dollars today are not the same as dollars in the future (because we would all prefer possessing dollars today to receiving the same amount of dollars in the future). Therefore, before we can place the costs and benefits on the scale, we must make sure that they are comparable. We do this by taking the present value of each, which restates all of the cash flows into "today's dollars." Once all of the cash flows are on a comparable basis, they may be placed onto the scale to see if the benefits exceed the costs.

The Major Capital Budgeting Techniques

A variety of measures have evolved over time to analyze capital budgeting requests. The better methods use *time value of money* concepts. Older methods, like the payback period, have the deficiency of not using time value techniques and will eventually fall by the wayside and be replaced in companies by the newer, superior methods of evaluation.

1. Payback Period

It **is the length of time that it takes to recover your investment.**

For example, to recover $30,000 at the rate of $10,000 per year would take 3.0 years. Companies that use this method will set some arbitrary payback period for all capital budgeting projects, such as a rule that only projects with a payback period of 2.5 years or less will be accepted. (At a payback period of 3 years in the example above, that project would be rejected.)

The payback period method is decreasing in use every year and doesn't deserve extensive coverage here.

2. Profitability index (PI), also known as **profit investment ratio** (PIR) and **value** investment **ratio** (VIR), is the ratio of payoff to investment of a proposed project. It is a useful tool for ranking projects because it allows you to quantify the amount of value created per unit of investment.

The ratio is calculated as follows:

Assuming that the cash flow calculated does not include the investment made in the project, a profitability index of 1 indicates breakeven. Any value lower than

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one would indicate that the project's PV is less than the initial investment. As the value of the profitability index increases, so does the financial attractiveness of the proposed project.

Rules for selection or rejection of a project:

- If PI > 1 then accept the project
- If PI < 1 then reject the project

3. Accounting rate of return, also known as the **Average rate of return**

ARR is a financial ratio used in capital budgeting. The ratio does not take into account the concept of time value of money. ARR calculates the return, generated from net income of the proposed capital investment. The ARR is a percentage return. Say, if ARR = 7%, then it means that the project is expected to earn seven cents out of each dollar invested. If the ARR is equal to or greater than the required rate of return, the project is acceptable. If it is less than the desired rate, it should be rejected. When comparing investments, the higher the ARR, the more attractive the investment. Over one-half of large firms calculate ARR when appraising projects.

ARR=Profit / Investment

3. Net Present Value

Using a minimum rate of return known as the hurdle rate, the *net present value* of an investment is the *present value of the cash inflows* minus the *present value of the cash outflows.* A more common way of expressing this is to say that the net present value (NPV) is the present value of the benefits (PVB) minus the present value of the costs (PVC)

NPV = PVB - PVC

By using the hurdle rate as the discount rate, we are conducting a test to see if the project is expected to earn our minimum desired rate of return. Here are our decision rules:

If the NPV is:	Benefits vs. Costs	Should we expect to earn at least our minimum rate of return?	Accept the investment?
Positive	Benefits > Costs	Yes, more than	Accept
Zero	Benefits = Costs	Exactly equal to	Indifferent
Negative	Benefits < Costs	No, less than	Reject

Remember that we said above that the purpose of the capital budgeting analysis is to see if the project's benefits are large enough to repay the company for (1) the asset's cost, (2) the cost of financing the project, and (3) a rate of return that adequately compensates the company for the risk found in the cash flow estimates.

Therefore, if the NPV is:

- Positive, the benefits are more than large enough to repay the company for (1) the asset's cost, (2) the cost of financing the project, and (3) a rate of return that adequately compensates the company for the risk found in the cash flow estimates.
- Zero, the benefits are barely enough to cover all three but you are at breakeven - no profit and no loss, and therefore you would be indifferent about accepting the project.

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- Negative, the benefits are not large enough to cover all three, and therefore the project should be rejected.

4. Internal Rate of Return

The *Internal Rate of Return (IRR)* is the rate of return that an investor can expect to earn on the investment. Technically, it is the discount rate that causes the present value of the benefits to equal the present value of the costs. According to surveys of businesses, the IRR method is actually the most commonly used method for evaluating capital budgeting proposals. This is probably because the IRR is a very easy number to understand because it can be compared easily to the expected return on other types of investments (savings accounts, bonds, etc.). If the internal rate of return is greater than the project's minimum rate of return, we would tend to accept the project.

The calculation of the IRR, however, cannot be determined using a formula; it must be determined using a trial-and-error technique. This process is explained in the following link.

5. Modified Internal Rate of Return

The *Modified Internal Rate of Return (MIRR)* is an attempt to overcome the above two deficiencies in the IRR method. The person conducting the analysis can choose whatever rate he or she wants for investing the cash inflows for the remainder of the project's life.

For example, if the analyst chooses to use the hurdle rate for reinvestment purposes, the MIRR technique calculates the present value of the cash outflows (i.e., the PVC), the future value of the cash inflows (to the end of the project's life), and then solves for the discount rate that will equate the PVC and the future value of the benefits. In this way, the two problems mentioned previously are overcome:

1. the cash inflows are assumed to be reinvested at a reasonable rate chosen by the analyst, and

2. There is only one solution to the technique.

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Q. 3 Which Method Is Better: the NPV or the IRR? Give reasons for your answer.

Ans: The NPV is better than the IRR. It is superior to the IRR method for at least two reasons:

1. Reinvestment of Cash Flows: The NPV method assumes that the project's cash inflows are reinvested to earn the hurdle rate; the IRR assumes that the cash inflows are reinvested to earn the IRR. Of the two, the NPV's assumption is more realistic in most situations since the IRR can be very high on some projects.

2. Multiple Solutions for the IRR: It is possible for the IRR to have more than one solution. If the cash flows experience a sign change (e.g., positive cash flow in one year, negative in the next), the IRR method will have more than one solution. In other words, there will be more than one percentage number that will cause the PVB to equal the PVC.

   When this occurs, we simply don't use the IRR method to evaluate the project, since no one value of the IRR is theoretically superior to the others. The NPV method does not have this problem.

Q4 Explain the methods of time value of money.

Ans. Two methods of taking care of time value of money:-

1. <u>Compounding/ future value</u> :- Future value or compounding is the value of an asset or cash at a specified date in the future that is equivalent in value to a specified sum today

Future Value(n) = Present Value * (1+k)n

Future Value= PV* FVIF(k,n)

Where, FV(n) = Future value of the initial flow n years hence

PV = Initial cash flow

K = Annual Rate of interest

n = Life of investment.

FVIF= Future Value Interest Factor (it will be calculated by fv table value)

2. <u>Discounting / present value</u> -- The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows

Under the method of discounting, in time value of money, we compare the initial outflow with the sum of present value (PV) of the future inflows at a given rate of interest.

PV = FV/(1+k)n

PV= FV* PVIF (k,n)

Where PVIF= Present value interest factor (calculated by table value)

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Dividend Policy

Q.1 What do you understand by dividend policy?
Explain in brief models of dividend theories.

Ans. Dividend is divisible profit distributed amongst members/shareholders of a company in proportion to shares in the manner as prescribed under law. A dividend cannot be declared unless:

1. Sufficient profit is there in a company.
2. It has been recommended by Board of Directors.
3. Its acceptance has been given by the shareholders in Annual General Meeting (AGM)

Kind of Dividend -

I. Type of Security – Preference Dividend, - Equity Dividend
II. Timings of Dividends – Interim Dividend – Regular Dividend
III. Mode of Payment–Cash–Stock dividend (Bonus)–Script or Bond.

Dividend Policy - Policy followed by Board of Directors concerning quantum of profit to be distributed as dividend. It also includes principal rules and procedure for planning and distributing dividend after deciding rate of dividend.

- Stable: Long term policy without frequent changes i.e. long term policy which is not affected by changes or quantum of profit.
- Lenient: Most of the profit is distributed amongst share holders and a very small part is kept as retained earnings. Even 90% to 95% profit is distributed as dividend. This is generally done in initial years to gain confidence of share holders.

Factors affecting dividend policy or determinants of dividend policy

(i) Legal requirements: As per companies Act, dividend only out of earned profit.

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(ii) Liquidity position: In tight liquidity position, instead cash dividend, bonus shares or scripts/bonds are issued.

(iii) Trade Cycle: In boom conditions, higher profits are there and hence high dividend.

(iv) Expectations of share holders

(v) Future needs: If future needs are high, low dividend and high retained earnings.

(vi) Debt repayment: If heavy debt liability, low dividend.

(vii) Stability of Income: If income is stable, high dividend.

(viii) Public Opinion: High dividend to gain public confidence.

(ix) Composition of Owners: If preference shareholders are large, less dividend to ordinary shareholders.

Q2. What are the theories or models or say approaches given under Dividend policy?

Ans. Models of Dividend (Theories)

1. Walter's Model – As per this model, dividend policy of a firm is based on the relationship between internal rate of return (r) earned by it and the cost of capital or required rate of return (k). The optimum dividend policy will have to be determined by relationship of r & k under following assumptions.

- Internal rate of return ® and cost of capital (k) are constant.
- All new investment opportunities are to be financed through retained earnings and no external finance is available to the firm.
- A firm has perpetual or an infinite life

Hence, as per this Model, a firm should retain its earnings if the return on investment exceeds cost of capital.

2. Gordon's Model – This model is like Walters Model but a few extra assumptions are:

- The firm operates its investment activity only through equity.
- The retention ratio once decided is constant for ever.

As per this Model, Market value of share is equal to present value of its expected future dividend.

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3. **Modigliani & Miller (M M Model)** – This model says that dividend decision and retained earnings decision do not influence market value of shares. As per this model, "Under conditions of Perfect Capital Market, rational investors, absence of tax, discrimination between dividend income and capital appreciation given the firms investment policy. Its dividend policy may have no influence on the Market price of shares.

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Case Problems

Q 1 Calculate Average Rate of Return for the following information:

Year	0	1	2	3
Investment	100000			
Sales Revenue		120000	100000	80000
Operating Expenses (Excluding Depreciation)		60000	50000	40000
Depreciation		30000	30000	30000
Annual Income		30000	20000	10000

Average annual income = (30000+20000+10000)/3 = 20000

Average net book value if the investment = (100000+0)/2 = 50000

Accounting rate of return = 20000/50000 * 100 = 40%

The firm will accept the project if its target rate is less than 40%. \

Q2 **A ltd is considering the purchase of a new leather cutting machine to replace an existing machine which has a book value of Rs. 3000 and can be sold for Rs. 1500. The estimated salvage value of the old machine in four years would be zero, and it is depreciated on a straight line basis. The new machine will reduce costs (before tax) by Rs. 7000 per year i.e. Rs. 7000 cost savings over the old machine. The new machine has a four year life, costs Rs. 14000 and can be sold for an expected amount of Rs. 2000 at the end of the fourth year. Assuming straight line depreciation and a tax rate of 40%, calculate the cash flows associated with the investment and calculate the NPV of the project assuming the cost of funds to the firm is 12% and straight line method is used for tax purposes?**

Ans. Cash flows associated with the replacement decisions

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Year		0	1	2	3	4
1.	Net investment in new machine	(12500)				
2.	Savings in costs		7000	7000	7000	7000
3.	Incremental Depreciation		2250	2250	2250	2250
4.	Pre-Tax profits		4750	4750	4750	4750
5.	Less Tax		1900	1900	1900	1900
6.	Post-tax profits		2850	2850	2850	2850
7.	Initial Flow (=1)	(12500)				
8.	Operating Flow (= (6) + (3))		5100	5100	5100	5100
9.	Terminal Flow					2000
10.	Net Cash flow(=7+8+9)	12500	5100	5100	5100	7100

Year	1	2	3	4
Net cash flows	5100	5100	5100	7100
PVIF @k = 12%	0.893	0.797	0.712	0.636
Present Value (Rs.)	4554	4065	3631	4516

Net present value

= (-12500) + (4554 + 4065 + 3631 + 4516)

= Rs. (-12500 + 16766)

= Rs. 4266

The decision rule based on NPV is obvious. A project will be accepted if the NPV is positive and rejected if NPV is negative.

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Q3 Project has the following patterns of cash flows:

Year	Cash Flow (Rs. In Lacs)
0	(10)
1	5
2	5
3	3.08
4	1.20

What is the IRR of this project?

Ans: To determine the IRR, we have to compare the NPV of the project for different rates of interest until we find that rate of interest at which the NPV of the project is equal to zero. To reduce the number of iterations involved in this hit and trial process, we can use the following short cut procedure:

Step 1

Find the average annual net cash flow based on given future net cash inflows.

= (5 + 5 + 3.08 + 1.20)/4 = 3.57

Step 2

Divide the initial outlay by the average annual net cash inflows i.e. 10/3.57 = 2.801

Step 3

From the PVIFA table find that interest rate at which the present value of an annuity of Rs. 1 will be nearly equal to 2.801 in 4 years i.e. the duration of the project. In this case the rate of interest will be equal to 15%.

We use 15% as the initial value for starting the hit and trial process and keep trying at successively higher rates of interest until we get an interest rate at which the NPV is zero.

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The NPV at r = 15% will be equal to:

= - 10 + (5 * .0870) + (5 * .756) + (3.08 * .658) + (1.2 * .572) = 0.84

NPV at r = 16 % will be equal to:

= - 10 + (5 * .862) + (5 * .743) + (3.08 * .641) + (1.2 * .552) = .66

NPV at r = 18% will be equal to:

= - 10 + (5 * .848) + (5 * .719) + (3.08 * .0609) + (1.2 * .516) = .33

NPV at r = 20% will be equal to:

= -10 + (5 * .833) + (5 * .694) + (3.08 * .609) + (1.20 * .482) = 0

We find that at r= 20%, the NPV is zero and therefore the IRR of the project is 20%.

Q4 Explain Operating Cycle Approach to Working Capital Management.

Ans. Operating cycle approach has following periods.

Raw Material Storage Period (n1)

1. Annual consumption of raw materials, components etc.
2. Average daily consumption of raw material by dividing the first point above by 360.
3. Average stock of raw materials, components etc. opening + closing stock /2.
4. Raw material storage period = 3/2 = n1 days.

Conversion Period (n2)

1. Annual cost of production = Opening WIP + Raw material consumed + other manufacturing costs like wages fuel etc. + Depreciation – Closing WIP.
2. Average daily cost of production = 1/360
3. Average stock of WIP = opening WIP + Closing WIP /2
4. Average conversion period = 3/2 = n2 days

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Finished Goods Storage Period (n3)

1. Annual cost of sales = Opening stock of finished goods + cost of production + Excise duty + Selling and distribution costs + General administrative costs + Financial costs – Closing stock of finished goods.
2. Average daily cost of sales = 1/360
3. Average stock of finished goods = Opening stock + Closing stock/2
4. Finished goods storage period = 3/2 = n3 days

Average Collections Period (n4)

1. Annual credit sales of the company.
2. Average daily credit sales = 1/360
3. Average balance of sundry debtors = Opening balance + Closing balance /2
4. Average collection period = 3/2 = n4 days

Average Payment Period (n5)

1. Annual credit purchases made by a company.
2. Annual daily credit purchases = 1/360
3. Average balance of sundry creditors = opening balance + closing balance /2
4. Average payment period = 3/2 = n5 days.

Gross Operating Cycle = n1 + n2 + n3 + n4

Net Operating Cycle = n1 + n2 + n3 + n4 – n5

Q5. Calculate the gross and net operating cycle periods from the data given below:-

Particulars	Amount (Rs. In Lakh)
1. Opening Balances of	
○ Raw Materials, Stores and Spares, etc	3454.84
○ Work – in – Process	56.15
○ Finished Goods	637.92
○ Accounts Receivable	756.45
○ Accounts Payable	

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2. Closing Balances of
    o Raw Materials, Stores and Spares, etc
    o Work – in – Process
    o Finished Goods
    o Accounts Receivable
    o Accounts Payable
3. Purchases of Raw Materials, Stores and Spares, etc.
4. Manufacturing Expenses etc.
5. Depreciation
6. Customs and Excise Duty
7. Selling administration and financial expenses
8. Sales
	2504.18
	4095.41
	72.50
	1032.74
	1166.32
	3087.47
	10676.10
	1146.76
	247.72
	35025.56
	4557.48
	54210.65

Ans. Raw Material Storage Period

1. Annual Consumption of Raw Materials

   = Opening Stock + Purchases – Closing Stock

   = 3454.84 + 10676.10 – 4095.41

   = 10035.53

2. Average daily consumption of raw materials:-

   = 10035.53/360 = 27.88

3. Average stock of Raw Materials

   = (3454.84 + 4095.41)/2

4. Raw Material Storage Period

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= 3775.13/27.88 = 135 days

B. Average Conversion or Work-in-process Period

1. Annual Cost of Production

   = Opening WIP + Consumption of Materials + Manufacturing Expenses + Depreciation – Closing WIP

   =56.15 + 10035.53 + 1146.76 + 247.72 – 72.50

   =11413.66

2. Average Daily Cost of Production

   = 11413.66/360 = 31.70

3. Average Stock of Work- in – Progress

   = (56.15 + 72.50)/2 = 64.33

4. Average Conversion Period

   = 64.33/31.70 = 2 days

C. Finished Goods Storage Period

1. Annual cost of sales

   = Opening stock of finished goods + cost of production + Selling, administration and financial expenses + customs and excise duties – closing stock of finished goods.

