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## MATERIAL B.B.A. SEM-4

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## **B.B.A. SEM-4** **ECONOMICS** **FOR BUSINESS** **DECISION**

<u>SR NO.</u>	<u>UNIT NAME</u>
1	Introduction TO Competition AND Breakeven Analysis
2	Pricing Policies
3	Price Differentiation
4	Capital Budgeting



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## UNIT 1

### Introduction to Competition and Breakeven Analysis

Competition Analysis:

- Price Competition & Non Price Competition,
- Predatory and Discriminatory Competition,
- Fair and Unfair Competition,
- Effective Competition

Breakeven Analysis:

- Introduction to Breakeven Analysis,
- Breakeven Point,
- Breakeven Chart,
- Assumption and Uses

## COMPETITION ANALYSIS

### i. Price Competition:-

Exists when marketers compete on the basis of price. In price competition, the marketers develop different price strategies to beat the competition.

They generally set a same or low price of a product than that of the competitors to gain the market share.

Generally, the prices are changed to cover the costs or increase the demand. For instance, Coca-Cola and Pepsi are close competitors, thus, they often engage in price wars. The major disadvantage of price competition is that the competitors have flexibility to change the prices of products.

### ii. Non-price Competition:

Focuses on the factors In non-price competition, customers can not easily lured by lower prices as their preferences are focused on various factors, such as features, quality, service, and promotion.

Thus, the marketers focus on products. For example, customers prefer buying expensive luxury products for gaining status in the society The demand for these products.

Thus, in case of non-price competition, the marketers try to promote the product by its distinguishing features However, a marketer who is competing on non-price basis can not be ignored the prices as per competitors as price is a significant marketing element.

### What is 'Predatory Pricing'

Predatory pricing is the act of setting prices low in an attempt to eliminate the competition. Predatory pricing is illegal under anti-trust laws, as it makes markets more vulnerable to a monopoly. Companies may engage in a variety of activities that intend to drive out competitors, such as create [barriers to entry](#) for new competitors or unethical production methods to minimize costs.

### PRICE DISCRIMINATION COMPETITION :

Price discrimination is common in many different types of markets, whether online or offline, and even among firms with no market power; it usually reflects the competitive behaviour that competition policy seeks to promote (either by incentivising firms to serve more consumers, or by



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increasing the incentive to compete) and hence has no anti-competitive purpose or effect. However, price discrimination can sometimes be a concern, for example if it has exploitative, distortionary or exclusionary effects.

In recent years, the scope for near perfect price discrimination in the digital economy appears to have grown, and there has been debate as to whether the rules and case law that apply to distortionary effects of price discrimination have an economic basis. In November 2016, the OECD held a roundtable to discuss how jurisdictions in which exploitative or distortionary price discrimination is an offence should respond to these developments.

## Fair Competition

When the competition between companies or businesses is based on factors like quality, price and customer service and not on practices which is condemned by public or law like predatory pricing or bashing of competitors.

Fair competition between businesses exists in the market when companies compete on equal terms and where same rules and conditions are applicable to all the participants in the market. In fair competition companies doesn't harm its competitors' ability to compete and the sentiment of considering competitors' loss as your gain is absent from the picture. Sometimes, fair competition plays a crucial role in the growth of a country's economy and if the marketers practice fair marketing tactics, it can provide a plank which can boost a country's economy a lot.

## Advantages of fair competition:

- **Lower consumer prices:** In fair competition, one common method which companies use to attract customers is offering lower prices than the competition may be in form of discounts or coupons. There is no compromise with the quality of the product and is kept the same.
- **Improvement in technology and encouraging innovation:** In fair competition companies often try to overtake competition by improving technology and focusing on innovation so that they can produce cheaply and increase the profit margins.
- **Choice for Consumers:** Fair competition also brings in the advantage of increased number of choices for the consumers. Since in fair competition bigger companies doesn't abuse their powers and hence there are more number of competitors in the market providing more choices to the consumers.
- **Quality of Service:** Companies also provide better service to the consumers in a fair competition to increase its customer base. The companies take responsibilities for their products and assist their customers in every possible way.
- **Information:** Fair competition also allows more accessible information to the customers. Free flow of information helps customers to make informed decisions.

## UNFAIR COMPETITION:

"Unfair competition" is a term applied to dishonest or fraudulent rivalry in trade and commerce. It's a branch of [intellectual property](#) law, particularly applied to the practice of endeavoring to substitute one's own goods or products in the market for those of another for the purpose of deceiving the public.

Acts of unfair competition are generally characterized by deception, bad faith, fraud or oppression. They're perceived as being against public policy because of their tendency to unduly hinder



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competition. Unfair competition [laws](#) have been established to protect consumers and businesses and help prevent illegal merchandising.

## Some Examples

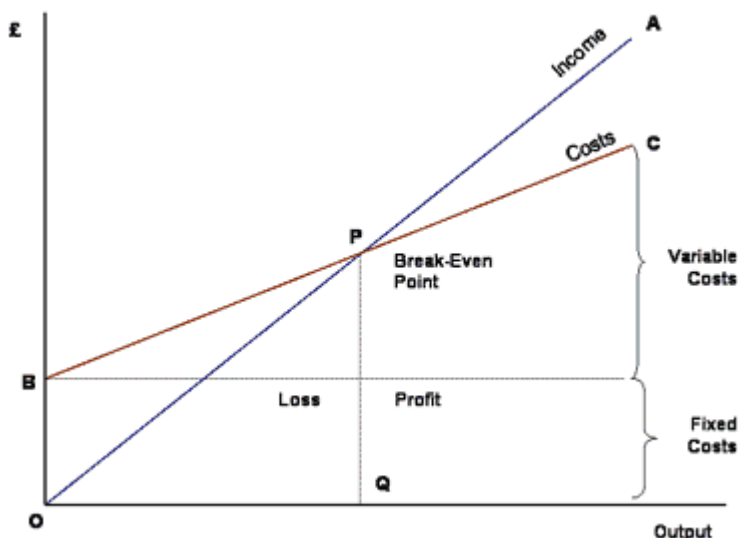
- Trademark infringement, such as using the Coca-Cola® trademark on a soda container manufactured by a competing beverage maker.
- False advertising, such as making false claims about a drug's abilities to promote weight loss.
- Unauthorized substitution of one brand of goods for another, such as substituting a low-cost handbag for a designer handbag.
- Misappropriation of trade secrets, such as stealing a competitor's soft drink formula.
- False representation of products or services, such as exaggerating a software program's spellcheck capabilities.
- Trade defamation, such as disseminating written or oral communications designed to harm or ruin a business's reputation.

Break-even analysis is a technique widely used by production management and management accountants. It is based on categorising production costs between those which are "variable" (costs that change when the production output changes) and those that are "fixed" (costs not directly related to the volume of production).

Total variable and fixed costs are compared with sales revenue in order to determine the **level of sales volume, sales value or production at which the business makes neither a profit nor a loss (the "break-even point")**.

## The Break-Even Chart

In its simplest form, the break-even chart is a graphical representation of costs at various levels of activity shown on the same chart as the variation of income (or sales, revenue) with the same variation in activity. The point at which neither profit nor loss is made is known as the "break-even point" and is represented on the chart below by the intersection of the two lines:





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In the diagram above, the line OA represents the variation of income at varying levels of production activity ("output"). OB represents the total fixed costs in the business. As output increases, variable costs are incurred, meaning that total costs (fixed + variable) also increase. At low levels of output, Costs are greater than Income. At the point of intersection, P, costs are exactly equal to income, and hence neither profit nor loss is made.

## Fixed Costs

Fixed costs are those business costs that are not directly related to the level of production or output. In other words, even if the business has a zero output or high output, the level of fixed costs will remain broadly the same. In the long term fixed costs can alter - perhaps as a result of investment in production capacity (e.g. adding a new factory unit) or through the growth in overheads required to support a larger, more complex business.

### *Examples of fixed costs:*

- Rent and rates
- Depreciation
- Research and development
- Marketing costs (non- revenue related)
- Administration costs

## Variable Costs

Variable costs are those costs which vary directly with the level of output. They represent payment output-related inputs such as raw materials, direct labour, fuel and revenue-related costs such as commission.

A distinction is often made between "**Direct**" variable costs and "**Indirect**" variable costs.

**Direct** variable costs are those which can be directly attributable to the production of a particular product or service and allocated to a particular cost centre. Raw materials and the wages those working on the production line are good examples.

**Indirect** variable costs cannot be directly attributable to production but they do vary with output. These include depreciation (where it is calculated related to output - e.g. machine hours), maintenance and certain labour costs.

## Semi-Variable Costs

Whilst the distinction between fixed and variable costs is a convenient way of categorising business costs, in reality there are some costs which are fixed in nature but which increase when output reaches certain levels. These are largely related to the overall "scale" and/or complexity of the business. For example, when a business has relatively low levels of output or sales, it may not require costs associated with functions such as human resource management or a fully-resourced finance department. However, as the scale of the business grows (e.g. output, number people employed, number and complexity of transactions) then more resources are required. If production rises suddenly then some short-term increase in warehousing and/or transport may be required. In these circumstances, we say that part of the cost is variable and part fixed.

A break-even analysis is an economic tool which is used to determine the cost structure of a company or the number of units needs to be sold to cover the cost. Break-even is a circumstance where a company neither makes a profit nor loss, but recovers all the money spent.

Break-even analysis is used to examine the relation between the fixed cost, variable cost, and revenue. Usually, an organization with low fixed cost will have a low break-even point of sale



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## Importance of Break-Even Analysis:

- **Manages the Size of Units to be Sold-** With the help of break-even analysis, the company or the owner comes to know how much units need to be sold to cover the cost. The variable cost and the selling price of an individual product and the total cost are required to evaluate the break-even analysis.
- **Budgeting and Setting Targets-** Since a company or the owner know at which point a company can break-even, it makes it easy for them to fix a goal and set a budget for the firm accordingly. This analysis can also be practised in establishing a realistic target for a company.
- **Manage the Margin of Safety-** In financial breakdown, the sales of a company tends to decrease. The break-even analysis helps the company to decide the least number of sales required to make profits. With the margin of safety report, the management can execute a high business decision.
- **Monitors and Controls Cost-** Companies profit margin can be affected by the fixed and variable cost; therefore, with break-even analysis, the management can detect if any effects are changing the cost.
- **Helps Design Pricing Strategy-** Break-even point can be affected if there is any change in the pricing of a product. For example, if the selling price is raised, the quantity of the product to be sold to break -even will be reduced. Similarly, if the selling price is reduced, a company needs to sell extra to break-even.

## Components of Break-Even Analysis:

- **Fixed Cost-** These costs are also known as an overhead cost. These costs materialize once the financial activity of a business starts. The fixed price includes taxes, salaries, rent, depreciation cost, labour cost, interest, energy cost etc.
- **Variable Cost-** This cost fluctuates, and will decrease or increase according to the volume of the production. This cost includes packaging cost, cost of raw material, fuel, and other material related to production.

## Uses of Break-Even Analysis:

- **New Business-** For a new venture, break-even analysis is essential. It guides the management with pricing strategy and be practical about the cost. This analysis also gives an idea if the new business is productive.
- **Manufacture New Product-** If an existing company is going to launch a new product, they still have to focus on break-even analysis before starting, and see if the product adds necessary expenditure to the company.
- **Change in Business Model-** Break-even analysis works even if there is a change in any business model, like shifting from retail business to wholesale business. This analysis will help the company to determine if the selling price of a product needs change.

## Break-Even Analysis Formula

**Break-Even Point = Fixed Cost / Price Per Cost – Variable Cost**

Example of Break-Even Analysis

Company X sells a pen. The company first determined that the fixed costs of Company X are a lease, property tax, salaries, which make a sum of ₹1,00,000. The variable cost linked with manufacturing one pen is ₹2 per unit. So, the pen is sold at a premium price of ₹10.

Therefore, to determine the break-even point of Company X premium pen will be:

**Break-Even Point = Fixed Cost / Price Per Cost – Variable Cost**

= ₹1,00,000 / (₹12 – ₹2) = 10,000

Therefore, given the variable costs, fixed costs, and the selling price of the pen, Company X would need to sell 10,000 units of pens to break even





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## MARGIN OF SAFETY

In **break-even** analysis, margin of safety is how much output or sales level can fall before a business reaches its **break-even** point (BEP).

**Margin of safety = ( (Budgeted sales- break-even sales)/ Budgeted sales) x100%**

### In Unit Sales

If the product can be sold in a larger quantity that occurs at the **break-even** point, then the firm will make a profit : below this point, a loss. **Break-even** quantity is calculated by:

Total fixed costs / (Selling price- average variable costs). Explanation-in the denominator, “price minus average variable cost” is the variable profit per unit, or contribution margin of each unit that is sold. This relationship is derived from the profit equation : Profit = Revenues –Costs where Revenues = (selling price \* quantity of product ) and Costs= (average variable costs\*quantity)+ total fixed costs. Therefore, Profit = (selling price\*quantity)-(average variable costs\* quantity +total fixed costs).Solving for Quantity of product at the breakeven point when profit equals zero, the quantity of product at breakeven is Total fixed costs/ (selling price-average variable costs).

Firms may still decide not to sell low- profit products, for example those not fitting well into their sales mix. Firms may also sell products that lose money-as a loss leader, to offer a complete line of products, etc. But if a product does not break does not break even, or a potential product looks like it clearly will not sell better than the break-even point, then the firm will not sell, or will stop selling, that product.

### EXAMPLE

- Assume we are selling a product for rs2 each.
- Assume that the variable cost associated with producing and selling the product is 60 cents.
- Assume that the fixed cost related to the product (the basic costs that are incurred in operating the business even if no product is produced) is rs1000.
- In this example, the firm would have to sell  $(1000/2.00-0.60)=715$  715 units to break even in that case the margin of safety value of NIL and the value of BEP is not profitable or not gaining loss.

**Break Even =FC /(SP –VC)**

Where FC is Fixed Cost, SP is selling Price and VC is Variable cost



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## UNIT 2      PRICING POLICIES

- IMPORTANCE
- OBJECTIVES
- FACTORS AFFECTING IT
- METHODS AND STRATEGIES OF PRICING
- COST PLUS PRICING
- GOING RATE PRICING
- SKIMMING AND PENETRATION PRICING
- RATE OF RETURN PRICING

### **Pricing – Price Policy**

In business, a systematic approach is required in pricing the commodities produced. Decision-making in this respect is very important, as it leads to a permanent source of revenue to the business and also survival in the venture. It is the most important device for the firm to expand its market.

If the price is too high, a seller may have to go out of the market. If the price is too low, the firm may not cover its cost and face loss. Hence, setting prices is a complex problem. There is no cut and dried formula for fixing the prices. It depends upon various situations in the business.



### **Importance of Price Policy**

A well-formed price policy has special importance if price rises in a continuous process in planned economy. It has not only influenced the living standard of people but due to increase in the expenditure of full planning, the prescribed aims and objectives of the planning are disturbed.

As a result, there is obstacle of economic development. But in under-developed countries, with economic development, price rise is quite natural. Till the increase in monetary income of the public is more than price rise, there is no problem. But when these, is more price rise than investment and [national income](#), there is a need to protect from the defects of monetary fluctuations. It requires price regulation. In short, in developing countries, the significance of price policy can be known from the following facts:

1. To maintain appropriate living standard, price control is essential.
2. To maintain planning process in a fine manner, price should be controlled at all costs.
3. Protect from monetary fluctuations, i.e. fluctuation defects are created, so to remove them appropriate price control is required.
4. Establishment of balance in demand and supply; if not hardship develops with consumer, producer and investor. So balance is needed in a proper way.



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5. It is necessary to control the consumer price for well distribution management.

6. The major objective of economic planning is multi faced development of national resources. Thus price policy should be quite independent as price regulation can adjust this motto.

## OBJECTIVE OF PRICING POLICY :

- Maximisation of profit
  - To achieve target rate of return on investment
  - Maintenance and increase in the market share
  - Price stability
  - Good return for product lines
  - Prevention of price competition
  - Ethical pricing policy
  - Liquidity
- 
- **Maximisation of profit** : Prices should aim at maximizing profit for the entire product line i.e. they should stimulate profitable combination sales.
  - **To achieve target rate of return on investment** : This is the most important objective which every concern wants to achieve. The objective is to achieve a certain rate of return on investments and frame the pricing policy in order to achieve that rate. For example, the concern may have a set target of 20% return on investment and 10% return on investments after taxes. The targets may be a short term (usually for a year) or a long term. It is advisable to have a long term target. Sometimes, it is observed that the actual profit rates may be more than the target return. This is because the targets already fixed are low and new opportunities and demand of the product exceeding the return rate already fixed.
  - **Maintenance and increase in the market share** Market share refers to the share of the market in the total sales of the market. Some of the concerns when introducing their product in the competitive market are to acquire a specific share in the market in the initial stages. In the long run, the concern may be achieved by achieving a fair share of the market. The main objective of achieving big share is the market. The other consideration of the markets. It has been noticed that the government, the intervention and control General Motors, America, capturing about 50% of the automobile market, passed through this situation. Some companies like General Electric and Johns- Mauville have preferred to have relatively small market say 20% rather than 50%.
  - **Price stability** This is another important objective of an enterprise. Stability of prices over a period reflects the efficiency of a concern. But in practice, on account of changing costs from time to time, price stability cannot be achieved. In the market where there are few sellers, every seller wants to maintain stability in prices. Price is set by one producer and others follow him. He acts as a leader in price fixation.
  - **Good return for product lines** Prevention of price competition The Modern Industrial Set up is confronted with cut throat competition. Pricing could be used as an effective means to fight against the competition and business rivalries. Lower prices are some of the companies that keep their competitors out of the market. But a firm can not afford it.
  - **Ethical pricing policy** : the view of the modern industries has already changed for production activities. the basic motive of an industry is now not only to earn profit by selling commodities in the market but also social responsibility and accountability towards its consumers, suppliers etc. so apart



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from earning profit it has some ethical views to satisfy them in the possible ways. The firms adopts “live and let live “

- **Liquidity** : the two words cost and revenue are very important to sustain any firm . it means the level of cost and level of revenue must be in balance. If that balance breaks down the firms will have to face a great loss.

Besides the above-mentioned objectives, Philip Kotler has listed the following additional objectives:

1. Market penetration: Relatively low price may be set to stimulate market growth and capture a large share thereof.
2. Market skimming: High initial price is charged to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product has high value to them.
3. Early cash recovery: Some firms try to set a price which enable rapid cash recovery as they may be financially tight or may regard future as too uncertain to justify patient cash recovery.
4. Rate of Return: Achieving a satisfactory rate of return, though another price may produce even large return

In firms with professional management, the motives of the executives may fall in any of the following categories:

- a) A desire not to be conspicuous which would lead him to go along the crowd.
- b) A desire to recommend a safe course rather than one which might be far more profitable but involves risks.
- c) A desire to do it the easy way rather than the best way when the best way would mean a lot of extra work.
- d) A desire to stick to thee past methods and conclusions rather than admit past error or imply that an associate was wrong.
- e) A desire to make a showing by taking an unorthodox stand and the like.

## FACTORS AFFECTING PRICING POLICIES

- i. Organizational Objectives:** The pricing decisions to a great extent. The marketers should set the prices as per the organizational goals. For instance, an organization has set a goal to produce quality products, thus, the prices will be set according to the quality of products. Similarly, if the organization has a goal to increase sales by 18% every year, then the reasonable prices have to be set to increase the demand of the product.
- ii. Competition:** under perfect competition there arises no problem of price of the product as the producer does not fix the price of his product. He has just to follow the market trend and to follow the price. In sense he is not the price maker but he is price taker. But under imperfect competition the situation differs. In this competition, pricing policy becomes important to operate in this market. In monopolistic competition there will be cut throat competition among producers. So pricing will be complicated problem. In monopoly there will be no problem about pricing because the policy is in the hands of monopolist. In oligopoly there will be price rigidity because increase or decrease in pricing will not be beneficial for producers.
- iii. PRODUCT AND PROMOTION POLICIES** :Price of the product very much depends upon the nature and characteristics of the product. A differentiated product with value added features like quality, size,



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color, attractive packaging, different uses of the product, utility etc. always forces the customers to pay more price as compared to any other product.

- iv. **DOWN THE LINE CONFLICT AND CO ORDINATIONS:** generally the producers like to charge the price of his product in the market according to his calculation so it becomes the selling price of a product. But here we have to note that only producers will is not enough to settle the pricing policy. The wholesalers and retailers are also important factors in the market. They must have an amicable settlement between wholeseller and retailers.
- v. **Pricing as a routine matter:** it is found that before deciding the pricing of his product the marketer studies the market condition for similar products and then he settles price for his own product. There may arise a question why the producer does so? The answer is he has to deal with market demand and market trend.

So, he has to keep in mind:

1. no of pricing decisions
2. availability of adequate and reliable date on demand aspect
3. competitive market

## EXTERNAL FACTORS

**i) Market and demand:** cost of the product is the lower limit of the price. While the market and demand set the upper limit of the product. So the marketer must keep in mind the relationship between cost price and market & demand of the product.

**ii) Competition:** competition affects the pricing decision of the product. The marketer must have knowledge about the activities of the competitor. For this sometime the companies go for price leadership, while other goes for low pricing decision to wipe off the competition from the market.

**iii) Other environmental factors:** the other environmental factors also affect the pricing decisions like:

- a) Economic conditions of the country like inflation, deflation, boom, recession etc. affect the pricing policy.
- b) Consumer thinking about the product.
- c) Distribution channel also affects the pricing policy.
- d) Government policies also have an effect on the price of the product.

Therefore, all these are the important factors which affect the pricing policy.

## Pricing Methods

**Definition:** The **Pricing Methods** are the ways in which the price of goods and services can be calculated by considering all the factors such as the product/service, competition, target audience, product's life cycle, firm's vision of expansion, etc. influencing the pricing strategy as a whole.

The pricing methods can be broadly classified into two parts:

1. Cost Oriented Pricing Method
2. Market Oriented Pricing Method

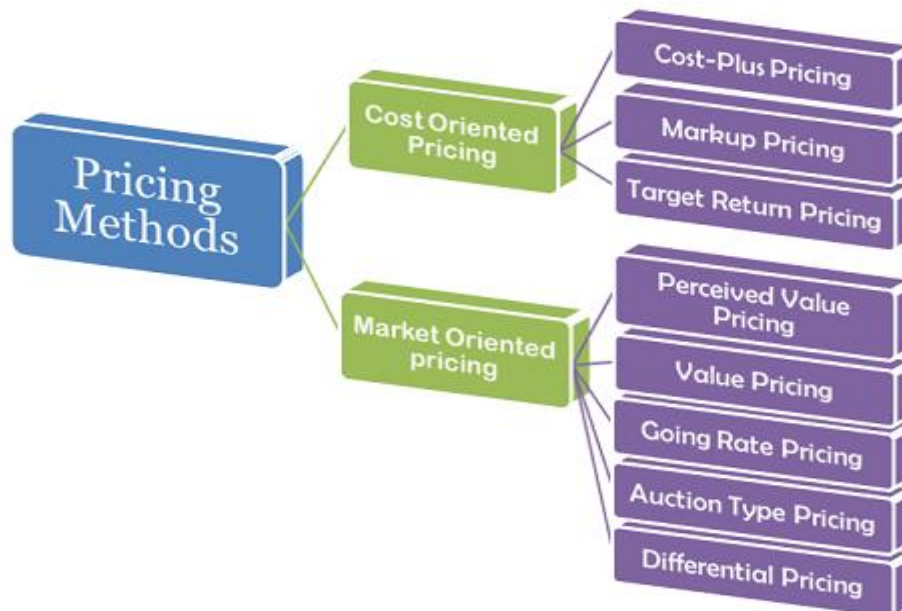


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**Cost-Oriented Pricing Method:** Many firms consider the **Cost of Production** as a base for calculating the price of the finished goods. Cost-oriented pricing method covers the following ways of pricing:

- **Cost-Plus Pricing:** It is one of the simplest pricing method wherein the manufacturer calculates the cost of production incurred and add a certain percentage of markup to it to realize the selling price. The markup is the percentage of profit calculated on total cost i.e. fixed and variable cost.

**E.g.** If the Cost of Production of product-A is Rs 500 with a markup of 25% on total cost, the selling price will be calculated as  $Selling Price = cost\ of\ production + Cost\ of\ Production \times Markup\ Percentage/100$   
 $Selling\ Price = 500 + 500 \times 0.25 = 625$

Thus, a firm earns a profit of Rs 125 ( $Profit = Selling\ price - Cost\ price$ )

- **Markup pricing-** This pricing method is the variation of cost plus pricing wherein the percentage of markup is calculated on the selling price. **E.g.** If the unit cost of a chocolate is Rs 16 and producer wants to earn the markup of 20% on sales then mark up price will be:

$Markup\ Price = Unit\ Cost / 1 - desired\ return\ on\ sales$

$Markup\ Price = 16 / 1 - 0.20 = 20$

Thus, the producer will charge Rs 20 for one chocolate and will earn a profit of Rs 4 per unit.

- **Target-Return pricing-** In this kind of pricing method the firm set the price to yield a required Rate of Return on Investment (ROI) from the sale of goods and services. **E.g.** If soap manufacturer invested Rs 1,00,000 in the business and expects 20% ROI i.e. Rs 20,000, the target return price is given by:

$Target\ return\ price = Unit\ Cost + (Desired\ Return \times capital\ invested) / unit\ sales$   
 $Target\ Return\ Price = 16 + (0.20 \times 100000) / 5000 = Rs\ 20$

Thus, Manufacturer will earn 20% ROI provided that unit cost and sale unit is accurate. In case the sales do not reach 50,000 units then the manufacturer should prepare the break-even chart wherein different ROI's can be calculated at different sales unit.



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**Market-Oriented Pricing Method:** Under this method price is calculated on the basis of market conditions. Following are the methods under this group:

- **Perceived-Value Pricing:** In this pricing method, the manufacturer decides the price on the basis of customer's perception of the goods and services taking into consideration all the elements such as advertising, promotional tools, additional benefits, product quality, the channel of distribution, etc. that influence the customer's perception.

**E.g.** Customer buy Sony products despite less price products available in the market, this is because Sony company follows the perceived pricing policy wherein the customer is willing to pay extra for better quality and durability of the product.

- **Value Pricing:** Under this pricing method companies design the low priced products and maintain the high-quality offering. Here the prices are not kept low, but the product is re-engineered to reduce the cost of production and maintain the quality simultaneously.

**E.g.** Tata Nano is the best example of value pricing, despite several Tata cars, the company designed a car with necessary features at a low price and lived up to its quality.

- **Going-Rate Pricing-** In this pricing method, the firms consider the competitor's price as a base in determining the price of its own offerings. Generally, the prices are more or less same as that of the competitor and the price war gets over among the firms.

**E.g.** In Oligopolistic Industry such as steel, paper, fertilizer, etc. the price charged is same.

- **Auction Type pricing:** This type of pricing method is growing popular with the more usage of internet. Several online sites such as eBay, Quikr, OLX, etc. provides a platform to customers where they buy or sell the commodities. *There are three types of auctions:*

**1. English Auctions-**There is one seller and many buyers. The seller puts the item on sites such as Yahoo and bidders raise the price until the top best price is reached.

**2. Dutch Auctions-** There may be one seller and many buyers or one buyer and many sellers. In the first case, the top best price is announced and then slowly it comes down that suit the bidder whereas in the second kind buyer announces the product he wants to buy then potential sellers competes by offering the lowest price.

**3. Sealed-Bid Auctions:** This kind of method is very common in the case of Government or industrial purchases, wherein tenders are floated in the market, and potential suppliers submit their bids in a closed envelope, not disclosing the bid to anyone.

- **Differential Pricing:** This pricing method is adopted when different prices have to be charged from the different group of customers. The prices can also vary with respect to time, area, and product form.

**E.g.** The best example of differential pricing is Mineral Water. The price of Mineral Water varies in hotels, railway stations, retail stores.

Thus, the companies can adopt either of these pricing methods depending on the type of a product it is offering and the ultimate objective for which the pricing is being done.



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Cost-plus pricing is a pricing strategy that adds a markup to a product's original unit cost to determine the final selling price. It's one of the oldest pricing strategies in the book and is calculated based on just two things:

1. Your cost of production
2. Your desired profit margin

All you do is take the costs that go into building your product or providing a service to your customers and add a percentage on top for your profit margin. Every unit sold then provides the same revenue to cover your costs and your profit margin.

## How to use the cost-plus pricing formula

The name says it all. To use the cost-plus pricing method, take your total costs (direct labor costs, manufacturing, shipping, etc.), and add the profit percentage to create a single unit price.

Let's say you run an ecommerce store that sells candles. It costs you RS10 to make every candle, including materials and labor. To sustain your business, you need to make at least a 50% profit margin on every candle sold, based on the time required to produce all the ingredients, create the candle, list it on your website, and ship it out. This makes your cost-plus calculation look like this:

$$\text{RS } 10 + 50\% = \text{RS } 15$$

Simple, right? By selling each candle for RS15, you can cover the cost to make it as well as your desired profit. That's what makes this pricing model so appealing—it's one of the easiest ways to determine a per-unit price for your product or service

## Two examples of successful cost-plus pricing strategy

There are a number of different industries that utilize cost-plus pricing effectively. Typically, this model works best when there are defined costs involved in production or when the product itself is utilitarian in nature. Here are two industries that traditionally rely on the cost-plus pricing model.

### Manufacturing

Manufacturing companies thrive on cost-plus pricing. Because the products they create have relatively predictable fixed costs (such as labor, machine maintenance, raw materials), it's easy to assign a profit margin percentage using markup pricing on top that sustains the business.

In most of these business arrangements, companies sell manufacturing products in bulk to existing customers with a contract. That makes it even easier to build a predictable revenue stream over time without requiring a price increase or decrease.

### Grocery Stores

Think about the last time you went to the supermarket. Whether you were buying apples, cereal, or milk, you probably had a good idea of how much each would cost. That's because grocery stores rely on the cost-plus pricing model as well. A Honey Crisp apple will be more expensive than a Red Delicious because the Honey Crisp was more expensive to buy.

Grocery stores also buy products in bulk, so it's likely that they rely on a procurement company that follows the same pricing decision model as our manufacturing example.





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## Pros and cons of cost-plus pricing

While it might be attractive to start out with a simple and easy-to-use model, doing so can hurt your company over time if it isn't a good fit for your unique needs. It's important to understand the benefits of this model, as well as the potential pitfalls before moving forward.

### Pros of cost-plus pricing

There are a number of benefits to the cost-plus pricing model if you're working in the right market:

- o Fast implementation for just about any product
- o Easy to calculate
- o Predictable profit that always covers production costs
- o Customers understand the justification for your selling price

### Cons of cost-plus pricing

The simplicity of cost-plus pricing leads to a number of issues for SaaS and subscription businesses:

- o Makes it too easy to disengage from your price after it's been set
- o Lacks connection with the value your product provides to customers
- o Offers no incentive to maximize profits through expansion revenue or adjustments
- o Makes it difficult to change price when necessary.

## Going rate pricing

Going rate pricing is a pricing strategy where firms examine the prices of their competitors and then set their own prices broadly in line with these.

Going rate pricing is most likely to occur where:

- there is a degree of price leadership taking place within a particular market
- businesses are reluctant to set significantly different prices because of the risk of setting off a price war, which would reduce profits to all firms
- there is a degree of collusion taking place between firms

If there is one price leader and firms are tending to follow the prices set by the price leader, then they will often feel frustrated that they are not able to mark themselves out by reducing their prices. To compensate for this, they may try, through their marketing strategy, to establish a strong brand identity. This will enable them to differentiate themselves from the competition.

## Skimming pricing

The stage of the product in its life cycle will influence the pricing strategy. Price skimming describes the process of charging a relatively high price for a product. Skimming tends to be used when the product is new to market (in its introduction or growth phase) and has few rivals. Put simply, the company is using price inelasticity to boost revenue; customers are relatively insensitive to price.

Some buyers will want to be seen with this product even if they have paid rather a lot for it. Though this may impact on sales volume, the margins will be higher. The firm is seeking to 'cream' the profit off the top of the market.

So why would a customer pay a high price? There are several reasons - the product may:

- include new technology and is considered the 'latest' gadget.
- be a 'fad' product that everyone wants 'now'.
- be in very limited supply, e.g. original art, high status goods such as a Ferrari.



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The company will therefore be able to earn a high return from capital employed. However, skimming tends to be a short-lived strategy as high prices and high profits tend to attract competitors into the market forcing price reductions.

As the product moves through its life cycle, the firm will move away from a price skimming approach. As demand and production increase, the firm will gain economies of scale, lowering unit costs and therefore enabling it to make the same margin despite lower prices.

## Penetration pricing

Penetration pricing is appropriate for new products into a market - those at the introductory stage of its life cycle. The price is deliberately pitched at a low level to build demand and to capture market share from existing products. The price will normally be advertised as a 'special introductory price'. This pricing strategy will only be suitable if customer demand is price elastic (responsive to price changes).

At this relatively low introductory price, the firm may be making a loss and cash flow may be negatively affected. It is expected, therefore, that at some time in the near future the price will rise, so the firm may have a relatively short time to build brand loyalty.

If the firm entering the market is large, and/or aggressive, it may put some competitors out of business. This is why small retail shops fear the entry of large multiple retailers into their area. The character of a shopping area may be dramatically altered when the 'big boys' arrive.

The expected lifespan of the product will affect the decision to adopt a price penetration strategy. If the product is likely to have a short life, low prices will probably not allow for initial costs (e.g. research and development) to be covered. In addition, firms will normally only use price penetration for non-durable products, such as 'Fast Moving Consumer Goods' (FMCGs) sold in high volumes. There is little point in charging a low price for a product that will last several years (durable good), like a laptop or car.

As the firm establishes market share it is likely to gain economies of scale, which will increase its profit margin.

## Rate of Return Method: Merits and Demerits | Capital Budgeting

Let us make an in-depth study of the merits and demerits of rate of return method.

Merits or Advantages of Rate of Return Method:

Following merits may be taken into consideration:

- (1) Rate of return method is very simple and easy to understand.
- (2) Its use is easy.
- (3) Rate of return may readily be calculated with the help of accounting data.
- (4) The simple rate of return will be fairly close to the true rate of return in investment with extremely long lives. It may be used to measure the current performance of a firm.
- (5) It gives due weight-age to the profitability of the project if based on average rate of return. Projects having higher rate of return will be accept.
- (6) It takes into consideration investment and the total earnings from the project during its life time.

## Demerits or Disadvantages of Rate of Return Method

De-merits of rate of return method are as follows:

- (1) Rate of return method uses accounting profits and not the cash inflows in appraising the investment projects.
- (2) It ignores the time value of money which is an important factor in capital expenditure decisions.
- (3) Rate of return method considers only the rate of return and not the length of project lives.
- (4) It ignores the fact that profits can be re-invested and profits can be earned on such investment, which in turn will affect the rate of return.



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(5) Rate of return method does not determine the fair rate of return on investment which is left at the discretion of the management. The use of arbitrary rate of return may cause serious distortions in the selection of capital projects.

(6) Rate of return method ignores the benefits which can accrue to the firm from the sale or abandonment of the old equipment or plant.

(7) It considers only the net investment and not the incremental cash outflows, i.e., new investment minus (-) the sale proceeds of the old equipment.

Thus, this method is not much useful, except in evaluating the long-term capital proposal



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## UNIT 3 PRICE DIFFERENTIATION

Meaning of Price Differentiation,

When it becomes beneficial?

Types of Differentiation-

- Distributor's Discounts,
- Quantitative discounts-
- Postage stamp pricing,

Dual Pricing

### Price discrimination

In reality price discrimination is really a form of demand-based pricing and relies on various price elasticities recorded in a particular market. Most markets can be divided into separate segments. If these segments can be identified, and distinguished from the main market, the firm can charge different prices in different segments of the markets and increase total sales revenue.

For example, consider the various different elasticities for a bus journey from a rural area into a town. Early in the morning, people may be using the bus to travel into work. They have no choice but to use the bus at this time to get to work on schedule, so their demand for the service will tend to be price-inelastic (unresponsive to changes in price). The bus company will therefore want to charge relatively higher prices at this time if they can. However, later in the day the bus may be used by people travelling into the town for leisure purposes - perhaps shopping. They have a choice about travelling and so their demand may be much more price elastic (responsive to changes in price). The bus company will want to charge relatively lower prices at this time to attract them to travel.

Students and teachers are also very aware of price discrimination in the travel market where prices of flights and accommodation jumps during the school vacation period.

*By charging different prices at different times, the bus company is using a price discrimination strategy.*

This type of pricing only works if:

- The market can be divided into separate sections or segments
- One set of buyers cannot move from one section of the market to another and so buy for a cheaper price
- The elasticity of demand differs for the various customer groups.
- The product or service cannot be resold for a higher price by the consumer. So price discrimination would not work for a product such as a football shirt. If the shirt was sold at a cheaper price in one part of the country, traders would simply buy from this area and resell in the more expensive area.

**MEANING:** Differential pricing is the strategy of selling the same product to different customers at different prices. Consider the pricing behavior at an auction. Everyone has the same information and bids on the same item.

### WHEN IT BECOMES BENEFICIAL:

- 1) In case of clock time price differentials
- 2) In case of different uses
- 3) In case of distributors discount
- 4) In FOB pricing
- 5) In dual pricing



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## Advantages of price discrimination

1. Firms will be able to increase revenue. Price discrimination will enable some firms to stay in business who otherwise would have made a loss. For example price discrimination is important for train companies who offer different prices for peak and off peak. Without price discrimination, they may go out of business or be unable to provide off-peak services.
2. Increased investment. These increased revenues can be used for research and development which benefit consumers
3. Lower prices for some. Some consumers will benefit from lower fares. For example, old people benefit from lower train companies; old people are more likely to be poor. Also, customers willing to spend time in researching ‘special offers’ and travelling at awkward times will be rewarded with lower prices.
4. Manages demand. Airlines can use price discrimination to encourage people to travel at unpopular times (early in morning) This helps avoid over-crowding and helps to spread out demand.

## Disadvantages of Price Discrimination

1. Higher prices for some. Under price discrimination, some consumers will end up paying higher prices (e.g. people who have to travel at busy times). These higher prices are likely to be allocatively inefficient because  $P > MC$ .
2. Decline in consumer surplus. Price discrimination enables a transfer of money from consumers to firms – contributing to increased inequality.
3. Potentially unfair. Those who pay higher prices may not be the poorest. For example, adults paying full price could be unemployed, senior citizens can be very well off. Administration costs. There will be administration costs in separating the markets, which could lead to higher prices.
4. Predatory pricing. Profits from price discrimination could be used to finance [predatory pricing](#).

## Distributors’ Discounts: Forms of Distributions Discount!

Distributors’ discounts are price deductions that systematically make the net price vary according to buyers’ position in the chain of distribution. They are so called because these discounts are given to various distributors in the trade channel, e.g., wholesalers, factors (Adatias), dealers and retailers. For the same reason, they are also called as trade channel discounts.

As these discounts create differential prices for different customers on the basis of marketing functions performed by them (e.g., where they are wholesalers or retailers), they are also called as functional discounts.

However, it must be pointed out that special discounts may also be given to persons other than distributors (and not associated with distribution function). For example, special discounts may be given to manufacturers who incorporate the product in their own product. Tyres and tubes sold to cycle manufacturers for use in their bicycles, is a typical example.

Special prices may be charged to members of the same industry, e.g., petroleum may be exchanged by one company with another company at a special price. Again, special prices may be quoted to central and state government and to universities; for example. Remington typewriters, Godrej safes, etc., are sold at a concessional price to these bodies.

## Forms of Distributors’ Discounts:

Distributor’s discounts take different forms mainly determined by convention in the industry. Nevertheless, at times a company may have to decide about the form in which discount is to be offered.



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## These forms are mainly three:

- (1) Different net prices for different distributor levels.
- (2) A uniform list price modified by a structure of discounts, each rate applicable to a different level of distributor.
- (3) A single discount combined with differing supplementary discounts to different levels of distributors. For example, 5 per cent to all retailers; 5+3 per cent to local distributors; and 5+3+2 per cent to regional distributors.

Net prices are rarely used as the device for quoting differential prices to distributors. They are given to certain authorized dealers by manufacturers. The simplicity of this method enables some savings in invoicing and accounting.

**POSTAGE STAMP PRICING** Uniform delivery pricing – (also called postage stamp pricing) – The same price is charged to all. Zone pricing – Prices increase as shipping distances increase. This is sometimes done by drawing concentric circles on a map with the plant or warehouse at the center and each circle defining the boundary of a price zone.

**DUAL PRICING** :Dual pricing is the practice of setting prices at different levels depending on the currency used to make the purchase. Dual pricing may be used to accomplish a variety of goals, such as to gain entry into a foreign market by offering unusually low prices to buyers using the foreign currency, or as a method of price discrimination.



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## UNIT 4 Capital Budgeting

Meaning of Capital Budgeting, Nature of Capital Budgeting (demand for capital, supply of capital and capital rationing), methods of capital budgeting-

- Payback method
- Net present value method
- Average rate of return method
- Internal rate of return method

### What is 'Capital Budgeting'

Capital budgeting is the process in which a business determines and evaluates potential expenses or investments that are large in nature. These expenditures and investments include projects such as building a new plant or investing in a long-term venture. Often times, a prospective project's lifetime cash inflows and outflows are assessed in order to determine whether the potential returns generated meet a sufficient target [benchmark](#), also known as "investment [appraisal](#)."

### Need and Importance of Capital Budgeting:

Capital budgeting means planning for capital assets.

Capital budgeting decisions are vital to any organisation as they include the decisions as to:

- Whether or not funds should be invested in long term projects such as setting of an industry, purchase of plant and machinery etc.
- Analyze the proposal for expansion or creating additional capacities.
- To decide the replacement of permanent assets such as building and equipment's.
- To make financial analysis of various proposals regarding capital investments so as to choose the best out of many alternative proposals.

The importance of capital budgeting can be well understood from the fact that an unsound investment decision may prove to be fatal to the very existence of the concern.

The need, significance or importance of capital budgeting arises mainly due to the following:

#### (1) Large Investments:

Capital budgeting decisions, generally, involve large investment of funds. But the funds available with the firm are always limited and the demand for funds far exceeds the resources. Hence, it is very important for a firm to plan and control its capital expenditure.

#### (2) Long-term Commitment of Funds:

Capital expenditure involves not only large amount of funds but also funds for long-term or more or less on permanent basis. The long-term commitment of funds increases the financial risk involved in the investment decision. Greater the risk involved, greater is the need for careful planning of capital expenditure, i.e. Capital budgeting.



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## (3) Irreversible Nature:

The capital expenditure decisions are of irreversible nature. Once the decision for acquiring a permanent asset is taken, it becomes very difficult to dispose of these assets without incurring heavy losses.

## (4) Long-Term Effect on Profitability:

Capital budgeting decisions have a long-term and significant effect on the profitability of a concern. Not only the present earnings of the firm are affected by the investments in capital assets but also the future growth and profitability of the firm depends upon the investment decision taken today. An unwise decision may prove disastrous and fatal to the very existence of the concern. Capital budgeting is of utmost importance to avoid over investment or under investment in fixed assets.

## (5) Difficulties of Investment Decisions:

The long term investment decisions are difficult to be taken because:

- Decision extends to a series of years beyond the current accounting period,
- Uncertainties of future and
- Higher degree of risk.

## (6) National Importance:

Investment decision though taken by individual concern is of national importance because it determines employment, economic activities and economic growth. Thus, we may say that without using capital budgeting techniques a firm may involve itself in a losing project. Proper timing of purchase, replacement, expansion and alternation of assets is essential.

## **Limitations of Capital Budgeting:**

Capital budgeting techniques suffer from the following limitations:

- (1) All the techniques of capital budgeting presume that various investment proposals under consideration are mutually exclusive which may not practically be true in some particular circumstances.
- (2) The techniques of capital budgeting require estimation of future cash inflows and outflows. The future is always uncertain and the data collected for future may not be exact. Obviously the results based upon wrong data may not be good.
- (3) There are certain factors like morale of the employees, goodwill of the firm, etc., which cannot be correctly quantified but which otherwise substantially influence the capital decision.
- (4) Urgency is another limitation in the evaluation of capital investment decisions.
- (5) Uncertainty and risk pose the biggest limitation to the techniques of capital budgeting.





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## Concept of Capital Budgeting:

Capital budgeting or capital expenditure management is concerned with planning and control of capital expenditure. Budgeting of capital expenditure is an important factor in the management of a business. The term capital budgeting refers to long term planning for proposed capital outlays and their financing. It includes both raising of long term funds as well as their utilisation.

It may thus be defined as **“the firms formal process for the acquisition and investment of capital”**. It is the decision-making process by which the firms evaluate the purchase of major fixed assets. It involves the firm’s decision to invest its current funds for addition, disposition, modification, and replacement of long term fixed assets. Decisions in this area should be based on carefully determined rate of return appraisals.

Capital investment must be the result of capital budgeting and capital budgeting is a reconciliation between the marginal revenue and marginal cost. Marginal revenue represents the percentage rate of return on investment while marginal cost is the cost of capital to the business.

Capital budgeting as a prelude for capital investment requires the management to have some highly objective and rational means of determining the size and content of the capital budget and to screen all proposals in order to select those which seem to be the most beneficial.

## The following definitions give a clear meaning of the term capital budgeting:

- (i) As put by Charles T. Horngren, “Capital budgeting is a long term planning for making and financing proposed capital outlays”.
- (ii) Gilman L.J. has put thus, “Capital budgeting refers to the total process of generating, evaluating, selecting and following up on capital expenditure alternatives”.
- (iii) Max D. Richards and Paul S. Greenlaw have defined as follows, “Capital budgeting generally refers to acquiring inputs with long run returns”.
- (iv) R.M. Lynch has said, “Capital budgeting consists in planning for development of available capital for the purpose of maximising the long term profitability of the firm”.
- (v) Hampton John. J. has defined it as “firm’s formal process for the acquisition and investment of capital”.
- (vi) Milton H. Spencer has opined it as, “Capital budgeting involves the planning of expenditure for assets, the return from which will be realised in future time periods”.

The above definitions give the meaning of capital budgeting as essentially a list of what management believes to be worthwhile projects for the acquisition of new capital assets together with the estimated cost of each project.

## Need for Capital Budgeting:

**The need for capital budgeting arises for various reasons which are listed below:**

- (i) Capital budgeting is indispensable for establishing and running industrial organisation. In modern times, a lump amount is needed to set up a plant which will have to be raised from the financial market. If the



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outcome from the investments is not sufficient then the firm incurs losses. While for spending large amount for a project, the management will have to make a proper study of its future profitability.

(ii) Capital budgeting is essential in order to secure adequate return from investment. For this purpose, higher operating expenses are to be reduced and idleness of the machinery should be avoided. The level and planning period of investment should be done carefully through capital budgeting.

(iii) There arises long term nature of fund commitment when capital expenditure is incurred on a project. Different investment proposals have varying degrees of risks and uncertainties. When a huge investment is made, it cannot be transferred, and the investment sinks. All these uncertainties can be avoided if a realistic capital budgeting is made.

(iv) Capital budgeting decisions are quite vital for the reputation of the management. Apart from this, the decision regarding choice of capital projects, addition to the stock of capital, replacement of worn out capital, volume and timing of investment are very essential for capital budgeting. Thus capital budgeting is one of the areas of managerial decision making.

All these arguments show the importance of capital budgeting. Capital budgeting is very necessary whenever long term investment is required to be made, since the firm's very survival depends on managerial ability to conceive, analyse, and set the most profitable projects for investment, given the objectives of the firm.

## **Prerequisites of Capital Budgeting:**

Before we proceed to discuss the major aspects of capital budgeting, the information regarding the prerequisites of capital budgeting are necessary for the preparation of a capital budget.

## **Capital Expenditure:**

Investment on the machinery is called capital expenditure. The capacity of the machinery depends upon the probable sales of different sizes. If the firm is small there is centralisation, the capital budget is prepared straight away. If it is a large company and there is decentralisation, the capital budget is prepared department wise and then a consolidated budget for the entire company is prepared.

Joel Dean has suggested that capital expenditure should be defined in terms of economic behaviour, rather than in terms of accounting convention. For the purpose of capital budgeting, therefore, only long term capital expenditures which are un-adjustable in the short run are taken into account. Such items of capital expenditure as inventories and receivables which keep varying and are adjustable during short run are ignored.

Capital expenditure budget is a type of functional budget. It is the firm's formal plan for the expenditure of money for purchase of fixed assets. It provides a guidance as to the amount of capital that may be required for procurement of capital assets during the budget period.

The budget is prepared after taking into account the available production capacities, probable reallocation of existing resources and possible improvements in production techniques. If required, separate budgets can be prepared for each item of capital asset.



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## **Broadly speaking the items which are included in capital budgeting are:**

- (i) Expenditure of new capital equipment or creation of long term assets by a new firm;
- (ii) Expenditure on expansion or diversification of assets, and addition to the existing capital stock;
- (iii) Expenditure on replacement of depreciated capital;
- (iv) Expenditure on advertisement which bears fruit over time; and
- (v) Expenditure on research, development and innovation.

## **The objectives of a capital expenditure budget are as follows:**

- (i) It determines the capital projects on which work can be started during the budget period after taking into account their urgency and the expected rate of return on each project.
- (ii) It estimates the expenditure that would have to be incurred on capital projects approved by the management together with the source or sources from which the required funds would be obtained.
- (iii) It restricts the capital expenditure on projects within authorised limits.

There are different kinds of capital expenditure budgets. There are different ways in which they are used by the companies. The differences are only to the extent of details, timing and methods in evaluation.

## **There are two types of capital expenditure budgets:**

- (i) Short-range capital budgets.
- (ii) Long-range capital budget.

The short-range capital budgets relate to the estimated amount to be spent in the coming year. Budget is prepared to spend a fixed amount. This method does not deal with individual projects. The management takes a decision based upon profit potential of the proposed projects. This kind of budget is a necessity for the management device of planning and control.

The long-range capital budgets involve analytical calculations of the estimates of projected amounts. One version of this approach is to use a per cent of sales growth for expansion investment and a per cent of continuing sales volume for replacements or reinvestments.

It includes the areas of future investment interest. It is mostly confined to a product or product line and may deal with the marketing facilities or production processes of improvement.

Where there are several divisions in a company, a division itself is an area of investment. It also involves complete long range projection of capital requirements for specific projects. This approach has been found practically impossible because planning for a long period is subject to limitations and will result in uncertainty. It is the usual practice for companies to prepare capital budgets for five years.

## **Types of Capital Expenditures:**

All expenditures which are incurred for acquiring fixed assets for the continuous use in the business to earn profit are known as capital expenditures or investment proposals or investment projects.



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## The following types of capital expenditures are incurred in a large business concern:

- (i) Capital expenditures for the progress and the improvement of the business. These expenditures are incurred on new plants and buildings.
- (ii) Capital expenditures for normal operations of the business. Such expenditures are incurred on replacing old machines by new ones, on new plant layout and on establishing new office and the like.
- (iii) Capital expenditures on publicity, advertisement, exploration of new market, etc.
- (iv) Capital expenditures on various types of research. Different types of research are conducted covering the various aspects of the business operations and all such research entails some sort of expenditure.
- (v) Capital expenditures on projects indirectly related to production and also those required under some legal obligations are included in this category.

### Process of Capital Budgeting:

It may involve a number of steps depending upon the size of the concern, nature of projects, their numbers, complexities and diversities, etc.

### The important steps involved in a capital budgeting process are the following:

#### (i) Project Generation:

#### Capital expenditure proposals may be of two types:

- (a) Proposals for expanding the revenues, and
- (b) Proposals for reducing the cost.

Under the first category, proposals to add new products and to expand the capacity in existing lines may be included. Under the second category, replacement proposals are included. Such proposals are designed to bring savings in cost.

#### (ii) Project Evaluation:

#### It involves:

- (a) Estimating the cost and benefits in terms of cash flows, and
- (b) Selecting an appropriate criterion for judging the desirability of the projects.

#### (iii) Project Selection:

This step is related to the screening and selecting the projects.

#### (iv) Project Execution:

When capital expenditure proposals are finally selected, funds are allocated for them. It is the duty of the top management to ensure that funds are spent in accordance with the allocation made in the capital budgets.



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## (v) Follow up:

Lastly, a system of following-up the result of completed projects should be established.

## Issues Involved in Capital Budgeting:

### 1. Planning Period:

The determination of span of planning period is another major issue involved in capital budgeting, for the projects differ in their gestation period.

### A good idea about the plan period is necessary for:

- (i) Effective planning, its execution and control;
- (ii) Possible dovetailing of old plans with new ones for future or integrated development of the company;
- (iii) Assessment of economies of scale and determination of plant size; and
- (iv) Financial planning and timely acquisition of necessary finances.

### 2. Decision Rules:

A particular capital project may be capable of standing the test against several criteria but the various criteria may not be in conformity with each other. It is, therefore, necessary that decision rules for accepting or rejecting a project must be decided well in advance. Decision rules are normally decided as the basis of the objectives of the firm.

### 3. Collection of Relevant Data:

#### Capital budgeting requires collection of adequate, necessary and relevant data regarding:

- (i) Cost of the projects,
- (ii) Expected rate of return,
- (iii) Availability of alternative projects,
- (iv) Period of fruition, maturity and overall longevity of alternative projects,
- (v) Market rate of interest, and
- (vi) Degree of uncertainty.

### 4. Planning and Management of Capital Investment:

Once capital budget has been prepared, it becomes a commitment of resources which is an outcome of conscious and deliberate planning. While planning a budget, the resources of a company have to be committed, keeping in view the benefits. The planning of a budget, forecast of production and sales have to be done simultaneously.

#### The planning process includes:

- (i) The setting of objective, which relates to product objective;
- (ii) The planning of research and development, i.e., product research and planning for development; and
- (iii) The estimate of capital requirements, it is also known as the engineering estimate.



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At this phase, it is important to consider the different components of the master budget or capital budget. The budget contains three sub-budgets, namely the operating budget (sales budget, cost budget and distribution budget), the non-operating budget and the financial budget (capital expenditure budget, profit and loss budget and cost budget).

In capital budgeting, there is long coverage of activities ranging from planning the availability, allocation and control of expenditures of long run as well as short run investment funds. The long-range capital budget usually covers three to five or more years of period. It is a long range planning tool covering future expenditures in general.

The main process of preparing long-range capital budget starts from the management. Economist who forecasts outlook for the industry, projects a position for the firm covering a probable market share. On the basis of this, forecast managers estimate their prospective capital expenditure.

All their requirements for capital expenditure are combined for the firm's capital budget. Short-term capital budget as an effective tool for allocation and rationing of capital budget is in effect a tool for allocation and rationing of capital resources. In the short term, plan details can be worked out and carried over from the past can be easily incorporated. This is why many companies prefer to follow a short term rather than long term plan.

## **There are two aspects of capital management:**

**They are:**

- (i) Short term capital management.
- (ii) Long term capital management.

### **(i) Short term capital management:**

In the short term capital management, a business manager is concerned with managing working capital and fixed capital for operational efficiency, whereas in the long run he is much more concerned with managing the capital structure of the enterprise for growth.

### **Managing Working Capital:**

Working capital refers to the investment by a company in short term assets such as cash, marketable securities, accounts receivable and inventories. Management of working capital, therefore, includes management of all current assets and current liabilities.

Excess of current assets over current liabilities provides the net working capital. Working capital is purely a tool for financial analysis in the hands of the management accountant who can assess the liquid position of the enterprise for the present as well as for the near future as compared to the near past. It is also called a circulating capital or operating capital.

A company's profitability in one way is determined by the management of its working capital. Requirements of working capital are assessed keeping in view the general nature of business, length of operation, quantum of turnover of inventories, account receivables, cost of product, terms of sales and purchases, seasonal variations, expansional programmes for the future and contingencies involved in the business.



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There are two concepts as regard working capital gross working capital and net working capital. Gross working capital refers to the amount of funds required for production of goods and services to satisfy the demand. Temporary capital changes from its part and are invested in current assets which are employed in a business. Net working capital refers to the difference between the current assets and current liabilities.

Working capital may be further classified using time as the basis. They are permanent working capital and temporary or variable working capital. Permanent working capital is the amount of funds required for production of goods and services to satisfy the demand. Temporary working capital changes its form from cash to inventory and from inventory to receivables and then to cash. Businesses which are of seasonal nature require more of temporary working capital.

## **The main sources of working capital are of two types and they are:**

- (i) Internal sources, and
- (ii) External sources.

## **Internal sources of working capital requirements can be met from four sources and they are:**

- (i) Financing from account receivables either through outright sale of such receivables or borrowings on them by offering as securities.
- (ii) Financing from inventories.
- (iii) Depreciation is also a source of working capital.
- (iv) Tax liabilities.

External sources of working capital may include short term borrowings from banks and financial institutions or individual lenders. Ratio analysis helps in assessing the working capital requirements, its adequacy, shortage or excess.

## **Management of Fixed Assets:**

Fixed assets assume desirable shape and form part of the working apparatus of the enterprise.

## **Fixed assets broadly include three categories and they are:**

- (i) Tangible assets or physical assets.
- (ii) Intangible assets.
- (iii) Fixed security investments.

Sources for acquisition of fixed assets may be internal and/or external. Internal sources are equity holders, money in the shape of equity, retained earnings, depreciation fund or reserves.

External sources include long term borrowings from banks and financial institutions, issue of debentures or term deposits from public. For managing the fixed capital, an economist has to seek help of financial analyst who prepares fund flow statement showing sources and uses for the funds for the short period analysis. Ratio analysis is also used for managing fixed capital.

## **(ii) Long Term Capital Management:**

It is concerned with managing the capital structure of the firm which is comprised of long term debt, preferred stock and net worth. Net worth is the equity stock holders, fund and includes equity stock, capital



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surplus, earned surplus and reserves. In short, capital structure of a firm is comprised of owner's money and non-owner's money.

**For determining the capital structure of a firm, a business manager may require the following information:**

- (i) The total amount of total assets to be employed;
- (ii) The time limit by which various financial requirements may materialise, and
- (iii) The position of sources of funds to acquire assets.

Optimum capital structure refers to that state when a firm obtains the best mix of equity and debt sources of funds to minimise overall cost of capital and maximises market value of the firm for a given level of capital.

## **Objective of Working Capital Management:**

The main objective of working capital is to provide adequate support for the smooth functioning of the normal business operations of a company.

The objective of working capital management covers not only the management of current assets in tune with the attitude of management toward risk and arriving at a satisfactory level of current assets that balances the liquidity and profitability criteria but also the management of financing the chosen level of current assets, once again taking into consideration the attitude of the management toward risk.

Working capital management encompasses the management of current assets and means of financing them. The objective of working capital management is one of balancing the 'liquidity' and 'profitability' criteria.

## **Criteria for Evaluating Working Capital:**

**The following criteria may be adopted for evaluating the working capital management.**

### **1. Liquidity:**

The current assets of a company are considered to be more liquid than fixed assets. Among the current assets some items are considered to be highly liquid than others. In a descending order of liquidity, the current asset items can be stated as cash and bank balances, marketable securities, sundry debtors, raw material inventory, finished good inventory and work in process inventory.

These inventories are considered to be less liquid. The final test of liquidity is the ability of a company to meet its current obligations. Even though accounts receivable are considered to be liquid, the degree of liquidity depends upon the paying habits of customers and the mobilisation efforts made by the company.

### **Flow of Cash:**

Established companies may have faced at some-time the problem of cash shortage. It is much common in seasonal industries. It has happened because of mismatching of cash inflows and cash outflows. As a result, companies keep some minimum cash balance. The large the proportion of current assets held in the form of cash and bank balances, the more liquidity position of the company improves.





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## 2. Turnover of Inventory:

Too high a level of inventory and too low a level of inventor)' are not conducive to the financial health of a company. Any type of inventory will represent the amount of cash locked up and the amount of carrying costs which can be as high as 25 per cent of the value of inventory associated with inventory.

Too high a level of inventory can create problems of liquidity, while too low a level of inventory can affect profitability due to stoppage of work for want of raw materials. Turnover of inventory can be useful for comparisons across time.

## 3. Credit Extended to Customers:

In the present day competitive market, the output of a company is usually sold on credit basis. It may result in higher volume of sales, larger amount of cash locked up in the form of receivables and higher incidence of bad debt losses.

By adopting high credit standards, the company's sales volume may get adversely affected. Therefore, it is essential to make sure whether reasonable credit is provided to customers as part of the evaluation of working capital management.

## 4. Credit Received from Suppliers:

Generally, a company extends credit to its customers just as it would also obtain credit from its suppliers. Working capital management should provide adequate flexibility to the purchase department so that they can shop around and get better terms for procurement of supplies. Further, regular payment habit on the part of the company can instill confidence in the minds of the suppliers.

## Capital Rationing: Selection Process and Other Details!

From the foregoing discussion it may be recalled that the profitability of a project can be measured by any one of the DCF techniques (viz. IRR, NPV and PI), particularly the two theoretically sound methods IRR and NPV. Practically, the firm may accept all those projects which give a rate of return higher than the cost of capital or which have positive NPV. And, in case of mutually exclusive projects, the projects having the highest NPV or giving the highest rate of return may be accepted. In other words, a firm should accept that investment proposal which increases maximum the firm's value.

In actual practice, however, every firm prepares its annual capital expenditure budget which depends on the availability of funds with the firm or other considerations. In that case, a firm has to select not only the profitable investments opportunities but also it has to rank the projects from the highest to lowest priority, i.e. a cut-off point is selected.

Naturally, the proposal which is above the cut-off point will be funded and which is below the cut-off point will be rejected. It should be remembered that this cut-off point is determined on the basis of the number of projects, funds available for financing capital expenditure, and the objectives of the firm.



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That is, in other words, question of Capital Rationing appears before us. It is normally applied to situations where the supply of funds to a firm is limited in some way. It actually encompasses many different situations ranging from that where the borrowing and lending rates faced by the firms differ to that where the funds available for investment by the firm are strictly limited.

In short, it rejects a situation where the firm is constrained, for external or self-imposed reasons, to obtain necessary funds to invest in all profitable investment projects, i.e. a situation where a constraint is placed on the total size of capital investment during a particular period. In the circumstances the firm has to select a combination of investment proposals which provides the highest NPV, subject to the budget constraint.

## Selection Process under Capital Rationing:

Needless to mention that under capital rationing a firm cannot accept all the projects even if all of them are profitable. In order to select or reject the projects, a comparison must be made among them.

### Selection of project depends on two steps:

- (i) Ranking the projects according to the Profitability Index (PI) or Net Present Value (NPV) method;
- (ii) Selecting projects in descending order of profitability (until the funds are exhausted).

The projects can be ranked by any one of the DCF techniques, viz., IRR, NPV and PI. But PI method is found to be the more suitable and reliable measure of profitability since it determines the relative profitability; while NPV method is an absolute measure of profitability

Capital budgeting (or investment appraisal) is the process of determining the viability to long-term investments on purchase or replacement of property plant and equipment, new product line or other projects.

Capital budgeting consists of various techniques used by managers such as:

## Payback Period

*Payback period* is the time in which the [initial outlay](#) of an investment is expected to be recovered through the cash inflows generated by the investment. It is one of the simplest [investment appraisal](#) techniques.

Since cash flow estimates are quite accurate for periods in the near future and relatively inaccurate for periods in distant future due to economic and operational uncertainties, payback period is an indicator of risk inherent in a project because it takes initial inflows into account and ignores the cash flows after the point at which the initial investment is recovered.

Projects having larger cash inflows in the earlier periods are generally ranked higher when appraised with payback period, compared to similar projects having larger cash inflows in the later periods.



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## Formula

The formula to calculate the payback period of an investment depends on whether the periodic cash inflows from the project are even or uneven.

If the cash inflows are even (such as for investments in [annuities](#)), the formula to calculate payback period is:

$$\text{Payback Period} = \frac{\text{Initial Investment}}{\text{Net Cash Flow per Period}}$$

When cash inflows are uneven, we need to calculate the *cumulative net cash flow* for each period and then use the following formula:

$$\text{Payback Period} = A + \frac{B}{C}$$

Where,

*A* is the last period number with a negative cumulative cash flow;

*B* is the absolute value (i.e. value without negative sign) of cumulative net cash flow at the end of the period *A*; and

*C* is the total cash inflow during the period following period *A*

*Cumulative net cash flow* is the sum of inflows to date, minus the initial outflow.

Both of the above situations are explained through examples given below.

### Payback Period Calculator

#### Example 1: Even Cash Flows

Company C is planning to undertake a project requiring initial investment of rs105 million. The project is expected to generate rs25 million per year in net cash flows for 7 years. Calculate the payback period of the project.

Solution

$$\begin{aligned} \text{Payback Period} &= \text{Initial Investment} \div \text{Annual Cash Flow} \\ &= \text{rs105M} \div \text{rs25M} \\ &= 4.2 \text{ years} \end{aligned}$$

#### Example 2: Uneven Cash Flows



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Company C is planning to undertake another project requiring initial investment of rs50 million and is expected to generate rs10 million net cash flow in Year 1, rs13 million in Year 2, rs16 million in year 3, rs19 million in Year 4 and rs22 million in Year 5. Calculate the payback value of the project.

## Solution

Year	<i>(cash flows in millions)</i>	
	Annual Cash Flow	Cumulative Cash Flow
0	(50)	(50)
1	10	(40)
2	13	(27)
3	16	(11)
4	19	8
5	22	30

$$\text{Payback Period} = 3 + 11/19 = 3 + 0.58 \approx 3.6 \text{ years}$$

## Decision Rule

The longer the payback period of a project, the higher the risk. Between [mutually exclusive projects](#) having similar return, the decision should be to invest in the project having the shortest payback period.

When deciding whether to invest in a project or when comparing projects having different returns, a decision based on payback period is relatively complex. The decision whether to accept or reject a project based on its payback period depends upon the risk appetite of the management.

Management will set an acceptable payback period for individual investments based on whether the management is risk averse or risk taking. This target may be different for different projects because higher risk corresponds with higher return thus longer payback period being acceptable for profitable projects. For lower return projects, management will only accept the project if the risk is low which means payback period must be short.

## Advantages and Disadvantages

### Advantages of payback period are:

1. Payback period is very simple to calculate.
2. It can be a measure of risk inherent in a project. Since cash flows that occur later in a project's life are considered more uncertain, payback period provides an indication of how certain the project cash inflows are.



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3. For companies facing liquidity problems, it provides a good ranking of projects that would return money early.

## Disadvantages of payback period are:

1. Payback period does not take into account the [time value of money](#) which is a serious drawback since it can lead to wrong decisions. A variation of payback method that attempts to address this drawback is called [discounted payback period](#) method.
2. It does not take into account, the cash flows that occur after the payback period. This means that a project having very good cash inflows but beyond its payback period may be ignored.

## Discounted Payback Period

*Discounted payback period* is a variation of payback period which uses discounted cash flows while calculating the time an investment takes to pay back its initial cash outflow. One of the major disadvantages of [simple payback period](#) is that it ignores the time value of money. To counter this limitation, discounted payback period was devised, and it accounts for the time value of money by discounting the cash inflows of the project for each period at a suitable discount rate.

### Calculation

In discounted payback period we have to calculate the present value of each cash inflow. For this purpose the management has to set a suitable discount rate which is usually the company's [cost of capital](#). The discounted cash inflow for each period is then calculated using the formula:

$$\text{Discounted Cash Inflow} = \frac{\text{Actual Cash Inflow}}{(1 + i)^n}$$

Where,

$i$  is the [discount rate](#); and

$n$  is the period to which the cash inflow relates.

Sometimes, the above formula may be split into two components which are: actual cash inflow and [present value factor](#) i.e.  $1 / (1 + i)^n$ . Discounted cash flow is then the product of actual cash flow and the present value factor.

The rest of the procedure is similar to the calculation of [simple payback period](#) except that we have to use the discounted cash flows as calculated above instead of nominal cash flows. Also, the cumulative cash flow is replaced by cumulative discounted cash flow.

$$\text{Discounted Payback Period} = A + \frac{B}{C}$$

Where,

$A$  = Last period with a negative discounted cumulative cash flow;

$B$  = Absolute value of discounted cumulative cash flow at the end of the period  $A$ ; and

$C$  = Discounted cash flow during the period after  $A$ .

Note: In the calculation of [simple payback period](#), we could use an alternative formula for situations where all the cash inflows were even. That formula is not applicable here since it is extremely unlikely that discounted cash inflows will be even.

The calculation method is illustrated through the example given below.

## Decision Rule

A shorter discounted payback period indicates lower risk. Given a choice between two investments having similar returns, the one with shorter payback period should be chosen. Management might also set a target payback period beyond which projects are generally rejected due to high risk and uncertainty.



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Often, the decision may not be an easy one though. For example, where a project with higher return has a longer payback period thus higher risk and an alternate project having low risk but also lower return. In such cases the decision mostly rests on management's judgment and their risk appetite.

### Example

An initial investment of rs2,324,000 is expected to generate rs600,000 per year for 6 years. Calculate the discounted payback period of the investment if the discount rate is 11%.

### Solution

Prepare a table to calculate discounted cash flow of each period by multiplying the actual cash flows by present value factor. Create a cumulative discounted cash flow column.

Year n	Cash Flow CF	Present Value Factor $PV_{rs1} = 1/(1+i)^n$	Discounted Cash Flow $CF \times PV_{rs1}$	Cumulative Discounted Cash Flow
0	-2,324,000	1.0000	-2,324,000	-2,324,000
1	600,000	0.9009	540,541	-1,783,459
2	600,000	0.8116	486,973	-1,296,486
3	600,000	0.7312	438,715	-857,771
4	600,000	0.6587	395,239	-462,533
5	600,000	0.5935	356,071	-106,462
6	600,000	0.5346	320,785	214,323

### Discounted Payback Period

$$\begin{aligned}
 &= 5 + |-106,462| \div 320,785 \\
 &= 5 + 106,462 \div 320,785 \\
 &\approx 5 + 0.33 \\
 &\approx 5.33 \text{ years}
 \end{aligned}$$

### Advantages and Disadvantages

Advantage: Discounted payback period is more reliable than [simple payback period](#) since it accounts for time value of money. It is interesting to note that if a project has negative net present value it won't pay back the initial investment.

Disadvantage: It ignores the cash inflows from project after the payback period. An attractive project having lower initial inflows but higher terminal cash flows might be rejected



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## Net Present Value (NPV)

Net present value (NPV) of a project represents the change in a company's net worth/equity that would result from acceptance of the project over its life. It equals the [present value](#) of the project net cash inflows minus the initial investment outlay. It is one of the most reliable techniques used in capital budgeting because it is based on the [discounted cash flow](#) approach.

Net present value calculations require the following three inputs:

- Projected net after-tax cash flows in each period of the project.
- Initial investment outlay
- Appropriate discount rate i.e. the [hurdle rate](#).

[Net after-tax cash flows](#) equals total cash inflow during a period, including salvage value if any, less cash outflows (including taxes) from the project during the period.

The [initial investment outlay](#) represents the total cash outflow that occurs at the inception (time 0) of the project.

The present value of net cash flows is determined at a discount rate which is reflective of the project risk. In most cases, it is appropriate to start with the [weighted average cost of capital](#) (WACC) of the company and adjust it up or down depending on the difference between the risk of the specific project and average risk of the company as a whole.

## Formulas and calculation

The first step involved in the calculation of NPV is the estimation of net cash flows from the project over its life. The second step is to discount those cash flows at the hurdle rate.

The net cash flows may be even (i.e. equal cash flows in different periods) or uneven (i.e. different cash flows in different periods). When they are even, present value can be easily calculated by using the formula for [present value of annuity](#). However, if they are uneven, we need to calculate the present value of each individual net cash inflow separately.

Once we have the total present value of all project cash flows, we subtract the initial investment on the project from the total present value of inflows to arrive at net present value.

Thus we have the following two formulas for the calculation of NPV:

When net cash flows are even, i.e. when all net cash flows are equal:

When [net cash flows are uneven](#), i.e. when net cash flows vary from period to period:

These formulas ignore the effect of taxes and inflation. Read further: [NPV and taxes](#), [NPV and inflation](#) and [international capital budgeting](#).

## Decision rule

In case of standalone projects, accept a project only if its NPV is positive, reject it if its NPV is negative and stay indifferent between accepting or rejecting if NPV is zero.

In case of [mutually exclusive projects](#) (i.e. competing projects), accept the project with higher NPV.



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## Examples

Example 1: Even net cash flows

Calculate the net present value of a project which requires an initial investment of rs243,000 and it is expected to generate a net cash flow of rs50,000 each month for 12 months. Assume that the salvage value of the project is zero. The target rate of return is 12% per annum.

Solution

We have,

Initial Investment = rs243,000

Net Cash Inflow per Period = rs50,000

Number of Periods = 12

Discount Rate per Period =  $12\% \div 12 = 1\%$

Net Present Value

$= rs50,000 \times (1 - (1 + 1\%)^{-12}) \div 1\% - rs243,000$

$= rs50,000 \times (1 - 1.01^{-12}) \div 0.01 - rs243,000$

$\approx rs50,000 \times (1 - 0.887449) \div 0.01 - rs243,000$

$\approx rs50,000 \times 0.112551 \div 0.01 - rs243,000$

$\approx rs50,000 \times 11.2551 - rs243,000$

$\approx rs562,754 - rs243,000$

$\approx rs319,754$

## Example 2: Uneven net cash flows

An initial investment of rs8,320 thousand on plant and machinery is expected to generate net cash flows of rs3,411 thousand, rs4,070 thousand, rs5,824 thousand and rs2,065 thousand at the end of first, second, third and fourth year respectively. At the end of the fourth year, the machinery will be sold for rs900 thousand. Calculate the net present value of the investment if the discount rate is 18%. Round your answer to nearest thousand dollars.

Solution

PV Factors:

Year 1 =  $1 \div (1 + 18\%)^1 \approx 0.8475$

Year 2 =  $1 \div (1 + 18\%)^2 \approx 0.7182$

Year 3 =  $1 \div (1 + 18\%)^3 \approx 0.6086$

Year 4 =  $1 \div (1 + 18\%)^4 \approx 0.5158$

The rest of the calculation is summarized below:

Year	1	2	3	4
Net Cash Inflow	rs3,411	rs4,070	rs5,824	rs2,065
Salvage Value				900
Total Cash Inflow	rs3,411	rs4,070	rs5,824	rs2,965
× Present Value Factor	0.8475	0.7182	0.6086	0.5158
Present Value of Cash Flows	rs2,890.68	rs2,923.01	rs3,544.67	rs1,529.31
Total PV of Cash Inflows	rs10,888			
– Initial Investment	– 8,320			
Net Present Value	rs2,568	thousand		





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## Strengths and weaknesses of NPV

### Strengths

Net present value accounts for time value of money which makes it a better approach than those investment appraisal techniques which do not discount future cash flows such as payback period and accounting rate of return.

Net present value is even better than some other discounted cash flow techniques such as IRR. In situations where IRR and NPV give conflicting decisions, NPV decision should be preferred.

### Weaknesses

NPV is after all an estimation. It is sensitive to changes in estimates for future cash flows, salvage value and the cost of capital. NPV analysis is commonly coupled with sensitivity analysis and scenario analysis to see how the conclusion changes when there is a change in inputs.

## Accounting Rate of Return (ARR)

Accounting rate of return (also known as simple rate of return) is the ratio of estimated accounting profit of a project to the average investment made in the project. ARR is used in investment appraisal.

### Formula

Accounting Rate of Return is calculated using the following formula:

$$\text{ARR} = \frac{\text{Average Accounting Profit}}{\text{Average Investment}}$$

Average accounting profit is the arithmetic mean of accounting income expected to be earned during each year of the project's life time. Average investment may be calculated as the sum of the beginning and ending book value of the project divided by 2. Another variation of ARR formula uses initial investment instead of average investment.

### Decision Rule

Accept the project only if its ARR is equal to or greater than the required accounting rate of return. In case of mutually exclusive projects, accept the one with highest ARR.

### Examples

Example 1: An initial investment of rs130,000 is expected to generate annual cash inflow of rs32,000 for 6 years. Depreciation is allowed on the straight line basis. It is estimated that the project will generate scrap value of rs10,500 at end of the 6th year. Calculate its accounting rate of return assuming that there are no other expenses on the project.

### Solution

Annual Depreciation = (Initial Investment – Scrap Value) ÷ Useful Life in Years

Annual Depreciation = (rs130,000 – rs10,500) ÷ 6 ≈ rs19,917

Average Accounting Income = rs32,000 – rs19,917 = rs12,083

Accounting Rate of Return = rs12,083 ÷ rs130,000 ≈ 9.3%

Example 2: Compare the following two mutually exclusive projects on the basis of ARR. Cash flows and salvage values are in thousands of dollars. Use the [straight line depreciation](#) method.

### Project A:

Year	0	1	2	3
Cash Outflow	-220			
Cash Inflow		91	130	105



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Salvage Value				10
Project B:				
Year	0	1	2	3
Cash Outflow	-198			
Cash Inflow		87	110	84
Salvage Value				18

## Solution

### Project A:

Step 1: Annual Depreciation =  $(220 - 10) / 3 = 70$

Step 2: Year		1	2	3
Cash Inflow		91	130	105
Salvage Value				10
Depreciation*		-70	-70	-70
Accounting Income		21	60	45

Step 3: Average Accounting Income =  $(21 + 60 + 45) / 3 = 42$

Step 4: Accounting Rate of Return =  $42 / 220 = 19.1\%$

### Project B:

Step 1: Annual Depreciation =  $(198 - 18) / 3 = 60$

Step 2: Year		1	2	3
Cash Inflow		87	110	84
Salvage Value				18
Depreciation*		-60	-60	-60
Accounting Income		27	50	42

Step 3: Average Accounting Income =  $(27 + 50 + 42) / 3 = 39.666$

Step 4: Accounting Rate of Return =  $39.666 / 198 \approx 20.0\%$

Since the ARR of the project B is higher, it is more favorable than the project A.

### Advantages and Disadvantages

#### Advantages

1. Like [payback period](#), this method of investment appraisal is easy to calculate.
2. It recognizes the profitability factor of investment.

#### Disadvantages

1. It ignores [time value of money](#). Suppose, if we use ARR to compare two projects having equal initial investments. The project which has higher annual income in the latter years of its useful life may rank higher than the one having higher annual income in the beginning years, even if the present value of the income generated by the latter project is higher.
2. It can be calculated in different ways. Thus there is problem of consistency.
3. It uses accounting income rather than cash flow information. Thus it is not suitable for projects which having high maintenance costs because their viability also depends upon timely cash inflows.



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## Internal Rate of Return (IRR)

*Internal rate of return* (IRR) is the discount rate at which the net present value of an investment is zero. IRR is one of the most popular capital budgeting technique.

Companies invest in different projects to generate value and increase their shareholders wealth, which is possible only if the projects they invest in generate a return higher than the minimum rate of return required by the providers of capital (i.e. shareholders and debt-holders). The minimum required rate of return is called the hurdle rate.

IRR is a discounted cash flow (DCF) technique which means that it incorporate the time value of money. The initial outlay/investment in any project must be compensated by net cash flows which far exceed the initial investment. The higher those cash flows when compared to the initial outlay, the higher will be the IRR and the project is a promising investment.

## Decision Rule

A project should only be accepted if its IRR is NOT less than the hurdle rate, the minimum required rate of return. The minimum required rate of return is based on the company's cost of capital (i.e. WACC) and is adjusted to properly reflect the risk of the project.

When comparing two or more mutually exclusive projects, the project having highest value of IRR should be accepted.

## IRR Calculation

There is no direct algebraic expression in which we might plug some numbers and get the IRR. IRR is most commonly calculated using the hit-and-trial method, linear-interpolation formula or spreadsheets and financial calculators.

Since IRR is defined as the discount rate at which  $NPV = 0$ , we can write that:

$NPV = 0$ ; or

But the problem is, we cannot isolate the variable  $r$  (=internal rate of return) on one side of the above equation. Even though we can use the linear-interpolation formula, the simplest method is to use hit and trial as described below:

1. STEP 1: Guess the value of  $r$  and calculate the NPV of the project at that value.
2. STEP 2: If NPV is close to zero then IRR is equal to  $r$ .
3. STEP 3: If NPV is greater than 0 then increase  $r$  and jump to step 5.
4. STEP 4: If NPV is smaller than 0 then decrease  $r$  and jump to step 5.
5. STEP 5: Recalculate NPV using the new value of  $r$  and go back to step 2.

## Example

Find the IRR of an investment having initial cash outflow of rs213,000. The cash inflows during the first, second, third and fourth years are expected to be rs65,200, rs96,000, rs73,100 and rs55,400 respectively.

## Solution

Assume that  $r$  is 10%.

NPV at 10% discount rate = rs18,372

Since NPV is greater than zero we have to increase discount rate, thus NPV at 13% discount rate = rs4,521

But it is still greater than zero we have to further increase the discount rate, thus NPV at 14% discount rate = rs204

NPV at 15% discount rate = (rs3,975)



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Since NPV is fairly close to zero at 14% value of r, therefore IRR  $\approx$  14%

## Limitations of IRR

Studies indicate that internal rate of return is one of the most popular capital budgeting tool, but theoretically [net present value](#), a measure of absolute value added by a project, is a better indicator of a project's feasibility. This is because sometimes where the cash flows are [unconventional](#) i.e. there are net cash outflows other than the initial investment outlay, we may get multiple results for internal rate of return. This phenomenon is called [multiple IRR problem](#). Further, internal rate of return technique assumes that all project cash flows are reinvested at the internal rate of return, which is rarely the case because new investment opportunities are seldom readily available. A variant of internal rate of return called the [modified internal rate of return](#), attempts to mitigate this problem by calculating the internal rate of return where the net cash flows are reinvested at a rate lower than the internal rate of return itself.

## Profitability Index

*Profitability Index* is a capital budgeting tool used to rank projects based on their profitability. It is calculated by dividing the present value of all cash inflows by the initial investment. Projects with higher profitability index are better.

While the [net present value](#) gives us the absolute value that a project adds, it is wrong to compare the net present values of different investments directly. Let's say there are two projects, A and B, each with initial investment outlay of rs10 million and net present values of rs2 million and rs2.2 million respectively. It is wrong to conclude that Project B is better just because it has higher net present value.

We need to calculate the net present value added by each project per rs1 of initial investment i.e. their profitability index.

Projects with higher profitability index are better. However, actual decision should attempt to maximize the total net present value of the project keeping in view the available funds for initial investment using [capital rationing](#).

Formula

Profitability index can be computed using the following formula:

$$\text{Profitability Index} = \frac{\text{Present Value of Cash Flows}}{\text{Initial Investment}}$$

Since NPV equals the present value of cash flows minus initial investment, we can write the present value of future value as the sum of net present value and initial investment:

$$\text{Profitability Index} = \frac{\text{Initial Investment} + \text{Net Present Value}}{\text{Initial Investment}}$$

This gives us another formula for profitability index:

$$\text{Profitability Index} = 1 + \frac{\text{Net Present Value}}{\text{Initial Investment}}$$

Example

Your company has rs100 million available for investment in the following potential investment opportunities:



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Project	NPV	Initial Investment
A	rs5 million	rs15 million
B	rs15 million	rs50 million
C	rs10 million	rs10 million
D	rs20 million	rs60 million
E	rs12 million	rs35 million

Rank the projects based on profitability and identify the projects that should be accepted keeping in view the company's capital budget constraints.