   = 637.92 + 11413.66 + 4557.48 + 35025.56 – 1032.74

   = 50601.88

2. Average daily cost of sales : = 50601.88/360 = 140.56

3. Average inventory of finished goods = (637.92 + 1032.74)/2 = 835.33

4. Finished goods storage period = 835.33/140.56 = 6 days

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D. Average Collection Period

1. Annual Sales = 54210.65
2. Average Daily Sales = 54210/360 = 150.59

3. Average Book Debts =(756.45+1166.32)/2 = 961.38

4. Average Collection Period = 961.38/150.59 = 6 days

E. Average Payment Period

1. Annual Purchases = 10676.10

2. Average Daily Purchases = 10676.10/360 = 29.66

3. Average balance of trade creditors = (2504.18 + 3087.47)/2= 2795.82

4. Average payment period = 2795.82/29.66 = 94 days

Operating Cycle Period= 135 + 2 + 6 + 6 – 94 = 55 days

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Inventory Management Techniques

Q 1 What is Economic Order Quantity?

Ans. The economic order quantity (EOQ) refers to the optimal order size that will result in the lowest total of order and carrying costs for an item of inventory given its expected usage, carrying costs and ordering cost. By calculating the economic order quantity, the firm determines the order size that will minimize the total inventory costs.

$EOQ = \sqrt{2RO/C}$

Where R= Annual Requirement

O= Ordering Cost

C= Carrying Cost

Example:-

A firm expects a total demand for its product to be 10000 units, while the ordering cost per order is Rs. 100 and the carrying cost per unit is Rs. 2.

EOQ = under root of 2*10000*100/2 = 1000 units.

Q2 Explain Reorder Point Formula.

Ans. At what point in the level of inventory a reorder has to be placed for replenishment of stock.

Reorder Point

$= U * L + F * \sqrt{U * R * L}$

Where,

U= Usage in units per day

L= Lead time in days

R= Average number of units per order

F= Stock out acceptance factor

Q 3 For a company the average daily usage of a material is 100 units, lead time for procuring material is 20 days and the average number of units per order is 2000 units. The stock out acceptance factor is considered to be 1.3. What is the reorder level for the company?

Ans.

From the data contained in the problem we have

U = 100 units

L = 20 Days

R = 2000 Units

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F = 1.3

Reorder Level = U * L + F * √U*R*L

= 100 * 20 + 1.3 * Under root of 100 * 2000 * 20

= 2000 * 1.3 + 2000 = 4600

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Marketing Management

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Chapter-1

Introduction

Q.1 What is the nature & scope of marketing & why is marketing important?

Ans.: **Nature & Scope of Marketing :** Marketing is an ancient art & is everywhere. Formally or informally, people & organizations engage in a vast numbers of activities that could be called marketing. Good marketing has become an increasingly vital ingredient for business success. It is embedded in everything we do- from the clothes we wear, to the web sites we click on, to the ads we see.

Marketing deals with identifying & meeting human & social needs or it can be defined as "meeting needs profitably".

The American Marketing Association has defined marketing as "an organizational function & a set of processes for creating, communicating & delivering value to the customers & for managing customer's relations in ways that benefit the organization & the stake holders.

Or

Marketing management is the art & science of choosing target markets & getting, keeping & growing customers through creating, delivering & communicating superior customer value.

Or

"Delivering a higher standard of living"

For a managerial definition, marketing has been defined as "the art of selling products" but people are surprised when they hear that the most important part of marketing is not selling. Selling is only the tip of marketing iceberg.

Peter Drucker says it this way that the aim of marketing is to know & understand the customer so well that the product or service fits him & sells itself. All that should be needed is to make the product or the service available.

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Eg. The success of Indica, the first indigenously designed car by Tata Motors. Backed by strong customers delight, the company designed a vehicle with luggage space & legroom & offered it a price easily available & affordable to middle class.

(2) Gillette launched its March III razor.

Marketing people are involved in marketing 10 types of entities : goods services, events, experiences, persons, places, properties, organizations, information & ideas.

Therefore ideal marketing should result in a customer who is ready to buy.

Importance of Marketing : Financial success of any organization depends upon marketing ability of that organization. There should be sufficient demand for products & services so the company can make profit. Therefore many companies created chief marketing officer (CMO) position to put marketing on a more equal footing with other e-level executives.

Marketing is tricky & large well known business such as Levi's, Kodak, Xerox etc. had to rethink their business models, Even Microsoft, Wal-Mart, Nike who are market leaders cannot relax.

Thus, we can say that making the right decision is not easy & marketing managers must take major decisions about the features of the product prices & design of the product, where to sell products & expenditure on sales & advertising. Good marketing is no accident but a result of careful planning & execution. Marketing practices are continuously being refined to increase the chances of success. But marketing excellence is rare & difficult to achieve & is a never ending task.

Eg. NIRMA – The brand icon of the young girl has adorned the package of Nirma washing powder. The jingle has become one of the enduring times in Indian advertising.

Q.2 What are some fundamental marketing concept?

Ans.: The various fundamental concepts are :-

Exchange Concept : The Exchange concept holds that the exchange of a product between seller & buyer is the central idea of marketing Exchange is an important part of marketing, but marketing is a much wider concept.

Production Concept : The production concept is one of the oldest concepts in business. It holds that consumers will prefer products that are widely available & expensive. Manager of production oriented business concentrate on achieving high production efficiency low cost & mass distribution.

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Eg. Haier in China take advantage of the country's huge inexpensive labor pool to dominate the market, to manufacture PC & domestic appliances.

Production Concept : This concept holds that consumers will prefer those products that are high in quality, performance or innovative features. Managers in these organization focus on making superior products & improving them. Sometimes, this concept leads to marketing myopia, Marketing myopia is a short sightedness about business. Excessive attention to production or the product or selling aspects at the cost of customer & his actual needs creates this myopia.

Selling Concepts : This concept focuses on aggressively promoting & pushing its products, it cannot expect its products to get picked up automatically by the customer. The purpose is basically to sell more stuff to more people, in order to make more profits.

Eg. Coca Cola

Marketing Concept : The marketing concept emerged in the mid 1950's. The business generally shifted from a product – centered, make & sell philosophy, to a customer centered, sense & respond philosophy. The job is not to find the right customers for your product, but to find right products for your customers. The marketing concept holds that the key to achieving organizational goals consist of the company being more effective than competitors in creating, delivering & communicating superior customers value. This concept puts the customers at both the beginning & the end of the business cycle. Every department & every worker should think customer & act customer.

Distinguishing Features of the Marketing Concept :

Consumer Orientation : The purpose of any business is to create a customer. It is the customer who determines what a business is-

Integrated Management with Marketing as the Fulcrum : Integrated management means that all the different functions of a business must be tightly integrated with one another. This is essential because every function has a bearing on the consumers & the aim is to see that all the functions make a favourable impact on the consumer.

Consumers Satisfaction : The marketing concept emphasizes that it is not enough if a firm has consumer orientation, it is essential that with such an orientation, it should lead to consumer satisfaction.

Realization of all Organizational Goals, Including Profits : The firm should not forget its own interests. It treats consumer satisfaction as the pathway to the attainment of goals of the organization.

In short the marketing concept essentially represents a shift in orientation.

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From production orientation to marketing orientation.

From product orientation to customers orientation.

From supply orientation to demand orientation.

From sales orientation to satisfaction orientation

From internal orientation to external orientation.

(6) Social Marketing Concept : This concept holds understanding broader concerns & the ethical, environmental & legal & social context of marketing activities & programs. The cause & effects of marketing extend beyond the company & the consumes to society as a whole. Social responsibility also requires that marketers carefully consider the role that they are playing & could play in terms of social welfare.

(7) Holistic Marketing Concept : This concept is based on the development, design & implementation of marketing programs, processes & activities that recognizes their breadth. Holistic concept realizes that "everything matters" with marketing. Four components of Holistic marketing are as follows:

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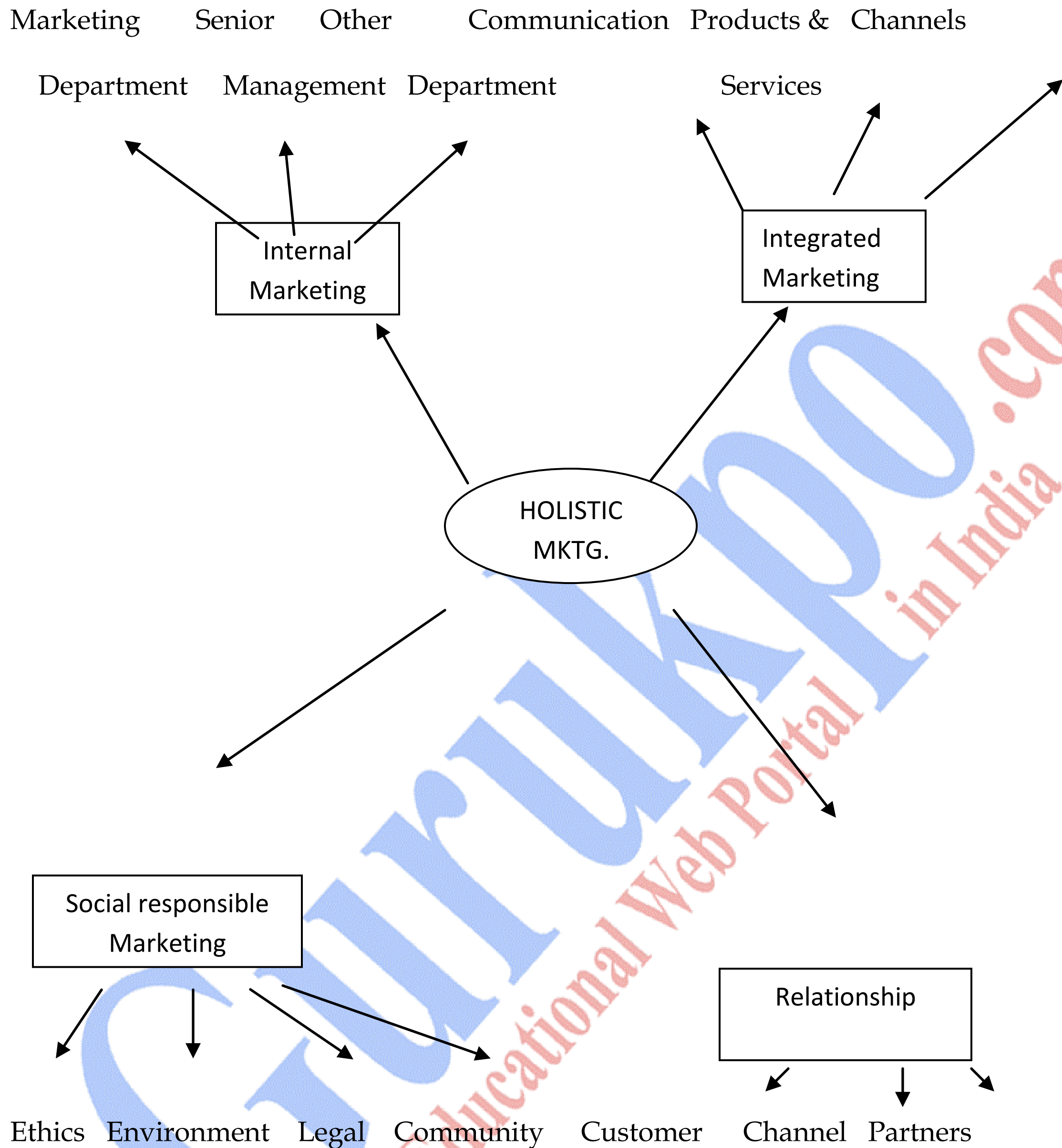

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Q.3 Differentiate between selling & marketing concept.

Ans.:

S.No.	Selling		Marketing
1.	Selling starts with the seller & the needs of the seller		Marketing starts with the buyer & needs of buyer
2.	Seeks to quickly convert products into cash.		Seeks to convert customer 'needs' into products

3.	Seller is the centre of business universe		Buyer is the centre of the business universe
4.	Views Business as a goods producing process		Views businesses as a customer satisfying process.
5.	Seller preference determines the formulation of marketing mix.		Buyer determines the shape marketing mix should take.
6.	Selling is product oriented		Marketing is customer oriented.
7.	Sellers motives dominate marketing communication		Marketing communication is looked upon as a tool for communicating the benefits / satisfactions provided by the product.

Q.4 How business & marketing are changing in India?

Ans.: Companies should adopt a clear vision of the proper direction in which to take their brands & challenged marketing convention through product innovation, advertising or some other aspect of marketing.

The market place isn't what is used to be. It has new behaviours, new opportunities & new challenges.

Changing Technology – The digital revolution has created an information age. The information age promises to lead to more accurate levels of production more targeted communications & more relevant pricing. Today's business is carried on over electronic networks, internal external & the Internet.

Globalization – Technological advances in transportation shipping & communication have made it easier for companies to market in other countries & easier for consumers to buy products & services from marketers in other countries

Deregulation – Many countries have deregulation industries to create greater competition. In India, the domestic airline industry have been growing very rapidly after deregulations.

Privatization – Many countries have converted public companies to private ownership & management to increase their efficiency.

Customer Empowerment – Customers increasingly expect higher quality & service. They want more convenience. They can obtain extensive product information from the Internet & other sources.

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Customization – The company is able to produce individually differentiated goods whether ordered in person on the phone or online. The company also has the capacity to interact with each customer personally.

Heightened Competition – Brand manufactures are facing intensive competition from domestic & foreign brands which is resulting in rising promotion costs & shrinking profit margins.

Industry Convergence – Industry boundaries are blurring at an incredible rate as companies are recognizing that new opportunity's lie at the intersection of two or more industries. Eg: Pharmaceutical companies are now adding biogenetic research capacities in order to formulate new drugs, new cosmetics, new foods.

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Chapter-2

Marketing Environment

Q.1 What are the various factors in Indian marketing environment & what is the need to analyze the marketing environment?

Ans.: Purpose of marketing environment analysis:-

To know where the environment is leading, to observe & size up the relevant events & trends in the environment.

Strategic response to environment is possible only with proper environment analysis.

To assess the scope of various opportunities & shortlist those that can favorably impact the business.

To help secure the right fit between the environment & the business unit which is the crux of marketing.

The marketing environment consist of the following factors :-

(1) Demographic : Demographic is a major element to be studied in environment analysis. Several factors relating to population, such as size, growth rate, age distribution, religious composition, need to be studied. Aspects such as composition of workforce, household patterns, regional characteristics, population shifts etc. also need to be studied as they are a part of demographic environment.

(2) Socio-cultural Environment : Socio-cultural environment is another important component of the environment. Culture, traditions, beliefs, values & lifestyles of the people in a given society constitute the socio-cultural environment.

Culture : Culture is the combined result of factors like religion, language, education & upbringing. Meaningful, information on the consumption habits, lifestyles & buying behaviour can be obtained through a survey of socio-cultural environment. Cultural shifts carry with them marketing opportunities as well as threats.

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Social Class : Social class is one important concept in socio cultural environment. A social class is determined by income, occupation, location, of residence etc. Each class has its own standards with respect to lifestyle, behaviours etc., they are known as class values or class norms. These values have a strong bearing on the consumption pattern & buying behaviour.