**Solution**

Let's first find profitability indices of each project:

Project	Profitability Index	
A	$1 + 5/15$	= 1.33
B	$1 + 15/50$	= 1.30
C	$1 + 10/10$	= 2.00
D	$1 + 20/60$	= 1.33
E	$1 + 12/35$	= 1.34

The ranking based on profitability index is: Project C, Project E, Project A and D and Project B. Now, we need to maximize total net present value that can be achieved using rs100 million investment by applying the concept of capital rationing [capital rationing](#).

All of the above techniques are based on the comparison of cash inflows and outflow of a project however they are substantially different in their approach.

A brief introduction to the above methods is given below:

Payback Period measures the time in which the initial cash flow is returned by the project. Cash flows are not discounted. Lower payback period is preferred.

- Net Present Value (NPV) is equal to initial cash outflow less sum of discounted cash inflows. Higher NPV is preferred and an investment is only viable if its NPV is positive.
- Accounting Rate of Return (ARR) is the profitability of the project calculated as projected total net income divided by initial or average investment. Net income is not discounted.
- Internal Rate of Return (IRR) is the discount rate at which net present value of the project becomes zero. Higher IRR should be preferred.
- Profitability Index (PI) is the ratio of present value of future cash flows of a project to initial investment required for the project.



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# BBA-4

# MARKETING MANAGEMENT

<u>CHAPTER</u>	<u>UNIT NAME</u>
1	PRODUCT DECISIONS
2	PRICE DECISIONS
3	PLACE DECISIONS
4	PROMOTION DECISIONS



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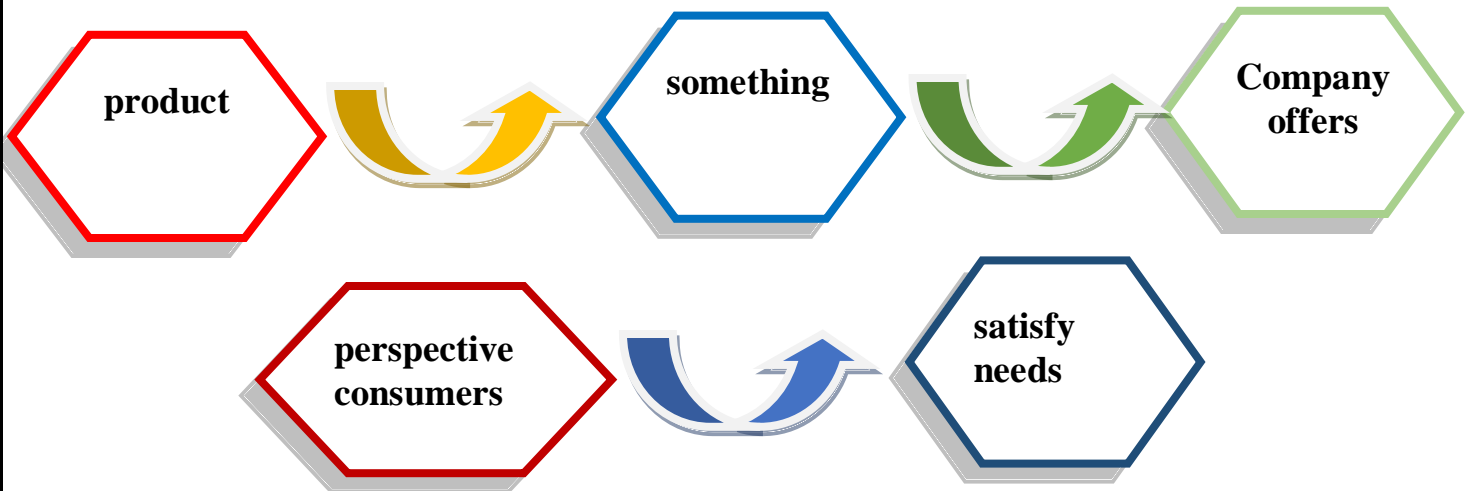
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## UNIT- 1 PRODUCT DECISIONS

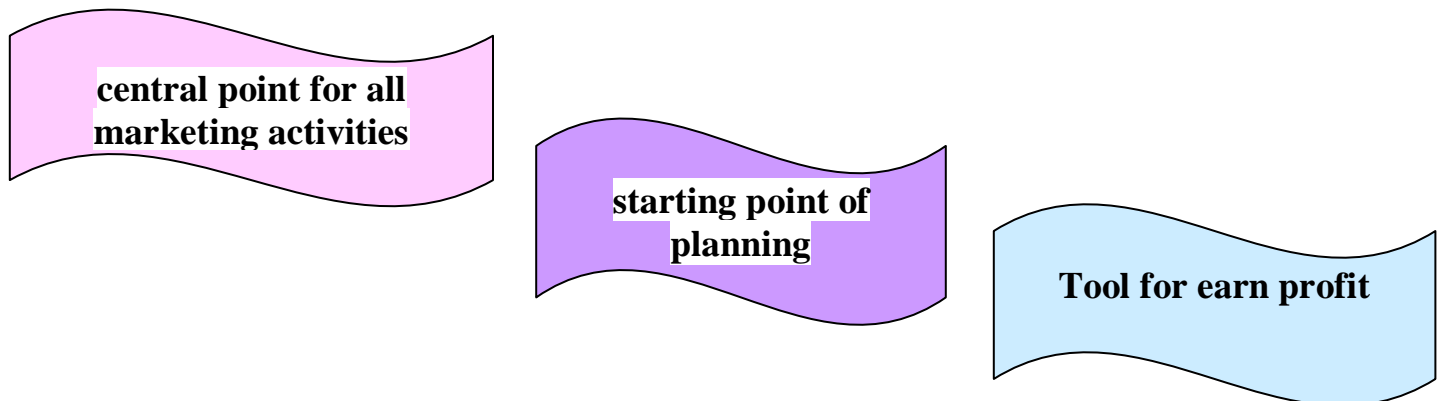
### INTRODUCTION OF PRODUCT:

- For formulating any kind of marketing strategies, the **product** is **considered as most important part** in the marketing mix.
- Product is considered as a **central part of all marketing activities**. Without product, there are no possibilities of marketing.
- When consumer purchase any kind of product at the same time, he **expects more than what he pays** for purchasing it like quality, quantity, price, brand name etc.
- The product would be **satisfied needs and wants** of the consumer that is ultimate goal of any marketer/producer.

**DEFINITION OF PRODUCT:** “A product is something that an organization offers perspective consumers to satisfy their needs and wants.”



### IMPORTANCE OF PRODUCT:





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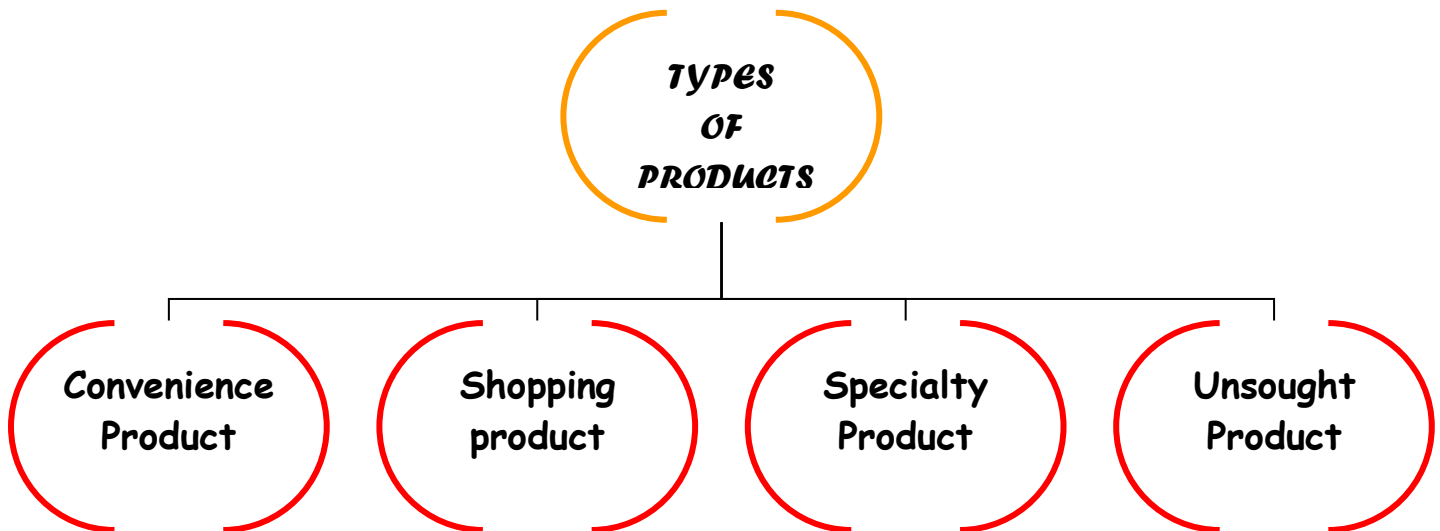
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1. Product is considered as the **central point of all the marketing activities**. All marketing activities are depending on product decisions. Without product, all other elements like advertising, selling, distribution are not possible.
2. Product is the **starting point of planning**. Product planning defines other planning like promotion, distribution, sales etc.
3. Product is only that the **tool by which producers/ manufactures/ marketer are earn maximum profit** but, on the condition, that the marketer that satisfy the needs and wants of the consumers.

## TYPES OF PRODUCT:

- A **product is a set of tangible and intangible attributes**, including packaging, color, price, quality and brand plus the services and reputation of the seller.

Consumer products can be classified into convenience product, shopping product, specialty products, and unsought products. A brief description of products has been given below:



### i. Convenience Product:

- Convenience products are those products **which are purchased by the customers without spending their time** from the convenient places that, too, from the nearby where they are residing.
- According to Philip Kotler, “Convenience products are goods that the **customers usually purchase frequently, immediately** with a minimum effort.” These goods are usually familiar with the customers.
- Thus, **cigarettes, soaps, bulbs, flashlight and low-priced electrical equipment etc.** are convenience products. They can be further classified into three categories:
  - Staple product
  - Impulse product
  - Emergency product

### ii. Shopping product:

- Shopping products are those products where **consumers devote considerable time** in selecting those before they buy.





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- The consumers want **to compare a quality, price, and style** in several shops before they buy.
- According to Philip Kotler, “Shopping goods are the goods that the customers, in the **process of selection and purchase, characteristically compare** on such bases as suitability, quality, price, and style.” Furniture items, dress materials, shoes, and household appliances are the examples of shopping products.

### iii. Specialty Product:

- Specialty products are those products which **enjoy a set of special features**.
- Special **efforts are made** in their purchase.
- These products **possess’ unique characteristics and brand identification** which calls for special efforts. According to Melvin T. Coplenad, “Specialty goods are those which have some attraction for the consumers, other than price, which induces him/ her to put in a special effort to visit the store in which they are sold and to make a purchase without shopping.”

### iv. Unsought Product:

- Unsought product are those products that do not fall in any of the above categories, but they are **important for the customer**.
- The customer might not know the existence of the **product** or know but **do not think of buying** them.
- Such goods are **not normally bought by the customer** unless there is a **high level of promotion campaign** showing the necessity of those products for satisfying their needs.

### FEATURES OF VARIOUS TYPES OF PRODUCT:

Types of Consumer Products				
Marketing consideration	<i>Convenience</i>	<i>Shopping</i>	<i>Speciality</i>	<i>Unsought</i>
Customer buying behaviour	Frequent purchase, little effort (planning, comparison), low customer involvement	Less frequent purchase, much effort (planning and comparison of brands on price, quality, style etc.)	Strong brand preference and loyalty, special purchase effort, little comparison of brands, low price sensitivity	Little product awareness and knowledge or little interest
Price	Low price	Higher price	High price	Varies
Distribution	Widespread distribution, convenient locations	Selective distribution, fewer outlets	Exclusive distribution in only one or a few outlets	Varies
Promotion	Mass promotion	Advertising and personal selling	More carefully targeted promotion	Aggressive advertising and personal selling
Examples	Toothpaste, magazines, laundry detergent	Television, furniture, clothing	Luxury goods (e.g. Rolex watch), designer clothing	Life insurance and pre-planned funeral service



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## Industrial products:

- Industrial products are **those products which are used in producing other goods** or rendering services.
- These are the products that are to be **sold to ultimate consumers**.
- The **main characteristics** of industrial goods are a **geographical concentration of the market, a limited number of buyers**, a large unit of individual purchase and technical considerations. These goods have a derived demand.

Industrial goods can be classified into following five categories:

### i. Raw materials:

- Raw materials **are the industrial goods**. They have not been processed except for their physical handling. Raw materials may be **divided into** natural products- minerals and product of the forests and the seas and agricultural products- wheat, cotton, tobacco and animal products such as eggs and raw milk.

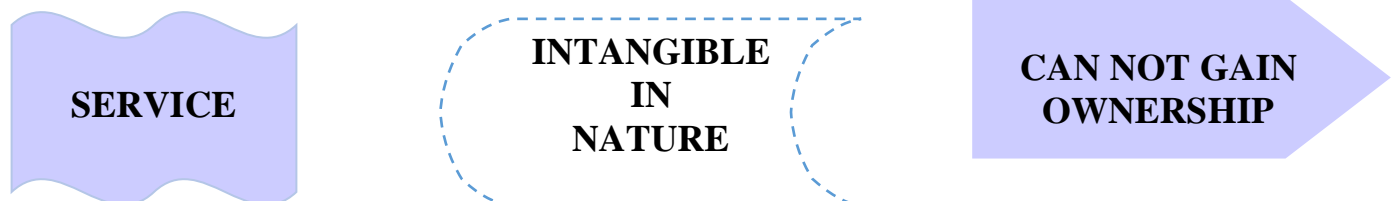
### ii. Fabricating material & parts:

- Fabricating **materials and parts** are the industrial goods. These goods have **undergone manufacturing processes** but they need further processing or need to be combined with other materials or parts before they are ready to reach the ultimate consumers.

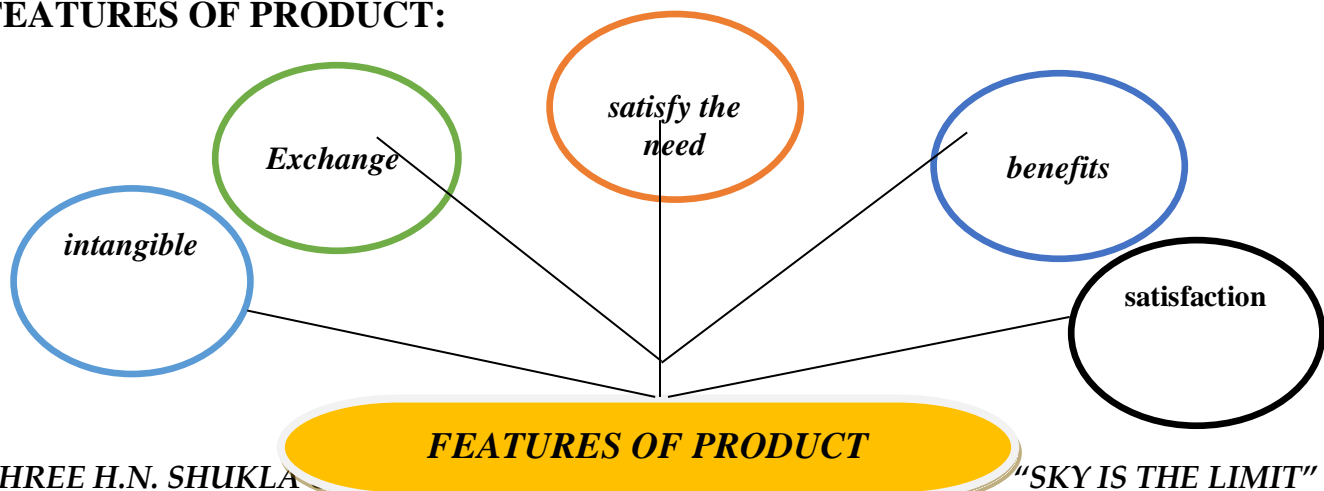
### iii. Equipment:

- Equipment are **used merely to provide facilities to the manufacturer**, as they cannot be part & parcel of finished goods. Unit price and life are less than installations. For example, tools, such as screwdrivers, files set, spanners set, computers, time clock, conveyers, sharpeners, typewriter, etc.

**SERVICES:** “services are a form of product that **consist of activities, benefits, or satisfaction offered for sale**, that are essentially intangible and do not result in the ownership of anything.” e.g. railway, banking, airlines etc.



## FEATURES OF PRODUCT:





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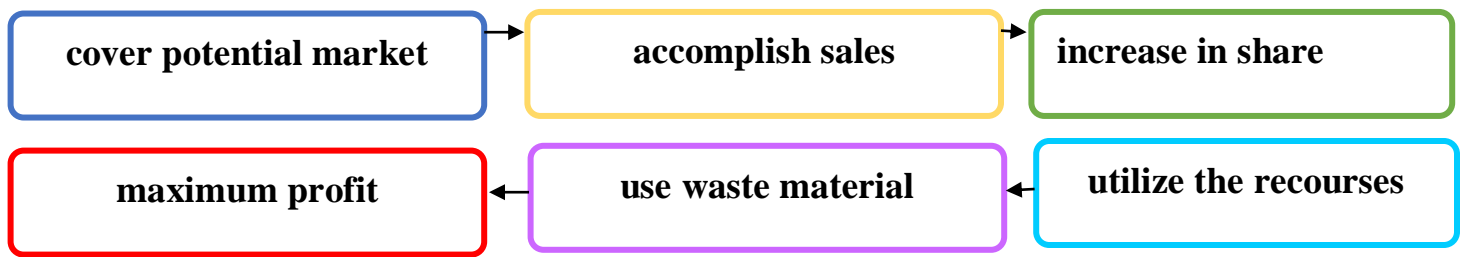
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- A product **must be tangible** like pen, pencil etc. which can be physically felt.
- Some of the products are in **intangible form also** like banking services.
- Product should be **capable of exchange** between marketer and consumer on agreed conditions.
- A product should **satisfy the need** of the customer.
- A product should **posses' number of benefits**.
- A product should **provide complete satisfaction** to the consumer.

**OBJECTIVES OF PRODUCT:** when marketer introduce a new or modified product in the market, they want to accomplish certain objectives which are as below:



- To **cover** potential market opportunities.
- To **accomplish sales target** and sales growth.
- To **earn maximum profit**.
- To **increase in market share**.
- To **use waste** material and scrap.
- To **utilize the recourses** at optimum level.

## PRODUCT AND PRODUCT MIX:

### INTRODUCTION:

- A product **co-relates both** buyer and seller. Seller has to sell a product and buyer wants to buy what seller wants to sell.
- A buyer will **only purchase** that product only if that product **satisfies their needs**.
- In recent era, to sell the product, marketer has to **adopt various approaches**. Marketer has to give unique, creative, new product according to taste and preferences of the consumer.
- Marketer also **thinks about** that whether to offer a single product or offer a complete product line with product mix.

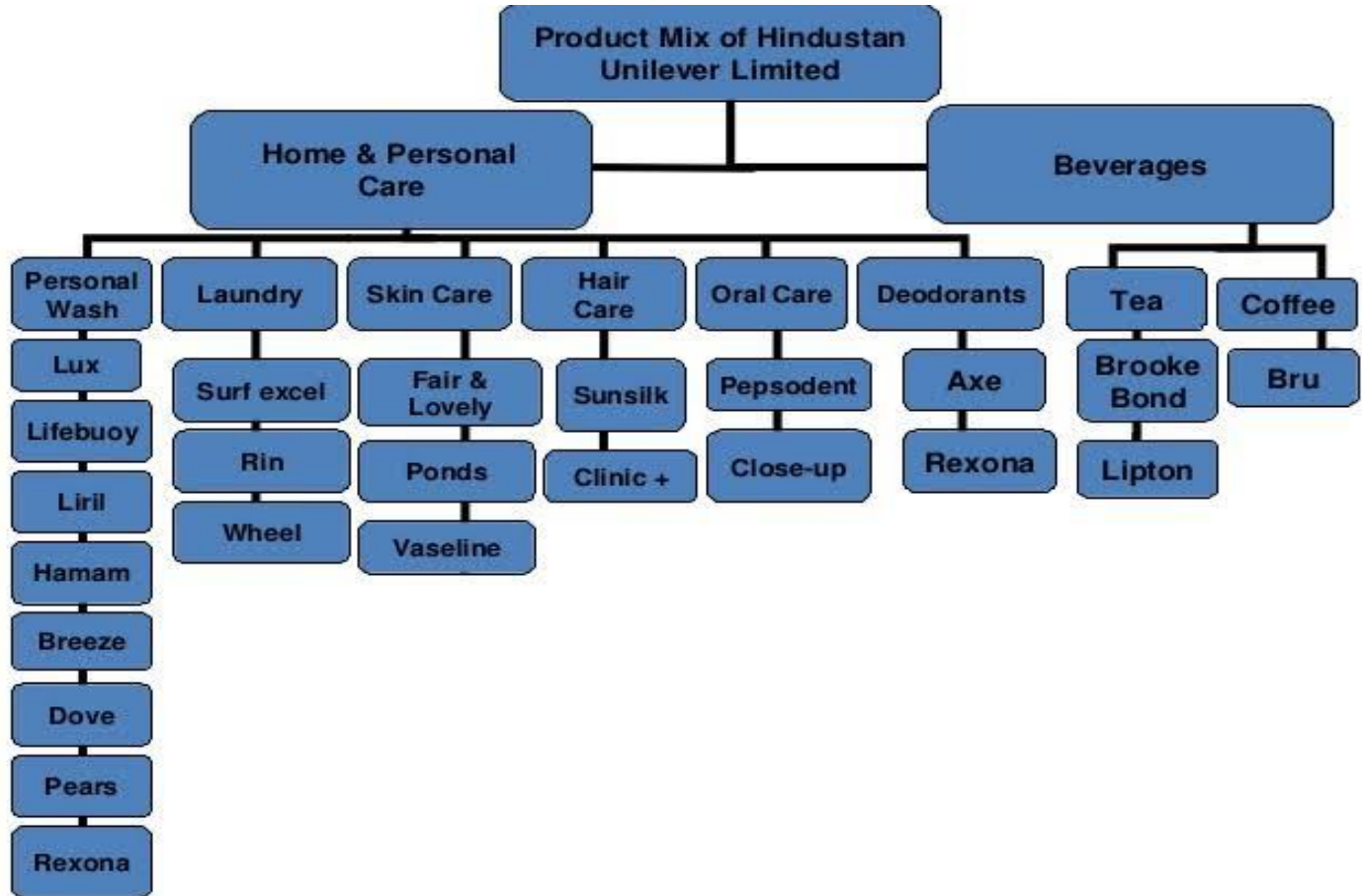


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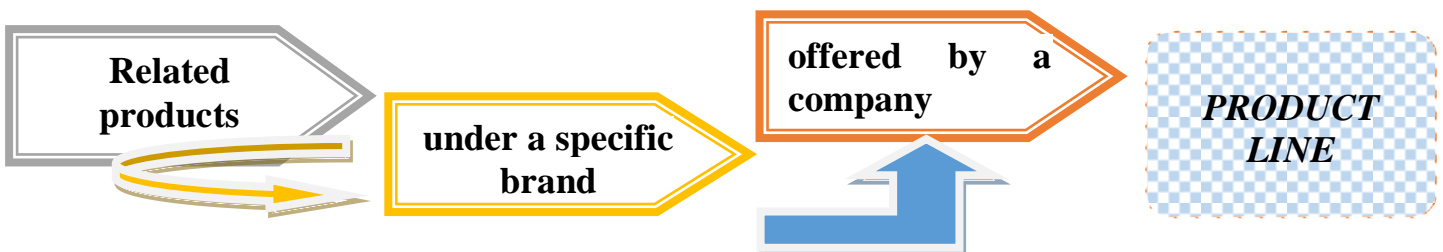
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## PRODUCT LINE:

**Definition:** Product Line can be understood as an array of related products, under a specific brand, offered by a company to its customers. For instance, Amul offers a series of closely related products such as milk, butter, ghee, dahi, yoghurt, ice cream, Srikhand, Gulab jamun, flavored milk, chocolate, etc. There are many

- companies which are engaged in multiple product lines, i.e. depending on the type and nature of the target audience, the product line is added by the company.





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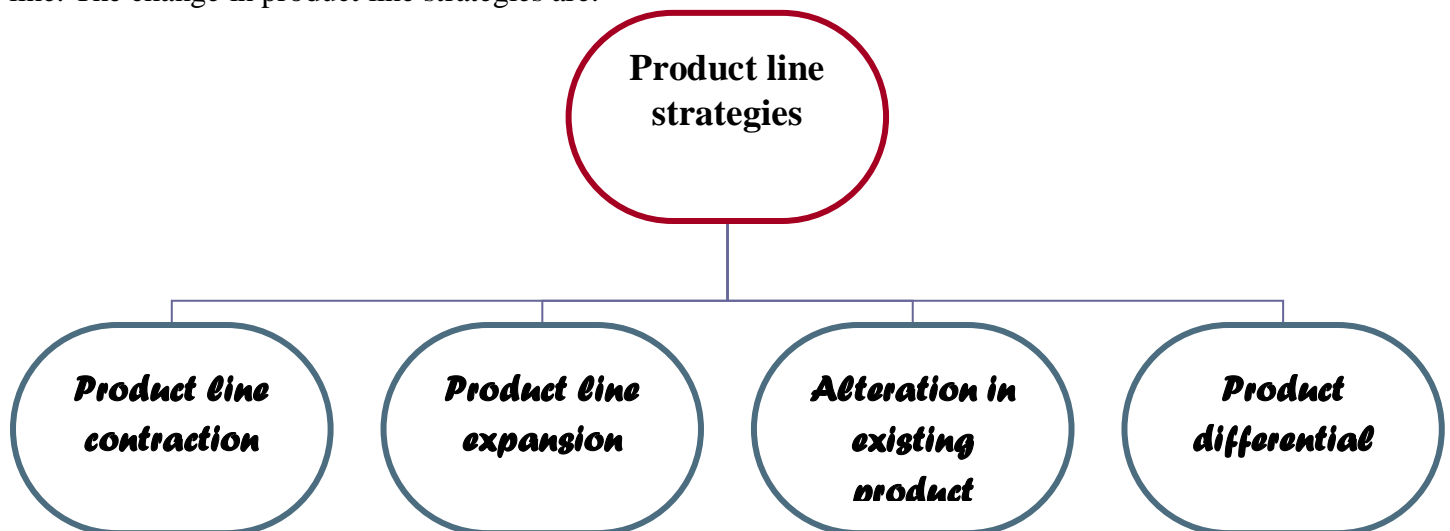
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### Factors affecting product line:

- *Change in consumer preference*
- *Competition*
- *Market demand factor*
- *Product innovation or change*
- *Financial factor*

**Product line strategies:** product line is considered as a **dynamic concept** because a product line **may not be satisfying the consumers' needs** for a longer period. This requires change or modification in existing product line. The change in product line strategies are:



1. **Product line contraction:** for a marketer, product line contraction is a very difficult decision because heavy investments have already taken place. So, **when marketer has various options**, then he will take this decision.
2. **Product line expansion:** if the marketer has **enough finance, time and other resources** then he will think about product line expansion.
3. **Alteration in existing product:** **alteration in existing product** by design, size, color, improvement etc. may become more profitable and less risky for marketer.
4. **Product differential and market segmentation:** it is possible for marketer **to make product differential** based on product quality, price, packing, or design. While under market segmentation, marketer knows that the whole market is a combination of many smaller similar segments with different needs and wants.



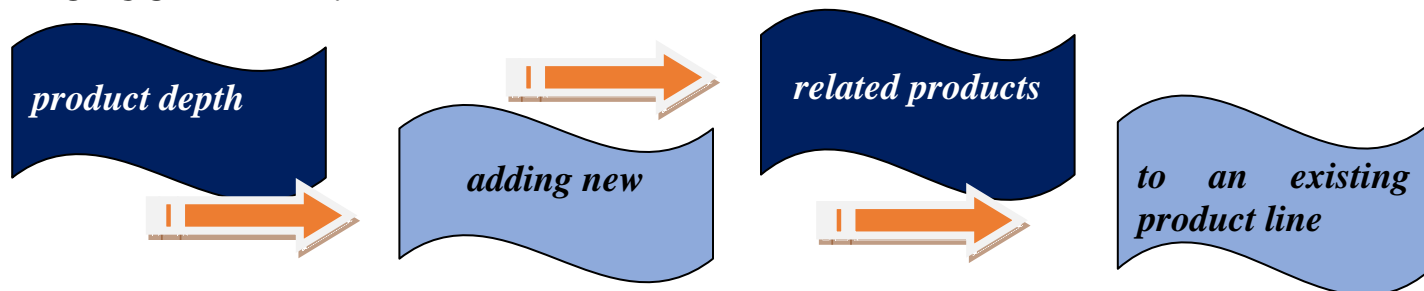
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## PRODUCT DEPTH:



The number of sub-products offered by a business within a line of products. Increasing a company's product depth can involve adding new, related products to an existing product line or increasing the number of varieties of a product offered. E.g. HUL Company

## PRODUCT WIDTH:

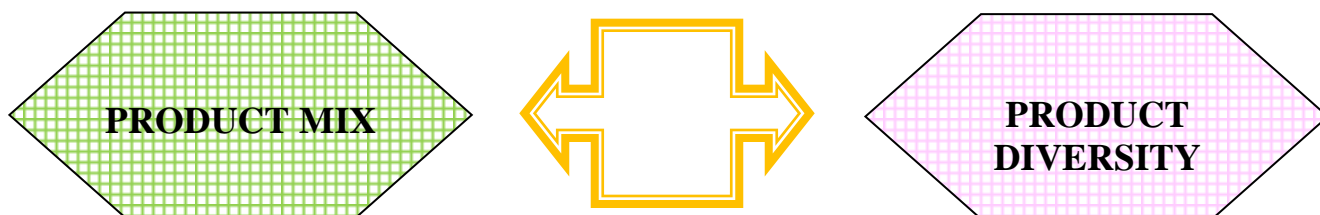


The number of different product categories across which different brands and products created by a firm are classified is called product width.

**CONSISTENCY IN PRODUCT MIX:** It refers to the relation of various product lines in terms of production requirements/distribution in some other way, E.g. BAJAJ electrics have their total consistency in electrical products.

## Product mix:

Concept of Product Mix:



- Product mix refers to the depth and width of product policy of a company.
- It is concerned with product diversity, i.e. how far a company can or should diversify its products. It is defined as “the composite of products offered for sale by a firm or a business unit.”



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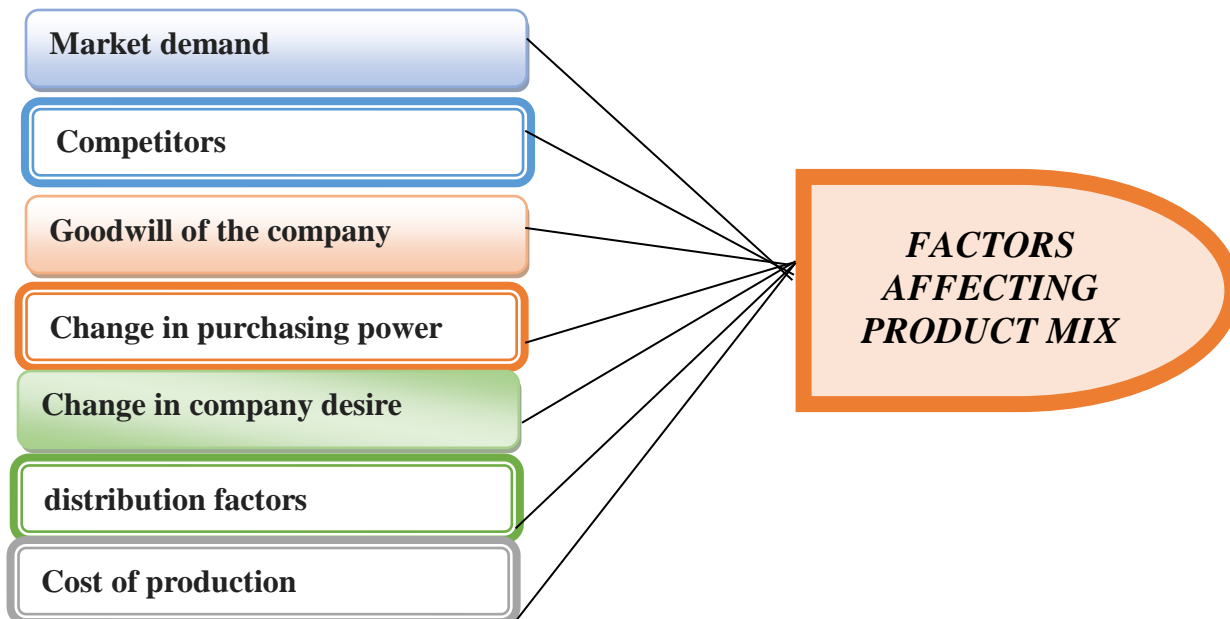
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- The ‘depth’ of product policy **refers to the various models, designs, sizes, and colors** whereas ‘width’ involves number of product lines.
- For example, a **variety of electrical appliances** such as fans, lamps, etc. produced and marketed by **Bajaj Electricals** is the width of its product policy.

### Factors affecting Product Mix:



#### 1. Market demand:

- The **change in the demand** of a product **affects** the decision of product mix.
- If the **demand of a new product is increasing** in the market and the **production** of that new product is **beneficial to the company** considering its cost of production, utilization of its plant and machinery and labor force and if it thinks that it can compete with its competitors, it can start production of the new product. Likewise, if the **demand** of a product is **declining** fast, it can **decide to drop its production**.

#### 2. Competitors' actions and reactions:

- The decision of **adding or eliminating the product may be the reaction** of competitors' action.
- If company thinks that it **can meet the competition** well by adding new product it can decide to produce the product.

#### 3. Quantity of production:

- If the **production** of the **new product** is considered **to be at a large scale** and the company can add more items to its product line just **to get the economies of large-scale production**.

#### 4. Use of residuals:

- If residuals **can be used gainfully** the company can develop its by-products into the main products.
- For example, a sugar mill can develop the production of paper, card board or wine from the bagasse profitably.



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### 5. Goodwill of the company:

- If the **company** is of **repute**, it can market any **new product** in the market **without much difficulty**.
- It may take decision of adding new product **without any hitch** because it knows that customer will accept any product introduced by the firm.
- **For example**, if a new product is introduced by the **Hindustan Lever Ltd. It will gain favor** by the customers over competitors' product and it is only because of the good will of the firm in the market of consumer products.

### 6. Change in purchasing power or behavior of the customers:

- If the **number of customers increases** with the **increase** in their **purchasing power** or with the change in their buying habits, fashion etc., the company may think of adding one more product keeping mass production or increase in profitability in mind.

### 7. Change in company desire:

- Keeping in mind the **objectives of the firm** i.e., maintaining or increasing the profitability of the concern, the firm may eliminate some of its unprofitable processes or may start the process of producing a new product. In this way, the firm tries to make its product mix an ideal one.

### 8. Advertising and distribution factors:

- Advertising and distribution factor may be the one of the reasons for the change in production mix. If the **advertising and distribution organization are the same**, the company may take the **decision to add one more item to its product line**.
- For example, company can manufacture one more product if the same raw materials are used in its production.
- A company producing the Suitcase may add production to hold all or attach-case and the advertising and distribution cost will not increase at all or it may increase marginally in introducing the product in the market.

### 9. Cost of production:

- If the company can develop a new product **with the help of the same labor force**, plant and machinery and technique, it can decide to start the production of that **product at lower cost**.
- For example, a by-product can be **developed** by a company **at low cost**.

## STEPS/PROCESS/STAGES OF NEW PRODUCT DEVELOPMENT

OR

## NEW PRODUCT DEVELOPMENT PROCESS:



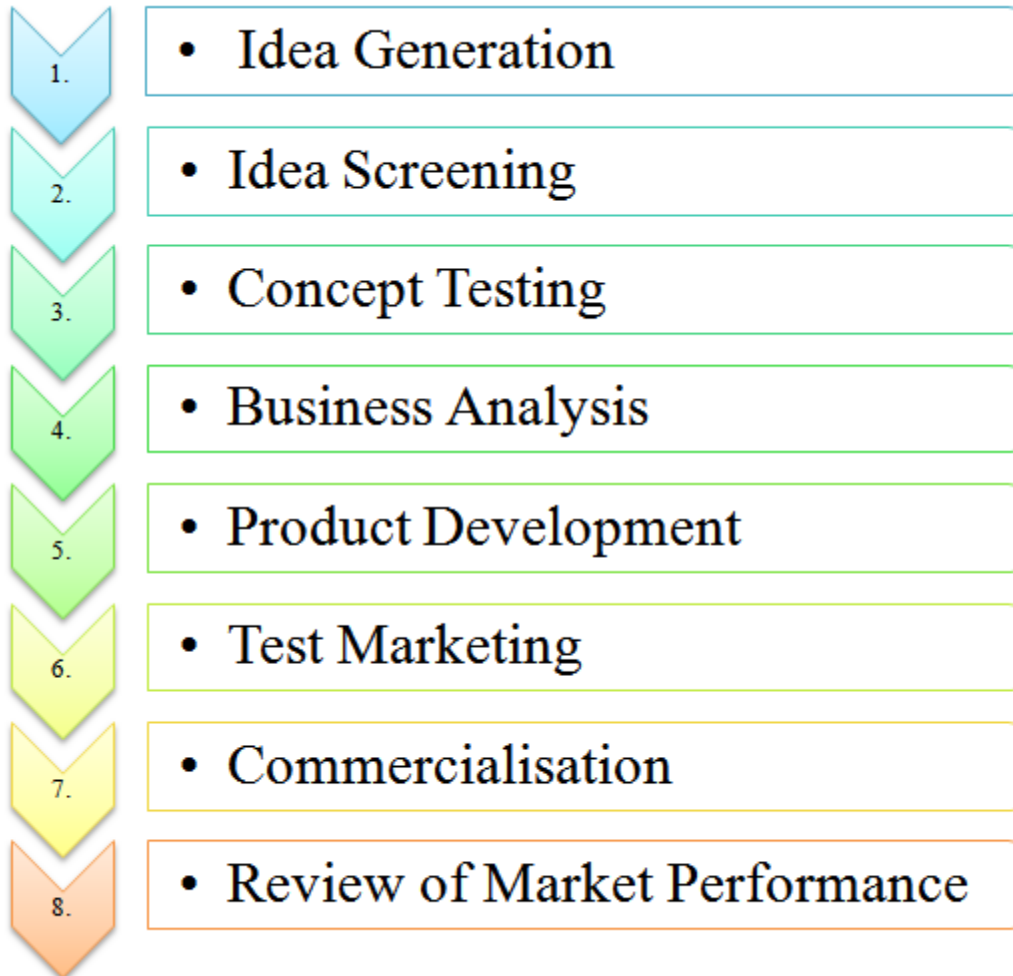


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**1. Idea generation:** The first step in new-product development is idea generation.

New ideas can be generated by:

- ✓ Conducting **marketing research** to find out the consumers' needs and wants.
- ✓ Inviting **suggestions** from **consumers**.
- ✓ Inviting **suggestions** from **employees**.
- ✓ Brainstorming suggestions **for new-product ideas**.
- ✓ **Searching in different markets** viz., national and international markets for new-product ideas.
- ✓ **Getting feedback from agents** or dealers about services offered by competitors.
- ✓ **Studying** the new products of **the competitors**.

**2. Idea screening:** Most companies have an "Idea Committee." This committee studies all the ideas very carefully. They select the good ideas and reject the bad ideas.

Before selecting or rejecting an idea, the following questions are considered or asked:

- ✓ **Is it necessary** to introduce a new product?
- ✓ **Can the existing plant and machinery** produce the new product?



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- ✓ Can the **existing marketing network** sell the new product?
- ✓ When can the new product **break even**?

If the answers to these questions are positive, then the idea of a new-product development is selected else it is rejected. This step is necessary to avoid product failure.

**3. Concept testing:** Concept testing is done after idea screening. It is different from test marketing. In this stage of concept testing, the company finds out:

- ✓ Whether the consumers **understand the product idea or not?**
- ✓ Whether the consumers **need the new product or not?**
- ✓ Whether the consumers will **accept the product or not?**

Here, a **small group of consumers is selected**. They are **given full information** about the new product. Then **they are asked** what they feel about the new product. They are asked whether they like the new product or not. So, concept testing is done to find out the consumers' reactions towards the new product. If most of the consumers like the product, then business analysis is done.

**4. Business analysis:** Business analysis is a very important step in new-product development. Here, a detailed business analysis is done. The company finds out whether the new product is commercially profitable or not.

Under business analysis, the company finds out...

- ✓ Whether the new product is **commercially profitable or not?**
- ✓ What will be the **cost of the new product?**
- ✓ Is there any **demand** for the new product?
- ✓ Whether this **demand is regular or seasonal?**
- ✓ Are there any **competitors** of the new product?
- ✓ How the **total sales** of the new product be?
- ✓ What will be the **expenses on advertising**, sales promotion, etc.?
- ✓ **How much profit** the new product will earn?

So, the company studies the new product from the business point of view. If the new product is profitable, it will be accepted else it will be rejected.

### 5. Product development:

- At this stage, the company **has decided to introduce the new product in the market**. It will take all necessary steps to produce and distribute the new product.
- The production department **will make plans** to produce the product. The marketing department will make plans to distribute the product.
- The **finance department** will **provide the finance** for introducing the new product. The advertising department will plan the advertisements for the new product.
- However, all this is **done as a small scale** for Test Marketing.