Economic Environment : The factors to be considered under economic environment are :-

- General Economic conditions
- Economic conditions of different segments of the population, their disposable income, purchasing power etc.
- Rate of growth of the economy, rate of growth of each sector of the economy
- Income, prices & consumption expenditure
- Credit availability & interest rates
- Inflation rate
- Foreign exchange reserves
- Exchange rates
- Tax rates

  Behaviour of capital market

Political Environment : Economic environment is a by- product of the political environment, since economic & industrial policies followed by a nation greatly depends on its political environment. Political environment has several aspects, industrial growth depends to a great extent on the political environment. Legislation regulating business are also a product of the political configuration. Apart from this political stability, form of govt. elements like social & religious organizations, media & pressure grps & lobbies of various kinds also form the part of political environment

Natural Environment :

Natural Resources : Business firms depends on natural resources. Raw material is one major part of these resources & firms are concerned with their availability, they need to know whether there will be a shortage in any of the critical raw materials, they also need to know the trends governing their cost. Besides raw materials, they are also concerned about energy, its availability as well as cost.

Ecology : Issues like environmental pollution, protection of wild life & wealth are the factors concerned with ecology & govt. is becoming active bargainer in environmental issues.

Climate : Firms with products whose demand depends on climate & firms depending on climate dependent raw materials will be particularly concerned with this factor. These firms have to study the climate in depth & decide their production location & marketing territories respectively.

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Technology Environment : For a firm technology affects not only its final products but also its raw material processes & operations as well as its customer segments e.g. IT Industry, Telecom industry.

(a) **Options Available in Technology :** A firm has to assess the relative merits & costs effectiveness of alternate technologies. It has to analyze technological changes taking place in the industry.

(b) **Govt's Approach in Respect of Technology :** Regulations by the govt. in matters relating to technology restrict the freedom of operation of business firm. There may be areas where technology may support the use of modern technology or they may ban technologies that are potentially unsafe.

(c) **Technology Selection :** Firms have to scan the technology environment & select technologies that will be appropriate for the firm & the given product – market situation. They have to forecast technological trends, assess current & emergency techniques.

Legal Environment – Business have to operate within the framework of prevailing legal environment. They have to understand all legal provisions. Legal environment depends on :-

- Corporate affairs
- Consumers protection
- Employee protection
- Sectoral protection
- Corporate protection
- Protection of society
- Regulations on products, prices & distribution
- Control on trade practices
- Protecting national firms against foreign firms

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Chapter-3

Buyers Behaviour & Marketing Segmentation

Q.1 Explain the need of studying buyer's behaviour & what influences consumer behaviours?

Ans.: The study of buyer's behaviour is basic to marketing as to who motivates the buyers? What induces him to buy? Why does he buy specific brand? Why does he buy from a particular shop? Why does he shift from one shop to other? How does he react to a new product in the market? These questions are of central interest to the marketing man & above all a buyer is a riddle. His needs & desire are often at a different stage of emergence & actualization.

The buyer has a selective perception & is exposed to a variety of products & information. He may ignore certain piece of information whereas actually seek out some other information whereas actively seek out some other information

Therefore, marketers must fully understand both the theory & reality of consumer behaviour. A consumer's buying behaviour is influenced by cultural, social & personal factors & they are a part of the buyer as an individual.

(1) Cultural Factors : Culture is the fundamental determination of a person's wants & behaviour. The growing child acquires a set of values perceptions, Preferences & Behaviours through his or her family. Each culture consist of various subcultures that provide more specific identification. It includes nationalities, religions, social groups & geographic regions.

Every culture dictates its own unique patterns of social conduct. Within each religion there may be several sects & sub sects, there may be orthodox group & cosmopolitan groups. The do's & don'ts listed out by religion & culture impacts the individual's lifestyle & buying behaviour.

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Eg. Kellogg India launched cornflakes in Indian market, the response from the consumers was not so encouraging. The company conducted a market research & found that Indians prefer hot milk with cornflakes, whereas the crispiness benefit that it was claiming could be delivered only when the cornflakes were mixed with cold milk.

Indian marketer use a term called socio economic classification (SEC) which uses a combination of the education & occupation of their chief wage earner of the household to classify buyers in the urban areas. This classifies all the urban households into A1, A2, B1, B2, C, D, E1, & E2 with A1 with highest purchase potential E_2 the lowest.

(2) Social Factors : Consumer's behaviour is influenced by social factors such as reference groups, family, social roles & status. The buyer is living in a society, is influenced & There is a constant interaction between the individual & the groups to which he belongs. All these interactions effect him in his day to day life.

Reference Groups : A person's reference groups consist of all the groups that have a direct or indirect influence on his attitude. They can be family friends, neighbours, co-worker, religious, professional & trade union groups. Reference groups expose an individual to new behaviours & lifestyles & influence attitude & self concept.

Brands like Levi, Prologue & Planet M used teenage icon as brand Ambassadors for in store promotions.

Family : The family is the most important buying organization in society. From parents a person acquires an orientation toward religion politics & a sense of personal ambition, self worth & love. Eg. In traditional joint families, the influence of grandparents on major purchase decisions affect the lifestyles of younger generations. In urban India with the growth of nuclear families & both husband and wife working the role of women in major family decisions is prominent.

Children & teenagers are being targeted by companies using the internet as an interactive device.

Role & Status : The person's position in each group can be defined in terms of role & status. A role consist of all activities that a person is expected to perform. Each role carries a status. A Vice President of marketing has more status than a sales manager & a sales manager has more status than an office clerk & people choose those products that reflect & communicate their role & desired status in society.

(3) Personal Factors : The personal factors include the buyer's age & stage in the life cycle, occupation & economic position, personality & self concept & lifestyle & values.

Age & Stage in the Life Cycle : People buy different products like food, cloths furniture & this is often age related. Trends like delayed marriages, children migrating to distant

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cities, tendency of professionals has resulted in different opportunities for marketers at different stages in consumer life cycle.

Occupation & Economic Position : Occupation also influences buyer's behaviour. A blue collar worker will buy work clothes, work shoes & lunch boxes, a company president will buy dress suits, air travel & club membership's. Marketers try to identify the occupational groups & then make products according to their needs & demands.

Product choice is greatly affected by economic circumstances – spendable income, savings & assets & attitude towards spending & savings.

Personality & Self Concept : Each person has personality characteristics that influence his / her buying behaviour. Personality means a set of distinguishing psychological traits that has to response to environmental stimuli. Personality can be a useful variable in analyzing consumer brand choice. The idea is that brands also have personalities & consumers like to choose those brands which suits or match their personality

Q.2 Explain briefly the steps in buying decision process.

Ans.: The marketing scholars have developed a "stage model" of the buying process. The consumer passes through 5 stages : problem recognition information search, evaluation of alternatives; purchase decision, & post purchase behaviour. But consumers do not always pass through all five stages in buying a product. They may skip some stages.

(1) Problem Recognition : The buying process starts when the buyer recognizes a problem or need. The need can be triggered by internal or external stimulus. With an internal stimulus, one of the person's normal needs hunger thirst etc. become a drive or a need can be aroused by external stimuli. Marketers needs to identify the circumstances that trigger a particular need by gathering information from a number of consumers.

(2) Information Search : An aroused consumer will be inclined to search for more information. A person at times simply becomes receptive to information about a product or he may enter looking for a reading material, phoning friends, going online etc. Through gathering information, the consumer learns about competing brands & other features.

(3) Evaluation of Alternatives : The information search & comprehension (evaluation) stages represent the information processing stage. These 2 stages constitute the cognitive field of the purchase process. Cognition refers to acquisition of knowledge.

Some basic concept help us in understanding consumer evaluation : first the consumer is trying to satisfy a need, second the consumer is looking for certain benefits & third the consumer views each product as a bundle of attributes to satisfy this need.

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(4) Purchase Decision : The buyer must be convinced that the purchase of the product is the legitimate course of action. This stage stands as a barrier between a favorable attitude towards the product & actual purchase. Only if the buyer is convinced about the correctness of the purchase decision, will be proceed. At this stage, he may seek further information regarding the product or attempt to assess the information already available.

(5) Post Purchase Behaviour : The purchase leads to a specific post purchase behaviour, usually it creates some restlessness in the mind of the individual. He is not sure about the product. He may feel that the other brand would have been better. It can be defined in terms of satisfaction. If the performance of the product falls short of expectations, the consumers is disappointed, if it meets expectations, the consumer is satisfied, it is exceeds expectations, the consumer is delighted. These feelings make a difference in whether the customer buys the product again & talks favourably or unfavorably about it to others.

Q.3 What are the distinguishing features of an Indian consumer? (Short Answer)

Ans.: India being very vast geographically, consumers here are naturally scattered over a vast territory, as the country is marked by great diversity in climate, religion, language, literacy level, customs lifestyles & economic status. A Broad sketch of Indian consumer can be drawn on the basis of :-

(a) Demographic which includes size of population literacy & education.

(b) Geographic spread – consist of northern, southern, western & eastern belts.

(c) Diversity based on religion, language diversity in dress & food habits etc.

Classification of Indian consumers based on economic status :-

Affluent Group

Middle Class

Relatively Poorer Section

BPL Section

(a) Affluent Group : This group is small, but it has a good deal of marketing significance. This is because it is useful segment for luxury products. The super premium brands also depend on it. Therefore, this group is sometimes referred to as the "Image segment" This segment is looking out for something new.

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(b) Middle Class : It is the middle class that constitutes the largest segment of consumers for manufactured goods in the industry. The middle class has emerged as a result of socio-economic developments that took place over the years & is now emerging as the consumption community of the country as they are better educated & are better exposed to global lifestyle. They often spend more than what they earn at any given point-in-time in order to cope up with their new social image.

(c) Relatively Proper Section : They also account for a good sized demand base for certain products. Though their purchasing power is very low, their size is very large. Over 75% of the purchase in categories like cooking oil, tea, detergent cake, bath soap, tooth powder, come from people with income levels below Rs. 25000 per annum.

(d) BPL Section : This is also large is size , it does not form part of the demand base. This category is projected to shrink substantially.

In fact the middle classification can be defined :-

(i) Middle Class Male

(ii) Middle Class Woman

Middle Class Teenager

Middle Class Male : He is a blend of traditional & non traditional values, they prefer ready-mades today. They are status conscious, they have strong family ties & above all he is the sole decision maker in purchase.

Middle Class Women : She is cautious, but not averse to change, quality conscious, as well cost conscious, seeking leisure & is aware of new development, have good sense of grooming.

Middle Class Teenager : They are more than 150 million & more modern & adventurous than their elders. They care less for religion & tradition. They value material comforts & physical well being more, they are quick in adopting fashion.

Q.4 Define the term market segmentation? What is the need to segment the markets?

OR

Elucidate the term market segmentation & briefly explain the need to segment the market?

Ans.: Markets are not homogenous & they are made of several segments. A market is the aggregate of consumers of a given product and consumers vary in their characteristics

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buying behaviour. It is feasible to disaggregate the consumers into segments in such a manner that in needs characteristics & buying behaviour, the members vary significantly among segments.

Segmentation benefits the marketer as :-

(1) Facilitates Proper Choice of Target Market : Segmentation helps in distinguishing one customer group from another & thereby unables him to decide which segment should form his target market.

(2) Facilitates Taping of the Market, Adopting the Offer to the Target: Segmentation also enables the marketer to crystallize the needs of the target buyers. It also helps him to generate an accurate predication of the likely responses from each segment of the target buyers.

Eg. Ford Strategy – Through segmentation car manufacturers have gained useful insights on the product features to be provided to different segments of car buyers.

(3) Makes the Marketing Effort More Efficient & Economic : Segmentation makes the marketing effort more efficient & economic. It ensures that the marketing effort is concentrated on well defined & carefully chooses segments. After all, the resources of any firm are limited & no firm can normally afford to attack & tap the entire market.

(4) Benefits the customer as well.

(**5**) Helps spots the less satisfied segments & succeed by satisfying such segments.

(**6**) Helps achieve the specialization required in product, distribution, promotion & pricing for matching the customer group & develop marketing offers.

Therefore, to compete more effectively, many companies go for target marketing which can establish & communicate the distinctive benefits of the company's market offering. This process is called as market segmentation.

Eg.: GM has identified 40 different customer needs & 40 different market segments in which it would be present with its vehicle.

Q.5 How can a company divide a market into segments?

OR

What are the basis for market segmentation?

Ans.: Market can be segmented using several relevant bases they are :-

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(i) Geographic Segmentation : Geographic segmentation calls for dividing the market into different geographical units such as nations, regions, countries, cites or neighborhood. One of the major geographic segmentation in India is the division of rural & urban areas. The need to segment the market geographically becomes clearer when we look at some of the characteristics of the market. In India, there are more than 5000 towns & over 6,38,000 villages. Nearly 87% of these villages have a population of less than 2000 people. This variation in population is important for the marketer while formulating marketing strategy & plans. In addition to this products penetration, income levels & availability of infrastructure like roads & electricity make the task of geographic segmentation important.

For most products, penetration levels in rural areas are lower than in urban areas. Income & lifestyle issues influence the penetration rate of products & services.

E.g.: Haats & mandis serve important roles in the exchange of goods & services in rural areas.

Demographic Segmentation : In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income occupation, education religion, race generation, nationality & social class.

Age & Life Cycle Stage : Consumer wants & abilities change with age. E.g.: Hindustan Uni Level introduced Pears soap in pink colour specially for children. Johnson & Johnson Baby Powder & Talcum Powder are classic examples of products for infants & children. Television channels in India Indicate the segmentation based on age & life cycle. There are channels like Aastha & Sanskaar target which towards the old generation, cartoon network, Disney are channels for children etc.

Gender : Men & women have different behavioral orientation. Gender differentiation has been long applied to product categories such as clothing, cosmetics & magazines. Eg: Axe deodorant is positioned as a masculine product. Park avenue from Raymond is positioned as masculine brand. Bajaj wave is a brand specifically designed for women in the scooter segment.

Income : Income segmentation is a long standing practice in a variety of products & services & is a basic segmentation variable. Eg: Nirma Washing Powder, was launched as the lowest priced detergent in India primarily targeted at middle income group. Markets for many consumers products in India are showing rapid growth due to low unit price packaging.

Generation : Each generation is profoundly influenced by the time in which it grows- the music movies, politics.

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Social Class : Social class has a strong influence on preference in cars, clothing, home , furnishings, leisure activities, reading habits, retailers etc.

Psychographic Segmentation : In psychographic segmentation, elements like personality traits, attitude lifestyle & value system form the base. The strict norms, that consumers follow with respect to good habits or dress codes are representative examples. Eg: Mr. Donald's changed their menu in India to adopt to consumer preference. The market for Wrist Watches provides example of segmentation. Titan watches have a wide range of sub brands such as Raga, fast track, edge etc. or instant noodle markers, fast to cook food brands such as Maggi, Top Ramen or Femina, women's magazine is targeted for modern women.

(iv) Behavioural Segmentation : Markets can be segmented on the basis of buyer behaviour as well. The primary idea in buyer behaviour is that different customer groups expect different benefits from the same product & accordingly they will be different in their motives in owning it. In buyer behavior based segmentation also, several sub factors form the basis. Eg: Purchase occasion can be one base, buyers can be segmented on the basis of whether they are regular buyers or special occasion buyers. Degree of use can be another base, they can be segmented on the basis of whether they are light, medium or heavy users of the product or whether they are enthusiastic or indifferent or negative towards the product.

Q.6 What are the different levels of market segmentation?

Ans.: The starting point for discussing segmentation is mass marketing. In mass marketing, the seller engages in mass production, mass distribution & mass promotion of one product for all buyer. Eg: Henry ford offered the model T-ford in one color i.e. black.

The argument for mass marketing is that it creates the largest potential market, which leads to lower cost & proliferation of advertising media & distribution channels making it difficult. Therefore more companies are turning to micro marketing at one of four levels: segments, niches, local & individual.

Segment Marketing : A market segment consist of a group of customers who share a similar set of needs & wants. Eg: We can distinguish between car buyers who are primarily seeking low cost basic transportation, seeking a luxurious driving experience & those seeking driving thrills & performance, segment & sector should not be confused. A car company might say that it will target young, middle income car buyers. Young middle car buyers are a sector, not a segment.

The marketer does not create the segments, the marketers task is to identify the segments & decide one which to target. Segment marketing offers key benefits over

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mass marketing. The company can design better price & deliver the product or service to satisfy the target market.

Niche Marketing : A niche is a narrowly defined customer group seeking a distinctive mix of benefits. Marketers usually identify niches by dividing a segment into sub segments. The customers in the niche have distinctive sets of needs, they will pay a premium to the firm that best satisfies their needs, the niche is not likely to attract other competitors & the niche has size, profit & growth potential.