### 6. Test marketing:

- Test marketing means **to introduce the new product on a very small scale** in a very small market.
- If the new product **is successful** in this market, **then** it is introduced **on a large scale**.
- However, if the product **fails in the test market**, then the company **finds out the reasons** for its failure. It makes necessary changes in the new product and introduces it again in a small market.



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- If the new product **fails again** the company **will reject it**. Test marketing reduces the risk of large-scale marketing. It is a safety device. It is very time-consuming. It must be done especially for costly products.

### 7. Commercialization:

- If the **test marketing is successful**, then the company **introduces** the new product **on a large scale**, say all over the country.
- The company **makes a large investment** in the new product. It produces and distributes the new product on a huge scale. It advertises the new product on the mass media like TV, Radio, Newspapers and Magazines, etc.

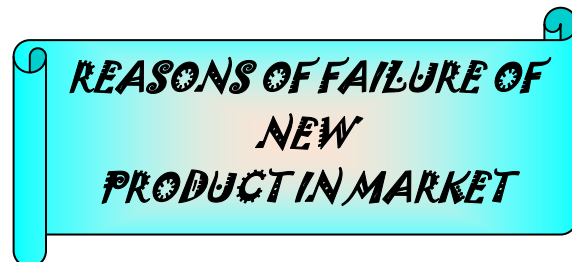
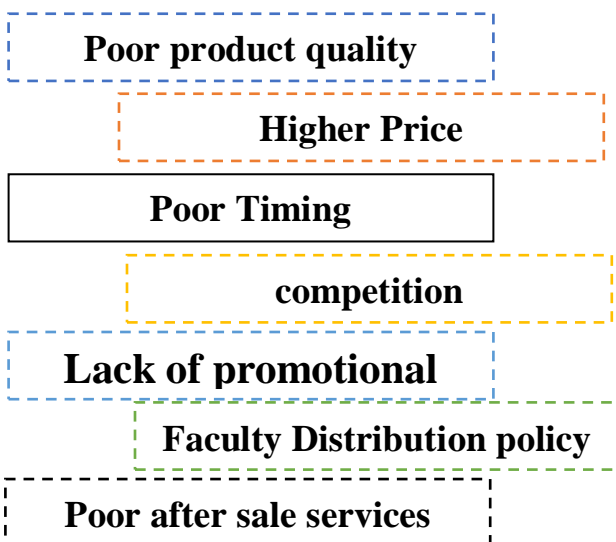
**8. Review of market performance:** The Company must review the marketing performance of the new product. It must answer the following questions:

- ✓ Is the new product **accepted** by the consumers?
- ✓ Are the **demand, sales and profits high**?
- ✓ Are the **consumers satisfied** with the **after-sales-service**?
- ✓ Are the **middlemen happy** with their **commission**?
- ✓ Are the marketing **staffs happy with their income** from the new product?
- ✓ Is the Marketing manager **changing the marketing mix** according to the changes in the environment?
- ✓ Are the **competitors introducing a similar new product** in the market?

The company must continuously monitor the performance of the new product. They must make necessary changes in their marketing plans and strategies else the product will fail.

### REASONS OF FAILURE OF NEW PRODUCT IN MARKET:

In spite of the efforts made by the marketer, some products fail. Product failure can be attributed to any one or more of the following causes:





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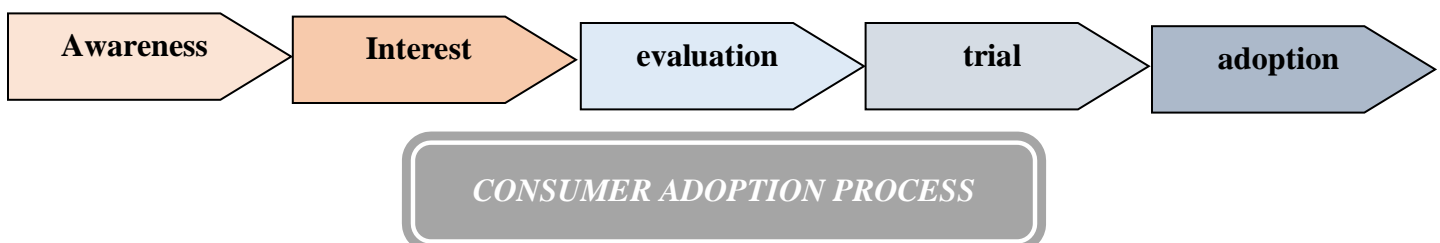
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1. **Poor product quality:** Obviously, a product, which is of **poor quality**, cannot be sold in the market.
2. **Higher price:** Another **reason for the failure** of certain products is the **price factor**. **Higher production and distribution costs may lead to higher price**. Such a product cannot be sold in a market consisting of middle- and lower-income buyers.
3. **Poor timing:** It is important that a product, to be successful, is **introduced** in the market **at the correct time**. If it is introduced at an unsuitable time it may turn out to be a failure. Example: Publishers of textbooks usually bring out books in the beginning of the academic year.
4. **Inherent defect:** There may be an **inherent defect in the product**, which may affect its market potentialities. Such a product **may not be preferred by the buyers** even if the defect is rectified later.
5. **Extent of competition:** A monopolist may not have any difficulty in marketing his product. In the case of a market where there are a **large number of sellers** for a particular product, the **buyer will have many alternatives**. Therefore, in such a condition unless the marketer brings out the product to the satisfaction of the buyers, he cannot be successful.
6. **Lack of promotional measures:** **Popularizing the brand**, particularly, **in the introduction stage of a product** is essential. Such a step will ensure repeated buying and bring long-term benefits for the marketer. **Failure to do so** will 'prove to be disastrous for the product.
7. **Faulty distribution policy:** It is important that a product reaches the right market at the right time and at the right price. The **faulty distribution policy** of the marketer may lead to many problems, i.e., the goods may not be available when required, may lead to higher price and so on.
8. **Unavailability of spare parts:** In the case of durable goods like televisions sets, Air-conditioners, etc., and also in the case of two-wheeler and cars, easy availability of spare parts is an important requirement. **Unavailability of spares may frustrate the buyers**. Such **buyers would not recommend** the product to their friends and relatives.
9. **Poor after-sale service:** The **quality of after sale service is yet another important cause**. Most marketers, particularly those marketing durables, two-wheeler, etc., are courteous while making sale. When the customer requires service later and approaches the seller, the latter may show indifference.

### CONCEPT AND STEPS IN CONSUMER ADOPTION PROCESS:

- Adoption process is a **series of stages** by **which a consumer might adopt a new product** or service.
- Whether it be Services or Products, in today's competitive world, a consumer is **faced with a lot of choices**.
- How does **he make a decision** to adopt a new product is the Adoption process.
- There are **numerous stages of adoption** which a consumer goes through. These stages may happen before or even after the actual adoption.





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### Stage 1 – Product Awareness:

- This **first stage** is about **creating awareness** that your product is in the market. It is important that your company develops a successful avenue for your consumers to become aware of your product.
- If consumers **do not know your product exists**, then it might as well not exist! Create marketing material.
- These can be one-sheets, **video teasers, images, and landing pages**. Make these marketing materials easily accessible.
- **Utilizing creativity** and wit is a great way to engage consumers in this awareness stage. I recommend creating a strong social presence for said product.
- In the era of **social media, many tools are available** in the market that provide companies with the techniques and methods to increase product awareness through social channels – enabling them to reach a large number of customers at a low cost!

### Stage 2 – Product Interest:

- In this stage **consumers are ready** to learn more **about your company’s product and / or service**.
- Your organization must **guide the consumer through the interest** stage by providing easily accessible information on your product.
- Among the **methods used in the todays business landscape** include a **website** describing the product, **blog posts, tutorial or instructional videos, white papers, and** other sources of info that the potential consumer can discover and review.

### Stage 3 – Product Evaluation:

- Prior to purchasing, **consumers examine, compare and evaluate the product**. Such behavior increases in intensity and need once the item in question is more expensive, sophisticated and complex, or critical. Consumers are searching for information.

### Stage 4 – Product Trial:

- This is the **stage where the consumer “kicks the tires”**. Nothing helps a consumer make a decision about your product more than actually trying your product out! There are many ways this is accomplished.
- For example, your company can provide your consumer with a free trial or a proof of concept campaign. In this stage it is very important to set the customer expectations correctly and deliver on said expectations.

### Stage 5 – Product Adoption:

- When the consumer enters the product adoption phase, he/she is **ready to purchase your company’s product**.
- This is the critical stage that **businesses need to get their consumers** to.
- When the customer is here, you **need to make the payment process simple**, intuitive, and pain free. In addition, you need to ensure that the consumer can easily obtain the product. If you make it to and through this last phase successfully.



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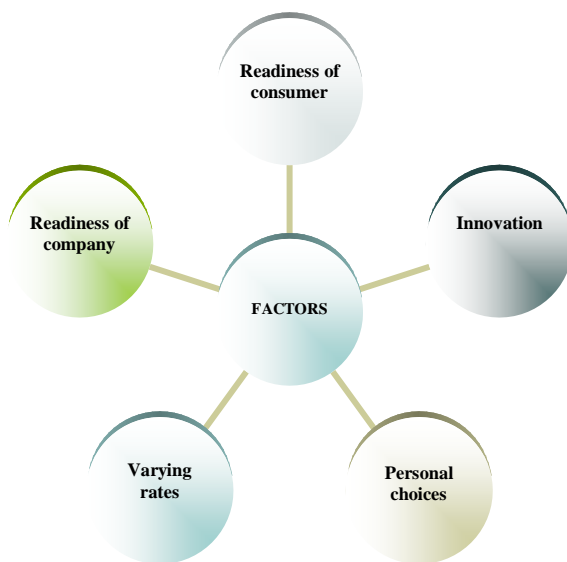
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### FACTORS AFFECTING CONSUMER ADOPTION PROCESS

Some important factors influencing the consumer adoption process are as bellow:

- **Readiness of the Consumer**/Customer to try new products and switch to the new brands
- New product or **Innovation**
- **Personal Choices** and influences about the Purchase Decisions
- **Varying Rates** of Product Adoption
- **Readiness of the organization** to launch new products



- Consumer adoption Process **varies from customer to customer** based upon the behavioral factors.
- Some **Consumers prefer change** and some are very resistant towards changing things and have a difficulty in accepting and adopting new things.
- Rate of adopting a product **depends upon competitive advantage, complexity**, compatibility and communicability.
- **Personal Influences is the effect** of other people on the consumer attitude and purchase decision.
- Personal Influences can **greatly impact the adoption process** of the consumer and it can really affect the acceptance and rejection of the purchase decision of a customer.

### CONCEPT AND STEPS OF PRODUCT LIFE CYCLE:

#### Meaning of Product Life Cycle:

The product life cycle is the process a product goes through from when it is first introduced into the market until it declines or is removed from the market. The life cycle has four stages - introduction, growth, maturity and decline.



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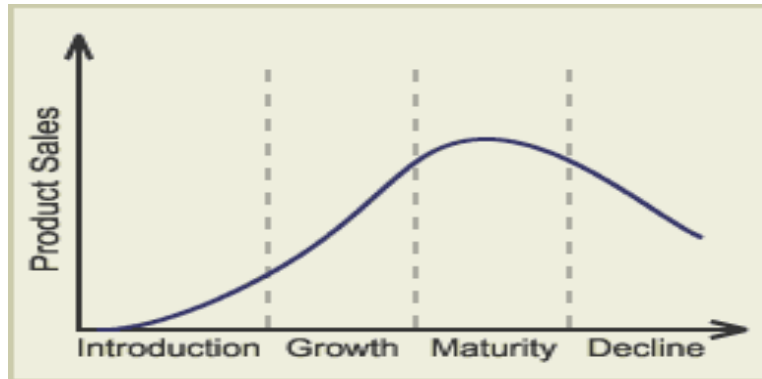
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### 4 Stages of the Product Life Cycle

Generally, there are four stages to the product life cycle, from the product's development to its decline in value and eventual retirement from the market.



1. **Introduction** – launching the product into the market
2. **Growth** – when sales are increasing at their fastest rate
3. **Maturity** – sales are near their highest, but the rate of growth is slowing down, e.g. new competitors in market or saturation
4. **Decline** – final stage of the cycle, when sales begin to fall

Additionally, companies use PLC analysis (examining their product's life cycle) to create strategies to sustain their product's longevity or change it to meet with market demand or developing technologies.

### **EXPLAIN THE MARKETING STRATEGIES WHICH MAY BE ADOPTED DURING THE LIFE CYCLE OF THE PRODUCT.**

#### Product life cycle strategies:

The **product life cycle** contains four distinct stages: introduction, growth, maturity and decline. Each stage is associated with changes in the product's marketing position. You can use various marketing strategies in each stage to try to prolong the life cycle of your products.

#### Product introduction strategies

Marketing strategies used in **introduction stages** include:

- rapid skimming - launching the product at a high price and high promotional level
- slow skimming - launching the product at a high price and low promotional level
- rapid penetration - launching the product at a low price with significant promotion
- slow penetration - launching the product at a low price and minimal promotion

#### Product growth strategies

Marketing strategies used in the **growth stage** mainly aim to increase profits. Some of the common strategies to try are:

- improving product quality
- adding new product features or support services to grow your market share
- enter new markets segments
- keep pricing as high as is reasonable to keep demand and profits high
- increase distribution channels to cope with growing demand
- shifting marketing messages from product awareness to product preference



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### Product maturity strategies

When your sales peak, your product will enter the **maturity stage**. This often means that your market will be saturated and you may find that you need to change your marketing tactics to prolong the life cycle of your product. Common strategies that can help during this stage fall under one of two categories:

- market modification - this includes entering new market segments, redefining target markets, winning over competitor's customers, converting non-users
- product modification - for example, adjusting or improving your product's features, quality, pricing and differentiating it from other products in the marking

### Product decline strategies

During the end stages of your product, you will see **declining sales and profits**. This can be caused by changes in consumer preferences, technological advances and alternatives on the market. At this stage, you will have to decide what strategies to take. If you want to save money, you can:

- reduce your promotional expenditure on the products
- reduce the number of distribution outlets that sell them
- implement price cuts to get the customers to buy the product
- fin another use for the product
- maintain the product and wait for competitors to withdraw from the market first

Many businesses find that the best strategy is to modify their product in the maturity stage to avoid entering the decline stage.

### Factors Affecting Product Life Cycle:

#### **Factor # 1. Rate of Technical Change:**

- Rate of technical change affects the product life-cycle. If this rate is very high, the lifecycle of the products in that country will be very limited because new and improved products take place of the old products. On the other hand, if the rate of technical changes in a country is not so high, the life-cycle of the products in the country may be longer.
- For example, rate of technical changes in India is lower when compared with that of other developed countries. As a result of it, the lifecycle of products in our country is higher than that of the developed countries.

#### **Factor # 2. Rate of Market Acceptance:**

- Product lifecycle is also affected by rate of market acceptance. If the rate of market acceptance is high the lifecycle of products in that country is limited. It is because the customers who have accepted the new products today can accept another product tomorrow and the existing products will soon stand out of the market.
- Similarly, if the customers accept the product at a slow rate, the life cycle of the products may be quite long. For example, in India, the market acceptance is very slow, and therefore, here life span of the products is very long.

#### **Factor # 3. Ease of Competitive Entry:**

- The success or failure of a product in the market depends to a large extent upon the situation of competition in the market. If the competitors can enter into a market very easily, the lifecycle of the product will be very short because the competitors can drive the products out.
- On the contrary, if the competitors cannot enter into a market so easily, the lifecycle of products in such market can be fairly long.





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### Factor # 4. Risk Bearing Capacity:

- If the enterprises have risk bearing capacity, they can keep their product alive in the market for a long period as they can face the challenges of the market very effectively.

### Factor # 5. Economic and Managerial Forces:

- Economic and managerial forces of an enterprise also determine the success of the enterprise in the market to a great extent.
- Enterprises having strong economic and managerial forces, can keep their products standing in the market and the lifecycle of their product will be longer than that of the lifecycle of the products of those enterprises having weak economic and managerial base.

### Factor # 6. Protection by Patent:

- If the patent of a product is registered, the lifecycle of the product can be fairly long, and if the patent of a product is not registered, the lifecycle of the products gets cut-short.

### Factor # 7. Personnel Strategy:

- Product lifecycle is also affected by the personnel strategy used in marketing.

### Factor # 8. Business Reputation:

- Business reputation also affects product life cycle.
- If the reputation is good in the market as the producer of good quality products, its product will last long in the market as compared to the products of those enterprises whose goodwill is not good or which are not much known to the public.



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## UNIT- 2 PRICING DECISIONS

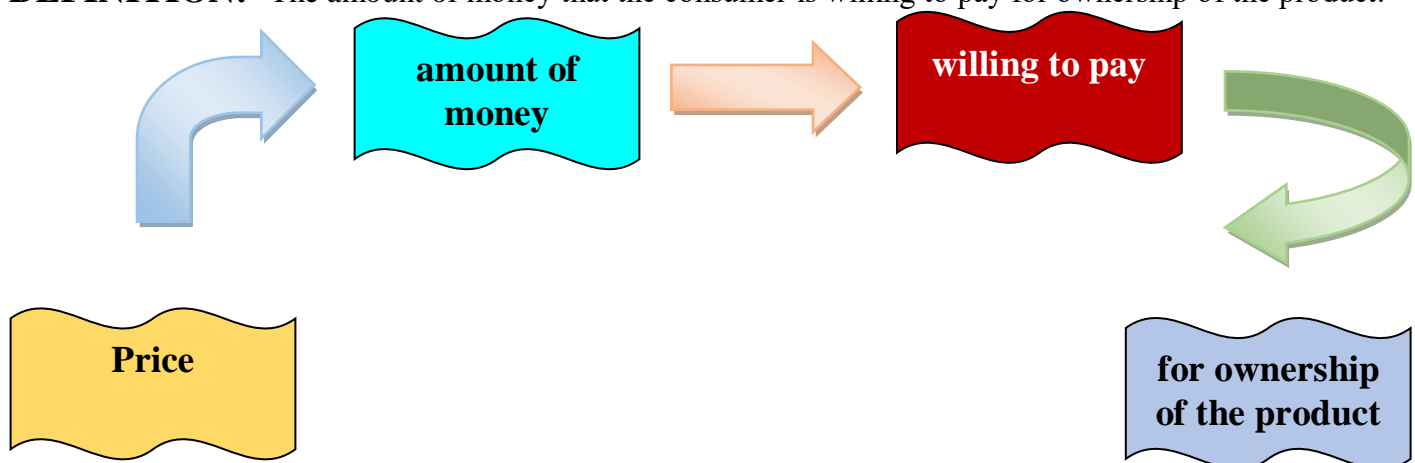
### INTRODUCTION:

Every **business** operates with the **primary objective** of **earning profits**, and the same can be realized through the Pricing methods adopted by the firms.

While **setting the price** of a product or service the **following points** have to be **kept in mind**:

- **Nature** of the product/service.
- **The price** of similar product/service in the market.
- **Target audience** i.e. for whom the product is manufactured (high, medium or lower class)
- **The cost of production** viz. Labor cost, raw material cost, machinery cost, inventory cost, transit cost, etc.
- **External factors** such as Economy, Government policies, Legal issues, etc.

**DEFINITION:** “The amount of money that the consumer is willing to pay for ownership of the product.”



### OBJECTIVES OF PRICING:

**To maximize profit:**

- One of the objectives of pricing is to **maximize the profit**.
- It is very important to maximize the profit **to run the organization**.
- Some company **set price to their products or services** with a view of **maximizing profit**. It is very important to focus on profit maximization.

**Achieving target return:**

- **Another objective** of pricing is to **achieve target return**.
- Some company may determine the price of their goods or services **to achieve a certain return on investment or on sales**.
- This is the desired profit. It is necessary to have **target return in** the pricing process.

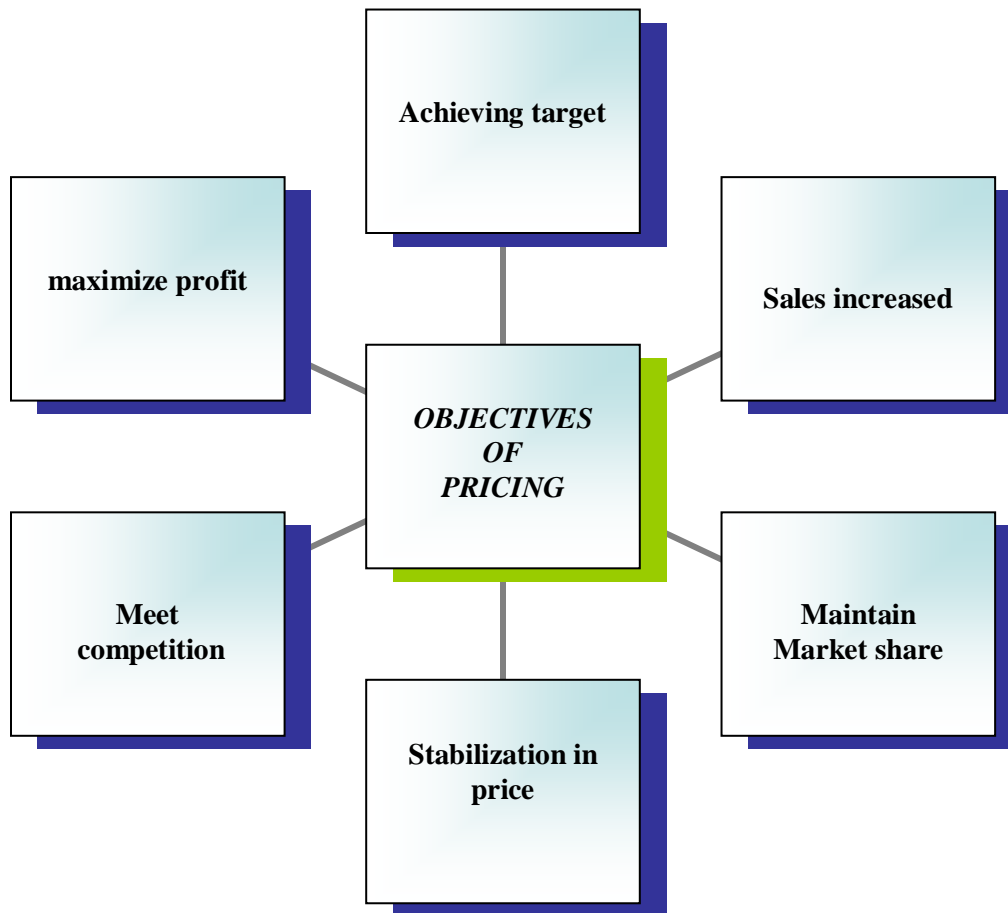


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## Achieving target return on sales:

- It is necessary to achieve **target return on sales in pricing**. Mostly resellers manage their pricing to achieve a target return on sales.
- For example, 10% of sales. If there is not **more competition** this objective can be used.

## Sales volume increase:

- One of the pricing objectives **may be determined in terms of increasing sales volumes** over the certain period of time.
- For example, 10% increase annually. This does not mean that profit should be avoided.
- Organization believes that **higher sales volume will lead to lower unit costs** and higher long run profit. It is necessary to focus in the increment in sales volume of the company.

## Maintain market share:

- Pricing should have the basic objectives **in maintaining market share**.
- Market share is really a **meaningful measure of the success of a firm's** marketing strategy.
- A market share **price objective** can be either **to maintain the market share**, to increase it or sometimes to decrease it.
- The company uses the price as an **input to enjoy a target market share**. This market share is normally expressed as a percentage of the total industry sales.



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### Stabilization of price:

- **Pricing** should have the objectives in **stabilizing the price** of a product.
- Some organization may set their pricing objective in order to maintain or stabilize price and **prevent from market uncertainty**.
- These objectives are adopted **for minimizing the risk of loss**. Small organizations in market adopt these objectives.
- These objectives **build up their status and goodwill**.

### Meet competition:

- The objective of pricing **is to meet the competition** in the market.
- Now there is **big competition in the market**. In highly competitive market some organization may set the meet competition.
- Under this objective organization **set the prevailing market price**. It is important to meet the competition in the market. Without it, market cannot achieve its objectives.

### SIGNIFICANCE OF PRICING IN MARKETING:

Price is important factor which correlates with both customers as well as seller to meet their buying and selling needs. The importance of price can be understood from the following points....

- A right price policy **can attract new customers** also maintain interest of existing customers.
- By perfect price decision, company **may earn maximum profit**.
- Every **marketing mix program include** pricing decision.
- A price is that the factor which **decides success or failure** of company's product.
- By pricing, customer can **calculate the total value** of its transaction.
- Through pricing, **exchange process can be possible** between buyer and seller.
- Price is a factor which **influences the behavior of the customer** to purchase in small quantities or in bulk.
- Price is a factor which **reflects the economy** of the country.

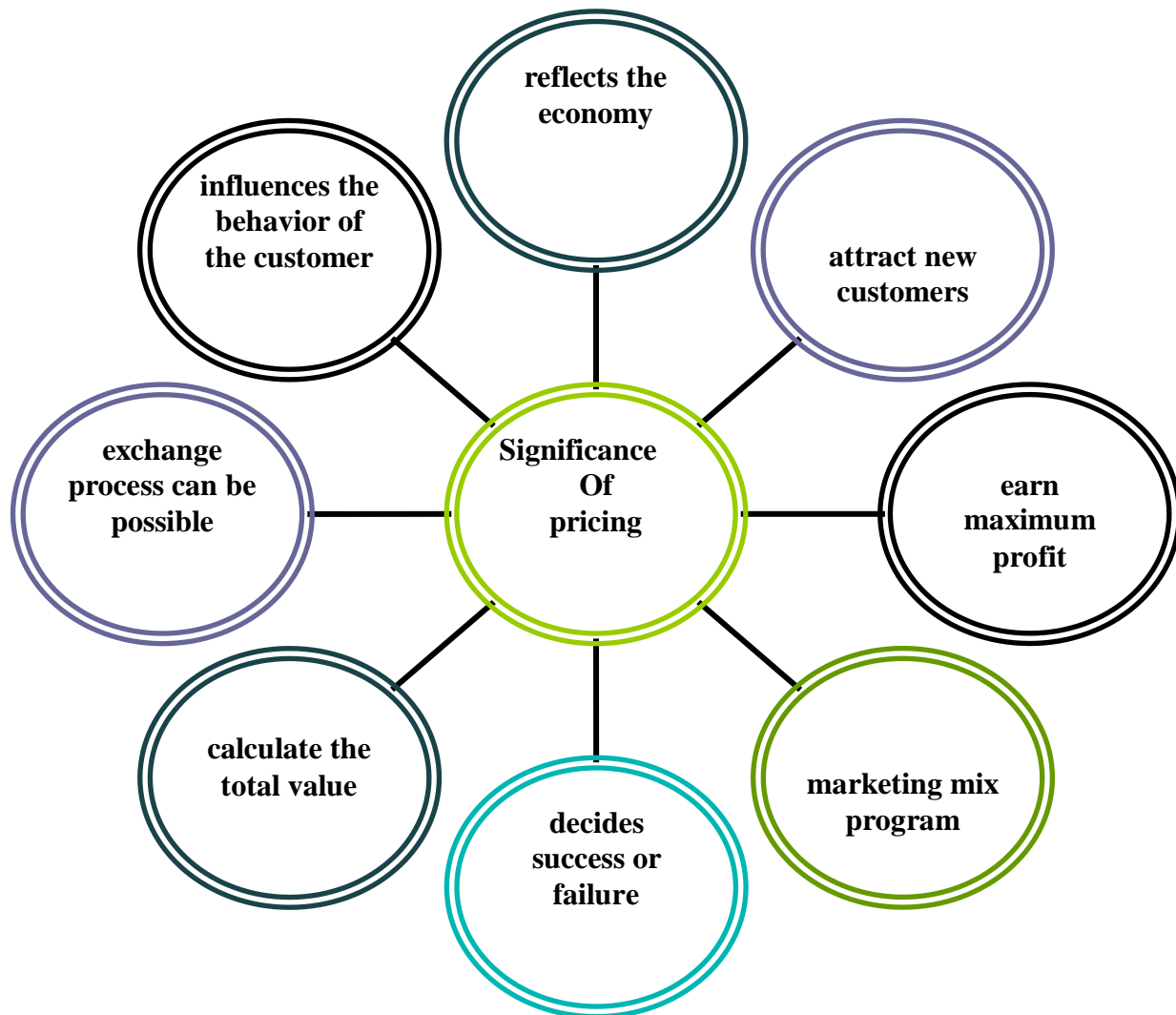


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### PRICE SETTING/ PRICE SETTING PROCESS:

- The pricing decision **considers all** the relevant **internal and external factors**.
- The **price fixation** covers the potentiality of market, competitive environment and other related variables which affect pricing decisions.

The steps in price determination are as follow:

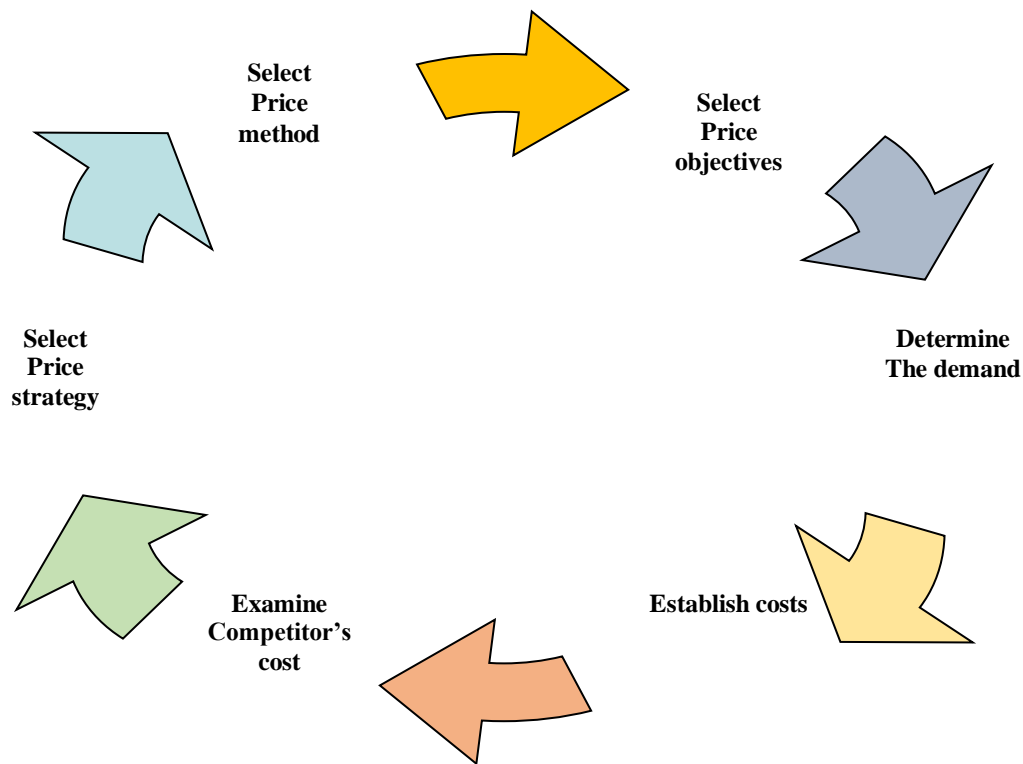


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## Step - 1: Selecting the Price Objectives:

We all know the price setting is the **major part of marketing policy and one of 4P** of marketing mix. So, it is the first in which you have to **select the price object** for setting it. It may be

- a) **Survival the product in market:** Company thinks that his product is new and for creating its position in market, company should **take minimum price** from its customers.
- b) **Maximum profit objective:** If company wants to earn maximum profit, the company can **set high price underprice skimming**. Company thinks that if it will fix high price, no competitor faces it.
- c) **High market share objective:** Company's object is to increase sale. So, it will determine **low price than competitors**.

## Step - 2: Determining the Demand:

Main aim of taking second step is to check whether **our set price is best for increasing demand or not**. In this step, we take following decisions

- a) **Create the demand curve and check the trend:** With past records of our company's product price and past sales company can create demand curve, it shows the effect of changing price on demand of customer. The company can take the help of economist which they can explain its technical explanation. But with this, company can know whether company's price is creating bad effect on demand or good effect on demand.



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**b) Demand Elasticity:** With this, company can estimate about **how much demand** is affected with **increasing or decreasing the price**.

**Step 3: Estimating Costs:** For determination the price of product company should estimate the cost of product. **Variable and Fixed Cost:** Price must cover variable & fixed costs and as production increases costs may decrease. The firm gains experience, obtains raw materials at lower prices, etc., so costs should be estimated at different production levels.

**Differential Cost in Differential Market:** Firms must also analyze activity-based cost accounting (ABC) instead of standard cost accounting. ABC takes into account the costs of serving different retailers as the needs of differ from retailer to retailer.

**Target Costing:** Also, the firm may attempt Target Costing (TG). TG is when a firm estimates a new product's desired functions & determines the price that it could be sold at. From this price the desired profit margin is calculated. Now the firm knows how much it can spend on production whether it be engineering, design, or sales but the costs now have a target range. The goal is to get the costs into the target range.

### Step – 4: Examining Competitors Costs, Prices, and Offers

- Examining the market demand and company costs, a range of possible prices can be considered.
- However, the company must also examine the cost, prices, and possible responses of competitors in the industry.
- Learning competitors' costs, prices, and offers is an ongoing function of marketing research.
- When one company dominates an industry, it may set the tone for price decisions in the industry, such as De Beers Consolidated Mines Ltd., or Intel in the case of computer processors.
- The company must appreciate that other companies in the industry can change their prices in reaction to prices set by the company.
- Obviously, the nearest competitor is the first choice to consider for setting a price. The first step is to ascertain what positive differentiation features the company's offer contains and not offered by the nearest competitor. The second step is to ascertain the worth of additional positive features to consumers and this worth should be added to the competitor's price to set the company's product price. If the worth of positive differentiation features of competitor's product is more and the company's product does not have those features on its offer, then the value should be subtracted from competitor's price for setting the company's product price. This exercise can help whether to keep the price higher, or lower than the competitor, or the same.

### Step – 5 Selecting a Pricing Strategy

- A pricing strategy is a course of action framed to affect and guide price determination decisions.
- These strategies help realizing pricing objectives and answer different aspects of how will the price be used as a variable in the marketing mix, such as new product introductions, competitive situations, government pricing regulations, economic conditions, or implementation of pricing objectives.
- More than one pricing strategy may be selected to address the needs of different markets or to take advantage of opportunities in certain markets.



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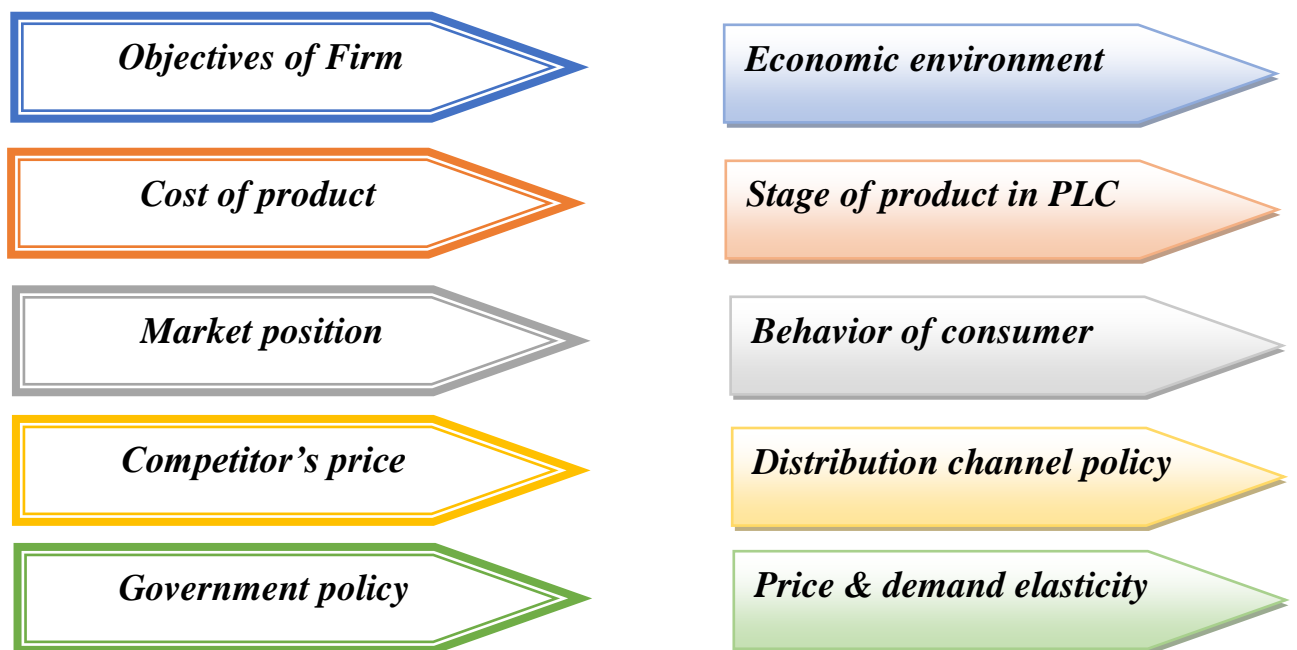
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## Step – 6 Selection of a Pricing Method

- After selection of the pricing strategy or strategies to accomplish the pricing objectives, a company decides about a pricing method.
- A pricing method is a systematic procedure for setting the prices on a regular basis.
- The pricing method structures the calculation of actual price of a product based on considerations of demand, costs, and competition.

## FACTORS AFFECTING PRICING DECISION:

There are various factors which may affect price decision directly or indirectly. Some of the are as follow:



### Objectives of the Business:

- There may be various objectives of the firm such as getting a reasonable rate of return, to capture the market, maintenance of control over sales and profits etc. A pricing policy thus, should be established only after proper consideration of the objectives of the firm.

### Cost of the Product:

- Cost and price of a product are closely related. Normally, the price cannot or shall not fixed below its cost (including the product, administrative and selling costs). Price also determines the cost.

### Market Position.

- The prices of the products of different producers are different either because of difference in quality because of the goodwill of the firm. A reputed concern may fix higher prices for its products on the other hand, a new producer may fix lower prices for its products. Competition may also affect the pricing decisions.

### Competitors Prices:





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- Competitive conditions affect the pricing decisions. The company considers the prices fixed and quality maintained by the competitors for their products.

## Distribution Channels Policy:

- The nature of distribution channels used, and trade discounts which have to be allowed to distributors and the distribution expenses also affect the pricing decisions.

## Price Elasticity and Demand Elasticity:

- Price elasticity affects the decisions of price fixation. Price elasticity means the consequential change of demand for the change for the change in the prices of the commodity. If demand is elastic, the firm should not fix high prices rather it should fix lower prices than that of the competitors.

## Product's Stage in the Life Cycle of the Product :

- Pricing decision is affected by the stage of product in its life-cycle. In the introductory stage of the product, it the price strategy which determines the price of the product.

## Product Differentiation:

- The price of the product also depends upon the characteristics of the product. In order to attract the customers different characteristics are added to the product such as quantity, size, color, alternative uses, etc.

## Buying Patterns of the Consumers:

- If the purchase frequency of the product is higher, lower prices should be fixed to have a low profit margin. It will facilitate increasing the sale volume and the total profits of the firm.

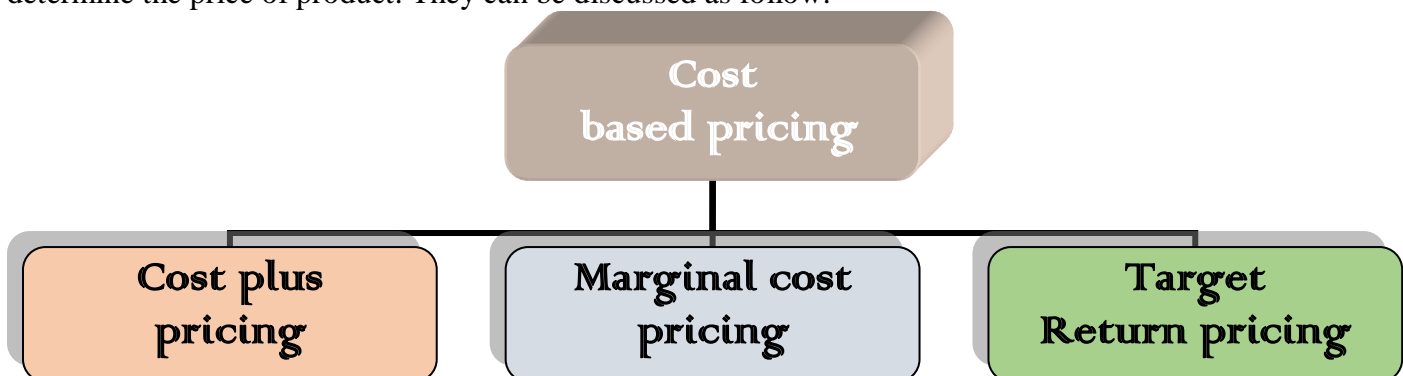
## Economic Environment :

- In recession period, the prices are reduced to a sizable extent to maintain the level of turnover. On the other hand, the price and increased in boom period to cover the increasing cost of production and distribution.

## Government Policy:

- Price discretion is also affected by the price control by the government through enactment of legislation when it is thought proper to arrest the inflationary trend in prices of certain commodities.

**DIFFERENT FORMS/ METHODS OF PRICING:** There are various methods available to determine the price of product. They can be discussed as follow:





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## A) COST BASED PRICING METHOD:

**1.cost plus pricing:** under this method, the price is determined on the basis of cost (material, overhead, labor) and with that, adds a markup (predetermined % of profit) to cover the cost. It can be also known as full cost pricing or mark-up pricing.