Eg :

(i) Larger companies such as IBM have lost prices of their market to nichers.

(ii) Ezee, the liquid detergent from godrej is a fabric washing product for woolen clothes

(iii) Crack and ointment for pain is another product with niche focus. This product is primarily targeted at women for prevention of cracked heels.

(iv) Itch guard, focuses on niche requirement of treating itching sensation

(v) Television channels particularly focusing on religion & spirituality.

(vi) Matrimonial websites like www.shadi.com. Niche Marketers understand their customer needs so well that customer is willing to pay a premium & as marketing efficiency increases niches that were too small, becomes more profitable.

Local Marketing : Target marketing is leading to marketing programs tailored to the needs & wants of local customers groups. Many banks in India have specialized branches that cater to the needs of corporate customer. The in city courier companies in many cities specialize in delivering packets on the same day.

The marketing activities concentrate on getting as close to the individual customers.

Eg : Nike.

Customization : The ultimate level of segmentations leads to one to one marketing. Today's customers are taking more individual initiative in determining what & how to buy. They log on to the internet, look up information, evaluates the product /service & in many cases, design the product they want. Companies sees it more efficient as the marketers can achieve more precision & effectiveness by addressing individual needs.

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Chapter-4

Managing the Product

Q.1 What are the distinct stages in PCC?

Ans.: A product passes through distinct stages during its life & is called product life cycle. The PLC is normally presented as a sales curve spanning the product's course from introduction to exit. The PLC concept says that each stage in the cycle is characterized by a typical marketer behaviour & each stage leads to a distinctive marketing strategy.

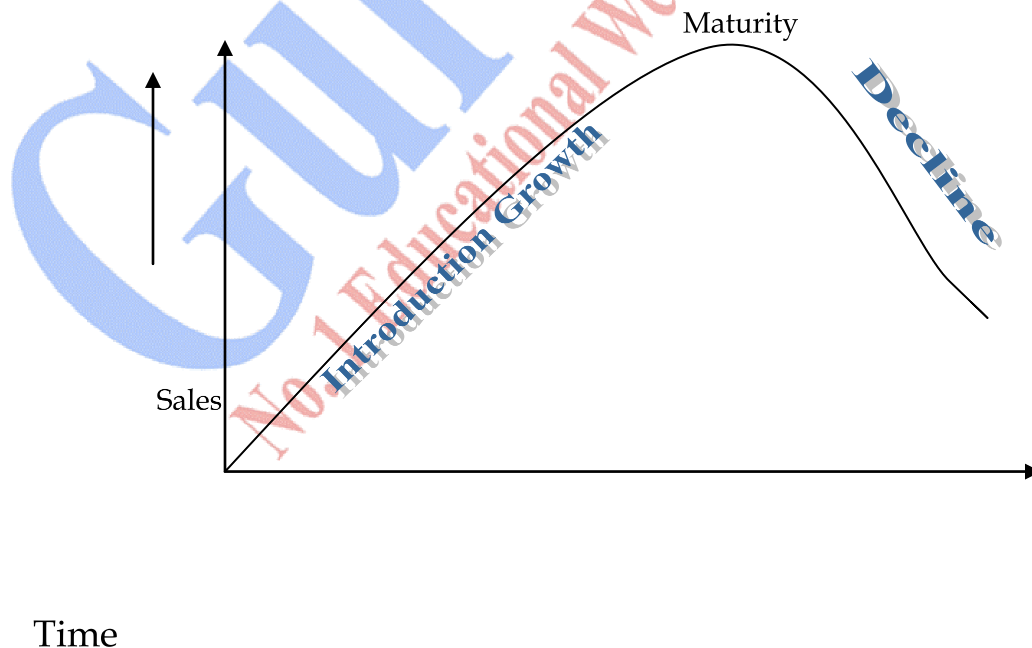
A product passes through 4 stages :–

(a) Introduction

(b) Growth

(c) Maturity

(d) Decline



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(a) **Introduction Stage :** The product is in introductory stage. At this stage, there may not be a ready market for the product. Sales are low. Profit seems a remote possibility, demand has to be created & developed & consumers have to be prompted to try out the product. One of the crucial decisions to be taken in this stage is the pricing strategy to be adopted either market skimming or market penetration. Skimming strategy involved high price, taking advantage of early entry & the novelty of the product.

Penetration pricing involves low prices with a view to having a good market coverage. It also aims at keeping the competition out.

(b) **Growth Stage :** During the market growth stage, demand for the product increases & size of market grows. The sales & profits also go up. But by the time the marketer settles down with his product, competitors may enter the scene with similar or slightly improved versions. The marketer has to stay ahead of his competitor & has to reconsider his pricing strategy. He follows competition oriented pricing, because the total market is being shared among many firms. Marketing & distribution efficiency becomes decisive factor at this state.

(c) **Maturity Stage :** In the maturity stage, the demand tends to reach a saturation point & there is enough supply from competitive sources. Price competition becomes intense & exploits the brand loyalty. The marketer try out product & packaging modification, & promotional. Deals & make special offers to new market segments so that his sales volume do not shrink. Long term & short term marketing plans are implemented to profitably prolong the maturity stage.

(d) **Decline Stage :** In the decline stage, sales begin to fall. The demand for the product shrinks, probably due to new & functionally advanced products, becoming available in the market. The prices & margins get depressed, total sales & profits diminish. But some firms at this stage may try to link up the sales of these products with some other premium products they have developed & thus try to stretch the life of the decline product.

Thus, PLC concept helps & is used as a tool in formulating& implementing marketing strategy.

- It facilitates pre planning the product launch.
- Facilitates prolonging the profitable phase.
- Facilitates investment decisions on products.
- Facilitates choice of appropriate entry strategy.
- Facilitates choice of the right time to exit.
- Provides useful clues for managing customers.

Q.2 **What are the various stages in New Product Development.**

OR

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Explain the steps in NPD process.

Ans.: The various stages in NPD are :-

Generating New Product Ideas : New product ideas may come from customers, dealers, in company sources including the market research group & external research organization. Customer's problems are the most fertile ground for the generation of new product ideas. In a variety of product, ranging from shampoos to computers, company workforce, market research staff, R&D staff & salesmen are also sources of new product ideas. Market research group are a particularly useful sources. They conduct frequent studies on the consumers, products, competition etc. These studies often reveal product gaps- gaps between existing supply of products.

Gravity techniques like brainstorming & synectics are also used for product idea generation. In brainstorming, a small group of people is encouraged to come up with ideas on a specified problem. In synectics, the real problems is initially kept away from the group & only a broader framework is given to them. Sometimes new product ideas come out just as a matter of happening.

Eg. Portable stereo cassette player of Sony of Japan.

Idea Screening : In this stage, various new products ideas are put under rigorous screening by evaluation committees. Answers are sought like:

It there a felt need for the new product? It is an improvement over the new product? etc.

Concept Testing : Concept testing is different from market test / test marketing. What is tested at this stage is the product concept itself, whether the prospective customers understand the product ideas, whether they are receptive forwards the ideas; whether they actually need a product. This exercise helps the firm to thrash out much of the vagueness associated with the new product idea. Concept testing is of special importance when a totally new product in contrast to a "mee too" product – is being planned for introduction.

Business / Market Analysis : This stage is of vital importance because several important decisions regarding the project are undertaken based on the analysis done at this stage.

This stage will decide whether from the financial & marketing point of view, the project is worth proceeding with. Investment analysis & profitability analysis of the project under difference assumptions are made at this stage.

Estimating the Demand for New Product : Firms usually take up estimating the demand for the new product as a part of business analysis / market analysis. There are 2 methods to estimate demand of new products :-

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Substitution method

End use method

In substitution method, the demand for the existing product is forecasted using standard forecasting method. Based on that, an idea of the demand for the new product is gained. Analysis will show which products & market are open for substitution by the new product. The estimated demand for the existing product can serve as the maximum limit for the demand for the new product.

In, end use method, products that have an altogether new end use do come to the marketer once in a while. The only way to assess the demand for such products is to define the end use of the new product & to locate the potential customers for it. The aggregate of potential customers in each use category is taken as the potential demand in that category. By adding the demand in the various use categories, one can get an indication of the total potential demand for the new product. This is to be taken as the upper limit of potential. In this method, the forecaster has to be particularly cautious in defining the end use for the product.

Actual Development of the Product : In this stage, the firm develops the product as such. In the actual development, production & marketing departments are actively involved besides R & D.

Market Test : Now, the new product has to be tried out in selected market segments. Market test is essentially a risk control tool. It is experimental marketing at minimum cost & risk. When firms decide on a full scale manufacturing & marketing of the product on the basis of the results of the experiment, it helps avoid costly business errors.

Test Marketing : In test marketing, the new product, with the support of the chosen marketing mix is actually launched & marketed in few selected cities / towns / territories. Test marketing needs careful handling. Care is required in the first place in selecting the test markets. Test marketing is also a time consuming process, it has to be carried out for a fairly long duration in order to obtain a reliable indications. Eg. HUL introduced organics, but failed.

Commercialization : At this stage, the company takes the decision to go in for large scale manufacturing & marketing of the product. At this stage the company fully commits itself to commercialize the new product with the required investment in manufacturing & marketing.

Q.3 What are the main decision areas in packaging?

OR

Packaging & labeling is an important part of product management? Elaborate?

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OR

Illustrate the main decision areas in packaging & labeling.

Ans.: Packaging is defined as all the activities of designing& producing the container for a product. In modern days packaging has become an important part of product management. With competition increasing marketers are turning to innovative packaging to establish a distinctive edge. This is especially so in the marketing of consumer products like processed foods, soft drinks, toiletries, cosmetics & other personal care products. The following are the main decision areas in packaging.

(a) Package Materials

(b) Package Aesthetics

Package Size & Convenience

(a) Package Materials : Changing trends - from wood to paper & plastics – In the earlier days, wood was the main material Paperboard cartons, paper bags, have become popular forms of packaging for a variety of products from groceries to garments. Metal containers are an excellent packaging medium for processed goods, fruits, vegetables, oil, paint etc. Aluminum foil, packaging are used in products like tea, coffee & spices.

Plastics, the New Packaging Material : Plastics as a group are now dominating the packaging field in India. Popular brands like Tata Tea, Nescafe, Dalda, Amul Milk chocolates have gone for plastic packaging. They have several merits likes water proof & moisture proof 2) capacity to provide resistance to sun exposure 3) light weight 4) Thermal stability 5) attractiveness & transparency.

Tetra Packs : Frooti, Slice, Amul's buttermilk, Fruit Juices like real have gone for tetra packs.

(b) Package Aesthetics : For enhancing the sales appeal of the package, more & more attention is new being given to package. For Eg. Doy soap with different animal structures. For the first time in the soap category, the customer could see the shapes, colour & appearance of the product.

(c) Package Size & Convenience :

Eg.

(i) Pond's cold cream & Bryl cream In tube's

(ii) Application conveyance of Harpic.

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(iii) The cold drink cans.

(iv) Economy packs

(v) Sachets

(vi) Reusable containers

(viii) Refill packs.

Labeling : Sellers must label products. The label may be a simple tag attached to the product or an elaborately designed graphic. The label might carry the brand name or a great deal of information. Labels identify the product or the brand. Eg. The name frooti is stamped on Mango Juice. The label might grade the product, they might describe the product, who made it, where it was made when it was made, expiry date, what it contains, how it is to be used. Finally the label should promote the product through graphics. It is mandatory to print MRP on all packaged products.

Q.4 What are the various tasks in product line appraisal?

Ans.: Company objectives influence product line length. One objective is to create a product line to induce up selling. Thus, maruti would like to move customers up from maruti 800 to Alto to Zen. Thus, increasing the line length adds more & more products / brands to the line to capture new marketing opportunities.

Eg. Videocon offers wide range of products such as refrigerators, washing machines, televisions, microwave, & air conditioners under different brand names to cater the needs of entry level, middle level & premium segments. Line stretching & line filling – Two ways of increasing line length:

Line Stretching : Line stretching is a measure firms undertake frequently in product mgmt. The aim is to enter a new price slot & a new market segment. Stretching occurs in two ways-

Stretching up

Stretching down

At times, a company which has initially taken its position in the high price slot, stretches the line downwards by offering products in the same line for the lower end markets. This is called stretching down. Eg. Kodak introduced Kodak fun time film to counter lower priced brands.

In some other instance, a company which has initially positioned its products for the lower end markets, decides to make higher priced offers for the top slots. This is called stretching up. Many markets have spawned surprising upscale segments starbucks in coffee. Toyata's lexus, Honda's acura.

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Two Way Stretch : Companies serving the middle market might decide to stretch their line in both directions. Texas instruments introduced its first calculators in the medium price medium quality end of the market. Gradually it added calculators at the lower end taking market share from Bowmar & at the higher end to complete with Hewlett Packard.

Line Filling : In line filling the firm introduces more items to the line to plug certain gaps in its current range of offers to plug holes to keep out competitors. Line filling is overdone if it results in confusion of consumer. The company needs to differentiate each item in the consumer's mind.

Eg. Videocon has several product lines & room air conditioners is one of them. Videocon entered the market for air conditioners with just two or three models, but later on introduced dozens of models.

Line Modernization Featuring & Pruning : Product lines need to be modernized. Companies plan improvements to encourage customer migration to higher valued, higher priced items. Companies like Microsoft & Oracle introduce more advanced versions of their products. This is product modernization. Line pruning is the opposite of line stretching. Here a consumers decision is taken to reduce the no. of items in the line, the company is trying to save cost maximizes efficiency in production.

Q.5 Explain the following terms or write short notes on :

(a) Brand Equity

(b) Product Differentiation

(c) Product Mix

(d) Product Planning

Ans.:

(a) Brand Equity : David Aakar defines brand equity as the unique set of brand assets & liabilities that is linked to a brand. According to Aakar, brand equity is the net result of al the investment of effort that a marketer puts into building a band. It is made up of :-

User ship of the brand

Consumers loyalty

Perceived quality

Positive symbols & favorable associations around the brand. Brand equity also adds to the bottom line on a long term basis. For, when a brand has high brand equity, it means that consumers are willing to pay a premium for the brand & its extensions. The values

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of brands owned by firms, like HLL, ITC, & the IT majors like Infosys & wipro are many times their total assets.

Brand equity can be measured & quantified. Through it is an asset, traditionally, brand equity has been omitted from the balance sheets because of its intangibility. Criteria such as market share, market ranking, brand stability & track record, stability of product category, internationally market trends, advertising & promotional support & legal protection are used for measuring brand equity.

(b) Product Differentiation : Product differentiation & product positioning are central themes in the marketing strategy. Product differentiation is one of the basic routes to marketing strategy. The major attraction & the major benefit in resorting to differentiation is that it takes the firm away from a total price based competition. Products can be differentiated on the basis of a number of different product or service dimensions such as product features, performance, conformance durability, reliability, style & design. Besides these specific concerns, on more general positioning for brands is as "best quality". The strategic planning studied the impact of higher relative product & found a significantly positive correlation between relative product based on differentiation.

Close up with get – Colgate, the leader in the industry was compelled to copy this differentiation as its market share fill at the hands of new brand.

Vatika with herbal ingredients.

TTK prestige with Teflon.

Titan matches (differentiation based on product design.

Ray Ban (Differentiation on the basis of glass).

There are two conditions for differentiation to exceed :-

differentiation should be perceptible

Should be rooted in competitive advantage

(c) Product Mix : A product mix is the set of all products & items a particular seller offers for sale. A product mix consist of various product line. A company's product mix has a certain width, length, depth & consistency. Eg. These concepts are illustrated through an example of Hindustan Unibuer Ltd. (HUL).

The width of a product mix refers to how many different products lines the company carries. The length of the product mix refers to the total number of items in the mix. This is obtained by dividing the total length (25) by the number of lines (11) or an average product length of less than 3.

The depth of product mix refers to how many variants are offered of each product in the line. Since lux comes in 4 scents (exotic flower petals & jojoba oil, almond oil & milk cream, fruit extracts & honey & sandal saffron in milk cream), it has a depth of 8. The

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consistency of the product mix refers to how closely related the various product liens are.