**Advantages:** 1) The price based on this method looks actual and realistic compared with any other method.2) for the firm that wants to remain stable in the market, this method is become quite useful.

**Limitations:** 1) demand factor is not considered. 2) ignores marginal costs and uses average costs.3) the calculation of overhead cost is totally arbitrary and unrealistic.

**2. Marginal cost pricing:** under this method, the marketers can make separation with respect to market segment and can fix high price for some market and low price for some other market segment. The marketer wants to achieve maximum profit in such a way that:

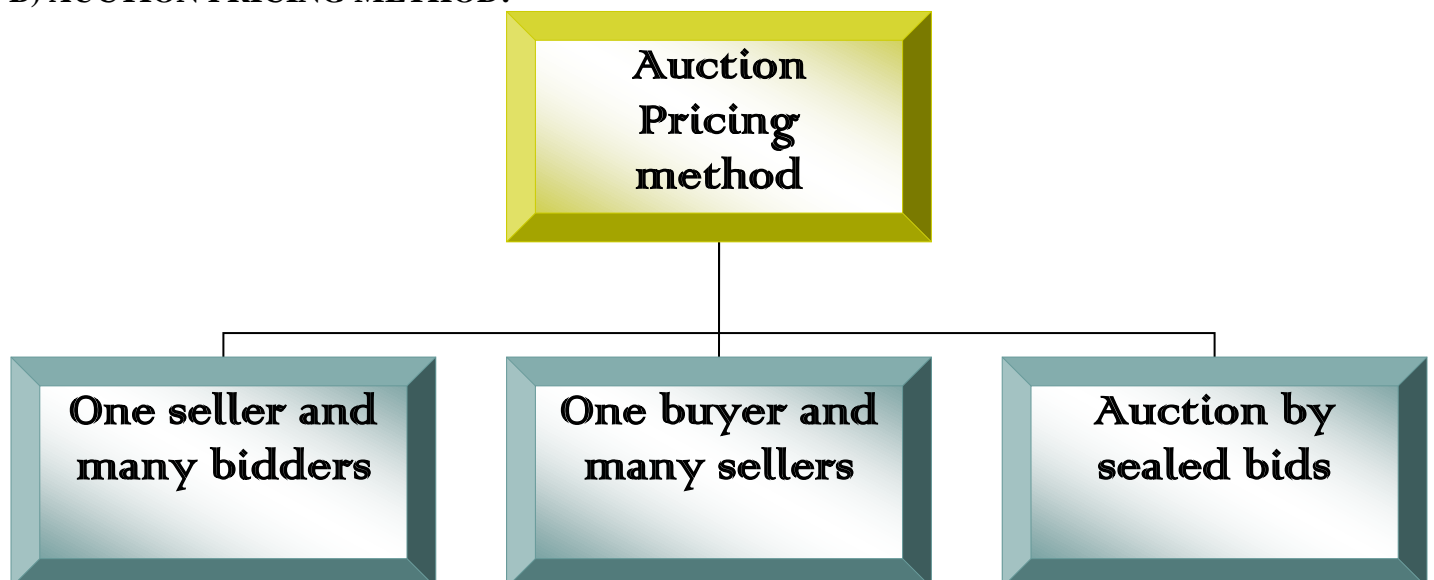
Marginal cost (M.C) = Marginal Revenue (M.R)

**Advantages:** 1) marginal pricing allows marketers to become more aggressive than with full cost pricing, which will be changing sales and relative reduction in marginal cost represents these changes.2) marginal pricing is also helpful in changing the piece at different stages of product life cycle.

**Limitations:** 1) in case of fall down, marketers will reduce its marginal cost and lower price which may create price war in the market. 2) this method does not cover the fixed cost. So it has been generally targeted to special purchase orders.

**3.Target return pricing:** Target return is expressed in terms of return on investments that a marketer wants to achieve. It is decided by management by considering product features, competitive environment, type of market.

## B) AUCTION PRICING METHOD:



With the development of internet and communication in India, auction pricing is become more popular nowadays. Most of the agricultural products, antique items, and metals, gold, silver is sold through auction. The types of auctions are as below:



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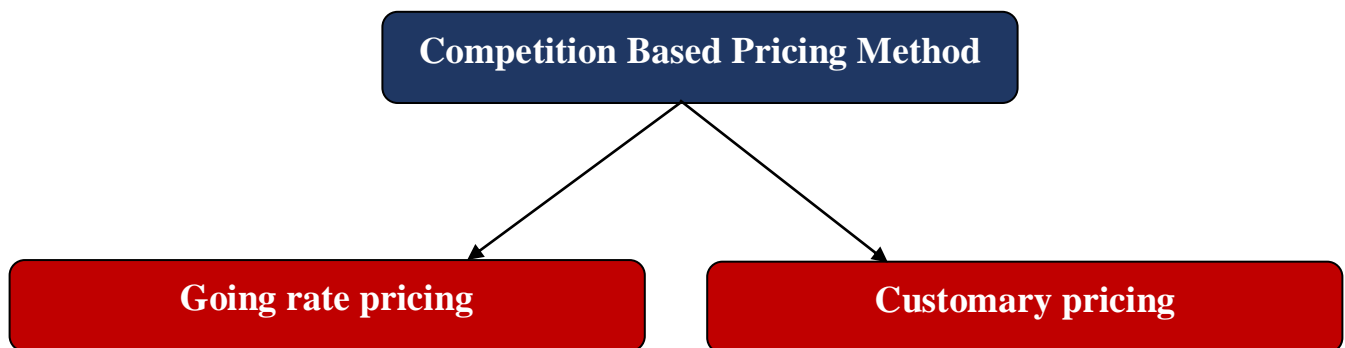
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**One seller and many bidders:** in this method, the seller puts its product at a high price, and gradually he reduces the price until the bidder accepts the price.

**One buyer and many sellers:** under this method, buyer announces something that he needs to purchase. After that the sellers who wants to fulfill those needs come in front and give offers to the buyer at a low price.

**Auction by sealed bids:** generally, this method is adopted by multinational organizations, government institutions and other professional institutions for their procurements.

### A) COMPETITION BASED PRICING METHOD:



**1.going rate pricing:** in this method, though every marketer concentrates on the cost, then focus is here is on market situation. Many Indian marketers have adopted going rate pricing methods. They either follow industry standards or market leader. If marketer wants to become price leader, then he follows industry structure and sets his own pricing. This situation is somewhat risky and marketers have to face its outcome. On the other hand, if marketer wants to remain safe, then it is better to follow the market leader.

**2.customary pricing:** in this method, marketers follow the expectations of customers. Sometimes marketer offer the product at a low price which may create negative effect in the mind of consumers, that the product might be of inferior quality. Marketer tries to maintain his existing price and that is a better way to maintain customer interest.

### D) PRICE SETTING METHOD:

**1.Geographical method:** in this method, marketer decide price based on location of the consumers with respect to local market, regional market, national market and international market.

**2.leader pricing:** marketer reduces the price of the product to attract customers. In this way, the total volume of sale and profit will also increase.

**3. price lining:** in India, retailing to garments, cosmetics, etc. is done by this method. E.g. All jeans with respect to a particular group price Rs. 400

**4.dual or discrimination or differentiated pricing:** in this, marketer charges different prices for this product to different customer groups based on customer type, location and other factors. The types of these methods are as follow:

**1) customer segment pricing:** marketer charge different prices for same product or services to different customer segments.

**2)product from pricing:** marketer charge different prices as per the different features/quality of product in the same category.



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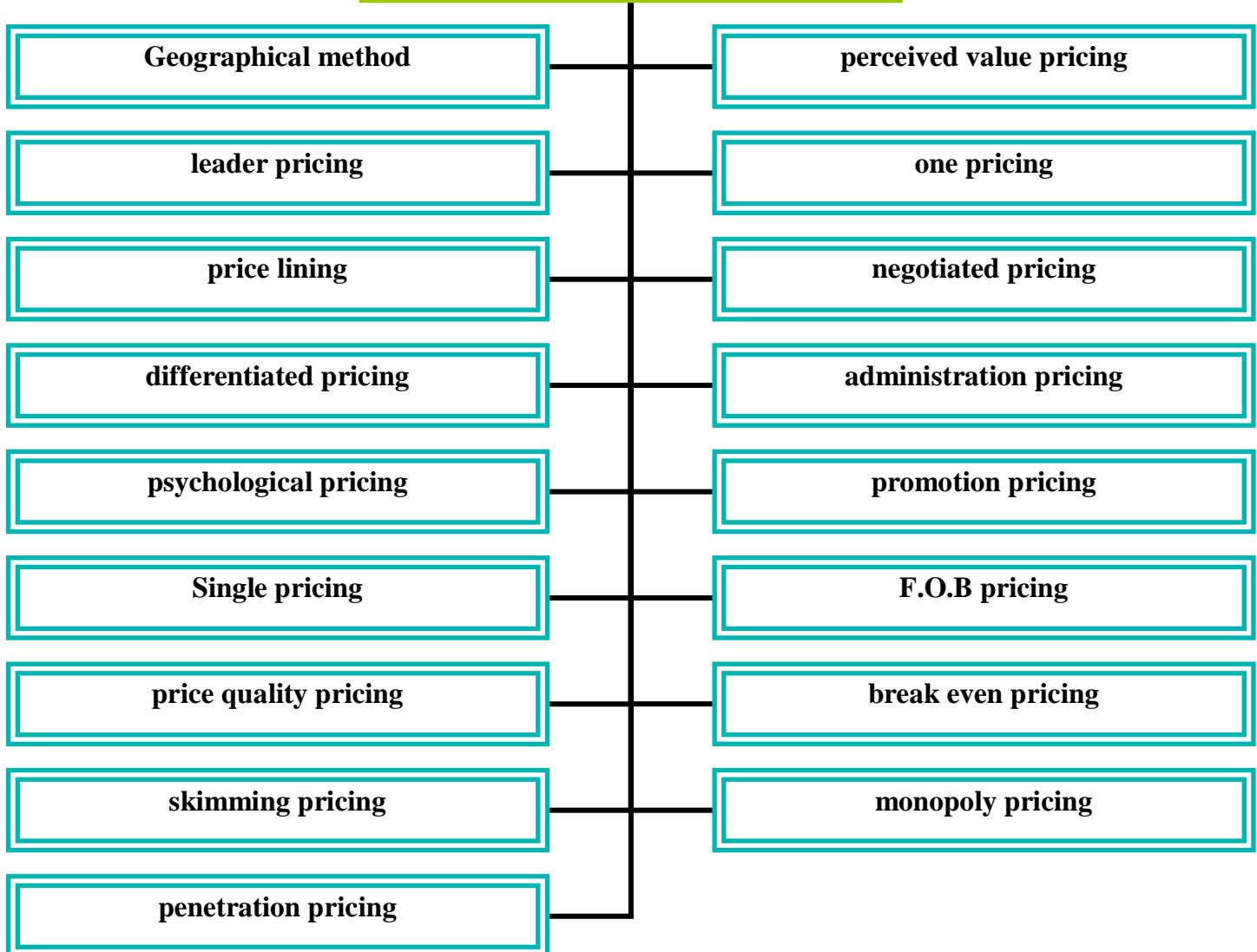
3) **Image pricing:** marketer charges price for the same product at two different levels based on image differences.

4) **time piecing:** marketer charge different pricing as per the season/day/hour.

5) **Channel Pricing:** Marketer charges different prices as per purchasing channel through which consumer buy a product. For example: Pepsi cola’s different price at multiplex, restaurants, hotels etc.

6) **Yield pricing:** Marketers offers discounted pricing but for limited early purchases, high price for the late purchase & the lowest rates on unsold inventory before the offer expires.

## METHODS OF PRICE SETTING



5. **psychological pricing:** in this, marketer decide the price based on the psychology of customer. Psychological pricing increases sales because consumer rates the price with respect to quality. E.g., Bata shoes – price is odd 1099.99. the types:



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1) **charm pricing:** reduce the left digits by one. It includes using price ending with “9”/”99”. many companies adopting this strategy.

2) **bogof:** “buy one get one free”. If Consumer purchase one product and they will get one free.

3) **comparative pricing:** a most effective psychological strategy by offering two similar products but making one products’ price more attractive than another one.

6. **Single pricing:** in this, marketer charges the same price for all market segments.

7. **price quality pricing:** it means when a marketer offers best product and so they charge higher than other competitors and can become market leaders. **There are three types of it:**

A) **Barometric Price Leadership:** when marketer is expert at identifying shifts in applicable market forces. It allows marketer to become more effective to respond with the market segment. As marketer is having skill in this segment, then other marketer will follow its lead under the assumption that leader is aware of that.

B) **Collusive Price Leadership:** when few leading market players agree to make price alignment with each other called collusive price leadership. It is applicable when it is entry cost is high and manufacturing cost is known.

C) **Dominant firm model:** when one marketer controls the vast majority of the market share, it is called dominant firm model. As this firm adjust price, other similar firms must follow. For example, Lux, Colgate etc. In this pricing method, marketer follows the consumer preference for product quality.

8. **skimming pricing premium price:** in this method, marketer charges higher price at initial stage to take advantage by assuming that a specific market segment may pay higher price willingly than others. Also, marketer can cover its initial investment at initial stage. But the conditions that...

Marketer has a superior product, advanced technology, efficient distribution network, best promotional companies etc....

9. **penetration pricing:** in this method, marketer decides to charge low price at an initial stage.

10. **perceived value pricing:** in this method, marketers decide the price based on the market perception.

11. **one pricing:** in this method, marketer charges the same unique pricing to all customers irrespective of quantities that they purchase.

12. **negotiated pricing:** in this, the price of the product depends on the capacity of customer as how much they can bargain.

13. **administration pricing:** in this method, marketer has to follow government ‘s rules and regulations. here price is fixed by government.

14. **promotion pricing:** this price method is based on sales promotion technique adopted by marketers. for example, clearance sale/discount. There are many ways of sales promotion like money back offer, price off, gift vouchers, bulk discount, trade discounts, seasonal discounts, special allowances etc.

15. **F.O.B pricing:** in this method, marketers decide the piece by ex-showroom or by ex-factory price.

16. **break even pricing (demand-oriented price):** the point at which there is no profit no loss, it is considered as a breakeven point. Means total revenue=total cost. After BEP, sales are considered as a total profit for the marketer. So, marketer decides the price in such a way that he can achieve the break-even point as early as possible.

17. **monopoly pricing:** monopoly in the market in a unique for the marketers. As there is no competitor of the product, marketer enjoys total control for his product in the market. Marketer enjoys the total freedom to fix the price of his product.



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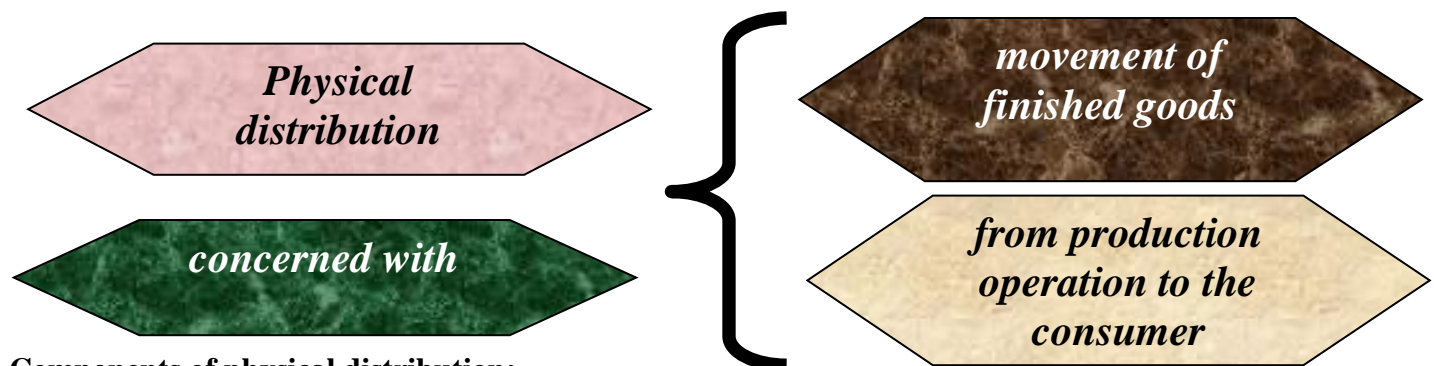
### UNIT- 3 PLACE (DISTRIBUTION) DECISIONS

#### PHYSICAL DISTRIBUTION:

##### **Introduction of physical Distribution:**

- Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer.
- Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products.
- Physical distribution activities have recently received increasing attention from business managers, including small business owners.
- This is due in large part to the fact that these functions often represent almost half of the total marketing costs of a product.

**Definition of physical Distribution:** “physical distribution includes the actual movement and storage of goods after they are produced and before they are consumed.”



##### **Components of physical distribution:**

- Physical distribution is an important element of marketing mix; it involves physical handling and movement of goods from the place of production to the place of consumption.
- It is concerned with the availability of the right quantity of goods to the customers at the right time and right place through the channels of distribution.

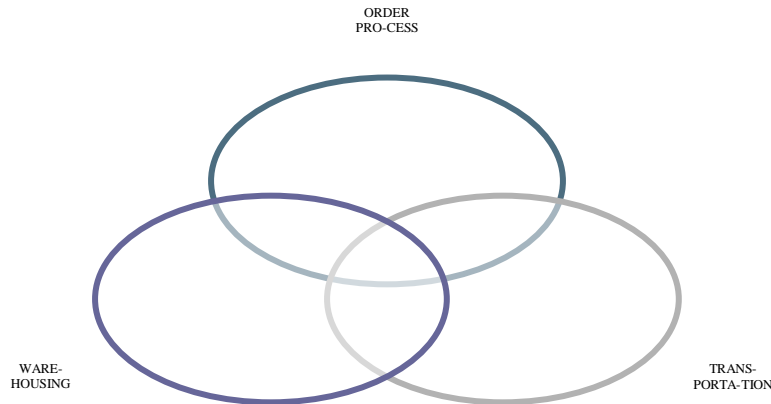


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## 1. Order Processing:

- It refers to placing order by the customer to the manufacturer via channel members.
- Accurate and speedy processing of order is essential to ensure timely delivery of goods to the customer in correct quantity/specifications.

## 2. Transportation:

- It refers to the mode of carrying goods and raw material from the place where they are produced to the place where they are to be sold.
- It is the most important element of physical distribution of goods. It also adds value to the good by ensuring their availability at the right place and right time.

## 3. Warehousing:

- There is a time gap between the production and the consumption of goods, thus it becomes essential to store them. For example, seasonal products like wheat, rice, coolers etc.
- It creates time utility in the products.

## Importance of physical distribution:

### 1. Increasing sales:

- physical distribution increases sales volume by proper inventory management. Physical distribution assures continuous flow of goods. Producers are also concentrating on increasing sales.

### 2. Inventory Management:

- if physical distribution is efficient, then for a manufacture, there is no need to maintain large amount of raw materials inventory because manufactures can purchase it as and when it is required.

### 3. Product Planning:

- for product designing, packing, price structure, size etc. physical distribution is quite important.

### 4. Reducing Distribution Cost:

- the ultimate objective for controlling distribution cost is to reduce selling price of the product. For this, there is a requirement of in-depth analysis of transportation and storage costs.



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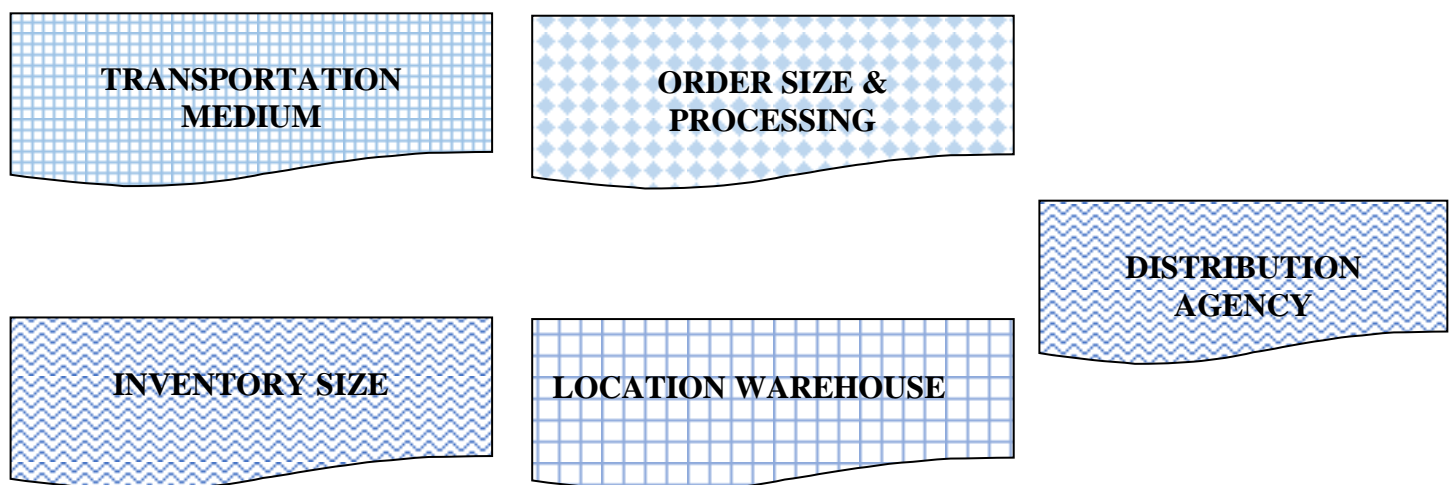
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### 5. Stabilizing Price:

- physical distribution maintains supply in the market for controlling the price. If demand of a product is certainly increasing, then to maintain price of the product, additional supply can be released from the storage.

**Key Decision Areas in Physical Distribution Management:** For an efficient management, various decisions are required to be taken by management. They are:



### 1. Decision Regarding Transportation Medium:

- Transportation depends on order size, inventory and location of warehouses. If inventory level is high then transportation cost is low. if inventory level is low, then transportation cost is high.

### 2. Decision Regarding Order size and order processing:

- management has to fix certain minimum level of order size because small size order increases cost of storage and handling. order processing takes concern with reordering time and consistency regarding delivery time.

### 3. Decision Regarding Inventory Size:

- Bulk of the total distribution cost, which generally account for 10-25 % of the product cost is incurred on the physical distribution and cost of holding inventories.
- Since inventory holding cost are always on the rise due to all-round increase in prices as well as cost of capital, very careful attention has to be paid on how inventory should be maintained of what items and where.

### 4. Location of Warehouses:

- One important consideration in this context is the nature of the product being sold.
- If the product is a household consumption item such as tea, soap or toothpaste, the retail outlet will be at bottom of the distribution channel.
- Success of the distribution system would depend upon the ability of the company who insure availability at that level.

### 5. External distribution agency:





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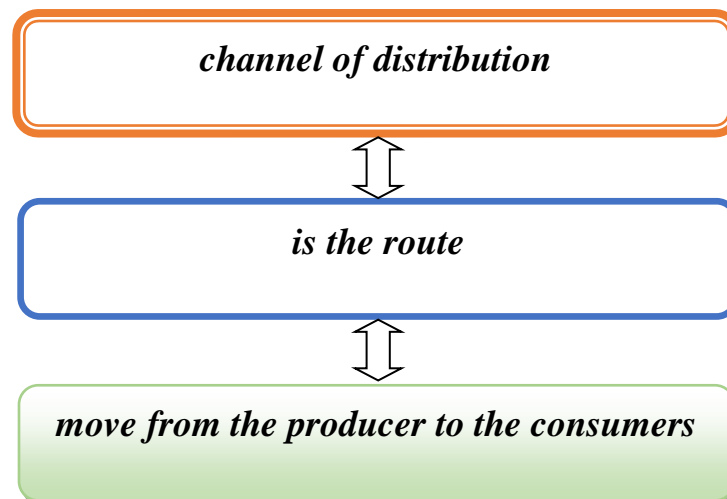
- A firm may decide that because of resource constraint or lack of in-house expertise, it would like to concentrate on production and leave the task of distribution to an outside agency.
- Even the Gujrat Cooperative milk Federation- The producer of AMUL brand of dairy product handed over its distribution to Voltas Ltd. There are several firms in India such as Voltas, Blue Star, Spencor & Co. which have created extensive distribution network, including servicing facilities & can therefore provide distribution network including servicing facilities.

### CHANNELS OF DISTRIBUTION:

#### **Introduction:**

- channel of distribution is considered as a marketing channel for distribution of goods and services from manufactures to markets.
- Channel oath through which products and services of marketers moves from the place of manufacturing unit to the place of market or consumption.
- Goods and services are either reached to consumer directly or by middlemen indirectly.

**Definition:**” A channel of distribution for a product is the route taken by the title to the goods as they move from the producer to the ultimate consumers or industrial users.”





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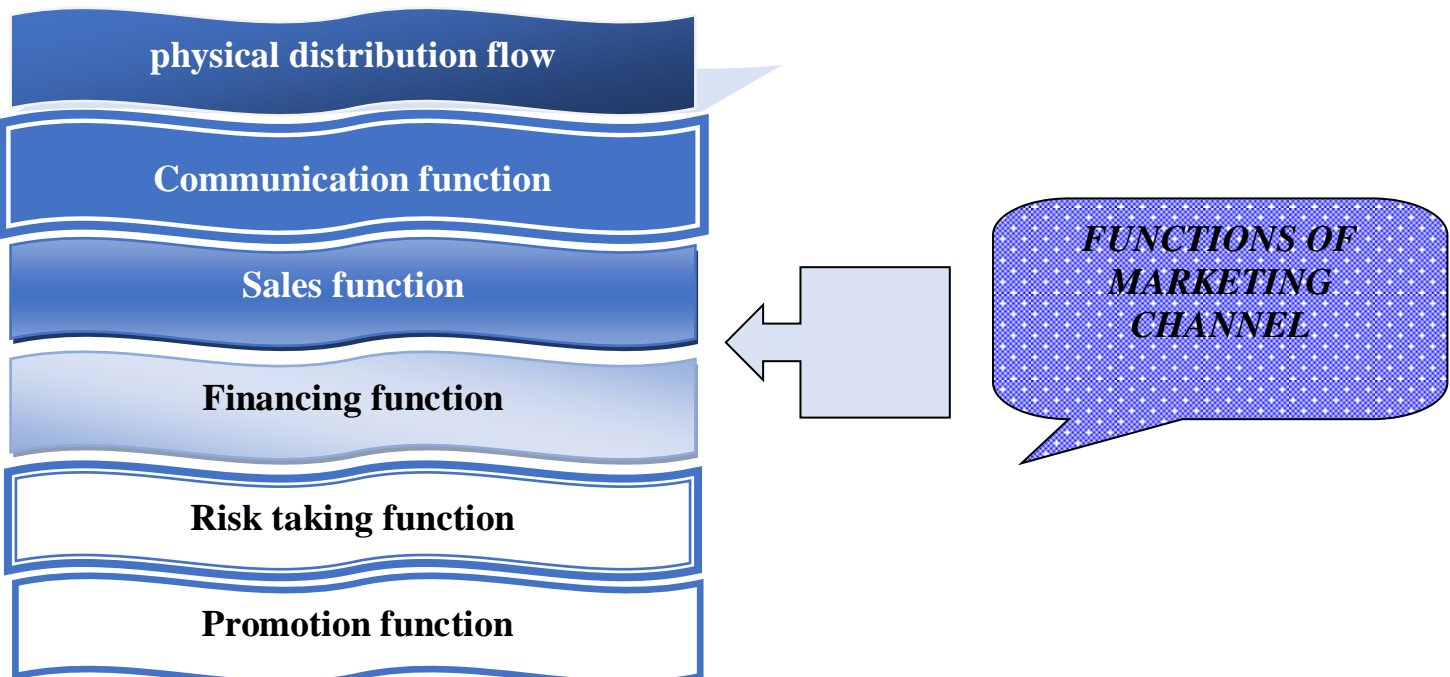
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### Functions of Marketing Channels:

Channel members perform many key functions. They bridge the gap between manufacturers and customers.



#### 1. Management of physical distribution flow:

- marketing channel manage the distribution flow of products and services from producers to consumers by taking risk of inventory, payment procedure, bargaining, information and promotion.
- They promote some of the basic promotional activities on behalf of the marketers.

#### 2. Communication function:

- channel members are in regular contact with customers.
- They know about customers taste, preferences, and needs, competitors. Etc. give information to the producers.

#### 3. Sales function:

- generally, consumer buy those products which is recommended and suggested by middlemen.
- So, middlemen have to give information about the product to their potential consumers. And increase the function of selling.

#### 4. Financing function:

- channel members purchase goods from marketers in bulk by this way marketer gets the fund.
- Channel members are also giving credit to their loyal customers which maintain sales flow in the market.

#### 5. Risk taking function:

- channel members also taking some risk related to the products like failure of the product in the market, damage during transportation, losing quality before sale.

#### 6. Promotion function:



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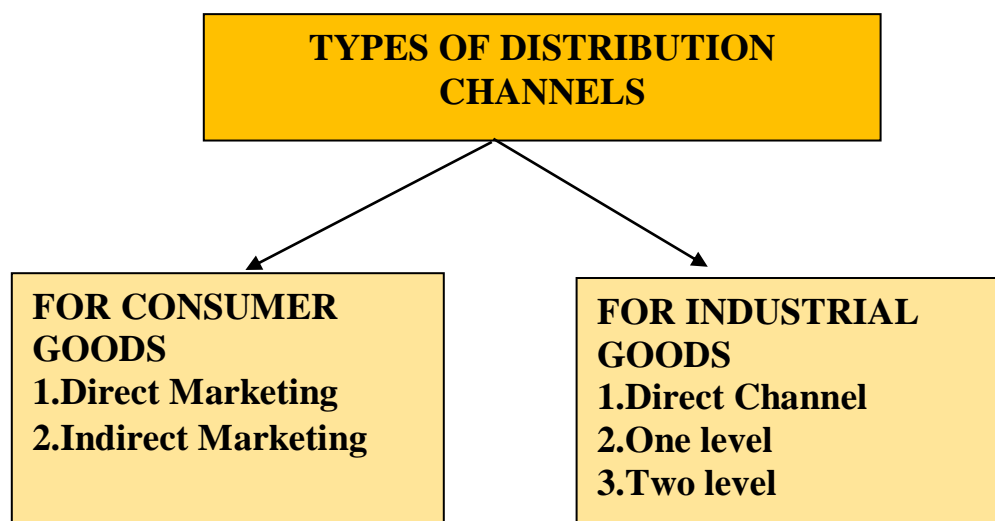
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- channel members like retailers, dealers, agents are performed various promotional activities like display, banners, mailing, live demo etc. for attracting customers.

## TYPES OF DISTRIBUTION CHANNELS:

The types of distribution channels for industrial goods and consumer goods are as follow:



### FOR CONSUMER GOODS:

**A. Direct Marketing or Zero Level Marketing:** in this type, the producer directly selling products or services to ultimate customer. Some time they also prefer personal selling.

**B. Indirect Selling:** in this type, a third party included in the distribution of product or services.

1. One level channel: producer- retailer- consumers
2. Two level channel: producer-wholesaler/distributor-retailer-consumers
3. Three level channel: producer-distributor-wholesaler-retailer-consumers
4. Four level channel: producer- agent-distributor- wholesaler- retailer- consumer

### FOR INDUSTRIAL PRODUCTS/GOODS:

**1. Direct Marketing Channel:** it is a most popular and convenient methods for distribution of industrial goods. It is quite convenient when goods are sold to few industries with large quantity. it also maintain good relationship with customers.

**2. one level channel:** manufacturer-industrial distributor- industrial user

**3. two level channel:** manufacture-industrial agent-industrial distributor- industrial user



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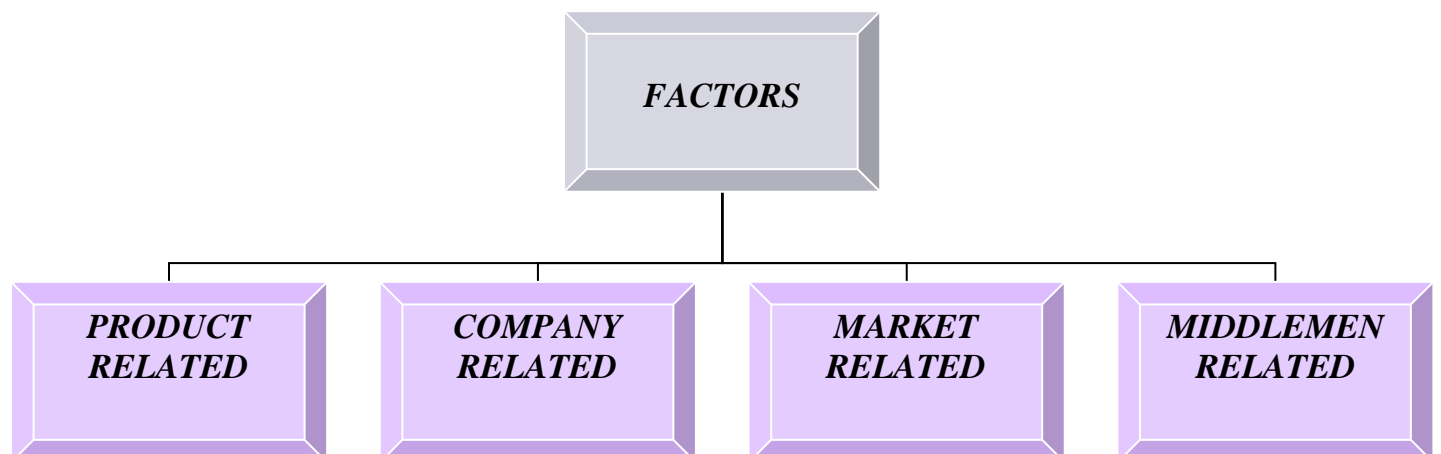
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## FACTORS AFFECTING CHANNEL CHOICE:

Various factors affect the selection of distribution channel namely organizational, product factor, consumer factors, middlemen related factors. each discussed as below:



**1. Product Considerations:** The nature and type of the product have an important bearing on the choice of distribution channels. The main characteristics of the product in this respect are given below:

**(a) Unit Value:**

- Products of low unit value and common use are generally sold through middlemen as they cannot bear the cost of direct selling.
- Low-priced and high turnover articles like cosmetics, hosiery goods, stationery and small accessory equipment usually flow through a long channel.
- On the other hand, expensive consumer goods and industrial products are sold directly by the producers.

**(b) Perish ability:**

- Perishable products like vegetables, fruits, milk and eggs have relatively short channels as they cannot withstand repeated handling.
- Same is true about articles of seasonal nature.
- Goods which are subject to frequent changes in fashion and style are generally distributed through short channels as the producer has to maintain close and continuous touch with the market.
- Durable and non-fashion articles are sold through agents and merchants.

**(c) Bulk and weight:** Heavy and bulky products are distributed through shorter channels to minimize handling costs. Coal, bricks, stones, etc., are some examples.

**(d) Standardization:**

- Custom-made and non-standardized products usually pass through short channels due to the need for direct contact between the producer and the consumers.
- Standardized and mass-made goods can be distributed through middlemen.

**(e) Technical nature:** Products requiring demonstration, installation and after sale services are often sold directly the producer appoints sales engineers to sell and service industrial equipment and other products of technical nature.



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**(f) Product line:** A firm producing a wide range of products may find it economical to set up its own retail outlets. On the other hand, firms with one or two products find it profitable to distribute through wholesalers and retailers.

**(g) Age of the product:**

- A new product needs greater promotional effort and few middlemen may like to handle it.
- As the product gains acceptance in the market, more middlemen may be employed for its distribution.
- Channels used for competitive products may also influence the choice of distribution channels.

**2. Market considerations:** The nature and type of customers is an important consideration in the choice of a channel of distribution. Following factors relating to the market are particularly significant.

**(a) Consumer or industrial market:**

- The purpose of buying has an important influence on channel.
- Goods purchased for industrial or commercial use are usually sold directly or through agents. This is because industrial users buy in a large quantity and the producer can easily establish a direct contact with them.
- To ultimate consumers, goods are sold normally through middlemen.

**(b) Number and location of buyers:**

- the number of potential customers is small or the market is geographically located in a limited area, direct selling is easy and economical.
- In case of large number of customers and widely scattered markets, use of wholesalers and retailers becomes necessary.

**(c) Size and frequency of order:**

- Direct selling is convenient and economical in case of large and infrequent orders. When articles are purchased very frequently and each purchase order is small, middlemen may have to be used.
- A manufacturer may use different channels for different types of buyers. He may sell directly to departmental and chain stores and may depend upon wholesalers to sell to small retail stores.

**(d) Customer's buying habits:** The amount of time and effort which customers are willing to spend in shopping is an important consideration. Customer expectations like desire for one-stop shopping, need for personal attention, preference for self-service and desire for credit also influence the choice of trade channel.

**3. Company considerations:** The nature, size and objectives of the firm play an important role in channel decisions.

**(a) Market standing:** Well-established companies with good reputation in the market are in a better position to eliminate middlemen than new and less known firms.

**(b) Financial resources:**

- A large firm with sufficient funds can establish its own retail shops to sell directly to consumers.
- But a small or weak enterprise which cannot invest money in distribution has to depend on middlemen for the marketing of its products.

**(c) Management:**

- The competence and experience of management exercises influence on channel decision.
- If the management of a firm has enough knowledge and experience of distribution it may prefer direct selling. Firms whose managements lack marketing know-how have to depend on middlemen.

**(d) Volume of production:**



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- A big firm with large, output may find it profitable to set up its own retail outlets throughout the country.
- But a manufacturer producing a small quantity can distribute his output more economically through middlemen.

### (e) Desire for control of channel:

- Firms that want to have close control over the distribution of their products use a short channel. Such firms can have more aggressive promotion and a thorough understanding of customers' requirements.
- A firm not desirous of control over channel can freely employ middlemen.

### (f) Services provided by manufacturers:

- A company that sells directly has itself to provide installation, credit, home delivery, after sale services and other facilities to customers.
- Firms which do not or cannot provide such services have to depend upon middlemen.

**4. Middlemen considerations:** The cost and efficiency of distribution depend largely upon the nature and type of middlemen as reflected in the following factors:

### (a) Availability:

- When desired type of middlemen is not available, a manufacturer may have to establish his own distribution network.
- Non-availability of middlemen may arise when they are handling competitive products as they do not like to handle more brands.

**(b) Attitudes:** Middlemen who do not like a firm's marketing policies may refuse to handle its products. For instance, some wholesalers and retailers demand sole selling rights or a guarantee against fall in prices.

**(c) Services:** Use of middlemen is profitable who provide financing, storage, promotion and after sale services.

**(d) Sales potential:** A manufacturer generally prefers a dealer who offers the greatest potential volume of sales.

**(e) Costs:** Choice of a channel should be made after comparing the costs of distribution through alternative channels.

### (f) Customs and competition:

- The channels traditionally used for a product are likely to influence the choice.
- For instance, locks are sold usually through hardware stores and their distribution through general stores may not be preferred. Channels used by competitors are also important.

**(g) Legal constraints:** Government regulations regarding certain products may influence channel decision. For instance, liquor and drugs can be distributed only through licensed shops.

## INTRODUCTION OF MIDDLEMEN/INTERMEDIARIES/CHANNEL MEMBERS:

- a middleman in business can be defined as any person or entity that makes the goods that are produced by a producer reach the public or the final consumer.
- A middleman comes between the producer and the consumer and makes sure that the final consumer gets access to the goods produced by the producer.
- It is for this reason that people or entities that engage in this type of business are called middlemen – they are basically intermediaries between producers and consumers.
- Middlemen therefore include a vast number of people and entities such as wholesalers, retailers, agents, brokers, shop owners, street vendors, hawkers, etc.



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### TYPES OF MIDDLEMEN/ CHANNEL MEMBERS:

- ✚ *Wholesalers*
- ✚ *Retailers*
- ✚ *Agents*
- ✚ *Broker*
- ✚ *Dealer*
- ✚ *Distributor*
- ✚ *Jobber*
- ✚ *Branches*
- ✚ *Consumer co-operatives*

1. **Wholesalers:** They are the people who buy in bulk from the producers and sell in small quantities to the retailers.
2. **Retailers:** They are the people who buy in small quantities from the wholesalers and sell to the ultimate consumers.
3. **Brokers:** Like agents, brokers also represent either the buyer or the seller. They do not usually have physical control over the goods in which they deal. Example: share brokers. They get 'brokerage' for their work.
4. **Agents:** They are the middlemen who do not take any title to goods. They render all services required in marketing. They represent either the seller or the buyer. They receive commission for their work.
5. **Dealers:** They are the business houses that resell goods. Example: Viveks, Vasanth & Co. and so on.
6. **Distributors:** They are the same as wholesalers.
7. **Jobbers:** They are associated with stock exchanges. A jobber deals in certain securities. He transacts only with a broker and does not deal directly with the public.
8. **Branches:** These are establishments maintained by manufacturers at different places to promote sales. Example: Bata Shoe Company.
9. **Consumer Co-operatives:** These are owned and managed by the ultimate consumers. Such cooperatives buy and distribute goods mainly to the members.

### SERVICES PROVIDED BY MIDDLEMAN/ CHANNEL MEMBERS:

from the types of middlemen we can say that they perform various marketing functions and provide number of services to the manufactures and consumers.