Product Mix Width

Deo.	**Personal Wash**	**Laundry**	**Skin Care**	**Hair Care**	**Oral Care**	**Colour Cosmetic**	**Coffee**	**Foods**
Axe	Lux	Suf Excel	Fair & Lovely	Sun Silk	Peposodent	Lakme	Bru	Kissan
	Lifebuoy	Rim	Ponds	Clinic	Close Up			Knors
Rexeno	Liril	Wheel						Annpurna
	Hamam							
	Breeze							
	Dove							
	Pears							
	Rexona							
Product Line length								

Product mix width & product line length of HUL.

(d) Product Planning : To carry out the responsibilities, marketing managers follow a marketing process & the product managers come up with a marketing plan for individual product lines, brands, channels or customer groups. Each product level must develop a marketing plan for achieving its goals. A marketing plan is a written document that summarizes what the marketer has learned about the market place & indicates how the firm plans to reach its marketing objectives. It is one of the most important outputs of the marketing process. Marketing plans & product planning are becoming more customer & competitor oriented & is becoming a continuous process to respond to rapidly occurring & changing market conditions.

Contents of Marketing Plans :

Executive Summary & Table of Contents : The marketing plan should open with a brief summary of the main goals & recommendations. A table of contents outlines the rest of the plan & all the supporting & operational details.

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Situation Analysis : This section presents relevant background data on sales, costs the market, competitors & various forces in the macro environment. All this information is used to carry out SWOT Analysis.

Marketing Strategy : Here, the product manager defines the mission & marketing & financial objectives. The manager also defines those groups & needs that the market offerings are intended to satisfy. The manager then establishes the product lines competitive positioning which will inform the game plan to accomplish the plan's objectives.

Financial Projections : Financial projections include a sales forecast, an expense forecast & a break even analysis on the revenue side, the projections show the forecasted sales volume by month & product category. On the expense side, the projections show the expected costs of marketing.

Implementation Control : This section outlines the controls for monitoring & adjusting implementation of the plan. Typically the goals & budgets are spelled out for each month or quarter so management can review each period's result & take corrective actions as needed.

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Chapter-5

Pricing

Q.1 Illustrate briefly the concept of pricing & the factors that influence pricing.

Ans.: Price is all around us. We pay rent for our apartment, tuition for our education, airline, railways, buses charge you a fare, local bank charge interest for the money a fee to your doctor etc. Thus price is not just a number on a tag or an item.

Traditionally, price has been the major determinant of a buyer's choice & is the only element in the marketing mix that generates revenue. Pricing acquires its importance on account of yet another factor. It is a highly risky decision area & mistakes in pricing seriously affects the firm, its profits, growth & future.

Factors Influencing Pricing : There are internal as well as external factors that affect pricing :-

Internal Factors :

- Corporate & marketing objectives of the firm.
- The image sought by the firm through pricing
- The characteristic of the product
- Price elasticity of demand of the product.
- Stage of product in its life cycle.
- Use pattern & turnaround rate of the product.
- Cost of manufacturing & marketing
- Extent of differentiation practiced
- Other elements of the marketing mix & their interaction with pricing
- Composition of the product line of the firm.

External Factors :

- Market characteristics (relative to demand, customer & competition)

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- Buyer behaviour in respect of the product
- Bargaining power of major customers
- Bargaining power of major suppliers
- Competitor's pricing policy
- Government controls / regulation on pricing
- Other relevant legal aspects
- Societal consideration.

Q.2 What objectives does a firm seek in pricing?

OR

Identify the various pricing objectives.

Ans.: A business firm will have a number of objectives in the area of pricing. These objectives can be short term or long term or primary objectives :-

- Profit maximization in the short term.
- Profit optimization in the long term.
- A minimum return on investment
- A minimum return on sales turnover.
- Achieving a particular sales volume.
- Achieving a particular market share.
- Deeper penetration of the market.
- Entering new markets.
- Target project on the entire product line.
- Keeping competition out, or keeping it under check.
- Keeping parity with competition.
- Fast turn around & early cash recovery.
- Stabilizing price & margins in the market.
- Providing the commodities at prices affordable by weaker section.
- Providing the commodities at prices that will stimulate economic development.

Q.3 What are the various routes taken by the firm in fixing the prices?

OR

What are the various methods of pricing?

OR

Explain the different pricing strategies.

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Ans.: There are several methods of pricing & they can be grouped into few broad categories :-

- Cost Based Pricing
- Demand Based Pricing
- Competition Oriented Pricing
- Value Pricing
- Product Line Oriented Pricing
- Tender Pricing
- Affordability Based Pricing
- Differentiated Pricing.

(1) Cost Based Pricing : Under the cost based pricing, different methods used are :-

- Mark Up Pricing
- Absorption Cost Pricing
- Target Rate of Return Pricing
- Marginal Cost Pricing

Mark Up Pricing : It refers to the pricing methods in which the selling price of the product is fixed by adding a margin to its cost price. The mark ups may vary depending on the nature of the product & the market. Usually, the higher the value of the product, the larger is the mark up. Again, the slower the turnaround of the product, the larger is the mark up. Mark-up pricing proceeds on the assumption that demand cannot be known accurately, but costs are known.

Absorption Cost Pricing : ACP rests on the estimated unit cost of the product at the normal level of production & sales. The method uses standard costing techniques & works out the variable & fixed costs involved in manufacturing, selling & administering the product. By adding the costs of 3 operations, we get the total costs. The selling price of the product is arrived by adding the required margin towards profit to such total costs. The main merit of this method is that as long as the market can absorb the production at the determined price, the firm is assured of its profits without any risk & the main demerit is that the method simply assumes price to be a function of cost alone & this method becomes ineffective.

Target Rate of Return Pricing : It is similar to absorption cost pricing. The rate of return pricing uses a rational approach to arrive at the mark up. It is arrived in such a way that the ROI criteria of the firm is met in the process. But this process amounts to an improvement over absorption costing since it uses a rational basis for arriving at the mark up. Second, since the rate of return on the funds employed is a function of mark up as well as turnaround of capital employed, rate of return pricing constantly reminds

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the firm that there are 2 routes for profits- improvement in the capital turnover & increase in the mark up. The main limitation of the method is that the rate of return is linked to the level of production & sales assumed.

Marginal Cost Pricing : It aims at maximizing the contribution towards fixed costs. Marginal costs include all the direct variable costs of the product. In marginal cost pricing, these direct variable costs are fully realized. In addition, a portion of the fixed costs is also realized under competitive market conditions marginal cost pricing is more useful. Moreover, when a firm has a number of product lines marginal cost pricing is useful. This method is also useful in quoting for competitive tenders & in export marketing.

On the demerits side, marginal costing makes certain assumptions, regarding cost & revenue behaviours which can turn out to be incorrect in some cases. Moreover, while marginal costing rests on a two fold classification of cost into fixed costs & variable costs, in reality there can be a third class of costs – The Semi variable costs.

(2) **Demand Based Pricing :** The following methods belong to the category of demand / market based pricing :-

- What the Traffic can Bear' Pricing
- Skimming Pricing
- Penetration Pricing

What the Traffic can Bear' Pricing : The seller takes the maximum price that the customers are willing to pay for the product under the given circumstances. This method is used more by retail traders than by manufacturing firms. This method brings high profits in the short term. But in the long run it is not a safe concept, chances of errors in judgment are very high.

Skimming Pricing : This method aims at high price & high profits in the early stage of marketing the product. It profitably taps the opportunity for selling at high prices to those segments of the market, which do not bother much about the price. This method is very useful in the pricing of new products, especially those that have a luxury or specialty elements.

Penetration Pricing : Penetration pricing seeks to achieve greater market penetration through relatively low price. This method is also useful in pricing of new products under certain circumstances. For eg. when the new product is capable of bringing in large volume of sales, but it is not a luxury item & there is no affluent / price insensitive segment, the firm can choose the penetration pricing & make large size sales at a reasonable price before competitors enter the market with a similar product. Penetration pricing in such cases will help the firm have a good coverage of the market & keep competition out for some time.

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In all demand based pricing methods, the price elasticity of demand is taken into account directly or indirectly. Price elasticity of demand refers to the relative sensitivity of demand for a product to changes in its price in other words how significantly the sales of the product are affected when price is changed. If an increase or decrease in the price of the product results in significant decrease or increase the product is said to be price elastic conversely, if price change does not significantly affect the sales volume, a product is said to be price inelastic.

(3) **Competition Oriented Pricing :** In a competitive economy, competitive oriented pricing methods are common. The methods in this category rest on the principle of competitive parity in the matter of pricing. Three policy options are available to the firm under this pricing method :-

- Premium Pricing
- Discount Pricing
- Parity Pricing

Premium pricing means pricing above the level adopted by competitors. Discount pricing means pricing below such level & parity pricing means matching competitors pricing.

(4) **Value Pricing :** Value pricing is a modern innovative & distinctive method of pricing. Value pricing rests on the premise that the purpose of pricing is not to recover costs, but to capture the value of the product perceived by the customer. Analysis will readily show that the following scenario are possible with the cost value price chain.

Value > Price > Costs

Price > Value > Costs

Price > Costs > Value

Price > Value > Costs

Under Scenario :

(i) Marketer recovers his costs through price, but fails to recover the value of his product.

(ii) He recovers his costs as well as the value.

(iii) The value that he passes on to the customer is still lesser.

(iv) He matches the value & price & wins customer loyalty & since the value created is larger then his costs, he ensures his profits.

(5) **Product Line Pricing :** When a firm markets a variety of products grouped into suitable product lines, a special possibility in pricing arises. As the product in a

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given product line are related to each other, sales of one influence that of the others. They also have interrelated costs of manufacturing & distribution. It can fix the prices of the different product in such a manner that the product line as a whole is priced optimally, resulting in optimal sales of all the products put together & optimal total profits from the line.

(6) **Tender Pricing :** Business firms are often required to fix the prices of their products on a tender basis. It is more applicable to industrial products & products purchased by Institutional customers. Such customers usually go by competitive bidding through sealed tenders. They seek the best price consistent with the minimum quality specification & thus bag the order.

(7) **Affordability Based Pricing :** The affordability based pricing is relevant in respect of essential commodities, which meet the basic needs of all sections of people. Idea here is to set prices in such a way that all sections of the population are in a position to buy & consume the products to the required extent.

(8) **Differentiated pricing -** Some firms charge different prices for the same product in different zones/ areas of the market. Sometimes, the differentiation in pricing is made on the basis of customer class rather than marketing territory.

Q.4 Discuss briefly the steps involved in pricing procedure.

Ans.: The term pricing procedure refers to the actual process / mechanics of working out the price. The steps involved in the pricing procedure will vary depending on the pricing objectives & pricing methods chosen by the firm. The general steps of pricing procedure are:

Identify the target customer segments & draw up their profiles.

Decide the market position & price image that the firm desires for the brand.

Determine the extent of price elasticity of demand of the product & the extent of price sensitivity of target customer groups.

Take into account the life cycle stage of the product. Analyze competitions prices.

Analyze, other environmental factors.

Choose the pricing methods to be adopted taking all the above factors into account.

Select the final price.

Periodically review the pricing method as well as procedure.

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Chapter-6

Marketing Channels, Logistics & Physical Distribution

Q.1 Briefly explain the concept of marketing channels, their types?

OR

What are the different levels of channels?

Ans.: Most producers do not sell their goods directly to the final users, between them stand a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel. Marketing channels are sets of independent organization involved in the process of making a product or service available for use of consumption. They are set of pathways a product or service follows after production, culminating in purchase & use by the final end user.

Types of Marketing Channels :

1	Sole selling agent	7	Retailer / dealer
2	Marketer	8	Broker
3	C & F agents	9	Franchises
4	Redistribution stockiest	10	Authorized representatives
5	Distributor / Wholesaler	11	Commission agents
6	Semi wholesaler	12	Jobbers

Sole Selling Agent / Marketer : When a manufacturer prefers to stay out of the marketing & distribution task, he appoints a suitable agency as his sole selling agent. A sole selling agent is usually large marketing intermediary with large resources & extensive territory of operation. He will be having his own network of distributors /

stockiest / wholesales & retailers. He takes care of most of the marketing & distribution functions on behalf of the manufacturer.

CFA's : In many cases, manufacturer employ carrying & forwarding agents, often referred to as CFA's . The CFA's can be described as special category wholesalers. They, supply stocks on behalf of the manufacturer to the wholesale sector or the retail sector. Their function is distribution. Their distinguishing characteristics is that they do not resell products.

Wholesaler / Stockiest / Distributor : A wholesaler is also a large operator but not on a level comparable with a marketer or sole selling agent in size, resources & territory of operation. The wholesaler operates under the marketer sole selling agent. A wholesalers buys the product in large quantities & resells the goods in sizeable lots to other intermediaries down the line, such as semi-wholesalers, & retailers. The wholesalers do not sell to the ultimate consumer. Wholesalers add value by performing a number of vital marketing functions. Stock holdings & sub distribution are the main functions of wholesalers. They also perform functions like promotion, financing, collection of accounts receivable.

Semi Wholesalers : Semi wholesalers are intermediaries why buy products either from producers or wholesalers in bulk, break the bulk, & resell the goods to retailers. Semi wholesalers also perform the various wholesaling functions that are part of the distribution process. In some cases, they may also perform the retailing functions.

Retailer / Dealers : Retailers sell to the household / ultimate consumers. They are at the bottom of the distribution heirchy, working under wholesalers / stockiest / distributors / semi wholesalers. The retailers are also sometimes referred to as dealers. They operate is a relatively smaller territory or at a specific location.

Q.2 What are the various functions performed by marketing channels?

Ans.: The various functions performed by marketing channels are:-

(i) Facilitate selling by being physically close the customers.

(ii) Provide distributional efficiency by bridging the manufacturer with the user, efficiently & economically.

(iii) Break the bulk & cater to the tiny requirements of buyers.

(iv) Assemble products into assortments to meet buyer's needs, match segments of supply with segments of demand.

(v) Look after a part of physical distribution/ marketing logistics.

(vi) Share the financial burden of the principle, provide deposits, finance the stock till they are sold to the ultimate consumers

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(vii) Provide salesmanship.

(viii) Provide pre sale & after sale service.

(ix) Assist sales promotion.

(x) Assist in introducing new products.

(xi) Assist in developing sales forecast/ sales plan for the territory.

(xii) Provide market intelligence & feedback.

(xiii) Maintain records

(xiv) Take care of liaison requirement.

(xv) Help diffuse innovation among consumers.

Q.3 What are the various objectives & components functions of physical distribution / marketing logistics?

Ans.: Physical distribution is the process of delivering the product to the marketing channels & consumer. It encompasses the various activities involved in the physical flow of the product from the producers to the consumers. Marketing logistics is somewhat larger in scope compared to physical distribution. It covers physical distribution plus a part of the task of marketing channels. Marketing logistic bring in greater value addition in the delivery chain beyond transportation or distribution.

Objectives of Physical Distribution / Marketing Logistics :

Confers Place & Time Utility on Products : It is physical distribution that confers place utility & time utility to a product by making it available to the user at the right place & at the right time. Thereby it maximizes the chance to sell the product & strengthen the company's competitive position.

Where Production Locations & Markets are Distant Physical Distribution Becomes More Crucial : At some points, the point of production might be far away from the markets for the product. In such cases, the product has to be marketed over an extended territory, it has to be transported over long distances, then there physical distribution becomes crucial.

Helps Build Clientele : It is physical distribution that determines the customers service level to a large extent, as a result, it serves as a vital tool in building market for the product.

A Promising Area for Cost Reduction : Physical distribution is a fertile area for cost savings over the years in most businesses. Physical distribution costs have grown into a sizeable chunk of the total costs & now ranks second amongst all cost elements.

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Ensures the physical flow of the product from the producer to the consumer. Without this flow, marketing cannot take place.

Component Functions of Physical Distribution / Marketing Logistics : The component functions of physical distribution are :-

Planning the overall physical distribution system

In plant warehousing

Field warehousing

Transportation

Receiving

Handling

Secondary transportation, secondary handling & sub distribution

Inventory management at each level of the chain

Order processing

Accounting / record keeping

Communication

The three major functions are :-

Transportation

Warehousing

Inventory Management

(a) Transportation : Transportation management involves decision on :-

How much to move?

When to move?

Where to move?

By what mode or combination of modes to move?

Main Tasks in Transportation Management :

Assessment of the transportation requirement.

Choosing the mix of transport modes.

Deciding the routing.

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Development of operational plans.

Implementation / review.

Control of transportation costs.

Warehousing :

Role & Importance of Warehousing :

Like transportation, warehousing vests the products with time utility & place utility.

In the case of some commodities, warehousing is needed on a larger scale.

In some cases sub distribution realities necessitate extra storage.

Storage reduces the need for instant transportation, which is often difficult & costly.

Storage is a competitive advantage, as with better storage, better servicing of the channel & consumer is possible Storage also helps in balancing demand & supply & in stabilizing prices.

(c) Inventory Management : Inventory management is the third major component of physical distribution task. The major elements of inventory cost :-

- Interests on capital tied up in the inventory
- Warehouse rent
- Staff salaries
- Insurance
- Rates & taxes
- Stationary
- Postage & communication charges
- Administrative overheads.
- Costs & handling, unloading & stocking
- Loss due to damage & deterioration
- Cost of order processing

Q.4 What is the contemporary channel scenario in India?

OR

What is the scene of physical scenario in Indian context?

Ans.: The contemporary channel scenario in India involves :

Conventions whole sale-retail trade continue to dominate the scene, through formats like supermarkets, retail chains & shopping malls are making a mark.

- Image of channels undergoes a change.

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- Profiles of distributors too undergo a change.
- Trade margins escalate as costs of distribution keep growing.
- Expectations of the distributors also change.
- Distributors are becoming choosy.
- IT greatly influences the way marketing channels operate.
- Firms go in for different kinds of non traditional cannels arrangement.
- Outsourcing of marketing logistics
- Exclusive retailing
- Exclusive dealers without franchising arrangements
- Exclusive retailing through showrooms
- Firms go in for non store retailing methods
- Director selling / home selling
- Network marketing
- Consumer fairs

Firms go in for direct marketing

a) Catalogue marketing
b) Direct mail marketing
c) Tele marketing
d) Online marketing

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Chapter-7

Advertising

Q.1 What do you understand by the term advertising? What are the various objectives of advertising?

OR

What is advertising? Illustrate the various objectives of advertising?

OR

Define advertising. Identify the various objectives performed by advertising.

Ans.: The term advertising originates from the latin 'Adverto' which means to term around. Advertising has been defined as any paid form of non personal presentation & promotion of ideas, goods or services by an identified sponsor. Ads can be a cost effective way to disseminate messages. The mere transmission of an advertising message does not imply that the advertiser has communicated with the audience. His audience must see the advertisement & must pay attention to it. Infact, the advertisement should be of interest to the audience & then the audience should interpret the message in the intended manner because the same advertising message under a given setting can be perceived & interpreted by different people in different ways. The ads should influence the attitude, through process & purchase behaviour in favour of the advertised offer.

In developing an advertising program, a marketing manager should know the five M'S.

- Mission – Sales goal & objectives
- Money
- Message-Executive, generation, selection
- Media – Media vehicles, media types, reach, frequency
- Measurement – communication impact, sale impact.

In advertising AIDA is one of the early models which was developed in 1920s. It denote attention, interest desire & action. The model suggests that any effective impersonal sales presentation should attract, gain interest arouse a desire & result in action.

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In the 1950's came another model DAGMAR. DAGMAR is defining advertising goals for measured advertising results. The main feature of DAGMAR is that it looked at advertising as performing a communication task & not a sales task.

Objectives of Advertising :

- Introduction of new products.
- Expansion of the market for existing product / brands.
- Building a long term consumer franchise for the firm.
- Countering competition.
- Reminding Customers.
- Reassuring the customers by removing post purchase dissonance.
- Building up brand image & company image.
- Aiding the total selling function by taking customer through all the steps involved in the purchase process.
- Closing an immediate sale.
- Supporting others sales promotion activities.
- Stimulating impulse buying.
- Supporting & supplementing the salesmen's selling effort.
- Supporting & supplementing the dealer's selling effort.

Q.2 What are the decision areas in advertising?

OR

What are types of decision in advertising?

Ans.: The advertising decision maker has to work within the broad framework of the marketing plan of the firm as advertising is one of the tools that has to be effectively used for attaining the marketing objectives.

(1) Deciding the advertising objectives : Advertising objectives are essential because it helps the advertiser to know in advance what they want to achieve & to ensure they are proceeding in the right direction. Pinpointing the advertising objectives also helps in making one's goals real & not imaginative so that effective advertising programmes can be developed for meeting the objectives.

Advertising objectives revolve around 4 broad themes.

(i) The behavioral constructs
(ii) Attitude
(iii) Awareness
(iv) Product positioning & brand building

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All the objectives have to be precise, quantifiable & measurable.

(2) **Deciding the Advertising Budget :** i.e. How much should a company spend on advertising. The following practices should be used for deciding the advertising budget :

Competitive Parity : Firms following this practice make their advertising budget comparable to that of their competitors.

Affordability : This method result on the principal that a firm will allocate for advertising whatever it can afford. It is merely an availability oriented budget.

A Fixed Percentage of Turnover : Under this method the advertising budget is set in terms of a specified percent. For instance, quite, a few large firms allocate. One or two percent of their total annual turnover for advertising & promotion.

Regression Analysis : It is done based on historical data either time series or cross sectional data. Time series data are records of past advertising expenditures & sales over time. Cross sectional data are records of advertising expenditure & sales for specific period over different markets. The aim is to predict market share.

Adaptive Control Method : It starts with a sales response curve & locates an optimum level of ad expenditure. The firm now experiments with advertising at non optimum levels in selected test markets. This is done to get more knowledge about the sales response curve.

(3) **Deciding the Copy :** The The term copy includes every single feature that appears in the body of advertisement. Deciding the copy is a creative process. It is an area where no rigid rules can be applied. The main steps in copy development are (1) fact finding stage & idea finding state.

(i) Fact finding stage includes the central issue to be tackled.

Idea finding stage where different idea heads are processed, developed & screened.

(ii) Developing the copy.

(iii) Testing the copy – Copy tests such as DAR Test, tests Based on laboratories, market tests etc.

(4) **Deciding the Media :** Media is a medium or channel for carrying the intended advertising message to the target audience. The media commonly used in advertising are print media which includes newspapers, magazine, trade, journals, direct mail etc., electronic media (Radio, television, Internet, Cinema, cassettes,

outdoor, outdoor media (hoardings, posters, dance drama & puppet shows, loudspeaker announcements, balloons & skywriting's).

The media schedule specific the following :-

Media Category : Type of media selected

Media Vehicles : Starplus in TV, Business India in magazine, 94.3 FM among radio.

Programme Choice : Like 'Kyunki Saas bhi Kabhi bahu thi, Kya ap Panchi Pass se Tez hai etc.

No. of Insertions : The no. of planned insertions in each media vehicle will be specified.

Details : Contains the major characteristics of advertisement .

Timing : How the advertisements have to be scheduled over the campaign period?

Evaluating Advertising effectiveness – Increased sales communication task.

Advertiser – Ad Agency Relation : Advertising function can be carried out effectively only when advertiser & the ad agency have sound relations. The firm & the agency must work together in media selection theme development, message construction, & over all copy development.

Q.3 How do the advertiser plans & evaluate the advertising campaign?

Ans.: In planning & evaluating an ad campaign, it is important to distinguish the message strategy or positioning of an ad. So designing effective advertising campaigns is both an art & science.

Message Generation & Evaluation : It is important to generate fresh insights & avoid using the same appeal. A good ad normally focuses on one or 2 core selling propositions. The advertiser should conduct market research to determine which appeal works best with its target audience. Once they find an effective appeal, advertisers should prepare a creative brief. Typically cover one or two pages. It includes key message, target audience, communication objectives, key brand, benefits; more & more ads should be created to increase the probability of finding an excellent one.

Creative Development & Execution : In preparing an ad campaign, the advertise can prepare a copy strategy statement describing the objective, content, support & tone of the desired ad.

Television Ads : Television the most powerful advertising medium & reaches a broad spectrum of consumers. TV advertising has 2 particularly important strengths. First, it can be effective means of demonstrating product attributes & explaining consumer

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benefits. Second, TV advertising can be a means for brand personality & other brand intangibles.

But TV ads can have certain disadvantages also. Sometimes, the product related messages & brand can be overlooked. The large no. of ads creates clutter that makes it easy for consumers to forget ads.

Print Ads : Two main print media are there-magazines & news papers that provide much detailed product information & can effectively communicate the usage user imagery. Although, newspapers are timely, but magazines are more effective at building user & usage imagery.

Format elements such as ad size, colour, & illustration, affect a print ad's impact.

Radio Ads : There has been an increase in the penetration of radio listening over the last three years, mainly due to the popularity of FM stations. Radio listening is expected to increase significantly over the coming years as the second phase of privatization of radio broadcasting is under implementation with 392 new FM stations scheduled to come up across 91 cities in India. Advertisers can have flexibility to choose specific channels to advertise based on programme content.

Films Ads : The major change happening in the screening of films is the increase in the no. of digital theaters. India has the largest no. of digital cinema theatres in the world. In, addition there are 73 multiplex & about 60 more are going to be materialized. Advertisers can release their advertisements to be screened along with the films in theaters.

Q.4 What is the scenario of Indian advertising in India?

Ans.: **Social Responsibility Review** : Advertisers & their agencies must be sure that advertising does not overstep social & legal norms. Public policy makers must develop a substantial body of laws & regulations to govern advertising.

According to the law in India, advertising for alcoholic beverages & cigarettes cannot be screened on television. However, indirect advertising is permitted in print & outdoor advertisements for these product categories. Similarly infant food advertising is not acceptable in India. There are also restrictions on advertisements targeted at children. In India, advertisements of pharmaceutical products that promise cure, diagnosis, & treatment are governed by the Drugs & cosmetic rules & the Drugs & Magic Remedies. Rules also prohibit any advertisements that offend the morality, decency & religious susceptibility of the audience.

In addition, as per the advertising code specific by the advertising Standards council of India, women must not be portrayed in a manner that emphasizes passive & sub massive qualities.

In India, several acts & laws govern the conduct of business in general & advertising in particular. The monopolies & Restrictive Trade Practices Act, 1969. Specifies that any

misleading, false & wrong representation either in writing or oral that causes actual or intended injury or loss to consumers is considered as an unfair trade practice. Similarly business promotions that promise free gifts & contests where any elements of deception is involved is also treated as an unfair trade practice. There is also restriction on comparative advertisements. Brands can be compared only on technically verified facts. The ASCI, a self regulatory voluntary organization formed by the advertising industry, provides basic guidelines for ensuring fairness in advertising. Any individual can file complaints against specific advertisements & ASCI can pass the directives on the complaints.

Q.5 What do you mean by personal selling? What are the objectives & principles of personal selling?

OR

What are the roles of personal selling? Identify & explain briefly the principles of personal selling?

Ans.: Personal selling is an ancient art. Effective sales person have more than instinct, they are trained in methods of analysis & customer management. Today's companies spend large amounts of money each year to train salespeople in the art of selling. Sales training approaches try to transform a salesperson from a passive order taker into an active order getter who engages in customer problem solving.

The objectives of personal selling are :-

- Sales volume & sales growth
- Share of each product in total volume
- Market share
- Profits
- Selling expenses
- Key accounts
- New Accounts
- Addition of new dealers & expansion of channels
- Proportion of cash & credit sales
- Collection of sales proceeds
- Pre sales & after sales service
- Training of dealers
- Assistance in sales promotional measures
- Supplying market intelligence

The principles of personal selling involves 6 steps :-

Prospecting & Qualifying : The first step in selling is to identify & qualify prospects. More companies are taking responsibility for finding & qualifying leads

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so that the salesperson can use their precious time doing what they can do best. The leads can be categorized with 'hot' prospects turned over to the field sales force & 'warm' prospects turned over to the telemarketing unit.

Pre-Approach : The salesperson needs to learn as much as possible about the prospect company & its buyers. The salesperson should set call objectives, to qualify the prospect, gather information, make an immediate sale. Another task is to decide on the best contact approach, which might be personal visit, a phone call or a letter.

Presentation & Demonstration : The salesperson now tells the product story to the buyer following the AIDA formula. The salesperson uses a features, advantages, benefits & value approach.

Overcoming Objections : Customers typically pose objectives during the presentations or when asked for the order. Psychological resistance includes resistance to interference, preference for established supply sources or brands, predetermined ideas, unpleasant association created by the sales representative. Logical resistance might consist of objections to the price, delivery, schedule or certain product or company characteristics.

To handle these objectives, the salesperson maintains a positive approach, asks the buyer to clarify the objection, questions the buyer in a way that the buyer has to answer his or her own objection, denies the validity of the objection, or turns the objection into a reason for buying.

Closing : The salesperson attempts to close the sale. Salesperson need to know how to recognize closing signs from the buyer, including physical actions, statements or comments & questions. There are several closing techniques i.e. they can ask for the order, ask whether the buyer wants to buy A or B etc.

Follow Up & Maintenance : Follow up & maintenance are necessary if the salesperson wants to ensure customer satisfaction & repeat business. Immediately, after closing the salesperson should cement any necessary details on delivery time, purchase terms, & other matters that are important to the customer.

Q.6 What do you mean by public relations? Discuss the importance & methods of public relations?

Ans.: A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. Public relations involves a variety of programs designed to promote or protect a company's image or its individuals products. Most companies have a PR department that monitors the attitude of the organization's public & distributes information & communications to build good well. The best PR department spend time counseling top management to adopt positive progress. They perform the following 5 functions:

Press Relations : Presentation news & information about the organization in the most positive light.

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Protect Publicity : Sponsoring efforts to publicize specific products.

Corporate Communication : Promoting understanding of the organization through internal & external communication

Lobbying : Dealing with legislators & youth officials to promote or defeat legislation.

Counseling : Advising management about public issues & company position & image during good times & bad.

Most companies are turning to marketing pubic relations (MPR) to support corporate or product promotion & image making. MPR plays an important role in the following tasks.

- Assisting in the launch of new products.
- Assisting in repositioning a mature product.
- Building interest in a product category.
- Influencing specific target groups.
- Defending product that have encountered public problems.
- Building the corporate image in a way that reflects favorably on its products.

Methods / Tools in Marketing PR :

Publications : Companies rely extensively on published materials to reach & influence their target markets. These include annual report, brochures, articles, newsletters, magazines.

Event : Companies can draw attention to new products or other company activities by arranging special events like news conference, seminars, outings, trade shows, exhibitions,

Sponsorship : Companies can promote their brands & corporate name by sponsoring sports & culture events & highly regarded causes.

News : One of the major task of PR professional is to find or create favourable news about the company its products & its people.

Speeches : Company executives must field questions from the media or give talks at trade association or sales meetings.

Public Service Activities : Companies can build good will by contributing money & time to good causes.

Identity Media : Companions need a visual identity that public recognizes immediately. The visual identity is carried by company logos, stationary, brochures, signs, business cards, buildings, confirms & dress code.

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Q.7 What is the purpose of sales promotion? What are the various tools & techniques involved in sales promotion?

OR

What are the objectives of sales promotion? What are the various tools & techniques involved in consumer & dealer promotion?

Ans.: Sales promotion is an important component of marketing communication mix. It adds extra value to the product & hence prompts the dealer. Sales promotion is practiced as a catalyst & supporting facility to advertising & personal selling. Sales promotion offers an incentive to buy.

Sales promotion vary in their specific objectives. It can be used :-

(i) For facilitating introduction of new products.

(ii) For overcoming a unique competitive situation.

For unloading accumulated inventory

For overcoming seasonal slumps.

For getting new accounts.

For retrieving lost accounts.

As a support & supplement to the advertising effort.

As a support & supplement to the salesmen's effort.

For persuading salesman to sell the full line of products.

For persuading the dealer to buy more / increase the size of the orders.

Methods of Consumer / Dealer Promotion :

Demonstrations : Include demonstration at retail store, school demonstration, door to door demonstration (Eureka Forbes), demonstration to key people.

Trade Fair & Exhibitions : It provides company to introduce & display their productions. This brings the company's products & the consumers in direct contact with each other. Orders & enquiries are generated at trade fair.

Coupons : Coupons are certificates which offer price reductions to consumers for specified items. Coupons are distributed through newspaper & magazine advertisements. Coupons enthuse the consumers to exploit the bargain & they serve as an inducement to the trade for stocking the items.

Premium & Free Offers : Eg: Colgate offered 125gm in a tube for the price of 100 gm.

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Book your Santro today & take home a world space. Hitachi Digital Radio Receiver worth Rs. 4990 absolutely fee.

Buy any Samsung product & take home another's product free.

Discounts, price off –

70% off on koutons.

50% of on winter collection.