1. **Services to the consumers:** middlemen provide various services to deliver the goods to the end use that is customer. It includes following services:
  - Purchasing facilities
  - Transport facilities/home delivery
  - Credit facility
  - Low inventory



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- Risk taking
  - Information about new products
2. **Services to the manufactures:** middlemen provide following services to the manufactures:
- Market development
  - Sales department
  - Price fixation
  - Sales forecasting
  - Storage facility
  - Advertising and promotion
  - Distribution system
  - Production scale improvement

### ONLINE PORTAL:

- Any online /web/ public portal refers to a web site or service that offers a broad array of resources and services, such as e-mail, search engine and online shopping malls.
- Initially, the term portal refers to well-known internet search and navigation sites provide a starting point for web consumers to explore and access information on the www.

### FEATURES:

- highly **safe** and secure
- consumer can access **varieties of data**
- **online transaction** facility
- **searching** and transaction facility
- availability of maintaining personal and publish content
- **multichannel** consistency

### FUNCTIONS:

- It provides **searching facility**
- It provides **various information**
- Task management and **work flow**
- Provides **regular notification**
- Provide **regular updating** for new products, services, offers etc.

### TYPES:

1. **Horizontal portal:** it targets the entire internet community. It is referred to as “mega portal”.
2. **Vertical portal:** it offers information and services customized to specific audience about a particular area of interests also called as portals and provides a gateway information related to a particular sector. For example- economics, sports.

### PROCESS/STEPS/WORKING OF ONLINE PORTAL: the steps are.....

1. registration
2. Defining request





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3. Fill out, upload forms
4. Ask queries by e-mail
5. Receive approval

### FLIPCART:

Flip cart is an **e-commerce company**. Its **head quarter** is at **Bangalore**, India. Currently the **CEO** of this company is **Kalyan Krishnamurthy**. Approximate **30000 employees** are working in flip cart. This company already introduced their own **product range of tables, laptops bags, USB**, and many more. They are running with complex business structure with nine firms. Some are registered in Singapore also.

**BUSINESS MODEL OF FLIPCART:** FLIPCART IS AN E-COMMERCE b2c (business to customer) shopping portal for Indian consumers. The mode is.....

1. Online portal
2. List of sellers who are involved in selling the desired product range
3. Customer browsing as per product choice
4. Create appealing discount offers
5. Shopping by customers for their required products
6. Shipment by flip cart to customers
7. Product deliver to the customers or may be return back
8. Sellers receive their price of the product by eliminate the commission of Flipcart for the contribution in selling

### SNAPDEAL:

Snapdeal, **Delhi based company** was **started by Kunal bahl/Rohit Bansal**- pass out from IIT Delhi in **2010**. They are at present trading more than **30 million products** and covers **6000 towns and cities approx**. In March 2015 company appointed Aamir khan as a brand ambassador. It was **owned by jasper infotech private limits**.

### BUSINESS MODEL OF SNAPDEAL:

1. List of sellers (More than 100000)
2. Listing of products to encourage sellers
3. Agreement with sellers regarding terms and conditions for selling on a commission basis
4. Customer places an order
5. Snapdeal passes that order to the seller
6. Seller makes the arrangement for pick-up and delivery to the customer
7. At the end of stipulated time period, Snapdeal makes total sales of the seller, deduct the commission plus service tax and remit the balance money to the seller

**Snapdeal operates through a market place business model of e-commerce, their channels are-**

- Website (snapdeal.com)
- Mobile/tablets web app on mobile
- Mobile app (android/ios)
- Direct tele sales
- Social networking

### AMAZON:



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Amazon.com, an American e-commerce and cloud computing company was founded by Jeff Bezos in 1994 in Washington, U.S.A. This company is world's largest E-tailor in terms of market cap and sales. It was started with bookstore and then addition of CDs/DVDs, MP3, software, games, furniture, toys, jewelry, clothes etc. made. It is world's largest producer. By countries wise amazon makes separation of their retail market. The slogan of Amazon is "work hard, have fun, make history".

### BUSINESS MODEL OF AMAZON:

1. Sellers send their products to different amazon warehouses, directed by amazon.
2. Product identification with FNSKU code
3. Warehouse team scans the barcodes and store similar products at a particular location
4. When a customer places any order on amazon, warehouse team knows from where to get the product from FNSKU and start dispatch process
5. Shipping the product to customers with amazon packaging

### PAYMENT GATEWAY

A payment gateway is a merchant service provider that allows credit card/debit card/ direct payment processing for online business by an e-commerce application service e.g. Banks.it facilitates transaction between a payment portal and the front-end processor or bank.

### FUNCTIONING OF ONLINE PAYMENT GATEWAYS:

1. Order placement by customer and select the option for payment
2. Customer click on submit order and enters their card/account details by using automatic phone answering service
3. The gateway collects the payment information and send it securely encrypted to the processing bank for authorization
4. Through visa or master card's payment network, processing bank sends the request to the card issuer for authorization
5. The visa or master card issuer approves or rejects the transaction and send response to the processing bank
6. The processing banks sends the response through the gateway to the particular merchant for completing the transaction
7. For approved transactions the merchant deposits the receipt with its processing bank for requesting payment
8. The processor credits the accounts of the merchant and submit the transaction to visa or master card for a settlement
9. Visa or master card pays the processing bank and at the same time, debit the amount from the card issuer's account
10. The card issuer then posts the transaction to the cardholders account

### ROLE OF PAYMENT GATEWAY IN E-COMMERCE:

- A payment gateway is an e-commerce based service provider that facilitates payment mode via cards or by direct clicks.
- It's a process between bank and customer.
- For online business, it is must.



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- Much faster and easier than cheques.
- When a customer places an order, the card details sent to payment gateway checks the validity with the issuing bank and also detect fraud if any.
- Much secure than manual credit card processing.
- It saves time of merchant.
- An online store with payment gateway eliminates the cost of storage space and staff requirements.

### **DRAWBACKS/LIMITATIONS OF PAYMENT GATEWAYS:**

- The server down issue, loss of connection etc. may lead the customers to not go through their online transaction.
- There are chances of fraud.
- Customer's information may be leak with banks.
- Limitation regarding maximum amount in account, the number of transactions per day.

### **DIFFERENT TYPES OF PAYMENT OPTIONS FOR ONLINE SHOPPING:**

#### ***Bank Transfers***

- Customers enrolled in an internet banking facility can do a bank transfer to pay for online purchases. A bank transfer assures customers that their funds are safely used, since each transaction needs to be authenticated and approved first by the customer's internet banking credentials before a purchase happens.

#### ***E-wallets***

- An e-wallet stores a customer's personal data and funds, which are then used to purchase from online stores. Signing up for an e-wallet is fast and easy, with customers required just to submit their information once for purchases. Additionally, ewallets can also function in combination with mobile wallets through the use of smart technology such as NFC (near field communication) devices. By tapping on an NFC terminal, mobile phones can instantly transfer funds stored in the phone.

#### ***Prepaid Cards***

- An alternative payment method, commonly used by minors or customers with no bank accounts. Prepaid cards come in different stored values for customers to choose from. Online gaming companies usually make use of prepaid cards as their preferred payment method, with virtual currency stored in prepaid cards for a player to use for in-game transactions. Some examples of prepaid cards are Mint, Ticketsurf, Paysafecard, and Telco Card. It appears that age rather than income is the trait that affects the adoption of prepaid cards, according to Troy Land's research.

#### ***Direct Deposit***

- Direct deposits are when customers instruct their banks to pull funds out of their accounts to complete online payments. Customers usually inform their banks on when funds should be pulled out of their accounts, by setting a schedule through them. A direct deposit is a common payment method for subscription-type services such as online classes or purchases made with high prices.

#### ***Cash***

- Fiat, or physical cash, is a payment method often used for physical goods and cash-on-delivery transactions. Paying with cash does come with several risks, such as no guarantee of an actual sale during a delivery, and theft.



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### LIST OF LEADING PAYMENT GATEWAYS:

The digital payment industry has grown exponentially over the past years but its growth has been made even more apparent by the COVID-19 pandemic. With consumers around the world transitioning to cashless transactions, there are still B2B payments processed with paper checks and invoices. While the majority of B2B companies have adopted electronic payment methods since the onset of the pandemic, the rest are still on the fence, skeptical about the security and operational resiliency of digital payments.

#### 1)Zaakpay:

- Zaakpay is a payments company based in New Delhi & Bangalore. Our aim is to solve the payment pain points for eCommerce in India. Our first product Webpay, a credit & debit card processing product has just released. In terms of product, we are still at the foundation level and our aspiration is to build a skyscraper. So there is a lot of new product that needs to be built bottoms up.

#### Features:

An online credit, debit card & internet banking processing gateway that is a breeze to set up and get running in no time. No more waiting endlessly before you can accept payments. Fill in our online application and we'll set you up in 2 working days!

- 100% online registration.
- Accept payments via Netbanking & Credit and Debit cards.
- All Indian & International Mastercards, VISA, Discover & Diner's cards acceptable.
- Over 52 Indian major banks supported for netbanking
- Customized payment flows to wow your customers and increased transaction success rates.
- Easy to integrate. Intuitive dashboards and APIs.

#### 2)CCAvenue:

- Launched in the year 2001, CCAvenue is one of the oldest payment gateways in India. It has recently overhauled the UI of their website and merchant dashboard. When I was talking with them for integration with our online invoicing software in 2014, they had the slowest onboarding period (15-20days). Nowadays, they are claiming to complete the activation in 24hrs.
- CCAvenue supports almost every bank and payment option out there. It's reliable and used by high volume eCommerce websites like Snapdeal. I would strongly recommend this payment gateway to startups if they wave off the annual maintenance charges completely.
- One of the major advantages of CCAvenue is that it supports multiple currencies. That means you can accept payments not only in INR but also in USD, EURO, etc. However, when I asked them about South African currency, ZAR, they said its not available. Interestingly, its listed on their website. So, its important to talk with their support executives before going for a multi-currency option.
- CCAvenue also seems to have support for the largest number of banks and payment options. For example, it supports EMI as a payment option from over 7 banks, 100+ debit cards, 53+ net banking, 4 cash cards, 2 mobile wallets and 40+ bank's IMPS.



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### Top clients of CCAvenue:

MakeMytrip, ClearTrip, Naukri, AirAsia, Yatra, redBus, Myntra and Snapdeal

### 3)EBS (E-Billing Solutions):

- EBS is owned by France based Ingenio group, which is a global leader in payment processing services. You will find mixed reviews for this payment gateway. Some of the ProfitBooks customers are happily using it since past 4-5 users but some reviews are really very negative. All over it is said that EBS has been around for a while and considered as a reliable payment gateway.
- EBS has recently lowered their charges due to competition and can be opted by small and medium sized businesses.
- EBS offers multi-currency processing and has significantly lowered the onboarding time for new users. It offers a decent UI and a good amount of payment processing options. However, I feel that the features like 'Auto Pay' are a double-edged sword and some merchants may not like it.

### Top clients of EBS:

BabyOye, Snapdeal, FirstCry

### 4) Citrus Pay:

- This is leading and fastest growing company. They started their operations in April 2011 and have more than 800 million users it is one of the fastest growing company.
- Citrus provides the mobile and digital payment technology to make the shopping in specific sectors for the customers comfortable. The company is first and initiator to bring out the industry's first payment solution such as 1- click checkout, wallet for cabs, consumer analytics, native mobile App payments and many more.

### 5) Direc Pay:

- DirecPay is an integrated online **payment gateway** solution for Indian merchants. ... DirecPay is one of the first Indian **payment** solutions providing a credit card **payment gateway** integrated with Debit Cards, Net Banking & Mobile payments along with a fast, reliable and secure passage for processing eCommerce payments.
- DiracPay is an easy and convenient option for merchants to grow their online business. DirecPay had contributed considerably to making India a huge market for retailers desiring to sell online. Hence, we can consider DirecPay among the **top payment gateways in India**. The service providers claim to offer cost-effective solutions along with numerous payment acceptance modes. They provide the merchants with a protected, vigorous technology policy that has proved to be revolutionary for online merchants.

### 6)Instamojo:

- Instamojo Payment Gateway allows new merchants to create a merchant account instantly to collect online payments with ease with or without a website. Charges of InstaMojo are quite reasonable.



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- With **InstaMojo International Payment Gateway**, a merchant can create a merchant bank account right away to amass online payments effortlessly. It can be done with or without a website. Even though it is kept on the second position, InstaMojo is quite a discussed name for a payment gateway. The first name that appears on your computer screen when you search for an ideal **online merchant website** is that of InstaMojo as it supplies several such facilities which others in this list do not provide the customer with.

### Charges

- Zero annual maintenance charge
- Transaction fee–Flat fee @2% + Rs 3 per transaction.

### 7)PayPal:

- **PayPal** payment gateway service is associated with the immensely popular payment option—PayPal. This global payment alternative is available in 200+ countries and has progressed 4 billion payments which include 1 billion payments through the mobile phone.
- Regularly, PayPal has over 175 million clients all around the world. An Indian corporation cannot admit Indian credit cards via PayPal due to which merchants in India use PayPal to obtain funds from the overseas clientele. This is due to banking regulations in India.
- Supporting more than 100 currencies, financially supporting departure service in the bank accounts in 57 currencies and clutching balances in the PayPal accounts in 26 currencies, PayPal has proved to be the best **international payment gateway for Indian merchants**. Merchants must have to have PayPal incorporated on his e-commerce Store to expect orders from global patrons.

### 8)Payoneer:

- Founded in 2005, **Payoneer** is a financial services brand that's a platform for online money transfers, digital payments, and providing customers with working capital. They are also a worldwide Member Service Provider of Mastercard. Companies that use Payoneer include Airbnb, Google, and Fiverr.

### Advantages:

- Payoneer supports over 200 countries with 150 local currencies. The financial payment service gives you the ability to directly withdraw funds with a debit card, as well as send and receive funds domestically and internationally.
- Payoneer fees are slightly high at \$3 per transfer but are free to receive. If you live in the United States, you can also make payments using an e-check. The Payoneer Billing Service allows you to pay other Payoneer customers with ease, and they also offer a mobile app.
- The prepaid Mastercard (not Visa) the brand issues facilitates transferring funds. It can be used as a debit card for any type of transaction, including e-commerce. Payments are sent to Payoneer Mastercard, rather than going into your online account (and then transferring to a local bank account).

### Limitations:

- When comparing PayPal vs Payoneer, rates and exchange fees are higher for Payoneer. Payoneer has a minimum monthly payment requirement of \$20,000. Additionally, they only allow transfers to other Payoneer accounts.
- There is no third party involvement. This can present a big problem if you have a customer that doesn't want to work with the brand. You could lose the job. Private clients can only withdraw money on the platform. They can never transfer money.



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- Depending on the country, the platform adds a currency conversion charge of 2% to 2.75%. You are subject to Mastercard's exchange rates if you use it in a non-listed currency. Payoneer, unlike most other money transfer services, charges an annual fee to use the Mastercard.
- When it comes to branding, most payees register on the Payoneer network and are thus subject to its marketing. This includes all email communications, which come from the Payoneer and not the payer (like they should).

### 9) Emvantage:

- EMVANTAGE Payments was launched in 2012 and is based in New Delhi, India.
- Emvantage offers an online payment gateway platform compatible with credit card, debit card, and net banking. It enables the banks and merchants to offer PCI DSS 2.0 compliant online payment facility to their customers, without investing in the online acquiring infrastructure.
- The platform's MIS tool allows users to extract daily, weekly, monthly, and quarterly merchant and bank reports. Its helpdesk management ranges from onboarding to back office management and support ticket management.

### 10) 2 checkout:

- It was founded in year 1999. 2 checkout payment gateway is a global leader in payment services. It provides online sales conversions by providing global buyers with diverse payment options. The services are used by more than 50000 merchants.
- 2 checkout is attributed with features like providing transactions in 196 different countries through 8 payment methods, 15 languages and 26 currencies. Thus, it creates one of the foremost processors of virtual transactions across the world.

### Features:

- No setup, termination, or monthly fees
- Advanced fraud protection
- Accepts 87 currencies and 15 languages in over 211 countries
- Accept major payment methods including credit cards, debit cards, and PayPal
- Easy website integration and great support

### 11) RazorPay:

- In this list of **top 10 payment gateways**, RazorPay tops the list. It has the specialty which no other **online payment sites** present in the list of **top 10 payment gateways** have. Yes, it is the only payment platform that permits businesses to admit, practice and distribute.
- For this purpose, the company owns a product suite. Also, with this payment system, one can easily access all payment modes which **other payment systems in India** offer like a credit card, debit card, net banking, UPI and wallets. Get the uppermost level of tech amalgamation with reasonable **RazorPay**

### Pricing.

### Charges

- Zero annual maintenance charge
- No setup fee
- 18% GST applicable on the transaction fees.
- Transaction fee per transaction:
- 2% for every successful transaction
- +1% on international cards, EMI and Amex



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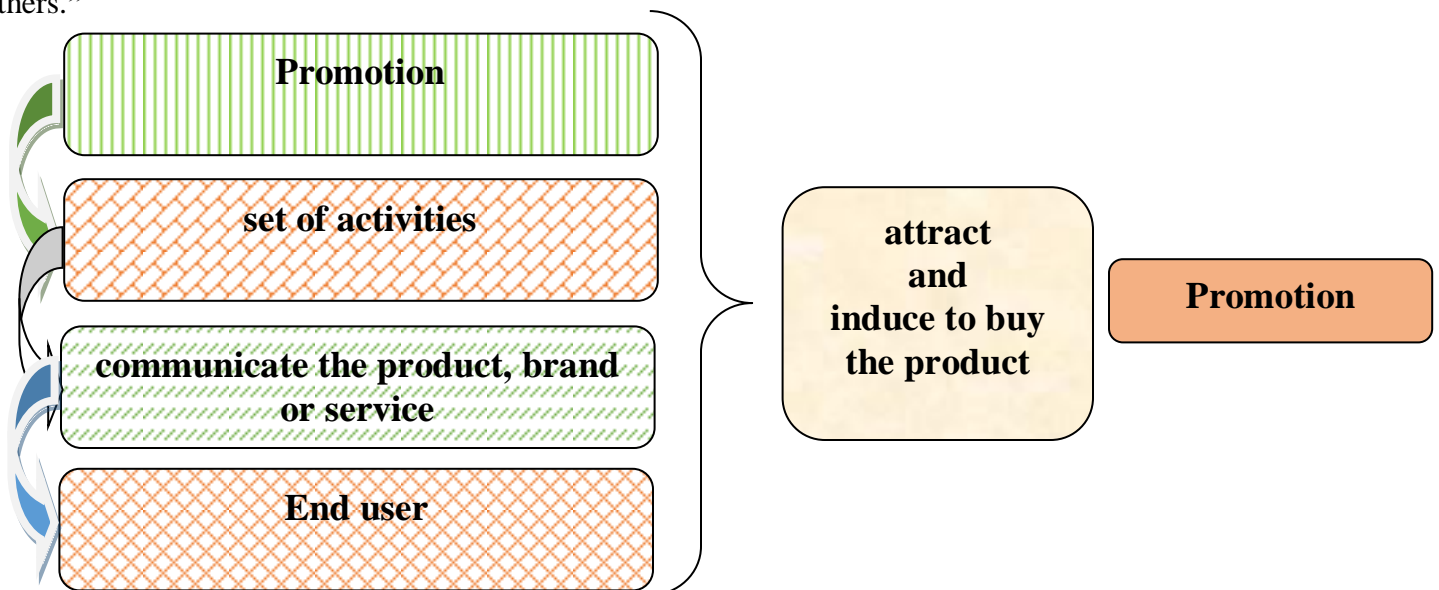
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### UNIT- 4 PROMOTION DECISIONS

#### INTRODUCTION OF MARKET PROMOTION:

- Promotion is the component of a company's marketing system that involves delivery of messages to target customers that emphasizes the benefits of your brand, products and services.
- A few common communication tools are used in a promotional plan. Promotion is also one of the elements in the promotional mix or promotional plan.
- These are personal selling, advertising, sales promotion, direct marketing publicity and may also include event marketing, exhibitions and trade shows.
- A promotional plan specifies how much attention to pay to each of the elements in the promotional mix, and what proportion of the budget should be allocated to each element.

**DEFINITION:** “Promotions refer to the entire set of activities, which communicate the product, brand or service to the user. The idea is to make people aware, attract and induce to buy the product, in preference over others.”



#### PROMOTION MESSAGE:

- A promotion message should be as per needs and wants of consumers.
- It should specify the features of the product.
- The medium of promotion should be effective so as to create a desire in the mind of the customer to purchase particular product.
- it may be in spoken, written. Pictures, video, audio will effectively convey the message to the targeted public.
- A promotion message should create a positive image in the mind of customer. It should not be misleading. Promotion message is that the one on which the public can take the decision about the product.





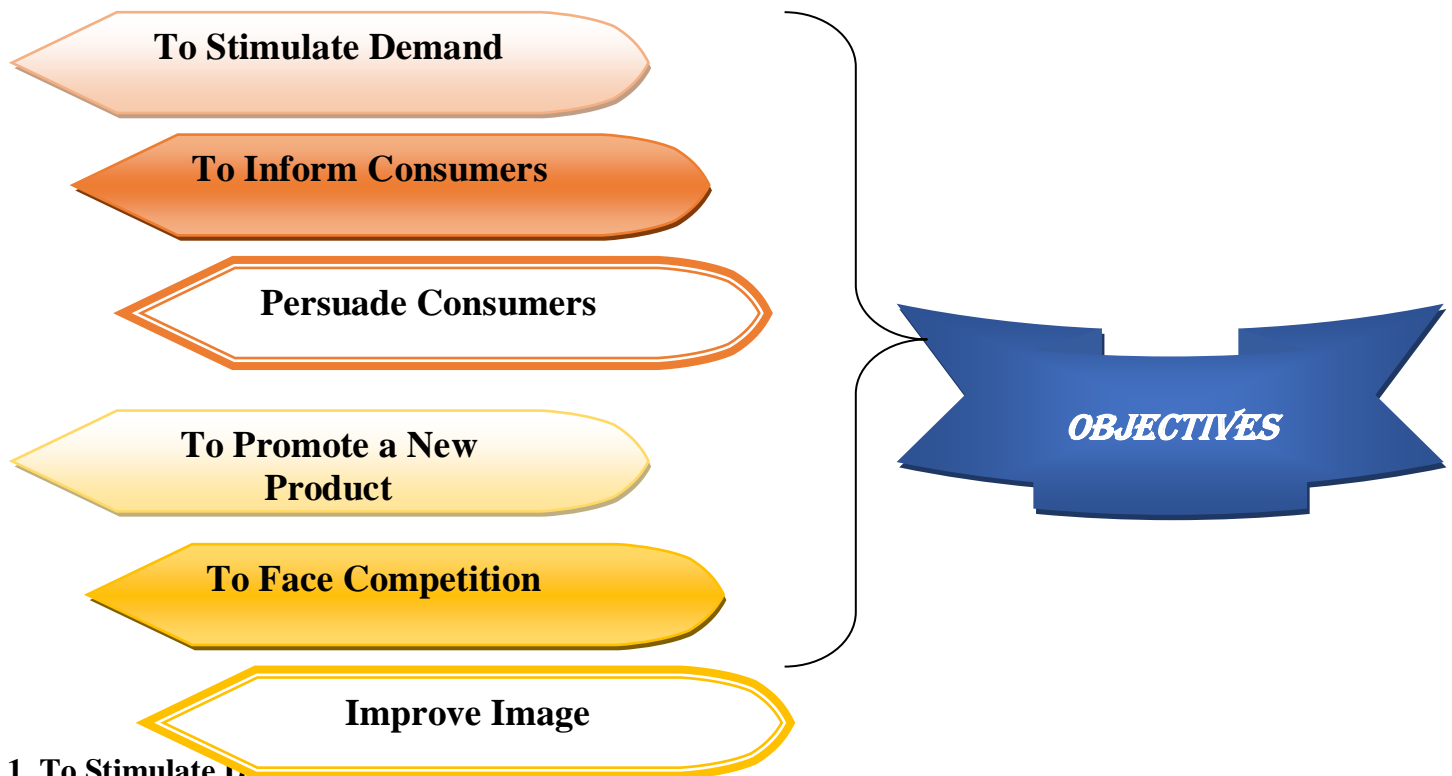
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## OBJECTIVES/IMPORTANCE OF MARKET PROMOTION:



### 1. To Stimulate Demand:

- It is the primary objective of market promotion. Through the use of appropriate means of market promotion, such as advertising, sales promotion, personal selling, and so forth, the company can stimulate demand for the product. Market promotion efforts convert potential buyers into actual buyers.
- Company, by highlighting product benefits, tries to match the product with needs, wants, and expectations of buyers. As per need, various means of market promotion are used to establish the information link with the target customers.

### 2. To Inform Consumers:

- Promotion is aimed at informing consumers about features, qualities, performance, price, and availability of firm's products.
- Market promotion is also a valuable means to inform consumers the changes made in the existing products and introduction of new products.
- In the same way, market promotion, by various tools of market communication, is used for communicating the special offers, price concession, utility of products, and incentives offered by the company.

### 3. To Persuade Consumers:

- Market promotion is an effective way to persuade consumers the superiority of product over competitors.



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- A firm can communicate competitive advantages the product offers to distinguish it from competitors' products. Obviously, market promotion can assist the firm to convince buyers that the firm's product is the best solution to their unmet needs and wants.
- Advertising is one of the most effective tools to distinguish the product from competitors' products.

#### 4. To Promote a New Product:

- In a large and decentralized market, market promotion is an inevitable medium to promote a new product. By suitable promotional strategies, a company can successfully introduce a new product in the market as against existing products.
- Company can inform about availability, distinct features, and price of newly launched product. In every stage of consumer adoption of a new product, market promotion has critical role to play.

#### 5. To Face Competition:

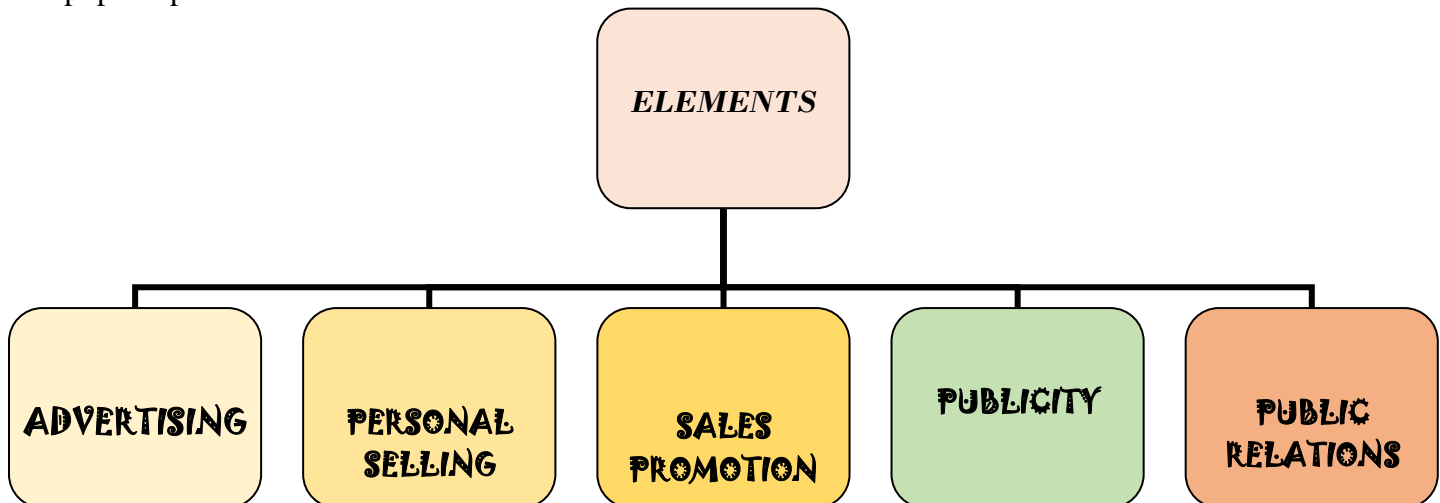
- Market promotion enables the firm to face competition effectively. In today's market situation, it is difficult to stand without the suitable promotional efforts.
- In short, it can be said that marketer can fight with competitors effectively, can prevent their entry, or can throw the competitor away from the market by formulating and implementing effective market promotion strategies.

#### 6. To Create or Improve Image:

- Advertising, personal selling, and publicity and public relations – all promotional tools – are capable to create or improve image and reputation of the firm. Many companies have become popular in the market due to effective market promotion.
- Company can reach the customers at every corner of the world through market promotion.

### ELEMENTS OF MARKET PROMOTION MIX:

The popular promotional elements are:



#### 1. ADVERTISING:

- Advertising is defined as any paid form of non-personal presentation and promotion of ideas, goods, and services by an identified sponsor.
- It is a way of mass communication. It is the most popular and widely practiced tool of market promotion. Major part of promotional budget is consumed for advertising alone.



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- Various advertising media – television, radio, newspapers, magazines, outdoor means and so forth – are used for advertising the product.

### Characteristics of advertising are as follow:

- Advertising is non-personal or mass communication. Personal contact is not possible.
- It is a paid form of communication.
- It is a one-way communication.
- Identifiable entity/sponsor-company or person gives advertising.
- It is costly option to promote the sales.
- It can be reproduced frequently as per need.
- Per contact cost is the lowest.
- Various audio-visual, print, and outdoor media can be used for advertising purpose.
- It is a widely used and highly popular tool of market promotion.

### Objectives of advertising:

#### 1) Introduce a product

- The most common reason Advertising is used is to introduce a new product in the market. This can be done by existing brands as well as new brands. Have a look at the latest iPhone in the market or a Samsung smartphone and you will find a lot of advertisement for these new products. The objective of advertising here is to tell customers – “Here is the new product we have launched”

#### 2) Introduce a brand

- There are many startups in the market today and many of them are services. Services are generally marketed as a brand rather than marketing their individual service product. Thus, Uber will market its own brand and introduce that Uber has started servicing customers in a new market. Same goes for Oracle or Accenture – Companies which market their brand and their presence in the market rather than marketing an individual product.

#### 3) Awareness creation

- According to the AIDA model, the most important job of advertising is to get attention which is nothing but Awareness creation. Advertising needs to capture the attention of people and make them aware of the products or their features in the market.
- Example – Most of the Bank ads that you see are awareness campaigns. The ads that advertise the benefits of savings / mutual funds or benefits on credit and debit cards are all awareness creation ads.

#### 4) Acquiring customers or Brand switching

- One of the major objectives of advertising and the first objective of many advertising campaigns is to acquire more customers.
- This is also known as making the customers switch brands. This can happen by passing on a strong message so that the potential customer leaves the brand which he is tied up with and comes to your brand.
- Example – Most telecom companies launch plans and strategies just to acquire customers and then advertise these strategies in the market so that the customer switches brands. There is hardly any differentiation in the telecom market – thus advertising is a major way to acquire customers. The Vodafone Zoozoo campaign was just that – Influence the customers and create passion in such a way that they do brand switching.



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### 5) Differentiation and value creation

- A most important aspect of Advertising is to differentiate the product or the service from those of the competitor. A customer can only differentiate between services based on the value the firms provides over that of competitors.
- If a competitor is just advertising the features, whereas your firm advertises the promises and commitments that it will keep, naturally more customers will “trust” your brand over others. This is the reason that advertising is used commonly to create value and to differentiate one brand from another.
- Coca cola, Toyota, Amazon are some of the most trusted brands in the market. It is no doubt that these brands are also amongst the top advertisers in their respective segments. These brands target value creation as well as differentiation via their advertising campaigns.

### 6) Brand building

- When a brand regularly advertises and delivers quality products and fulfills the promises it makes, automatically the value of the brand is built.
- However, there are many other aspects of brand building. One of the first ones is to advertise via ATL and BTL campaigns etc.
- Brands have different objectives of Advertising. Brands like P&G and HUL regularly invest funds in building a good brand value for the parent brand. By doing so, even if one brand is affected, the parent brand is untouchable.
- Recently we observed the problems of Maggi in India where Maggi was banned completely due to high lead content.
- However, this did not affect the parent brand Nestle much and neither affected its other brands like Nescafe which had done their own brand building and were independent of the parent brand. This brand was built by good products and constant advertising towards building brand equity and making a connect with the audience.

### 7) Positioning the product – Product and brand recall

- One of the key factors in the actual purchase of a product is the products recall and the brand recall at the time of purchase. Amongst the objectives of advertising, one objective is to correctly position the brand in the minds of the customer.
- Examples include premium brands like Ralph Lauren, Gucci, Hermes or others which are clearly positioned premium. This position is achieved by first having a very premium product line which is high priced but it is also achieved by buying premium advertising and placing the ads in media vehicles which are very premium.
- Besides premium marketing, we can also look at niche marketing. Kent is a company which has focused all its advertising on its purification capability. They claim they are the masters of water purifiers. Their repeated advertising creates a high product and brand recall in the minds of the customers thereby positioning them as the top purchased brand in the water purifier segment.

### 8) Increase sales

- Naturally, with so many steps being taken to advertise the product, it is no doubt that one of the objectives of advertising is to increase sales. Many a times this objective is achieved via advertising. However, if the campaign is improper or the audience is not targeted properly, then advertising can fail in its objective.



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- Nonetheless, there are many seasonal products wherein an immediate increase in sale is observed due to advertising. The best example is Ice cream brands which advertise heavily during the summer months because they know that advertising will immediately influence the sales figures. They do not waste money in advertising during the winter season at all.
- Similarly, you will see many ads of raincoats during rainy season and ads of winter wear during winter seasons. All these ads are placed to increase the sale of the product immediately.

### 9) Increase profits

- With the value being communicated and the brand being differentiated as well as sales being increased, there is no doubt that advertising can contribute a lot to increasing profits. Advertising should never be looked at as an expense or a liability. In fact, it is an investment for a firm just like a brand is an investment.

### 10) Create Desire

- Again, referring to the AIDA model, one of the key factors in advertising is to create a desire for the product so that the customer wants the product. Brands which are known to do this are BMW, Audi, Harley Davidson, Adidas and others. These brands are master of advertising where they create so much desire for the product that the customer absolutely wants a product even if he doesn't need it.

### Different types(media) of advertising:

Nine types of advertising media available to an advertiser are: (1) direct mail (2) newspapers and magazines (3) radio advertising (4) television advertising (5) film advertising (6) outdoor advertising (7) window display (8) fairs and exhibition and (9) specially advertising!

#### (1) Direct Mail:

- This is one of the oldest types of advertising media.
- Under this method message is sent to the prospective buyers by post.
- A mailing list is prepared for this purpose. Circular letters, folders, calendars, booklets and catalogues are sent under this type of advertising. In the sales letter an appeal is made to the buyers separately.

#### (2) Newspapers and Magazines:

- These are the important forms of press advertising, newspapers are the most effective and powerful medium of advertising.
- Newspapers contain valuable information with regard to different current events. It may be referred to as 'a store house of information'.
- There are daily, bi-weekly and weekly newspapers. Newspapers have widest circulation and read by many people. The newspapers may be local, provincial or national.
- The newspapers offer widest circulation and have universal appeal. The cost of advertising is lesser as compared to other media. The newspapers have more repetitive value and are very helpful in introducing a new product. These are suitable for all types of goods having wider markets.

#### Magazines:

- Magazines or periodicals are other important media of communication.
- Magazines may be released weekly, monthly, quarterly, bi-annual or annual. These are read with more interest by the readers as compared to newspapers.
- Advertisements given in magazines are more descriptive and attractive. They are usually in coloured form which depicts the product nicely and gives lasting impression to the reader.



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### (3) Radio Advertising:

- Radio advertising is very popular these days.
- The advertisements are broadcasted from different stations of All India Radio. Radio advertising can be explained as “word of mouth advertising on a wholesale scale”. The advertising messages can be in different regional languages.

### (4) Television Advertising:

- This is the latest and the fast developing medium of advertising and is getting increased popularity these days.
- It is more effective as compared to radio as it has the advantages of sound and sight. On account of pictorial presentation, it is more effective and impressive and leaves ever lasting impression on the mind of the viewer.

### (5) Film Advertising:

- This is also known as cinema advertising.
- This also provides sight and hearing facilities like television.
- Short advertisement films are not prepared by big business houses which are sent to different cinema houses to be shown to the audience before the regular shows or during the intermission. It has more repetitive value but not to the same viewers. Its coverage is limited which benefits the local population only.

### (6) Outdoor Advertising:

- This type of advertising include different media like posters, placards, electric displays or neon signs, sandwichmen, sky writing, bus, train and tram advertising.
- This is also known as ‘Mural advertising’. The main aim of outdoor advertising is to catch the attention of passerby within twinkling of an eye.

### (7) Window Display:

- It is a common method which is usually undertaken by retailers who display their products in the shop windows in order to attract the customers. This is also known as exterior display.
- It is the most effective and direct method of influencing the people. Window display has direct appeal to the onlookers. It is instrumental in arousing the desire to purchase in the prospective customers. It acts as a silent salesman.

### (8) Fairs and Exhibition:

- A trade exhibition or a fair is organised on extensive scale which is attended by different manufacturers and traders along with their products to be sold to the large number of people who visit the exhibition.
- The exhibition may be either organised on local, provincial or international basis.

### (9) Specially Advertising:

- Most of the business houses in order to increase their sales, advertise their products, give free gifts like diaries, purses, paper weights and calendars to the customers. The name of the firm or the dealer is inscribed on the articles presented.

### Merits:

- Can reach many consumers simultaneously
- Relatively low cost per exposure.
- Excellent for creating brand images.
- High degree of flexibility and variety of media to choose from;



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- Can accomplish many different types of promotion objectives.

### Demerits:

- Many consumers reached are not potential buyers (waste of promotion money)
- High visibility makes advertising a major target of marketing critics.
- Advertising exposure time is usually brief
- Advertisements are often quickly and easily screened out by consumers.

**2. PERSONAL SELLING:** Personal selling is face to face contact between a seller representative and those people with whom the seller wants to communicate. Non-profit organization, political candidates, firms and individuals use personal selling to communicate with the public.

### Characteristics of personal have been listed below:

- Personal selling is an oral, face-to-face, and personal presentation with consumers.
- Basic purpose is to promote products or increase sales.
- It involves two-way communication.
- Immediate feedback can be measured.
- It is an ability of salesmen to persuade or influence buyers.
- It is more flexible way of market communication.
- Per contact cost is higher than advertising.
- It involves teaching, educating, and assisting people to buy.

### Objectives of personal selling:

- ✓ To do the entire job.
- ✓ To serve the existing customers.
- ✓ To search out and obtain new customers.
- ✓ To secure and maintain customers' co-operation in stocking and promoting the product line.
- ✓ To keep customers informed of changes in the product line.
- ✓ To assist customers in selling the product line.
- ✓ To provide technical advice and assistance to customers.
- ✓ To handle the sales personnel of middlemen.
- ✓ To provide advice and assistance to middlemen whenever needed.
- ✓ To collect and report market information on interested matters to company management.

### Short term (quantitative) objectives:

- ✓ To obtain a specified sales volume.
- ✓ To obtain sales volume in ways that contribute to profit objectives, by selling proper mix of products.
- ✓ To keep the personal selling expenses within specified limits.
- ✓ To secure and retain a specified share of the market.

### Process of Personal Selling:

1. **Pre- sale preparation:** Every salesman has to obtain the information about company's product, price, customers, competitors, product, market etc. this pre- sale preparation made by the salesman to become aware and ready for the approach of the customers.



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- Looking for prospective customers:** The salesman has to identify his prospective customer and make a list of them. He can collect the data from company's previous data. The information about the prospective customer can be obtained from the existing customers or regular customers also.
- Pre- approach to individual customers:** the salesman should get the information about the buying motives of the customers. He should know the buyer's behavior, need and intention of the customers.
- 4. Presentation:** the salesman need skill for the presentation of the product. This presentation is explain by A-I-D-A-S theory.

**A - ATTENTION:**It is the starting point in the sales process. The attention of the prospect must be drawn to the product, the want that the product is able to satisfy and the buying motive to which the product appeals.

**I - INTEREST:** The salesman must create an interest in the mind of the prospect with the help of effective sales talk and product information, catalogues, visual aids a salesman can create buyer's interest in product.

**D - DESIRE:** In this step, salesman must ignite the desire of the prospect. Here salesman must use all his power of persuasion and conviction to create an urge to buy. Salesman must handle problems, doubts and objections with patience.

**A - ACTION:**It is a positive action of prospect in terms of placing order." Here the prospect becomes actual buyer. The want converted into demand.

**S - SATISFACTION:** It is a follow-up or post-sale step to satisfy buyers. It is necessary to ensure customer satisfaction and to remove any post-sale problems that may arise. Satisfaction leads to repeat orders.

- 5. Post sale services:** In this stage it is necessary to ensure customer satisfaction and to solve any doubts of the customer regarding products. And ultimately satisfaction leads to repeat purchases by customers which create and build good image in the mind of customer.

### Merits:

- Can be the most persuasive promotion tool; sales people can directly influence purchase behaviours.
- Allows two-way communication.
- Often necessary for technically complex products.
- Allows direct one-on-one targeting of promotional effort.

### Demerits:

- High cost per contact.
- Sales training and motivation can be expensive and difficult.
- Personal selling often has a poor image making sales force recruitment difficult.
- Poorly done sales presentations can hurt sales' as well as company, product and brand images.

<u>Advertising</u>	<u>Salesmanship(Personal selling)</u>
1. Advertising is an <b>impersonal attempt</b> to persuade people to buy goods or services.	Salesmanship is a <b>personal attempt</b> to persuade people to buy goods or services.
2. Advertising is concerned with the	Salesmanship is concerned with the





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establishment of <b><u>contact with the people through message.</u></b>	establishment of <b><u>contact with the people through persons</u></b> , i.e., salesmen/saleswomen.
4. Through advertising, a <b><u>large number of people</u></b> can be <b><u>contacted</u></b> .	The number of people <b><u>contacted</u></b> through salesmanship is <b><u>limited</u></b> .
5. Advertising <b><u>saves</u></b> much <b><u>time</u></b> .	Salesmanship is a <b><u>time-consuming</u></b> process.
7. The <b><u>success of advertising depends</u></b> largely upon the advertising message and the <b><u>media chosen for advertisement</u></b> .	The <b><u>success</u></b> of salesmanship <b><u>depends</u></b> upon the <b><u>qualities of the salesmen</u></b> .
8. <b><u>Advertisement cannot clarify the doubts</u></b> or answer objections of the consumers.	Salesmanship can <b><u>clarify the doubts</u></b> and answer the objections of the customers effectively.
13. Advertising is a <b><u>one-way</u></b> means of communication.	Salesmanship is a <b><u>two-way</u></b> means of communication.
14. In the case of advertising, the <b><u>response</u></b> from the prospects (i.e., prospective customers) <b><u>cannot be known immediately</u></b> .	In the case of salesmanship, the <b><u>response</u></b> from the prospects can be <b><u>known immediately</u></b> .
15. In the case of advertising, <b><u>demonstration</u></b> of the product is <b><u>not possible</u></b> .	In the case of salesmanship, <b><u>demonstration</u></b> of the product by salesmen is <b><u>possible</u></b> .
16. Advertising is <b><u>concerned with all persons in general</u></b> , regardless of their interest in the product advertised.	Salesmanship is generally <b><u>concerned with only those persons</u></b> who are supposed <b><u>to be interested in the product</u></b> .
17. Advertising <b><u>promotes the art of craftsmanship</u></b> , i.e., printing, writing, photography, editing, music, acting, etc.	Salesmanship promotes the <b><u>art of speaking</u></b> .
18. The <b><u>task</u></b> of advertising is <b><u>very easy</u></b> .	Salesmanship is a <b><u>difficult task</u></b> , as it involves tackling a number of issues.
20. Advertising is relatively <b><u>cheap</u></b> .	Salesmanship is <b><u>costly</u></b> .

### 1. SALES PROMOTION:

- Sales promotion includes activities that seek to directly induce or indirectly serve as incentives to motivate, a desired response on the part of the target customers company sales people and middle men and their sales force.
- These activities add value to the product. In sales promotion the activities like discounts, gifts, contests, premiums, displays and coupons are included.



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## Objectives/Importance of sales promotion:

- To increase sales by publicity through the media which are complementary to press and poster advertising.
- To disseminate information through salesmen, dealers etc., so as to ensure the product getting into satisfactory use by the ultimate consumers.
- To stimulate customers to make purchases at the point of purchase.
- To prompt existing customers to buy more.
- To introduce new products.
- To attract new customers.
- To meet competition from others effectively.
- To check seasonal decline in the volume of sales.

## Types/Methods/techniques/tools of Sales Promotion:

Customer promotion	trade promotion	sales force promotion
❖ Free samples vouchers	❖ Dealer contest	❖ Bonus to sales force
❖ Branded offers	❖ Point of sales material	❖ Sales force contest
❖ Money refund	❖ Shop board painting	❖ Sales meeting
❖ Price off contest	❖ Dealer discount	
❖ Draw	❖ Dealer meets	
❖ Cheap bargaining		

### A) Consumer Promotion: -

- Sales promotion activity which **motivate** the consumer for **purchasing the product** is known as consumer promotion.

#### 1) Free samples:-

- **This type of consumer promotion** is done by company **at the time of introducing new product** in the market.
- Generally this tools is **used in FMCG**(Fast moving consumer goods)product.
- e.g., Free sample of shampoo, detergent, etc.

#### 2)vouchers:-

- It is a certificate that is **introduce with purchase of product** and it can be return in form of discount on next purchase.
- e.g., Dominoz pizza using this sales promotion.

#### 3)Branded offers :-

- In this type of sales promotion, company **offers two or more product together** at discounting price.
- This will **help in clearing the stock** of product.



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### 4) Money refund :-

- In this case generally **company give guarantee of the product**, If the product is **not get the satisfaction** by the customer than the company **refund that amount** to the customer.
- e.g., Amway offer money refund in their medical product.

### 5) Price off :-

- As a part of price off, company offer the product **at less price from MRP price**.
  - It means **company offer discount** on purchasing the product.
- e.g., Pepsi Rs.15–  
Now at just Rs.10

### 6) Contest :-

- Generally marketer are arranged such **contest among the customer** and test the knowledge of customer about the product and other skill.
- Customer are **awarded by cash price** for winning the contest.

### 7) Draw :-

- Under this schemes **purchase have to make certain amount of purchase** for take part in the draw, after the expiry of the time, draw will happen and attractive prices will given to the winner.
- e.g., Newspaper annual lucky draw

### 8) Cheap bargaining :-

- As a part of this sales promotion for customer is **offered by the another product at cheaper rate** along with the purchase of particular product.
- e.g., One plastic bucket free at purchase of 1 kg detergent.

## **B. Trade Promotion**

- The sales promotion activity which motivate or encourage retailer, wholesaler and any middleman for selling the company's product are known as trade promotion.

### 1) Dealer contest :-

- Generally manufacturer arranged such type of **contest among their dealer** as a part of contest the specific **target is given to the dealer** and the dealer who complete that target within specific time period than he will awarded by cash price or tour.

### 2) Point of sales material :-

- As a part of this sales promotion tools **traders are given attractive point of sales material** for storage of the products.
- e.g., Coca cola and Pepsi offer attractive cold storage.

### 3) Shop board painting :-

- As a part of sales promotion tools, company **offer attractive board for shop** which motivate the retailer.
- e.g., Oppo, vivo etc, company are using this type of sales promotion.

### 4) Dealer discount :-



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- As a party of sales promotion tools, company **offer a large discount on bulk purchase** made by retailer or sometimes offer free goods on bulk purchase.

### 5) Dealer meets :-

- As a party of sales promotion tools, company **organized meetings for regular dealer at specific location and all expenses are bare by company** recognize various dealers for his achievement.

### C. Sales force promotion :-

- The sales promotion activity which motivate or encourage the salesman for selling more products are known as sales force promotion.

#### 1) Bonus to sales force :-

- As a party of sales promotion tools, company **offer bonus to their sales force** who achieve the specific sales target.

#### 2) Sales force contest :-

- As a party of sales promotion tools, company arranged the **contest among their sales force**.
- The salesman are **awarded cash prizes**, free tour etc. Who achieved a specific sales target decided by company.

#### 3) Sales meeting :-

- As a party of sales promotion tools, **company arranged meeting of sales force regularly**, at the end of month or every 3 months.
- In this meeting **company provide market updates** for improving the performs of sales force.

### **Merits:**

- Excellent approach for short term price reductions for stimulating demand.
- A large variety of sales promotion tools to choose from.
- Can be effective for changing a variety of consumer behaviors.
- Can be easily tied in with other promotional tools.

### **Demerits:**

- May influence primarily brand-loyal customers to stock up at lower price but attract few new customers.
- May have only short-term impact.
- Over use of price related sales promotion tools may hurt brand image and profits.
- Effective sales promotions are easily copied by competitors.

**4. PUBLICITY:** Publicity is news carried in the mass media about a firm and its products, policies, personnel or actions. The unique feature about the publicity is that it is a non-paid form of promotion, organizations frequently provide the material for publicity in the form of news, releases, photographs and press conferences.

### **Main characteristic of publicity includes:**

- Publicity involves obtaining favorable presentation about company or company's offers upon radio, television, or stage that is not paid for by the sponsor.
- It is a non-paid form of market promotion. However, several indirect costs are involved in publicity.
- It may include promotion of new product, pollution control efforts, special achievements of employees, publicizing new policies, etc., for increasing sales. It is primarily concerning with publishing or highlighting company's activities and products. It is targeted to build company's image.
- Mostly, publicity can be carried via newspapers, magazines, radio or television.



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- Company has no control over publicity in terms of message, time, frequency, information, and medium.
- It has a high degree of credibility. Publicity message is more likely to be read and reacted by audience.
- Publicity can be done at a much lower cost than advertising. Company needs to spend a little amount to get the event or activity publicized.
- Frequency or repetition of publicity in mass media depends upon its social significance or the values for news. Mostly, it appears only once.

### **Objectives of Publicity:**

#### **1. Building Corporate Image:**

- Through publicity, a company can build or improve its corporate image. People trust more on what press reporters, columnists, or newsreaders say via mass media independently than what the company says. Publicity highlights the company's name and operations. It popularizes the name of the company.

#### **2. Economy:**

- It is a cost saving medium. Here, a company is not required to pay for message preparation, buying space and time, etc. The cost involved is much lower than other means of market promotion. Financially poor companies may opt for publicity.

#### **3. Assisting Middlemen and Salesmen:**

- Publicity can help middlemen and salesmen in performing the sales-related activities successfully. Information conveyed through publicity speaks a lot of things on behalf of sellers. Publicity makes selling tasks much easier.

#### **4. Information with High Creditability:**

- Sometimes, publicity is targeted to disseminate information more reliably. Customers do not express doubts on what publicity appeals. Customers assign more value to information supplied by mass media via publicity than by the advertisement.

#### **5. Removing Misunderstanding or Bad Image:**

- Company can defend the product that has encountered public problems. In many cases, publicity is aimed at removing misunderstanding or bad impression. Whatever a publicity conveys is more likely to be believed.

#### **6. Building Interest on Product Categories:**

- Publicity attracts attention of buyers. Due to more trusted news, people build interest in various products and activities.

#### **7. Newsworthiness Information:**

- Publicity publicizes the fact in an interesting ways. Publicity is eye-catching in nature. People do not skip the news presented by publicity that more likely happens in case of advertising. For example, when a new product is launched by the distinguished personalities like film star, eminent artist, or cricketer in a grand function, the product becomes popular within no time.

#### **Merits:**

- As “free advertising”, publicity can be positive and stimulate demand at no cost.
- May be perceived by consumers as more credible, because it not paid for by the seller.
- Consumers may pay more attention to these messages, because they are not quickly screened out as are many advertisements.

#### **Demerits:**



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- Publicity is not always possible because it is not in the hand of the seller.
  - Limited repetition of publicity messages: seldom along.
  - Term promotion tool for brands.
  - Publicity can be negative and hurt sales as well as company product, and brand images.
  - Company cannot completely control the content of publicity messages.
5. **PUBLIC RELATIONS:** The public relations are comprehensive term that includes maintaining constructive relations not only with customers, suppliers, and middlemen, but also with a large set of interested publics. Note that public relations include publicity, i.e., publicity is the part of public relations.

### **Features of Public Relation:**

- Public relations are a paid form of market promotion. Company has to incur expenses.
  - Public relations activities are designed to build and maintain a favorable image for an organization and a favorable relationship with the organization's various publics.
  - It is an integral part of managerial function. Many companies operate a special department for the purpose, known as the public relations department.
  - It involves a number of interactions, such as contacting, inviting, informing, clarifying, responding, interpreting, dealing, transacting, and so forth.
  - Public relations cover a number of publics – formal and informal groups. These publics may be customers, stockholders, employees, unions, environmentalists, the government, people of local community, or some other groups in society.
  - Public relations activities are undertaken continuously. It is a part of routine activities.
  - All the officials, from top level to supervisory level, perform public relations activities.
  - In relation to modern management practices, the public relations are treated as the profession.
- Thus, there are five major elements or promotion mix. Each tool/element has its advantages, limitations, and applicability. Depending upon company's internal and external situations, one or more tools are used. Mostly, company's promotional program involves more elements, each element supplements others.

### **Parties/methods of public relation or communication functions public relations:**

- **Public Relation with Employees:**
- Success and failure of any business unit is largely determined by its employees. Most of business problems can be ended only by the enthusiastic, capable, and loyal employees.
- In order to maximize contribution of employees, the company needs to develop the sound public relations with them.
- **Public relations with customers:**
- Customers are base for any business. A firm is exists for customers.so a firm should main healthy relations with customers what they actually deserve from company. Customers include existing and potential both.
- **Public Relations with Government(s):**
- The government plays a vital role in each of business activities. Its policies, rules, and administrative procedures affect the business in several ways.



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- In order to avoid unnecessary restrictions or interference and to take maximum advantages of the government schemes/facilities, a businessman has to develop constructive public relations with the government. The government includes the central government, the state government, other government offices, and the local bodies including Panchayat, Municipality, Municipal Corporation.
- **Public Relations with Suppliers and Middlemen:**
- Suppliers and middlemen have the dominant role in company's success. Suppliers provide inputs required for carrying out business operations effectively while the middlemen assist in distributing the products to ultimate consumers.
- A company should develop positive public relations with both suppliers and middlemen.
- **Public Relations with Mass Media:**
- Mass media including radio, television, newspapers, etc., have prominent role to reach other parties. They are capable to carry company's message to several millions people successfully. They can change attitudes the people hold about the company.
- **Public Relations with Servicing Agencies:**
- Such servicing agencies include banks and other financial institutions, warehousing, transportation, insurance, communication agencies like post, telephone, and courier services, and the local authority (Municipality or Municipal Corporation).
- **Public Relations with Shareholders/Investors:**
- Shareholders are the real owners of the firm. So, it is the duty of the business unit to maintain public relations with them. A company can build public relations with shareholders in a number of ways.

### **TOOLS OF PUBLIC RELATION:**

Organizations hire public relations experts to position themselves strongly in the minds of target audiences, investors, stakeholders, employees and all others associated with it. Public relations activities are designed specially to create a strong brand image. Public relations experts should ensure their target audiences agree to what they intend to sell and thus in a way enhance as well as maintain the reputation of their organization through ethical means.

There are various ways public relations activities take place:

#### **Media Relations**

Public relations experts create awareness and market their organization and its products/services to various media sources which include TV, Radio, internet, newspapers, magazines and so on. Public relations experts develop and design various interesting and creative stories about their organization and products and pitch it to various media people. Organizations bank on their relations with media channels to enhance the reputation of their brand.

#### **Following are the tools used in media relations:**

- **Press Kits**  
Press kits include written material about the organization and its top people.
- **Audio Releases**  
Audio releases or video releases are prerecorded messages distributed to various media channels.
- **Matte Releases**  
Small local newspapers accept articles written by organizations when they do not have sufficient articles or stories to publish. Such releases are called as matte releases.



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## Website Press Room

Public relations experts promote their organization and its products/services through online press rooms.

## Media Tour

Public relations experts publicize their organization and its products through media tour where key people of the organization travel to important places and locations and promote their products through various interviews to media people. They interact and share the benefits and USPs of their products/services with people from various news channels, radio channels and even print media. Organizations also hire celebrities or other people popular among the masses to promote and publicize their organization.

## Newsletters

Newsletters are nothing but publications which are distributed on a regular basis (monthly, quarterly) among target audiences. Public relations experts collect complete information (name, address, agegroup) of their target customers and distribute newsletters to create awareness about their products. Newsletters should include information about the organization, interview from key people, product information, testimonials from clients and so on.

## Events/Functions

Public relations experts organize special events, gatherings, parties, to target their customers and promote their organization and its products among them. People from media are also invited for coverage.

## Speaking Engagements

One of indirect ways of publicizing an organization and its products is through interacting with potential customers and target audience. Company officials address the target audience and do not only discuss about their products and services. They generally prefer any topic which would interest the target audiences.

## Employee interactions on a regular basis

It is really essential for employers to stay in constant touch with employees and keep them abreast with the latest developments and happenings within the organization. Management or public relations experts should circulate latest events, new product launches among employees through emails, circulars, notices or simply communicating with them.

## Charity/Corporate social responsibility

Public relations experts engage in various social and charitable activities to publicize their organization and its products. Organizations distribute products among target audiences to create a goodwill of their organization.

## DIFFERENCE BETWEEN ADVERTISING AND PERSONAL SELLING:

Basis for Comparison	Advertising	Personal Selling
Meaning	Advertising is a means of communication, which calls customer's attention towards the product or service, through mass media.	Personal selling refers to a form of promotion, wherein the sales representative sells the product to customers, by directly visiting them.
Communication	One-way communication	Two-way communication
Form	Impersonal form of communication	Personal form of communication
Strategy	Pull strategy	Push strategy
Message	Standardized	Customized
Channel	Mass media	Sales personnel





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## Basis for Comparison

	Advertising	Personal Selling
Time	Conveys message to end number of individuals in less time.	Conveys message to a few customers only in relatively high time.
Feedback	Lacks direct feedback	Facilitates direct and instant feedback

## FACTORS AFFECTING MARKET PROMOTION MIX/DETERMINANTS OF OPTIMUM MARKET PROMOTION MIX

### 1. Type of Product:

- Type of product plays an important role in deciding on promotion mix. Product can be categorized in terms of branded products, non-branded products, necessity products, luxury products, new products, etc.
- All these types of products need different promotional tools. For example, advertising is suitable for the branded and popular products. Personal selling may be fit for non-branded products. Advertising, personal selling, sales promotion and publicity – all four tools – are used for a newly launched product to get a rapid consumer acceptance.

### 2. Use of Product:

- Product may be industrial product, consumable and necessity product, or may be luxurious product that affects selection of promotion tools and media.
- For example, advertising and sales promotion techniques are widely used for consumer goods while personal selling is used for industrial goods.

### 3. Complexity of Product:

- Product complexity affects selection of promotional tools. Personal selling is more effective for complex, technical, risky, and newly developed products as they need personal explanation and observation.
- On the other end, advertising is more suitable for simple and easy-handled products.

### 4. Purchase Quantity and Frequency:

- Company should also consider purchase frequency and purchase quantity while deciding on promotion mix. Generally, for frequently purchase product, advertising is used, and for infrequently purchase product, personal selling and sales promotion are preferred.
- Personal selling and advertising are used for heavy users and light users respectively.

### 5. Fund Available for Market Promotion:

- Financial capacity of company is a vital factor affecting promotion mix.
- Advertising through television, radio, newspapers and magazines is too costly to bear by financially poor companies while personal selling and sales promotion are comparatively cheaper tools. Even, the company may opt for publicity by highlighting certain commercially significant events.

### 6. Type of Market:

- Type of market or consumer characteristics determine the form of promotion mix.
- Education, location, income, personality characteristics, knowledge, bargaining capacity, profession, age, sex, etc., are the important factors that affect company's promotion strategy.



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### 7. Size of Market:

- Naturally, in case of a limited market, personal selling is more effective. When market is wide with a large number of buyers, advertising is preferable.
- Place is also an important issue. Type of message, language of message, type of sales promotion tools, etc., depend on geographical areas.

### Write a note on: after sale services

- After sales service refers to the treatment of customers in the aftermath of a sale.
- For example, after being sold a bike, after sales service may involve free bike maintenance for a number of weeks.
- After sales service is an important part of non-price competition often found in oligopoly.
- After sales service can be a way to encourage people to buy the product in the first place; it can be used to justify a higher price for the good. It also influences the long-term reputation of the firm and can influence future sales. However, it also imposes costs on firms.

### Examples of after sales service

- Warranty. A common example of after sales service is the provision of a warranty for the good. A warranty allows the good to be repaired or replaced if it breaks down within a certain period of time after purchase.
- Free service after six months (e.g. car/bike)
- Advice on how to use the product (Apple care)
- Firms following up with a phone call to the customer asking how the product is working out.

### Importance of after-sales service

- Good after sales service helps improve firms long-term brand image and brand loyalty.
- Offering after sales service can help to convince consumers to trust the firm and buy the service in the first place.
- Sales affected by word of mouth recommendation. Good after sales service can make difference. In an era of social media – poor after sales service can be damaging to reviews and reputation of firms.
- After sales service imposes extra cost on firms. For firms, they need to strike a balance between keeping the customer happy and not being burdened with expensive maintenance. For example, a firm may offer one free service, but then have a clearly defined price for future service.
- The provision of after sales service varies in importance depending on the type of good. For example, after sales service and extended warranties are important for goods like electrical goods and new cars.
- After sales service can also become an opportunity to sell related products.



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## **B.B.A. SEM-4** **ENTREPRENEUR** **SHIP**

<u>SR NO.</u>	<u>UNIT NAME</u>
1	ENTRAPRENEURAL MANAGEMENT
2	ENTREPRENEURSHIP DEVELOPMENT PROGRAMME(EDP)
3	STARTUP INDIA POLICY
4	INTRODUCTION TO ETHICS



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## UNIT 1 ENTRAPRENEURAL MANAGEMENT

**Topic: Discuss the origin and characteristics of entrepreneurship along with its functions**

### **THE EVOLUTION OF THE CONCEPT OF ENTREPRENEURSHIP**

- The success of every nation depends on its capability to produce such goods, which will satisfy the human wants.
- Some people with potential are ready to take up challenge to produce wealth in the economy.
- They organize resources and thereby create utility. They are the entrepreneurs, who, generate capital, arrange necessary resources and engage themselves in Some meaningful activity to enhance the nation's wealth.
- They are the prime movers of the industrial development in the economy.
- The word Entrepreneur has been originated from the French verb "Enterprendre" which means, "to undertake".
- It so derived as, in 16th century, the Frenchmen who used to assist the military programs were referred to as 'Entrepreneurs.
- They were referred in this sense because they were purchasing the necessary inputs at uncertain prices whose selling was again uncertain.
- They are ready to take risk and thus were been referred to as Entrepreneurs.
- After 1800, they received an additional tag/role of a co-coordinator of resources.
- Entrepreneur was considered as a coordinator who organizes all the inputs necessary for production and coordinates them in order to produce some meaningful output.
- Today, he has received the status of Innovator' who brings in something new to the market.

**In the words of Alfred North Whitehead, "The greatest invention of all is the invention of inventing inventions".**

- Thus, entrepreneurs are the developers of a nation and discover the market by their inventive visualization.
- Thus, being one of the Thus, being one of the most important factors of production, an entrepreneur is the centre point of every economic activity undertaken.
- Over the years, they have been playing a very crucial role in development of economic activity.



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**Peter Drucker writes, "The emergence of the entrepreneurial society may be a major turning point in history."**

## CONCEPT/MEANING AND DEFINITIONS:

- The concept of entrepreneurship has gained value to expedite the growth of economy in developed and developing countries.
- It encourages formation of capital in the economy and there by showing the pathway to prosper it.
- The entrepreneurship majorly leads to self - employment, thus creates job providers, and in turn aims at reducing unemployment and poverty.
- Entrepreneurship is a process of recognizing opportunity in the business environment, assembling the resources necessary to capture the opportunity for reaching the desired goal.
- The main nucleus of entrepreneurship is to obtain the finest combination of various inputs, which would lead the entrepreneur to operate effectively in the market.
- From the viewpoint of management, it is the process of planning, organizing and controlling the business enterprise.
- It is indeed an initiative that an entrepreneur takes up to set up an economic entity with major aim of generating profits.

**In the words of W. N. Loucks, "Entrepreneurship is a mixture of willingness to take risks, a desire for income and prestige, the urge for self-expression, creativeness, and independence with a dash of the gambling spirit and possible additional subtle psychic components."**

## CHARACTERISTICS OF ENTREPRENEURSHIP:

### 1. Profit-oriented activity:

- The main aim of an entrepreneur is to generate profit out of its venture.
- He takes up those activities, which would yield him maximum profit.
- Of course, the objective of earning profit would set in accordance with the various social responsibilities that an entrepreneur possesses.

### 2. Risk

- This is the most important element of entrepreneurship.
- Anyone intending to engage himself in this conception has to a many challenges and has to tackle uncertain consequences.
- The entrepreneur operates under uncertainties.



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### 3. Involves Innovation

- Entrepreneur involves himself into creative destruction practice.
- He is the one who innovates something new and bring it to the disposition of the market.
- Thus, they are called CHANGE AGENTS

### 4 Gap-Filler

- Entrepreneurs are the genuine gap-fillers.
- They bridge the gap between, what the human wants and what is available to their disposal.
- They are the one who find out the dormant needs of the people and thus arranges necessary resources to produce the desired goods for their satisfaction.

### 5. Manager-cum-Leader

- In spite of performing managerial functions, an entrepreneur is indeed a true leader.
- He has a team which he is leading from the front.
- He is the one who has got vision.
- He has the ability to motivate others to work efficiently and directs the efforts of the followers to the right direction in order to generate desired results.

### 6. It is a Practice

- Entrepreneurship has never been a pure science or an art.
- It is a practice.
- The entrepreneur uses his knowledge and experience to operate effectively.
- He learns from the mistakes and incidences that takes place in the environment and thus strives for achievement.

### 7. Principles at its base

- Entrepreneurship is based on various disciplines such as Economics, Psychology, Sociology, Management and many others.
- Thus, when an entrepreneur steps himself in this process, he has to take into consideration these aspects before arriving at any decision. The mental determination or intuition will not work.

### 8. Omni-present

- It is said that entrepreneurship is required in almost every field.



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- Whenever a person takes up risk or innovates something for himself and for the betterment of society, he is engaging himself In the process of entrepreneurship.
- It has wide applications starting from business to politics to research, to military and so on.
- Entrepreneurial traits are equally important and required for need of fulfillment.

## 9. Affected by environment

- External environment is dynamic in nature, which provides opportunities and involves threats.
- Entrepreneur, in process of carrying out his activity, has to consider external environment the more closely as it works on his own and is beyond the control of any person.
- The external forces exert pressure on the business and entrepreneur has to inculcate those changes into the organization in order to survive in the market.

## 10. Requires hard work

- There is no doubt that it requires immense hard work and dedication towards tasks.
- Entrepreneurship is an innovative and purposeful activity, which requires systematic and organized work. It is only the hard work, which will help entrepreneur to reap profits and achieve success.

## 3] Functions of Entrepreneurship:

### 1. Innovation

- Innovation is a process of creating, converting, changing and combining various inputs to produce something, which the world has never seen before.
- In the words of Joseph Schumpeter, entrepreneurship is inevitably creative activity.
- The main function of an entrepreneur is to bring in something new to the market.
- He puts into practice new combinations and undertakes new business
- Entrepreneurs inculcate changes and thus are popularly known as **Change Agents**
- Schumpeter has specified following forms of innovation that an entrepreneur normally develops:
  - To introduce new product or service
  - Improved product or a product with a new quality
  - New method of producing something
  - Exploring new market for the existing product
  - Discovering new source of supply of raw materials



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Thus, entrepreneur takes on the process of 'Creative Destruction'

## 2. Employment Generation

- As discussed earlier, that entrepreneurs are not job seekers, but they are job providers.
- They start up a new enterprise and thus create various jobs inside as well as outside the organization. Inside the organization, they recruit various employees, workers, managers etc. to operate his organization effectively.
- Outside the organization, he creates job for various services such as transportation, communication, banking, insurance etc., on one hand, and, agent, distributors, wholesalers, retailers etc. if employed, on the other.

## 3. Resource Management

- Entrepreneur, along with his Leadership traits, he has organization uses.
- Resources are the inputs that every organization uses.
- Resources include men, machines, money, land etc.,
- These all do not work properly if they are not being managed or controlled.
- An entrepreneur has to plan, organize, direct and control these resources in a coordinated way to operate efficiently
- Again, coordinating is not the solution.
- These have to be directed in such a way that they yield a greater amount of return.
- Yield has to be such that it covers cost substantially, thereby allowing fair amount of margin for the entrepreneur to earn a handsome profit for the efforts that he has put in.
- Entrepreneurship is a beautiful collusion of personal traits/qualities and management principles.
- Thus, resource management is another important function/role which every entrepreneur has to perform.

## 4. Capital formation

- Resource management, as we have seen, is an important aspect of entrepreneurial management.
- Now, before managing resources, they first have to be acquired.
- Machineries, land, building, equipments, etc. all involves initial investment.
- In order to invest in these resources, an entrepreneur needs capital.
- Either they have to use their own capital or they have to borrow.





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- Naturally, not all of them possess the required capital.
- They have to procure it from various sources.
- Thus, in order to make certain necessary investments, they borrow capital from the market.
- As the capital is procured from the market, the capital, which was lying idle, otherwise, would become active.
- This way an economy starts growing and invites more capital flow at higher rates as there is enough motivation in the market generated by the entrepreneurs by hiring the capital for productive purposes.
- Thus, entrepreneurs perform the task of capital formation.

## 5. Economic prosperity

- An entrepreneur channelizes inputs to right direction, which will lead him to success and in turn the success of the nation/economy.
- By generating employment and creating capital he solves the burning problem of an economy in two ways.
  - On one hand, he does not add himself to the already increased unemployment problem, and on the other hand, he himself creates jobs in the market trying to defuse the problem of unemployment by providing jobs to the unemployed.
- Thus, by practicing this concept, one can really make one's economy prosper.

**Topic : Discuss John Kao's model of entrepreneurship in detail:**

### JOHN KAO'S MODEL ON ENTREPRENEURSHIP:

- John J. Kao, born in 1950, is a writer/author whose focus area is transformation of organization, and creativity and innovation.
- He did his MBA from Harvard Business School and has taught for over a decade in the same institute in the area of innovation and entrepreneurship.
- John Kao was given a tag or came to be famous as the **Innovation Guru**,
- John Kao, in his book, Entrepreneurship, Creativity and Organization, has developed a conceptual model of entrepreneurship that shows certain crucial factors involved in entrepreneurship development.
- The model is also known as ECO model/framework where ECO stands for Entrepreneurship, Creativity and Organization.



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- The model concludes that the interrelationship between various factors decides or develops entrepreneurship and creativity in the environment.

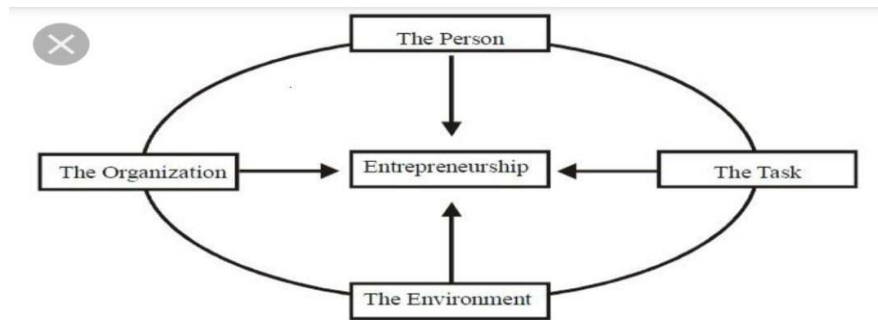


Figure 1.2 : A Conceptual Model of Entrepreneurship

## Person

- One of the most crucial elements for the growth and development of entrepreneurship is person/individual.
- His role as an innovator and transformer is utmost important because when it comes to generating ideas and implementing them at appropriate time is the work of people and not the technology or any other element.
- Person or individual here we mean an entrepreneur or a group of entrepreneurs with talent, distinct personality, requisite skills, dedicated effort and motivation to work in the direction to achieve success and nothing less than that.
- The growth of entrepreneurship largely depends on the (personality) of the entrepreneur

## Task

- An entrepreneur with vision and required skills will not be enough to achieve success unless he/she performs various tasks the form of perceiving the opportunities, arranging required resources and developing the right combination of inputs which generates maximum output at low cost
- In doing so, an entrepreneur has to scan the environment that is external to him/her and is largely uncontrollable.
- The external factors such as Economic system, economic policies, socio-cultural factors, technology, legal environment, political conditions-etc. existing in the environment obstructs/challenges the growth and survival of entrepreneurship.
- The entrepreneurs continuously have to monitor the changes in these factors and should have to give appropriate response to survive and grow in this dynamic environment.



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## Organizational Context

- The organizational context mainly covers internal environmental factors, which affects the growth and development of entrepreneurship.
- Factors like organization structure, human resources, internal-rules and regulations, financial resources, culture and vision are extremely important for the smooth conduct of entrepreneurial operations
- Good thing about these factors is that they are internal to the organization and thus are largely controllable.
- An entrepreneur has to just find an appropriate and suitable arrangement and setting in order for his creative work to take place for better good.

## Topic: What is franchising? Discuss its advantages , disadvantages and types

### FRANCHISING

- The success of an entrepreneur would depend upon discovering and exploiting the opportunities available in the market.
- In order for entrepreneurs to grab the opportunities, there are many ways available viz, he/she can start a new business, buy/purchase an existing business or he/she can take up franchising.
- Franchising, in a way, is an old concept but has substantially emerged during recent years.
- The word Franchise Is derived from an old French word "Franc', an Anglo-French word which means 'freedom, liberty'.
- In the middle French, it was termed as Franchir, which means 'to free.
- The term franchise also draws it reference from the term 'Francis' again a French word which means granting rights or power to a farmer/farm-worker or peasant.
- In England, the lords used to give farmers/farm-workers rights to use land in return of some charges or fees.
- Thus, franchising typically is the practice of using Someone else's business model for your own benefit by paying out some compensation for doing so.
- The term 'franchise' means the special/distinct right given by a producer or a parent company to another firm or individual to sell the former's product or service in a specified area/s or under certain terms and conditions.
- In other words, franchising licensing, giving license to a firm or individual to produce, use or distribute goods and services against amount of consideration.



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- Thus, franchising is a term that defines a business relationship between the two trading entities where one is the owner of the brand, product or service who allows the other firm or individual to use these brands or products fee or charges.
- To put in more precise terms, franchising is a system where a person or a firm allows another firm to use his/her diverse Intellectual Property Rights (IPR), namely, patents (product and process), trademarks, copyrights, designs, technical know-how, reputation or goodwill in return for some monetary compensation/reward .

## ADVANTAGES OF FRANCHISE:

### 1. Capital

Franchising, as an alternative form of capital acquisition, offers some advantages. The primary reason most entrepreneurs turn to franchising is that it allows them to expand without the risk of debt or the cost of equity. First, since the franchisee provides all the capital required to open and operate a unit, it allows companies to grow using the resources of others.

### 2. Motivated Management

Another stumbling block facing many entrepreneurs wanting to expand is finding and retaining good unit managers. All too often, a business owner spends months looking for and training a new manager, only to see them leave or, worse yet, get hired away by a competitor.

### 3. Speed of Growth

Every entrepreneur I've ever met who's developed something truly innovative has the same recurring nightmare: that someone else will beat them to the market with their own concept. And often these fears are based on reality.

### 4. Staffing Leverage

Franchising allows franchisors to function effectively with a much leaner organization. Since franchisees will assume many of the responsibilities otherwise shouldered by the corporate home office, franchisors can leverage these efforts to reduce overall staffing.

### 5. Ease of Supervision

From a managerial point of view, franchising provides other advantages as well. For one, the franchisor is not responsible for the day-to-day management of the individual franchise units. At a micro level, this means that if a shift leader or crew member calls in sick in the middle of



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the night, they're calling your franchisee -- not you -- to let them know. And it's the franchisee's responsibility to find a replacement or cover their shift.

## 6. Increased Profitability

The staffing leverage and ease of supervision mentioned above allows franchise organizations to run in a highly profitable manner. Since franchisors can depend on their franchisees to undertake site selection, lease negotiation, local marketing, hiring, training, accounting, payroll, and other human resources functions (just to name a few), the franchisor's organization is typically much leaner (and often leverages off the organization that's already in place to support company

## 7. Improved Valuations

The combination of faster growth, increased profitability, and increased organizational leverage helps account for the fact that franchisors are often valued at a higher multiple than other businesses. So when it comes time to sell your business, the fact that you're a successful franchisor that has established a scalable growth model could certainly be an advantage.

## 8. Reduced Risk

By its very nature, franchising also reduces risk for the franchisor. Unless you choose to structure it differently (and few do), the franchisee has all the responsibility for the investment in the franchise operation, paying for any build-out, purchasing any inventory, hiring any employees, and taking responsibility for any working capital needed to establish the business.

## DISADVANTAGES OF FRANCHISING:

### 1. Per-Unit Contribution

As a franchisor, you will not profit from every dollar that goes to the franchisee's bottom line. The revenue you generate from each franchisee will be a fraction of what you might otherwise achieve if you owned and operated the franchise unit yourself.

### 2. The Specter of Litigation

At least once a month, someone tells me they're worried about franchising not for business reasons, but because they're afraid of litigation.

### 3. The Issue of Control



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As a franchisor, it's fair to point out that you won't have the same level of control over day-to-day operations as you would in a company-owned facility. You're not responsible for hiring, training, disciplining, scheduling, compensating, monitoring, or terminating employees. In virtually every franchise, the franchisee makes the final decision on where to locate the business and which contractors to use for build-out. The franchisee typically makes most decisions in regard to choosing suppliers and pricing their services.

#### 4. Investment in Franchising

Finally, let's not forget that while franchising is often a lower-cost means of expanding a business, it is not a no-cost means of expansion. As a new franchisor, you may need to anticipate costs (in terms of time and capital) in a number of areas:

- Creating your business plan and financial analysis
- Developing appropriate legal documents
- Developing a franchise operations manual and other quality control documents, systems, and processes
- Creating marketing plans and collateral materials
- Adding a franchise opportunity section to your current website
- Training your people on the franchise process
- Creating a new franchisor legal entity
- Printing brochures, letterhead, and other marketing materials
- Marketing for new franchisees

#### TYPES OF FRANCHISE ARRANGEMENTS:

##### Single-unit franchising

With this arrangement the franchisee buys the right to run just ONE franchise unit. They may at a later stage be offered to buy additional units from the franchisor, this is called multi-unit franchising.

##### Multi-unit franchising

This is when a franchisor owns more than one unit in the same franchise network. E.g. many food franchises only look for those with the money to buy more than one unit. They may initially only start with one but as time goes on they will be required to develop the business into a multi-unit operation.



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## Area developer

An area developer franchisee is granted the exclusive rights to develop the franchise system in a defined territory e.g. city, state, within a specific time frame. They do not sell franchises.

## Master franchising

A master franchisee is given the rights to open and develop franchises in a defined territory, and is also allowed to sell franchises within that area. They sell them to sub-franchisees. Master franchisees may hold the rights for regions, states and the US as a whole if the franchise is from outside of the US. The master franchisee becomes technical the franchisor for their territory, i.e. they do the recruiting, training, marketing etc.

## Topic : What is Franchise Contract ? Discuss the areas to be covered in Franchise Contract

### FACTORS AFFECTING FRANCHISE CONTRACT :

- 1) **LICENSE AND TERMS** : License is the right given by the franchiser to the Franchisee for using his brand name and trademark for selling the product or services .license thus forms the base of a franchise contract.
- 2) **COMPENSATION/FEES** : Another factor of franchise contract is the Amount and structure of the royalty to be paid by the franchisee in the consideration for the value received by them in form of brand name or trademark of franchiser
- 3) **TERRITORY** :There is an age old conflict between the franchiser And franchisee regarding territory of the franchise. The franchise is advisable to obtain absolute clarity on territory clause of the contract.
- 4) **Training** .:Generally, the franchiser provides adequate training to the franchisee in order to operate the business smoothly as the operations and processes have already been tried out by the franchiser unless the franchise altogether is new to the environment
- 5) **Approved Suppliers**: In franchise contracts, the franchiser may ask the franchisee to procure raw materials and other requirements from few approved vendors only in order to maintain uniformity in the quality of the product.



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- 6) **Confidentiality:** In case of franchising, the franchiser grants the franchisee a license to use his unique creation and innovations, which may be well protected by patents or trademarks. The franchiser would want the franchisees to keep these unique things confidential and should not be allowed to be made available in public and competitors should not get an access to this information under any conditions.
- 7) **Premises:** Where the franchisee is required to occupy or purchase any premises for conducting its business then the franchisee should get an approval to the number of provisions and requirements such as area, location, size, layout-lease and furniture





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## UNIT 2 ENTREPRENEURSHIP DEVELOPMENT PROGRAMME(EDP)

**Topic: What is EDP ? Discuss the objectives of EDP**

### Meaning:

As the term itself denotes, EDP is a programme meant to develop entrepreneurial abilities among the people. In other words, it refers to inculcation, development, and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise. Thus, the concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise.

### Objectives of EDP:

The major objectives of the Entrepreneurship Development Programmes (EDPs) are to:

- a. Develop and strengthen the entrepreneurial quality, i.e. motivation or need for achievement.
- b. Analyze environmental set up relating to small industry and small business.
- c. Select the product.
- d. Formulate proposal for the product.
- e. Understand the process and procedure involved in setting up a small enterprise.
- f. Know the sources of help and support available for starting a small scale industry.
- g. Acquire the necessary managerial skills required to run a small-scale industry.
- h. Know the pros and cons in becoming an entrepreneur.
- i. Appreciate the needed entrepreneurial discipline.
- j. Besides, some of the other important objectives of the EDPs are to:
- k. Let the entrepreneur himself / herself set or reset objectives for his / her enterprise and strive for their realization.
- l. Prepare him / her to accept the uncertainty in running a business.
- m. Enable him / her to take decisions.
- n. Enable to communicate clearly and effectively.
- o. Develop a broad vision about the business.
- p. Make him subscribe to the industrial democracy.
- q. Develop passion for integrity and honesty.
- r. Make him learn compliance with law.



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## Topic: Discuss the Phases of EDP in detail

EDP is primarily designed to induce motivation and competence among young prospective entrepreneurs. So the cause and curriculum of Entrepreneurship Development programme will be so designed that it will induce motivation and competency. The course curriculum of EDP should be designed to cover the following aspects:

- It will give general introduction to entrepreneurship.
- It will afford motivational training.
- It will increase managerial skill of the entrepreneur,
- It makes entrepreneur to have expert knowledge on various support systems and procedure.
- It will give fundamental idea on project feasibility study.
- It will encourage plant visit to afford practical knowledge to entrepreneurs.

After deciding on course contents and curriculum on EDP, the next important task is to decide various phases of EDP. There are three different phases of EDP like:

- Preliminary phase
- Identification of potential entrepreneurs
- Training phase
- Support
- Follow-up phase

### 1. Preliminary phase:

Pre-training phase consists of all activities and preparation to launch training programme. Pre-training phase of EDP consists of the following activities :

- Selection of entrepreneurs for the training programme.
- Arrangements of infrastructure are for the programme like selection of place of training.
- Deciding guest faculty for the programme from education industry and banks.
- Taking necessary steps for inauguration of programme.
- Formation of selection committee to select trainees from the programme.
- Making provision with regard to publicity and campaigning for the programme.