10% off on Tanishq.

Free Samples : Eg: Soaps, detergents, toothpaste, coffee etc.

Gifts : Companies distribution gifts to customers, dealer like pen, calendars diaries etc.

Exchange Schemes, Money Back Offer : Customers can surrender their old models of consumer durables, for a price & take home new products.

Joint Promotions : Two are more different industries, but with shared markets & values join together & conduct sales promotion programmes. Eg: centurion bank & videocon, ICICI Bank & Maruti Udyog.

Display : POP displays are one of the most widely used sales promotion techniques. It can be described as clinches in the marketing process.

Displays can be of various types- window display, wall display, counter display, aerial display, floor display. Eg. Posters, danglers, stickers, mobile wobblers, balloons etc.

Sales Promotion on the Internet : Eg. Levi's, Song, Cadbury, Pepsi etc.

Q.8 What is the concept of direct marketing?

OR

Define the term direct marketing.

Ans.: Direct marketing is the use of consumer direct channels to reach & deliver goods & services to customers without using marketing middleman. These channels include direct mail, catalogs, telemarketing, interactive TV, Kiosk's, website, & mobile devices.

Direct marketing has some characteristics :–

- Deals with customers directly.
- It is interactive marketing.
- It does not involve marketing channels / stores.
- It does not involve advertising / mase promotion.
- Delivers near perfect solution to customers problem.

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- Helps achieve excellence in product & services.
- Facilitates sharper segmentation & targeting.
- Facilitates relations building.
- Cost effective.
- Benefits the customer too.

Forms of Direct Marketing :

Mail Order Marketing / Catalogue Marketing

Direct Mail Marketing

Direct Response Marketing

Database Marketing

Telemarketing

Television

Online Marketing

Mail Order Marketing : In this method, the consumers, become aware of a product through information furnished to them by the marketer through catalogue dispatched by mail. The entire marketing takes place by mail. The product is also supplied to the consumer by mail.

Direct Mail Marketing : Usually when a trading house markets various products, by mail order we refer to it as MOM & when a manufacturer markets his products by the same method, we refer it as DMM. In this method, *not only letters, brochures are mailed to the prospects, but free products, samples, gifts are also mailed.

Direct Response Marketing : This method uses more instruments like Telephone, Radio, TV & computer.

Database Marketing :– Database of consumer is the foundation of DM.

Telemarketing : It facilitates personalized contact.

It gives the marketer a better chance to influence the prospects. It also enhances marketing productivity.

Telescoping – Eg. Asian sky shop, teleshopping network, united telesopping.

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Chapter-8

Marketing Communication

Q.1 What do you man by marketing communication. State its importance.

Ans.: Marketing communications are the means by which firms attempt to inform, persuade, remind consumers directly or indirectly about the product / brands that they sell. In a sense, marketing communications represent the voice of the brand & are a means by which it can establish a dialogue & build relationship with consumers.

Marketing communications perform several functions for consumers. Consumers can be told or shown how & why a product is used, by what kind of person, & where & when, consumers can learn about who makes the product & what the company & brand stand for & they can be given an incentive or reward for trial. Marketing communications allow companies to link their brands to other people, places, events, brands, experiences, feelings & things. It can also contribute to brand equity by establishing the brand in memory & crafting a brand image.

Thus, marketing depends heavily on an effective communication flow between the company & the consumer. Manufacturing a product & making it available on the market is only a part of the company's job. It is equally important to make it known to the consumer that the product is available in the market.

Q.2 Which are the various models of communication process?

OR

Identify & explain the various communication process models.

Ans.: Two models are useful :-

(1) Macro Model of the Communication Process :

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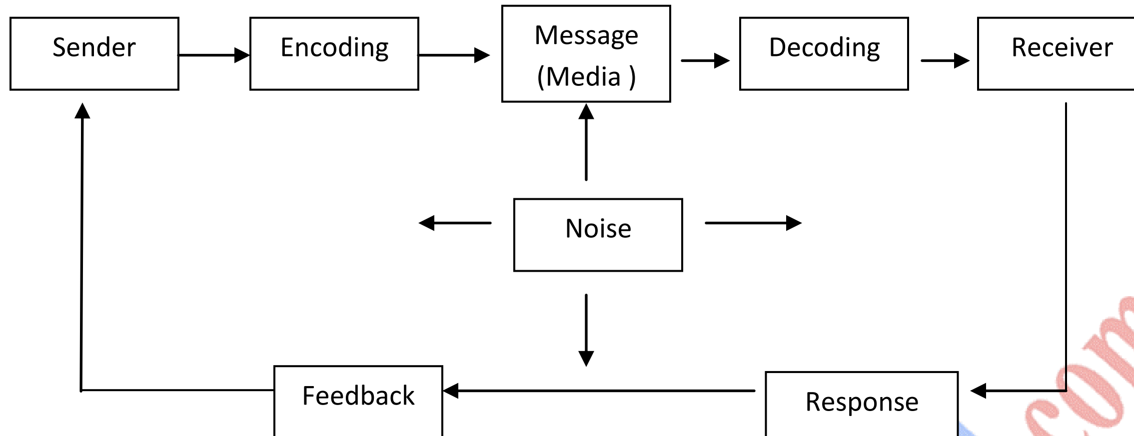


Two Elements Represents the Major Parties in a Communication : Sender & Receiver, while the others two represent the major communication tools – Message & media. Four elements represents major communication functions – encoding, decoding, response & feedback. The last element in the system is noise & competing messages that may interfere with the intended communication. The model emphasizes the key factors in effective communication. Senders must know What audience they want to reach & what responses they want to get. They must encode their messages so that the target audience can decode them. They must transmit the message through media that reach the target audience & develop feedback channels to monitor the responses. Selective attention, distortion, & retention processes, may be operating during communication.

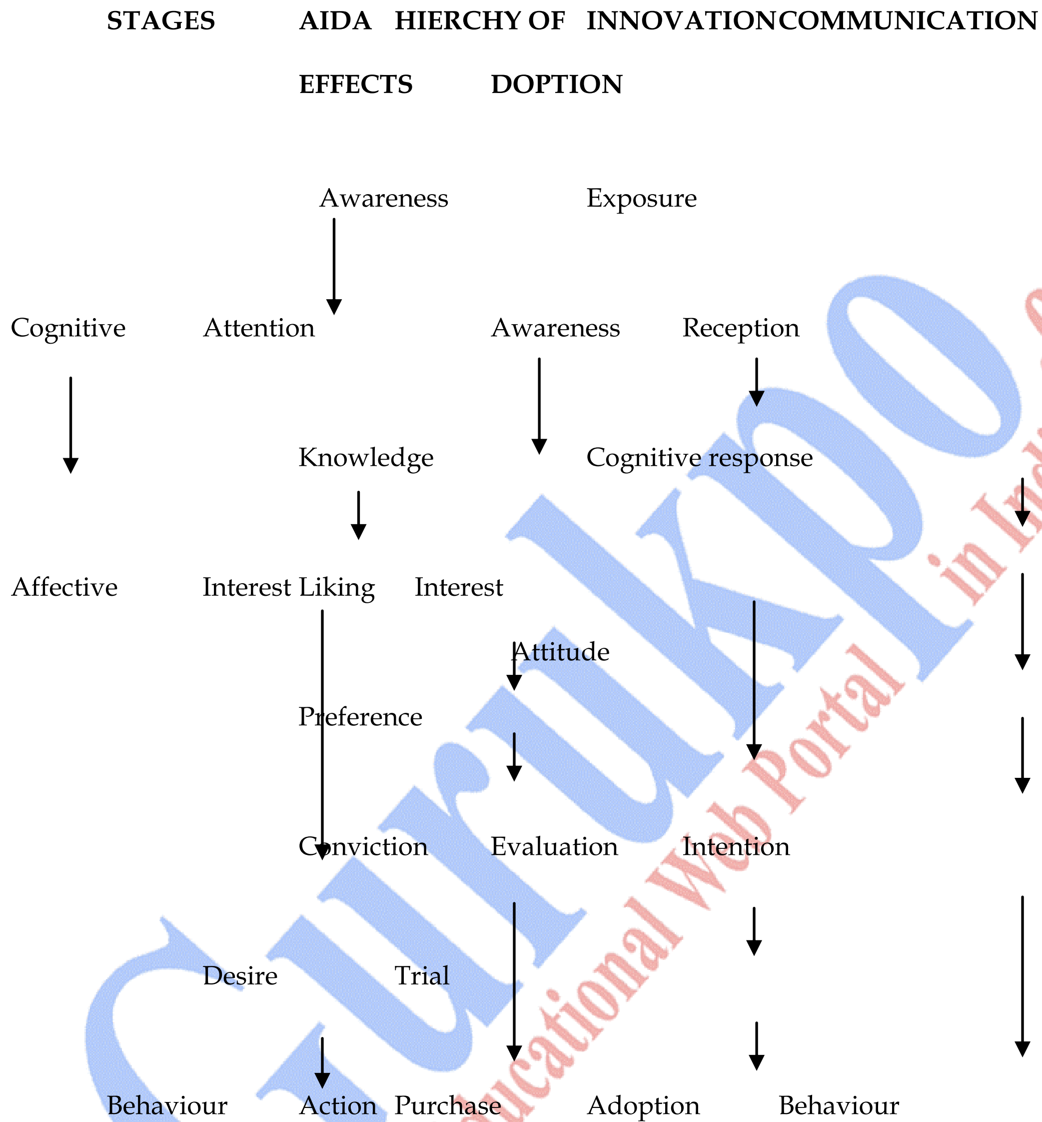
(i) **Selective Attention :** People are bombarded by about 1500 commercial messages a day which explains why advertisers sometimes go to lengths to grab audience attention through fear, music sex appeal.

(ii) **Selective Distortion :** Receivers will hear what fits into their belief systems. As a result, receivers often add things to the message that are not there.

(iii) **Selective Retention :** In long term memory people will retain only a small fraction of the message that reach them. If the initial attitude is positive the message is likely to be accepted & if it is negative, it is likely to be rejected.

(2) Micro Model of Consumer Response : All these models assume that the buyer passes through a, cognitive, affective & behavioural stage. This learn feel do sequence is appropriate when the audience has high involvement with a product category perceived to have high differentiation.

MODELS



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Awareness : If most of the target audience is unaware of the object, the communicators task is to build awareness.

Knowledge : The target audience might have brand awareness, but not know much more of it. The company may want its target audience to know that the new brand offers what benefits.

Liking : If target members know the brand how do they feel about it, if the audience does not view the value proposition of the brand favourably, then the communicator needs to find out the reasons.

Reference : The target audience might prefer a particular product but not prefer it to others.

In this case, the communicator must try to build consumer preference by comparing quality, value, performance.

Conviction : A target audience might prefer a particular product but not develop a conviction about buying it. The communicators job is to build conviction among interested consumers..

Purchase : Finally, some members of the target audience might have conviction but may not quite get around to making the purchase. The communicator must lead these consumers to take the final step, perhaps by offering the product at low price, offering a premium.

Q. 3 How one can develop effective communication?

OR

What are the major steps in developing effective communication.

Ans.:

(1) Identify the Target Audience : The process must start with a clear target audience in mind, potential buyers of the company's products, current users, deciders or influencers, individuals, groups, particulars individual or the general public. The target audience is a critical influence on the communicators decisions on what to say, who to say, when to say & where to say. It is often useful to define target audience in terms of usage & loyalty. Is the target new to the category? Is the target loyal to the brand? Etc.

(2) Determine the Communication Objectives : Rossiter & Percy has identified & objectives as follows:

(i) Category Need : Establishing a product or service category as necessary to remove or satisfy a perceived discrepancy between a current motivational state & a desired emotional state.

(ii) Brand Awareness : Ability to identify the brand within the category in sufficient detail to make a purchase. Recognition is easier to achieve. Consumers are more likely to recognize the distinctive white & red colour of Colgate dental cream.

(iii) Brand Attitude : Evaluation of the brand with respect to its perceived ability to meet a currently relevant need. Relevant brand needs may be negatively oriented or positively oriented.

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(iv) Brand Purchase Intention : Self instructions to purchase the brand or to take purchase related action. Promotional offers in the form of coupons or two for one deals encourage consumers to make a mental commitment to buy a product.

(3) Design the Communication : Formulating the communications to achieve the desired response will require solving three problems; what to say (message strategy), how to say it (creative strategy) & who should say it (message source). In determining message strategy, management search for appeals, themes or ideas, that will tie into the brand positioning & help establish points of difference.

Communication's effectiveness depends on how a message is being expressed as well as the content of the message itself. Creative strategies are how marketers translate their messages into a specific communication. Creative strategies are classified as

Informational Appeal : Elaborates on product or service attributes or benefits.

Transformational Appeal : Elaborates on a non product related benefit or image.

Many communication do not use a source beyond the company itself. Others use known or unknown people. Message delivered by attractive or popular sources can potentially achieve higher attention & recall. Celebrities are likely to be effective when they personify a key product attribute.

(4) Select Channels : Selecting efficient channels to carry the message becomes more difficult as channels of communication become more fragmented. Communication channels may be personal & non-personal. Personal communication channels involve two or more persons. Communicating directly face to face, person to audience, over the telephone or through e-mail.

Non personal channels are communication directed to more than one person & include media, sales promotion, events & publicity

(5) Establish the Marketing Budget : One of the most difficult marketing decisions is determining how much to spend on promoting. 4 common methods can be used – affordable method, percentage of sales method, competitive parity method, objective & task method.

(6) Deciding the Media Mix : Companies must allocate the marketing communication budget over 6 major modes – advertising, sales promotion, public relations, events & experience, sales force & direct marketing Eg. Amway concentrates on network marketing. L'Oreal spends heavily on advertising.

(7) **Measuring Results** : Senior managers want to know the outcomes & revenues resulting from their communication investments. After implementing the communication plan, the communication director must measure its impact on target audience. Members of the target audience are asked whether they recognize or recall the message, how many times they saw it, what points they recall, how they felt about the message & their previous & current attitudes.

(8) **Managing the Integrated Marketing Communication Process :** Integrated marketing communication is a concept of marketing communications planning that recognizes the added value of a compressive plan. Companies must adopt 360^0, View of consumers to fully understand all the different ways that communications can affect consumer behaviour in daily lives.

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Chapter-9

Marketing Research & Control

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Q.1 What is marketing research? State its importance in the marketing scenario?

OR

Define marketing research. What is its importance?

Ans.: Marketing Research is the systematic, objective & exhaustive search for & study of the facts relating to any problem in the field of marketing.

Or

Marketing Research is systematic problem analysis, model building & fact finding for the purpose of decision making & control in the marketing of goods & services.

OR

Marketing Research is the systematic gathering, recording & analysis of data about problems relating to the marketing of goods & services.

Marketing research plays an equally important role in marketing management and uses marketing information as its input, it simultaneously generates more of it as output.

Marketing Research :

(i) Helps Pick & choose customers & make focused offers.

(ii) Helps know which products move in the market & why.

(iii) Helps new entrants plan their channels by studying existing ones.

Q.2 Briefly explain the steps in marketing research process.

Ans.: Marketing Research process involves 6 steps :-

(1) Define the Problem & Research Objectives : Problem should not be defined either too broadly or too narrowly. Clarity on the following helps define the problem appropriately.

(i) What is to be researched?

(ii) Why it is to be researched?

The end product of this exercise has to be a clear definition of the problem & research objectives.

(2) Develop the Research Plan : The second stage of marketing research requires developing the most efficient plan for gathering the needed information. This involves decision on the data sources research approaches, research instruments, sampling plan & contact methods.

Data Sources : The research can gather secondary data, primary data. Secondary data are data which already exist somewhere. Primary data are data freshly gathered for a specific purpose or for a specific research project.

Research Approaches : Primary data can be collected in 5 ways – Through observation, focus group, surveys, behavioral data, experimental research.

(i) Observation Research : By observing the relevant actors & settings.

(ii) Focus Group Research : A focus group is a gathering of 6-10 people who are invited to spend a few hours with a skilled moderator to discuss a product service, organisation. The moderator starts with a broad question & help the group move through various aspects of the entity being discussed. The moderator keeps the discussion focused on the relevant theme. Discussion is recorded using an audiotape or videotapes.

(iii) Survey Research : Companies undertake surveys to learn about people's beliefs & preference & satisfaction.

(iv) Behavioural Data – Customers actual purchases reflect preferences & are normally more reliable than memory based statements.

(v) Experimental Research : The purpose is to capture cause & effect relationships by eliminating competing explanations of the observed findings, to the extent that the design & execution of the experiment eliminate alternative hypothesis that might explain the results.

Research Instruments : Marketing researchers have a choice of three main research instruments in collecting primary data: Questionnaires, qualitative measures & mechanical devices.

A questionnaire consist of a set of questions presented to respondents. Questionnaires need to be carefully developed & tested before they are administered on a large scale.

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Quantitative devices consists of i) Shadowing Behaviour mapping, consumer journey, Camera journals, extreme user Interviews, story telling, unfocused groups.

Mechanical devices consist of galvanometers aroused by exposure to a specific ad or picture. They are used occasionally in marketing.

Sampling Plan : After deciding on the research approach & instruments, the marketing researcher must design a sampling plan. This counts for 3 decisions : -

(i) **Sampling Unit :** Who is to be surveyed?

(ii) **Sample Size :** How many people should be surveyed?

(iii) **Sampling Procedure :** How should the respondents be chosen?

Contact Methods : Once the sampling plan has been determined, the marketing researcher must decide how the subject should be contacted; through mail, questionnaire, telephonic interview, personal interview, online interview.

(3) **Collect the Information** – The data collection phase of marketing research is generally the most expensive & the most prone to error. In case of surveys. 4 major problems arise – some respondents will not be at home & must b e contacted again. Other respondents will refuse to cooperate. Still others will give biased answers. So, getting the right respondents is critical.

(4) **Analyze the Information :** The next step is to extract findings from the collected data. The researcher tabulates the data & develops frequency distributions. The researchers will also apply some advances statistical techniques.

(5) **Present the Findings :** The researcher should present findings that are relevant to the major marketing decisions.

(6) **Make the Decision :** Research findings only provide additional information & insights to the managers. Depending on their confidence in the findings, managers decide to use it, discard etc. or carry out more research.

Q.3 **Elaborate the various techniques of MR.**

OR

What are the major techniques of MR?

Ans.: **Panel Research :** Panel Research is a research technique similar to the survey. Panel research uses the same sample over & over again for collecting the information. The researcher interviews or otherwise gathers data from the same people constituting the panel. A panel refers to a sample of respondents, who may be individuals, households, retail shops or firms from whom information is collected about their buying behaviour.

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The panel members maintain a diary & note down details of purchases advertisement exposures, shopping patterns and features that the researchers is interested in.

Types of Panel :

(a) **Consumer Panels :** Here the market researcher maintains a panel of consumers & receives responses from them at periodic intervals. The panel is continuous in the sense that the researcher collects the responses from the same set of sample units on a continuing basis at specified intervals. This information is used by the researcher for assessing different aspects. HLL is one of the largest consumer research programmes in the world.

(b) **Retail Panel :** A permanent sample of retail shops is maintained to supply information periodically on aspects such as how much these retail shops purchases during the period, how much stock they hold, sales levels of difference brands, price trends etc. This techniques is called as Inventory & Purchase audit.

(c) **Advertising Audience Panels :** It consist of persons getting exposed to advertising in the various media such as readers of publications, TV viewers, & radio listeners. The main purpose is to gather valuable information for media planning. The panel members keep recording the programs viewed by them.

Advantages :

(i) Changes taking place over time in buyer behavour can be monitored through panels.

(ii) Relationship between changes in buyer behaviour & changes in the marketing mix can also be analyzed.

Disadvantages :

(i) Panel requires a greater degree of cooperation between the panel & the researcher.

Market Survey : Market survey is one of the widely used MR techniques. It is a method of collecting marketing information required for a given marketing research assignment. It is used when the required data is not available with the company interval records as well as external published sources.

Steps Involved in Market Survey :

(a) Planning the Survey

Problem definition

Relation of survey method

Sampling

Questionnaire development

Pilot survey

(b) Field Work

Selection of investigators

Collection of data

(c) Processing

Processing of data

Tabulating

(d) Analysis & Interpretation

Editing

Interpretation data

Statistical Analysis

(e) Report Making

Summarizing findings & recommendations

Report writing

Other MR Techniques :

(1) **Multi Dimensional Scaling :** MDS is used to graphically portray consumer evaluation of products / brands. It has been developed with inputs from mathematics & psychology. The techniques takes consumer judgments of perceptions & preferences & builds geometric representations or maps in which brands that are Judged to be similar get plotted near each other in the geometric space. The map helps the researcher to understand how a given brand is perceived.

(2) **Conjoint Analysis :** It is used to measure consumer preference for alternate product ideas & product attribute combinations. It measures the joint effect of two or more independent variables or strategy options like price, package, colour, brand name etc.

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Chapter-10

Marketing Challenges

Q.1 What is the Impact of globalization & technological advances, on marketing?

OR

What factors should a company review before deciding to go abroad?

Ans.: With faster communication, transportation & financial flows, the world is rapidly shrinking. Products developed in one country – Gucci purses Mont Blanc Pens, Mc Donald's Channel suits are finding enthusiastic acceptance in others. A German businessman may wear an Armani suit to meet an English friend at a Japanese restaurant, who later returns home to drinks Russian Vodka & watch an American soap on TV.

Emerging from a highly protected economy & an insulated business environment, many companies in India have come a long way in their guest to become global players. Indian companies have started to venture into global business arena by acquisition, joint venture & direct investments. In 2004-05, Indian companies have invested about U.S. $ 2.5 billion. There were 75 cross border mergers & acquisitions by Indian firms in 2003 & between January & Sept. 2004, this number had increased to 195. Among Asian counters, India is the 2nd largest investor in the U.K. TCS has 28000 employees of 30 nationalities providing IT solutions in 32 countries. In many industries, Indian companies are becoming globally competitive. Tata street & Nalco are the lowest cost manufactures of steel & Aluminum in the world. Bharat Forge limited, the flagship company of the U.S. $ 1.5 billion Kalyani group, is the largest exporter of auto components from India. Hero Honda with a sales of 2.6 million units in 2004-05, is the world's largest manufactures of motorcycles. Hidesign the company with headquarters at Pondicherry in South India with its presence in several countries has emerged as a player in the high-end fashion accessory market. India has emerged as a global fashion accessory market. India has emerged as a global player in IT field, in 2005-06, India's exports of IT software & related services are estimated to be U.S. $ 23.49 billions.

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Factors Considered for International Marketing :

- Choosing the basic route for global marketing.
- Market selection & product selection
- Selection of distribution channels
- Developing pricing strategy
- International marketing communication
- Mastering the procedural complexities
- Organizational adaptation
- Handling business ethics
- There are 5 basic routes to enter a foreign market :-
- Exports
- Licensing of technology
- Multinational trading
- Joint venture
- Full fledged global operation

Q.2 What is the changing picture of rural marketing in India?

OR

What are the challenges faced by Rural marketing in India?

Ans.: Rural marketing is any marketing activity in which one dominant participant is from a rural area. Markets for many of the categories of products in the urban areas are exhibiting a decreasing growth trend with the increase in income, exposure to television, & changing consumption patterns & preferences, rural markets are offering immense potential for market expansion & growth in several product category. The market size fees FMCG is estimated to be Rs. 6500 billion, consumers durables at Rs. 500 billion, agricultural inputs at Rs. 4500 billion. The rural market for FM CG expanded by about 55% of product's category's total consumption in India. For consumer durables also, the rural markets accounted for a similar proportion.

Characteristics of Rural Markets :

Rural areas exhibit several distinctive characteristics that are different from the urban areas. Literacy levels, family structure, occupational patterns. Social customs & norms & several other features are unique to rural India

Culturally a diverse & hetero genius markets.

Social & Cultural Factors : Social hierchy, traditions, social norms & customs play significant roles in determining individual & collective behaviour in rural India.

Consumer Behaviour : A complex set of factors influence rural consumers behaviour, social norms, traditions, caste & social customs have greater influence on the consumers

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behaviour. Word of mouth has more significance in purchase decisions of rural consumers. Family members relatives & friends are consulted before making purchase decision of higher value products. How ever as the exposures to mass media & information technology is increasing, rural consumers are becoming more informed about products & services.

Rural consumers have different interpretations of colour symbols & social activities

Marketing Infrastructure in Rural Areas : Although rural areas offer attractive opportunities to marketers at the aggregate level, About 68% of these markets remain untapped mainly due to inaccessibility. Factors such as limited physical access, Law density of shops, limited storage facilities, make the task of reaching rural consumers very complex.

Haats are a public gathering of buyers & sellers of commodities meeting at an appointed location at regular intervals. The no. of haats in India is about 42000, on an average one haat covers 20-50 villages & is visited by 4500 people. Mandis are set by state govt. for facilitating exchange of agricultural produce. There are 6800 mandis in India.

Companies use mandis to promote their brands by setting up stalls for carrying out sales promotion activities.

Mela or fair are an integral part of rural India. There are can be commodity fair, cattle fair etc. There are 25000 fairs.

Yet another feature of rural areas is the complexity of communication task. The no. of languages speaker are large. Doordarshan has the highest reach in rural areas. It course nearly 87% of India's population. The print media has only about 15% of the regional language newspaper reaching rural areas.

Q.3 What is the need & grants of marketing in the service sector in India?

OR

State the need of marketing in the service sector in India.

Ans.: The service sector accounts for more than 50% of India's GDP. It is growing at a much faster rate than other 2 sectors i.e. agriculture & manufacturing. In highly, competitive, rapidly globalizing environment the designing & managing of services is going to be a challenging task.

Service Industries are Everywhere : The govt. sector with its court, employment services hospitals, loan agencies, military services, police & fire departments, postal service, regulatory agencies, & schools is in the service business.

Private Non Profit Sector : Museums, charities, churches, colleges, foundations & hospitals.

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Business Sector : Airlines, banks , hotels, insurance, companies, law firms, management consulting firms, medical practices.

Manufacturing Sector : Computer operators, accountants, legal staff.

Retail Sector : Cashiers, clerks, sales people & customer service representatives.

Characteristics of Services :

Intangibility : Buyers look for evidence of quality as the services cannot be seen, tasted, felt, heard or smelled Eg. II M A

Insuperability : Services are typically produced & consumed simultaneously. Eg. II MB – Extended its popular PG Program in software enterprise management to participants in Chennai using Video. Conference ethnology.

Variability : Because services depend on who provides them & when & where they are provided, they are highly variable. Eg. some doctors / surgeons are successful in performing certain operations successfully.

Perishability : Services cannot be stored – Eg. Public transportation companies have to own much more equipment because of rush hour demand. Some doctors charge patients for missed appointments because the service value exists only at a point.

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Multiple Choice Questions

1 What is Finance?

1. Getting things on loan
2. **Study of money and its flow.**
3. Finance means money and cash
4. Finance is only the supply of funds

2 Which of the following does not come under the key areas of finance?

1. raising of funds
2. investment of funds
3. distribution of funds
4. **getting loans from banks**

3 Which of the following determine the basic functions of financial management?

1. six p's
2. three t's
3. four i'
4. **six a's**

4 The objectives of financial manager constitute:

1. acquisition of assets
2. **profit maximization & wealth maximization**
3. increase in the property of the properietor
4. issue of shares and debentures.

5 Cost of capital is the combination of

1. cost of transaction and sunk cost
2. **cost of equity and cost of debt**
3. variable cost and marginal cost
4. cost of earnings and expenses.

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6 Working capital should be

1. maximum
2. minimum
3. *adequate*
4. not important

7 Current ratio should be ________ for the better performance of the firm

1. less then 1
2. should be more than 1
3. *equal to one*
4. zero

8 Operating cycle does not constitute the following

1. cash
2. *fixed assets*
3. inventory
4. work in progress

9 Capital budgeting is a technique used for making

1. **long term investment decisions**
2. calculation of cash flows
3. short term investments
4. consideration of time value of money

9. npv stands for

1. **net present value**
2. net profit value
3. null present value
4. net profitability value

11 Which technique of capital budgeting is considered better than npv

1. profitability index
2. **internal rate of return**
3. pay back period
4. accounting rate of return

12 Which of the following is not the approach for capital structure

1. mm theory
2. net operating income approach
3. **capital asset pricing theory**
4. net income approach

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13 One should accept the proposal whose npv is

1. positive
2. negative
3. zero
4. maximum

14. Which is not the constituent of current asset

1. cash at bank
2. bills payable
3. debtors
4. inventory

15 Financial management does not include the following

1. acquisition of funds
2. anticipation of funds
3. assesing the competition
4. administration of funds

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Key Terminologies

Money – Value of exchange, store of value, unit of account.

Cash- Money in liquid form.

Fund- Accumulated amount of money invested in a project.

Finance – Science or the study of money and its flow.

Financial management- Financial management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Finance manager-The person responsible for financial management.

Financial planning- Financial planning is a systematic approach whereby the financial planner helps the organization to maximize his existing financial resources by utilizing financial tools to achieve his financial goals.

Financial planner- A financial planner is someone who uses the financial planning process to help you figure out how to meet your life goals.

Cost of capital- The required return necessary to make a capital budgeting project, such as building a new factory, worthwhile. Cost of capital includes the cost of debt and the cost of equity

Capital structure- Capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities

Leverage-In finance, leverage (also known as gearing or levering) refers to the use of debt to supplement investment

Wacc the total capital for a firm is the value of its equity (for a firm without outstanding warrants and options, this is the same as the company's market capitalization) plus the cost of its debt (the cost of debt should be continually updated as the cost of debt changes as a result of interest rate changes)**.**

Capital budgeting: "capital budgeting involves planning of expenditure for assets and return from them which will be realized in future time period

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Cash inflow The amount of cash generated from the course of action done in the business.

Cash outflow The amount of cash moved as expenses for carrying the business.

Pay back period It is the length of time that it takes to recover your investment

Average rate of return arr calculates the return, generated from net income of the proposed capital investment.

Profitability index -It is the ratio of payoff to investment of a proposed project. It is a useful tool for ranking projects because it allows you to quantify the amount of value created per unit of investment.

Net present value The net present value of an investment is the present value of the cash inflows minus the present value of the cash outflows.

Internal rate of return The internal rate of return (irr) is the rate of return that an investor can expect to earn on the investment.

Time value of money value of money depreciates with time

Working capital- Working capital is a financial metric which represents the amount of day-by-day operating liquidity available to a business.

Working capital in that part of firms capital which is required for financing current assets such as cash, debtors, receivables inventories, marketable securities etc.

Current ratio This is a ratio obtained by dividing current assets and current liabilities.it must be 1.

Operating cycle - Refers to capital/ amount required in different forms at successive stages of manufacturing operation/ process. It represents cycle during which cash is reconverted in to cash again.

Inventory -Inventory means stock of goods in the form of raw material, stores or supplies, work in progress and finished product waiting for sale.

Recievable- Receivables are created on account of credit sales. They are represented in the balance sheet in the form of sundry debtors, trade debtors, and book debts, accounts receivable, bills receivable etc.

Cash budget: - A statement showing estimate of cash receipts, cash disbursement and net cash balance for a future period of time. It is a time based schedule & covers a specific period.

CFA's : In many cases, manufacturer employ carrying & forwarding agents, often referred to as CFA's . The CFA's can be described as special category wholesalers. They, supply stocks on

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behalf of the manufacturer to the wholesale sector or the retail sector. Their function is distribution. Their distinguishing characteristics is that they do not resell products.

Niche Marketing : A niche is a narrowly defined customer group seeking a distinctive mix of benefits. Marketers usually identify niches by dividing a segment into sub segments.

Mark Up Pricing : It refers to the pricing methods in which the selling price of the product is fixed by adding a margin to its cost price

Brand Awareness : Ability to identify the brand within the category in sufficient detail to make a purchase.

Reference Groups : A person's reference groups consist of all the groups that have a direct or indirect influence on his attitude.

Affluent Group : This group is small, but it has a good deal of marketing significance. This is because it is useful segment for luxury products.

Product Mix : A product mix is the set of all products & items a particular seller offers for sale.

Skimming Pricing : This method aims at high price & high profits in the early stage of marketing the product. It profitably taps the opportunity for selling at high prices to those segments of the market, which do not bother much about the price. This method is very useful in the pricing of new products, especially those that have a luxury or specialty elements.

Knowledge : The target audience might have brand awareness, but not know much more of it. The company may want its target audience to know that the new brand offers what benefits.

Intangibility : Buyers look for evidence of quality as the services cannot be seen, tasted, felt, heard or smelled.

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