### 2. Identification of potential entrepreneurs

- Identifying a potential candidate is a very crucial stage which requires greater attention.



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- Any wrong decision at this stage will lead to wastage of time, money and efforts of both, the institute as well as the potential candidate.
- As, the former will direct their efforts in training the candidate who does not possess the right caliber, their efforts will go in vein thereby wasting national resources.
- In case of latter, he/she will not be able to conduct the business effectively which will affect his/her morale and prestige and would think their degrees and education are mere wastage of time, money and efforts and thus will be de-motivated.
- Thus, the potential selectors must take utmost care while selecting potential evaluate the entrepreneurs.
- Selectors should be able to evaluate entrepreneurial traits in the potential candidates before arriving a decision to admit them in the programme.
- Following exercise must be done before selecting the best candidate

## IDENTIFYING ENTREPRENEURIAL SKILLS

The candidate whom the selectors are intending to select must be judge from the following criteria before selection:

### Family background:

- Must be business oriented and should have entrepreneurship awareness.
- Again the candidate should have certain family resources which would could act as the good financial support just in case of need.

### Age:

- Age Should be as young as possible keeping in mind the risk that has to be taken which the youngster can take against the aged.

### Education:

- A minimum level of education is necessary for the basic understanding of functions and activity conducted in the running the enterprise.

### Leadership quality:

- The candidate should have ability to influence the behavior of others so as to get Work done right way and at right time.
- He/she hould have the willingness to take risk and should have the burning desire to achieve something.



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- He/she should have analytical abilities which would help analyze problems effectively and generate viable solutions.
- Lastly, they should be flexible enough to incorporate changes in their enterprise which takes place in the external environment.

### Identifying the suitable enterprise:

- Once the candidate is judged from the above criteria and he/she is found capable, possessing all required qualities and skills, then the next step is to help them identify the project/enterprise.
- The project which has to be selected should match the capabilities of the candidate in terms of the education, skills, liking, financial background etc.
- Also the feasibility of the project from environment's viewpoint should also be assessed in terms of the potential market for the product, raw material availability, costs, revenues, profitability etc

### 3. Training Phase:

The primary objective of training programme is to develop motivation and skill or competency amongst the potential entrepreneurs. Care should be taken to impart both theoretical and practical knowledge to various trainees. The training phase of EDP will be so designed that it will answer the following questions:

- (a) Whether the attitude of the entrepreneur has been turned towards the proposed project or not.
- (b) Whether the trainee has been motivated to accept entrepreneurship as a career.
- (c) How the trainee behaves like an entrepreneur.
- (d) Whether the trainee has sufficient knowledge on resources and technology or not.
- (e) What kind of entrepreneurial traits he lacks and what steps should be taken to set it.

### 4. Support Stage:

- **Support system forms an important part of the EDP.**
- After imparting training to the potential entrepreneur and equipping them with required skills and knowledge, they would now be ready to set up an enterprise in the market.
- In order to start a new venture, the required assistance should be arranged by the by institution which initially helps them to procure raw materials, the finance, machineries, tools and equipments and other amenities.



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- In order to promote and grow entrepreneurship in the nation, it is necessary to develop various support systems at least at the initial stage to aid the potential entrepreneur thereby motivating them and others to take - up entrepreneurship.

## 5. Follow-up Phase:

Follow up phase of EDP has been termed as post-training phase. The ultimate objective is to develop competent entrepreneurs so that they can start their project. Post-training phase is a review phase of training programme. It consists of reviewing of work in the following manner:

- Review of pre-training work
- Review of actual training programme
- Review of post training programme so that cost effectiveness of the present programme can be evaluated.

This is a mechanism through which defects and indiscretion can be identified and removed. It should be conducted at every stage. It basically includes following:

- (1) Complete details of the trainee
- (2) Records of recruitment and selection data of various candidates
- (3) Record of work performance of every entrepreneur
- (4) Establishing and maintaining the contacts with the entrepreneurs who have cleared the courses and are out in the market.
- (5) A visit to every entrepreneur's enterprise periodically and knowing their progress.
- (6) Follow up of the assistance taken by the entrepreneur at the initial stage.
- (7) Inquiring about the future plans of the each entrepreneur.

**Topic: Discuss the problems regarding EDP/ evaluation of EDP**

## PROBLEMS REGARDING EDP/ EVALUATION OF EDP

### 1. No Policy at the National Level:

- Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship.
- It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.



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## 2. Problems at the Pre training Phase:

- Various problems faced in this phase are — identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.

## 3. Over Estimation of Trainees:

- Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises.
- These agencies thus overestimate the aptitude and capabilities of the educated youth.
- Thus on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.

## 4. Duration of EDPs:

- An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises.
- Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs.
- Thus the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

## 5. Non Availability of Infrastructural Facilities:

- No prior planning is done for the conduct of EDPs.
- EDPs conducted in rural and backward areas lack infrastructural facilities like proper class room suitable guest speakers, boarding and lodging etc.

## 6. Improper Methodology:

- The course contents are not standardized and most of the agencies engaged in EDPs are themselves not fully clear about what they are supposed to do for the attainment of pre-determined goals.
- This puts a question mark on the utility of these programmes.

## 7. Mode of Selection:

- There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs.



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- Organisations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates.

## 8. Non Availability of Competent Faculty:

- Firstly there is problem of non availability of competent teachers and even when they are available, they are not prepared to take classes in small towns and backward areas.
- This naturally creates problems for the agencies conducting EDP.

## 9. Poor Response of Financial Institutions:

- Entrepreneurs are not able to offer collateral security for the grant of loans.
- Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans.
- Those entrepreneurs who fail to comply with the conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered.
- Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.

## Topic: Discuss the Role, Relevance and Achievements of EDP

### 1. Creation of Employment Opportunities:

- Unemployment is one of the most important problems confronting developing and underdeveloped countries, EDP's enable prospective entrepreneurs in the setting up of their own units, thus enabling them to get self employment.
- With the setting up of more and more units by entrepreneurs, both on small and large scale, numerous job opportunities are created for the others.
- Entrepreneur in this way get an opportunity to lead an independent and honorable life and at the same time they enable others in getting gainful employment. Several schemes like Nehru Rozgar Yojna, National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc. have been initiated by the government, of India in this direction.
- The thrust of all these schemes is to eliminate poverty and generate gainful employment opportunities for the unemployed.
- Thus entrepreneur can play an effective role in reducing the problem of unemployment.

### 2. Capital Formation:

- It is not possible to set up an enterprise without adequate funds.



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- Entrepreneur as an organizer of factors of production employs his own as well as borrowed resources for the setting up of his enterprise.
- Entrepreneur mobilizes idle savings of the public and put them to productive use.
- In this way he helps in capital formation which is so essential for the industrial and economic development of a country.
- Various development banks like ICICI, IFCI, IDBI; SFCs, SIDCs take initiative in promoting entrepreneurship through assistance to various agencies involved in EDP and by providing financial assistance to new entrepreneurs.

### 3. Balanced Regional Development:

- Small scale units can be set up in industrially backward and remote areas with limited financial resources.
- Successful EDP's assist in accelerating the pace of industrialization in the backward areas and reduce the concentration of economic power in the hands of a few, Entrepreneurs feel like taking advantage of the various concessions and subsidies offered by the state and central government.
- Success story of entrepreneurs set right example for others to follow and this accelerates the pace of industrialization in the backward areas.
- Set up of more units in underdeveloped areas leads to more development of backward areas and balanced regional development.

### 4. Use of Local Resources:

- In the absence of any initiative local resources are likely to remain unutilized.
- Proper use of these resources can result in the progress or development of the area and that too at lower cost.
- Alert entrepreneurs seize the opportunity and exploit it in the best interests of the area and industry.
- Effective EDPs can help in the proper use of local resources by providing guidance, assistance, education and training to the prospective entrepreneurs.

### 5. Improvement in per Capital Income:

- Entrepreneurs are always on the lookout for opportunities.
- They explore and exploit the opportunities. Entrepreneurs take lead in organising various factors of production by putting them into productive use through the setting up of enterprises.





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- More enterprises will lead to more production, employment and generation of wealth in the form of goods and services.
- It will result in the increase in the overall productivity and per capita income in the country.
- EDPs play a positive role in the setting of more units and thus help in generation of more employment and income.

## 6. Improvement in the Standard of Living:

- Entrepreneurs by adopting latest innovations help in the production of wide variety of goods & services.
- By making efficient use of the resources, they start producing more of better quality and that too at lower costs.
- This enable them to ensure easy availability of better quality products at lower prices to the consumers which result in the improvement in the standard of living of the people.
- EDPs provide the necessary support to entrepreneurs by educating them about the latest innovations and market trends.

## 7. Economic Independence:

- Entrepreneurs enable a country to produce wide variety of better quality goods & services and that too at competitive prices.
- They develop substitutes of the goods being imported and thus prevent over-dependence on foreign countries and at the same time help in the saving of precious foreign exchange.
- Through sale of their surplus products in foreign market entrepreneurs enable a country to earn foreign exchange, which is so essential for meeting developmental needs of the economy.
- Export promotion and import substitution thus help in promoting economic independence of the economy.

## 8. Preventing Industrial Slums:

- Industrially developed areas are faced with problem of industrial slums, which result in over burdening of civic amenities and adverse impact on the health of people.
- Dispersal of industries can help in the overcoming of this grave problem.
- EDPs can help in preventing spread of industrial slums by providing various incentives, subsidies and infrastructural support to entrepreneurs for setting up their enterprises in industrially backward areas.



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- This will also help in reducing pollution and overtaxing of civic amenities.

## 9. Reducing Social Tension:

- Unemployment amongst the young and educated people is emerging as the major cause of social unrest.
- People are bound to feel frustrated if they fail to get gainful employment after completion of their education.
- EDPs can help in channelizing the talent of this section of society in the right direction by providing proper guidance, training and assistance for setting up their enterprises.
- This results in generation of self employment and prevention of social tension, unrest etc.

## 10. Facilitating Overall Development:

- An entrepreneur acts as a catalytic agent for change which results in chain reaction.
- With the setting up of an enterprise the process of industrialization is set in motion.
- This unit will generate demand for various types of inputs required by it and there will be so many other units which will require the output of this unit.
- This leads to overall development of an area due to increase in demand and setting up of more and more units there.
- Moreover success of one entrepreneur sets the right type of example for others to follow.
- Entrepreneurs, thus, create an environment of enthusiasm and convey a sense of purpose.
- This gives future impetus to the overall development of that area.

**Topic: Discuss the sources of financial support available to EDP (Institutional support to small entrepreneurs)**

## SIDO (Small Industries Development Organization)

- It is an apex body and monitoring the policies for formulating, coordinating and monitoring the policies and programmers for promotion and development of small scale industries.
- The main functions of SIDO are classified into
  - **Coordination** - To evolve national policies, to coordinate between various govts. Coordinate the programmes for the development of industrial estates.
  - **Industrial development** - To reserve items for production by small scale industries, render required support for the development of ancillary units
  - **Extension** - To improve technical process, production, selecting appropriate machinery, preparing factory layout and design.



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## NSIC (National Small Industries Corporation Ltd)

- NSIC an enterprise under the union ministry of industries
- It was set up in 1955 to promote, aid and foster the growth of small scale industries in the country, the functions are:
  - to provide machinery on hire-purchase scheme to SSI,
  - to provide equipment leasing facility,
  - to help in export marketing of the provided products of SSI,
  - to participate in bulk purchase programme of the Government,
  - to impart training in various industrial trades,
  - to undertake the construction of industrial estates.

## SSIB (Small Scale Industries Board)

- The government of India constituted a SSIB in 1954 to advice on development of small scale industries in the country.
- SSIB is also known as central small industries board.
- SSIB is created to facilitate coordination and inter institutional linkages.
- It is an apex advisory body to render service, advice to the government to all issues pertaining in the development of SSI.
- Industrial minister is the Chairman of SSIB.

## SSIDC (State Small Industries Development Corporations)

- SSIDC were set up in various states under the company's act 1956, as state government undertaking to cater to the primary developmental need of the tiny, village industries in the state union territories under this jurisdiction.
- Important functions are :
  - to procure and distribute scarce raw materials
  - to supply machinery on hire-purchase system
  - to provide assistance for marketing of the products of SSI.
  - to construct industrial estates/ sheds, providing allied infrastructure facilities and their maintenance.

## SISIs (Small Industries Service Institutes)

- The SISIs are set up to provide consultancy and training to small entrepreneurs both existing and prospective.
- The main functions are:
  - To serve as interface between central and state government



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- To render technical support services
- To supply promotional programmes
- To conduct EDP programmes

## DICs (The District Industries Centre)

- DIC was started on May 8, 1978 with a view to provide integrated administrative framework at the distinct level for promotion of small scale industries in rural areas.
- The main functions are:
  - The DICs role is mainly promotional and development
  - To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skills, infrastructure demand for product etc.
  - To prepare techno-economic surveys and identify product lines and to provide investment advice to entrepreneurs.
  - To prepare an action to effectively implement the schemes identified.
  - To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment sources of supply and procedure for procuring imported machinery.

## TCO (Technical Consultancy Organization)

- A network of technical consultancy organizations was established by the All India Financial Institutions in the seventies and eighties in collaboration with the state level financial and development institutions and commercial banks to cater to the consultancy needs of small business and new entrepreneurs.
- There are 17 ICOS running in various states to provide the below mentioned services:
  - Undertaking surveys, especially relating to potential of a particular industry
  - Identifying potential entrepreneurs and providing them managerial and technical guidance
  - Marketing research for specific products
  - Supervising projects and rendering technical and managerial assistance
  - Sick units; study and their rehabilitation
  - Conducting EDPs and skill development programmes

## FUNDING SUPPORT BY DEVELOPMENT BANKERS:

Due to growing industrial development in India, the government decided to grab the opportunity to develop the industrial base with an intention to boost up the economy. To exploit



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this prospect, government identified the crucial role of entrepreneur in economic development. Thus, Government of India decided to support the development of entrepreneurship across the country through several measures. These measures are intended to offer various types of assistance and facilities to new entrepreneurs. It includes finance, procurement of raw materials from various sources, selection of factor inputs, information related to market and technology, guidance on how to establish an enterprise etc. Various institutions have been established by the Government at national and state level to assist the entrepreneurs. These efforts are discussed below:

## 1.IDBI (Industrial Development Bank of India)

- Established on July 1, 1964, is an autonomous institution working in the area of developing industrial base and at present acts as an apex of financial institution in the field industrial finance.
- The objectives of the bank are as follows:
  - Meeting the needs of rapid industrialization for which a new institution with enlarged financial resources was considered necessary.
  - Coordinating the activities of all other agencies engaged in providing industrial finance.

## ASSISTANCE/FUNCTIONS:

Following type of assistance is provided by the bank to the entrepreneurs:

- Project loan
- Direct subscription to equity capital, bonds and debentures
- Soft loans
- Seed capital assistance to new entrepreneurs through state financial corporations and state industrial development corporations.
- Technical development fund loans and equipment finance loans
- Underwriting
- Offering guarantee for loans secured from banks and other financial institutions as also for deferred payments
- Discounting of bills of exchange
- Providing export credit and refinance
- IDBI also undertakes various promotional activities such as marketing and investment research, techno-economic surveys etc. It provides technical and administrative advice for expansion, better management and promotion etc. or new entrepreneurs.



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## 2. ICICI (Industrial Credit & Investment Corporation of India)

- The ICICI bank was established on 1st January, 1955 and was registered under companies act.
- It has been set up as a limited liability company with the support from the Government of India, the World Bank, and other foreign institutions.
- The objectives of the corporation as follows:
- To provide loans for the development and modernization of private sector industrial units.
- To encourage investment of indigenous and external capital in industries
- To encourage private ownership of industrial concerns

### Assistance/Functions:

- To provide long-term and medium term loans in rupees and foreign currencies
- To participate in equity capital of industrial concerns
- To underwrite new issues of shares & debentures
- To guarantee loans raised by private concerns from other sources
- To encourage private industrial investment and thereby broaden the capital market base
- To provide managerial, administrative and technical assistance
- To provide financial services such as deferred credit, leasing credit, installment sale, venture capital etc.

## 3. IFCI (Industrial Finance Corporation of India)

- The IFCI was established on July 1, 1948 under an Act of parliament to provide long term finance to large scale industries of the country.
- It was India's first Development Bank constituted as a public limited company.

### Objective:

- It was set up with the objective of providing medium and long term loans to industries.
- Its role is that of a gap-filler; as it is expected to supplement the existing channels of industrial finance.

### Assistance/Functions:

- IFCI provides risk capital assistance to new entrepreneurs through the Risk Capital Foundation (RCF)



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- Granting of loans or advances or both in rupees and foreign Currencies, repayable within 25 years.
- Subscribing to debentures of the industrial units
- Underwriting the issue of stock, shares or debentures of industrial units.
- Giving security for the loans raised by an industrial concern in the open market.
- Guaranteeing deferred payments for the import of capital goods.

#### 4. SIDBI (Small Industries Development Bank of India)

- It was set up by the Government of India in April 19 as an apex institution for the promotion, financing and development of Small Scale Industries in the country.
- It coordinates the functions of existing institutions engaged in similar activities.
- It has been set up as a wholly owned subsidiary of IDBI with an Authorized capital of 250 crores which can be raised up to 1000 crores.
- It started its operations with effect from April 2, 1990 through its 25 offices located in the different parts of the country.

#### OBJECTIVE:

The main objective of this bank is to provide financial and non-financial assistance to small scale industries.

#### ASSISTANCE/FUNCTIONS:

- To refinance loans and advances extended by commercial banks and other lending institutions and also to provide them resources.
- To discount and re-discount bills arising from sale of machinery manufactured by small industries.
- To initiate the process of modernization and technical up gradation of the existing units.
- To give direct assistance and refinance loans extended by primary lending institutions for financing of export of products manufactured by small scale sector.
- To facilitate the marketing of the products of the small scale sector in India and abroad.
- To provide special assistance to labour intensive industries to enable them to provide more employment.

#### SUPPORT FROM STATE LEVEL FINANCIAL INSTITUTIONS

- **SFCs (State Financial Corporations)** have been set up by various states to provide financial support to new entrepreneurs .



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- They specially extend their assistance to those who are willing to establish their unit in rural and backward region.
- Many other institutes such as SSIC (Small Scale Industries Corporations), Entrepreneurs Guidance Bureaus, Consultancy Organization etc. have been set up to provide support to the entrepreneurs in their ventures.

### In Gujarat,

- GSFC (Gujarat State Financial Corporation)
- A GIIC (Gujarat Industrial & Investment Corporation)
- GSIC (Gujarat State Industries Corporation)
- GIDC (Gujarat Industrial Development Corporation) and many others have been set up to support entrepreneurship in Gujarat.

### SUPPORT FROM PUBLIC SECTOR BANKS

Commercial banks of India which includes Public sector banks generally provides working capital facilities to the small and Banks, private sectors banks, foreign banks and regional rural medium businesses. They provide assistance in following way:

- Discounting of trade bills
- Overdraft facility
- Cash credit (Popularly known as CC account)
- Short term loan

The advances are given against sufficient security and with adequate level of margins. Now-a-days, these banks have also started providing long term loans, underwriting services, lease financing, hire-purchase etc.





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## UNIT 3 STARTUP INDIA POLICY

### Topic:

### CONCEPT OF START-UP AND START-UP POLICY OF GOVERNMENT

#### What is Start - Up?

- As per the revised notification G.S.R 364 (E) published on 11th April, 2018, an entity shall be considered as a Start-up:
- If it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India.
- Up to seven years from the date of its incorporation/ registration; however, in the case of Start-ups in the biotechnology sector, the period shall be up to ten years from the date of its incorporation/registration.
- If its turnover for any of the financial years since incorporation/ registration has not exceeded Rs. 25 crores.
- If it is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.
- Provided that any such entity formed by splitting up or reconstruction of a business already in existence shall not be considered a Start-up'.
- Honorable Prime Minister, Narendra Modi announced on 1st August, 2015, 'Start-up India', 'Stand-up India' to promote Bank financing for start-ups and offer incentives to boost towards entrepreneurship and job creation.
- The Government's union budget allocation of INR 1,000 crore towards the Self Employment and Talent Utilization (SETU) scheme is a major boost towards promoting start-ups in the country.
- India has declared 2010-20 as the Decade of Innovation. The Government has stressed the need to vocalize a policy to synergies science, technology and innovation and has also established the National Innovation Council (NIC).
- India is the 4th largest ecosystem in the World for Starts-Ups, after the US, the UK and Israel with a rapidly evolving ecosystem, driven by an extremely young, diverse and inclusive entrepreneurial landscape.



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- It is expected that if the current trend continues, within 1-2 years India will reach the 2nd spot after the US and will be among the top Asian Start-Up ecosystems, along with China and South East Countries.

## FEATURES OF START-UP:

- Encourage entrepreneurship among the youth of India. Each of the 1.25 lacks Bank branches should encourage at least on Dalit or Tribal entrepreneur and at least one woman entrepreneur.
- In addition to existing systems to facilitate start-ups, loans would also be given to help people. Give a new dimension to entrepreneurship and help set- up a network of start-ups in the country.
- Promised to do away with the current practice of interview based selections for low-skilled government jobs.
- The practice of interviews' for recruitment at relatively junior levels and departments concerned to end this practice at the earliest and promote merit by recruiting only through transparent, online processes.
- As part of the skill India and digital India initiative, package of incentives will be given to manufacturing units for generating jobs.

## Action Plan for Start-Up India

Prime Minister Narendra Modi announced action plan for encouraging Start-ups on 16th January, 2016 which is briefly mentioned below:

- Funding support through fund of funds with corpus of Rs. 10000 crores. Challenge is that government starts disbursing the Rs. 2500 crore earmarked every year.
- Starting business in one day. The action plan provides entrepreneurs to register a company in one day, against 15-20 days as of now.
- No tax on profit, inspection for three years.
- Capital gains tax exemption
- Credit guarantee scheme
- Easy and faster exit policy (within 90 days)
- Relaxed norms of public procurement for start-ups
- Mobile app, portal for registration
- Handholding with government acting as a friend and colleague
- Special scheme for women entrepreneur.



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- Encouragement for incubation centres
- Setting up Research parks. And many more...

## ESTABLISHMENT OF SPECIALIZED INSTITUTIONS

### (1) National Institute for Entrepreneurship and Small Business Development (NIESBUD)

NIESBUD was established in 1983 by the Ministry of Industry, Government of India. It is at the apex coordinating and supervising the operations of various other institutions engaged in entrepreneurship development. This Institute conducts around 30 national and 5 international training programmes on a yearly basis for promoting entrepreneurship. The main functions and objectives are as follows:

#### FUNCTIONS AND OBJECTIVES:

- a. To accelerate the growth of entrepreneurship development in the nation by providing various assistance.
- b. To assist various other institutions in conducting operations and training for entrepreneurship development.
- c. To disseminate important information to help trainers for improving training quality and to entrepreneurs to support them when they come in the contact of environment.
- d. To discover the best candidates, training and supporting them for starting up a new venture.
- e. To generate and provide various training techniques/methods in order to produce effective outcome.
- f. To design the syllabus for educating the variety of persons joining the same course.
- g. To cultivate entrepreneurial needs and culture in the society.
- h. To organize various activities such as debates, discussions, meeting etc for interaction and exchange of experiences.

### (2) Entrepreneurship Development Institute of India (EDI)

The Entrepreneurship Development Institute of India is an autonomous body established in 1983 and it is sponsored by apex financial institutions, namely DBI, ICICI, State Bank of India, and IFCI. It conducts research and organizes training in order to support entrepreneurs setting-up their enterprises in relatively backward areas.



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## Objectives:

- To increase the supply of entrepreneurs in the society through training.
- To create opportunity for self-employment.
- To develop capabilities of small and medium scale industry's entrepreneurs thereby promoting small enterprises at rural level.
- To increase the supply of trainers for entrepreneurship development.
- To generate the spirit of entrepreneurship in the minds of youth.
- To conduct research and supplying the information generated through research to entrepreneurs in order to assist them for operating effectively.
- To build up support system for potential entrepreneurs in order to assist them in establishing and running the enterprise effectively.
- To team up with various other institutions engaged in same programme in India.

### (3) Small Industries Development Organization (SIDDO)

SIDO has been set up to give training and managerial inputs to small scale entrepreneurs. It has a strong support from financial institutions and government agencies for the promotion and development of small scale industrial units. The main aim of this organization is to train small entrepreneurs who cannot afford to pay the cost of professionally qualified persons. SIDO trains these entrepreneurs along with upgrading skills of workers working in Scale industries. It has a network of 25 Small Industries Service Institutes (SISIs), 41 extension centers, 4 regional testing centers and one product and process development centre. Institutes specific role of SIDO has been briefly mentioned below:

- Development of entrepreneurial skills
- Enhancing rural industrialization
- Developing physical infrastructure at various places
- Developing various courses such as industrial management, specialized courses on production, marketing, finance, materials and export management and few other courses on subjects like inspection, quality control, work study etc.

It has designed various types' of training programmes for different groups such as women, physically handicapped, educated but unemployed, weaker section of society, rural artisans etc.

### (4) National Institute for Small Industry Extension and Training (NISJET)

- It was established in 1960 under the direction of SIDO to provide extension and training services to small and medium enterprises.



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- It is one of premier institutions for the promotion, development and modernization of the small and medium enterprises sector.
- For the past four decades NISIET has been engaged in conducting national and international programmes covering the Asian, Afro-Asian regions and Pacific rim countries.
- It basically provides training to entrepreneurs, managers, various departments of state government, financial institutions and other agencies.
- The institute operates through following activities viz, training, consultancy, research, education, information and extension services.

## (5) Small Industries Development Bank of India (SIDBI)

- It was set up by the Government of India in April 1990 as an apex institution for the promotion, financing and development of Small Scale Industries in the country.
- It coordinates the functions of the existing institutions engaged in similar activities. It has been set up as a wholly owned subsidiary of IDBI but got separated from it in 1997,
- SIDBI has provided assistance to 743 EDPs by the end of March 31, 1998.
- SIDBI provides support to EDP conducting institutes by resolving the issues that are related to management insufficiency and inappropriate technology. It has designed two programmes:
  - a. Small Industries Management Assistance Programme (SIMAP)- to develop a cadre of industrial manager
  - b. Skill-Cum-Technology Management Assistance Programme (STUP)-to improve the performance of existing SSI units by developing skills and ability of the entrepreneurs.

## (6) Xavier Institute of Social Services

- The institute dedicates its services to rural entrepreneurs.
- It generally operates in association with certain social organizations.
- It helps the trainees in selecting and preparing project reports and in arranging required finance from various sources. It also provides opportunity to tribal to join entrepreneurship programme and helps them to develop entrepreneurial skills.
- Following are its functions:
  - a. Recognizing the right candidate for entrepreneurial training
  - b. Training and injecting motivational drives in them
  - c. Various industrial visits to acquaint the potential entrepreneur with the practical skills
  - d. Surveying the market and financial support



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e. Follow up and personal counseling

## (7) Technical Consultancy Organizations (TCOs)

- Technical Consultancy Organizations (TCOs) provides a comprehensive package of services to small and medium enterprises, industrial entrepreneurs, government agencies, banks and other similar institutions in the task relating to industrial development and marketing.
- All India Financial Institutions in collaboration with state level institutions and commercial banks established a set of TCOs throughout the country to cater consultancy needs of small & medium enterprises and entrepreneurs.
- There are 17 TCOs running in various states to provide the below mentioned services:
  - a. Undertaking surveys, especially relating to potential of a particular industry.
  - b. Identifying potential entrepreneurs and providing them managerial and technical guidance.
  - c. Marketing research for specific products.
  - d. Supervising projects and rendering technical and managerial assistance.
  - e. Sick units study and their rehabilitation.
  - f. Conducting EDPs and skill development programmes.

## (8) Indian Investment Centre

- The Indian Investment Centre (IIC) was set up in 1960 as an independent organization under the Ministry of Finance Government of India, to promote entrepreneurship and conduct EDPs.
- To conduct this, it has set up. Entrepreneurial Guidance Bureau to guide entrepreneurs in starting their ventures. It performs following functions:
  - a. Recognizing the potential entrepreneur with requisite skills.
  - b. Developing the skills of the potential entrepreneur in order to perform the entrepreneurial activities.
  - c. Enhancing and enriching their managerial and entrepreneurial knowledge.
  - d. Assisting and supporting the potential entrepreneur to establish their own enterprises.



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## DISTRICT INDUSTRIES CENTRES (DICs)

- The District Industries Centres (DICs) programme was started on May 8, 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scale industries in rural areas.
- The main activity of DICs is to develop and promote Cottage and Small Scale Industries in the district. The organizational structure consists of one General Manager, four Functional Managers and three Project Managers.
- The management of the DICs is vested with the State Governments.

## Functions:

- a. Technical support for preparation of project report.
- b. To conduct industrial surveys on behalf of entrepreneurs in order to help them in selecting product, market, suppliers etc.
- c. To check the feasibility of various project proposals received from entrepreneurs.
- d. To promote the products in domestic and foreign markets.
- e. To undertake the construction of sheds in the industrial estates.
- f. To provide training through an Entrepreneurship Development Programme (EDP).
- g. To provide financial assistance under self-employment Scheme and through various banks.
- h. To improve managerial capability through seminars, workshops and training pollution
- i. To rehabilitate sick units.
- j. Setting up bio-gas plants and keeping in check the pollution.

## INTRODUCTION OF ENTREPRENEURSHIP COURSES BEING ARRANGED BY GOVERNMENT

- Starting a business unit is not an easy task for an entrepreneur. It requires various resources and facilities.
- For an entrepreneur who is relatively new to the environment, it becomes difficult arrange all the resources to start and run an enterprise Finance i.e, one the important factor affecting entrepreneur.
- Finance is needed to purchase land and machineries, construct building, and procure materials and so on from different suppliers to run his enterprise.
- Identifying this need, the Government has established and arranged for various courses for growth and development of entrepreneurship in India which are discussed below:



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## 1. Entrepreneurship Development Programme potential Entrepreneurs

- Any person with self-confidence and desire to establish any type of business without much of the experience and educational qualification with an industrious mind can join this programme.
- The programme is basically for those who have the latent talent and achievement motivation to take entrepreneurship but are not been able to do so.
- This could be due to lack of guidance, advice or information, or could not identify the opportunity available at the right time.
- This programme will teach them on the same lines and make them capable enough to start successfully their establishment.
- A test is necessary to clear before getting in as a trainee in this programme.
- The programme will offer necessary knowledge, information and practical guidance for running the industrial enterprise.

## 2. Skill Formation Programme for Youth

- Entrepreneurship Development Institute has arranged a 16 week programme on electronics and scooter and motorcycle garage for the youth in Gujarat.
- Any person who has passed S.S.C. with the subject of science can enter this programme for training. Schedule Caste, Schedule Tribe, Baxi-Panch and Women are provided special scholarship to participate in this programme.
- The aim of this training programme is to train them so that they can independently establish their service units on a small scale so as to earn livelihood.

## 3. Management Appreciation Programme for existing Entrepreneurs

- This programme is aimed to give proper guidance and assistance to small entrepreneurs by helping them solve the problems and resolve the confusions that emerges from the operations of business in the areas of decision making on financial, legal, market and tax planning matters.
- The programme is generally scheduled for 3 - 4 days. In this time span, they try to resolve the business issues and assist the entrepreneurs in various areas such technology, quality, export, diversification etc.

## 4. Entrepreneurship Awareness Programme

- The major objective of this programme is to create and develop entrepreneurial environment in the country.





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- It aims to target potential entrepreneurs' right from childhood by teaching them the qualities and virtues of entrepreneurship.
- Here, they try to promote entrepreneurship by creating awareness programme in Schools, colleges and other management institutes for a day or rather than seeking job.
- They want more job-providers in the environment.
- Even they also arrange seminars and workshops for the aim is to encourage students to take up self-employment teachers and professors of various institutes so that they in turn students to take up entrepreneurship.

## 5. HRD Programme

- This programmes aims to cultivate conducive environment related to work culture among various groups of industry and business. It strengthens relations between owners and employees
- It helps develop creative climate within the organization and assist them in how to minimize operational problems and also helps in stress management.

## 6. Women Cell

Women cell performs following functions for women.

- a. Short term programme for women empowerment
- b. EDP for women
- c. Arrangement of personal guidance, group seminars and Workshops for social and economic development and empowerment of women
- d. Organizing Trade Fairs and Exhibitions for the products produced by women.
- e. Establishment of EDP for women according to requirement of women cooperative organizations.

## 7. Post Graduate Diploma in Entrepreneurship and Business Management

Offering Post Graduate Diploma in Entrepreneurship and Business Management for one year is a joint venture of Entrepreneurship Development Institute and Gujarat Law Society.

## 8. SC and ST Art and Craft Centre

- EDI has planned to increase productivity of tribes working in cottage industry and segment working in the traditional and handicraft industry.
- The centre will try to enlarge this unique talent of these tribes that they possess by preserving them and at same time exposing their talent to the global level so that they can achieve great heights,



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## WOMEN ENTREPRENEURSHIP|

- Women constitute half of the global population and it is a fact. Even in India according to the census of 2010, the women population is 50.8%.
- But when it comes to their representation on entrepreneurial platform, it is comparatively very low.
- Most of the entrepreneurial ventures are established by males and a very thin women population has been engaged in entrepreneurial endeavors.
- Of course, their role in productive activities in India has been increasing over the years, especially, in the last two decades.
- Be it any field, women are capable of making their mark equally. However, total number of enterprises run by female is still substantially low as compared to males.
- According to the 6<sup>th</sup> Economic Census, 2014, only 14% of Indian women own or run businesses. Out of which, more than 90% of the companies are microenterprises and about 79% are self-financed. Further, women account for just 17% of GDP in India, which is less than the global average. (Source: Annette Dixon, VP, World Bank, South Asia)
- The issue of women employment has become evident due to change in the scope and character of economic structure of the society.
- The traditional occupations such as agriculture, handloom, handicrafts, cottage and village industries etc are losing their significance and it is affecting women as they are the ones working with these occupations in substantial numbers.
- Of course, there have been new developments and openings of employment opportunities but are the women ready for these opportunities is a big question.
- As these jobs demands multi-tasking abilities, formal education, soft skills etc. Hence, it will be interesting to observe how women develop these capabilities and come out strong by breaking the social barriers that prevail in our society.
- The western countries have already begun to adapt new technology and have also started involving women as well because they realize that they need women and men both to contribute in national development because each of them has something unique to offer which the other cannot.
- Hence, both the gender is required to perform to the best of their abilities in order to survive and grow.
- The situation in India is not as good but it is improving. On a brighter side, there is a substantial change in the mind-set of our societies. Women are now allowed to work. Also, today's women are strong, intelligent, confident and most importantly they are comfortable being themselves as women in the work environment.



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- Women, today, do not see themselves as a home-maker and marriage is not the only career for them.
- Of course, few decades back, the conditions were such that women were not ready and were faced with lot of traditional and cultural barriers arresting them within the four walls of house.
- Women were completely dependent on their male counterpart. But now, at least in urban areas, the situation is improving.
- Women, here, are not completely dependent on the males of the family.
- To add to it, a number of steps have been taken at national level to address various issues pertaining to women.
- There has been a significant change in societal structure, political environment and at economy level created various opportunities for women and have also given them greater acceptance and recognition.

## CONCEPT/MEANING OF WOMEN ENTREPRENEUR

- A Woman entrepreneur includes a woman or a group of women who initiate, organize and operate a business enterprise.
- Here, she develops the ability to manufacture want satisfying product or Service by bearing calculative risk and has necessary skills to innovate.
- She has or develops a strong drive which keeps her motivated to work hard for achieving desired success.
- She actually becomes the identifier or reflector of the dormant needs of the target market.
- She becomes ready to take-up any challenge of combining various inputs to produce maximum output which brings profit.
- Women entrepreneurs in India have been on the Business front for quite some-time now and have achieved good Success as well.
- Of course, the numbers with reference to male counterpart is still low and are mostly engaged in small ventures.

## NEED/CAUSES FOR WOMEN ENTREPRENEURSHIP

- There are many reasons why more and more women are either taking up a job or are starting their venture at a micro level.
- The reasons which led female to take up entrepreneurial ventures could either chance entrepreneurship, forced entrepreneurship or created entrepreneurship.



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- In case of chance entrepreneurship, the female takes up entrepreneurship as a career without any prior preparation, goals or plans.
- It could just be as simple a solution to kill the spare time or decides to go in entrepreneurial venture by getting inspired by few successful women in the world, female take it up something.
- And in doing so, the venture might prove to be successful.
- In case of forced entrepreneurship, the name itself suggests that, females are compelled or forced by situations in they are put, may be because of death of husband or father or earning member of the family.
- The responsibility falls on the shoulders of the female which leads them to take up organization.
- This, sometimes, becomes the only option when female is not educated enough to get job in a reputed organization.
- Women may be forced to continue and learn the existing business which her husband or father has left to her in case of death or any major illness.
- And finally, educated, motivated and well placed females back themselves to become entrepreneurs from the very beginning.
- They set the goal to become business women and have high need for achievement in the environment by creating and running an innovative enterprise Successfully.

## CONSTRAINTS FOR WOMEN ENTREPRENEURS

### 1. Low risk bearing abilities/capacities

Women in India have been brought up in a traditional manner. They are comparatively less educated, lack marketing knowledge and economically are not self-dependent. These factors reduce their ability to bear risk involved in running an enterprise. Risk bearing is an essential requisite of a successful entrepreneur, Therefore, women choose still field like nursing, teaching, administrative jobs etc which generally does not involve any risk.

### 2. Weaker networking skills

Women may socialize anywhere even at their workplace, but when it comes to networking skills, they fail miserably. This is because women are typically in lower-status positions; they do not receive assistance that will help with future career goals. Mostly in every organization, women are located in lower - status positions. Men occupy the higher-ranking positions. Since men have higher status positions, they are hoarding and monopolizing critical resources



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### 3. Limited mobility

Unlike men, women mobility in India is highly limited due to various reasons. A single woman asking for room is still looked upon suspicious. It is also very difficult for women to travel around most of the times for the business ventures. Cumbersome exercise involved in starting an enterprise coupled with the officials humiliating attitude towards women compels them to give up the idea of starting an enterprise.

### 4 Conflicting interests

In India, women have to play multiple roles. It is mainly a woman's duty to look after the children and other members of family. Man plays a secondary role only. In case of married women, she has to make a proper priority distribution between her business and family. Her total involvement in family leaves little or no energy and time to devote for business. Support and approval of husbands seem to be unnecessary blocking the progress of married women.

### 5. Low physical capacity

Often women experiences low energy levels when compared to males. The very first reason is they are by nature physically inferior as compared to a man. Again family responsibility that we have discussed earlier and females also experience high hormonal changes throughout her life. These all exhaust her eventually.

## OPPORTUNITIES FOR WOMEN ENTREPRENEURS

If we see the present business and entrepreneurship trend, we can notice that the percentage/ratio of women entrepreneurship is growing tremendously. This is a good indicator as the aforesaid conditions prevail through a long period; the overall contribution of Women entrepreneurs will be significant in Indian Economy. For such a day, various opportunities which come into female entrepreneurship needs to be grabbed. Let us examine few of such Opportunities:

### 1. Government support

- Government of India has been assigning increasing importance to the development of women entrepreneurs in the country in recent years.
- The 6th 5 year plan, for example, proposed for promoting female employment in women owned industries.
- The government moved a step forward in 7th 5 year plan by including special chapter on Integration of women development.



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- Not only that, The new industrial policy of 1991 had stressed the need for conducting special EDP for women to encourage them.
- There are several institutional arrangement both at centre and state levels like nationalized banks, SFC, SIC, DIC and voluntary agencies like FICCIL Ladies Organization (FLO), National Alliance of Yolling Entrepreneurship (NAYE) which have been engaged in protecting and developing women entrepreneurship in the country.

## 2. Impact of Media

- Media plays an important role in provoking women to build their careers.
- Media exposes them to various ideas and opportunities for their growth. They also display the live examples to support their claims.
- Through this, they can bring a revolution in the life of women.

## 3. Impact of other cultures

- Today, India's culture has started moving.
- There was a period where it was static, but now it has changed its gears and started advancing.
- Now people are no more orthodox and tradition bound.
- They have left women free to allow them to explore the world.
- Due to this leniency, women now have got opportunity to develop their talents and put them in practice.

## 4. Social and economic development of nation

- The world has noticed substantial growth in last few decades.
- Every nation is developing at a great pace.
- Amongst them, India's been a prominent one.
- In every sphere, India is growing:
- The Society is advancing, life style is changing, standard living has increased and also the economic conditions.
- Due to this, many businesses are setting up to satisfy the growing needs of affluent people.
- As women are determined and excelling in education, they are motivated to build their careers. They are trying to seek job or many of them are also self-employed.



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## UNIT 4 - INTRODUCTION TO ETHICS

**Topic: What is Business Ethics and discuss the virtues required for ethical working in a business**

### INTRODUCTION

- **Ethics** is a branch of philosophy that addresses the concepts of right and wrong or good and evil. Ethics can also be called moral philosophy.
- Ethical thinking in professional context has certain requirements. It should be universal, normative, interpersonal, rational, and sensitive to circumstances.
- Business ethics is a form of applied ethics or professional ethics, that examines ethical principles and moral or ethical problems that can arise in a business environment.
- It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations.

### BUSINESS ETHICS

- Ethics means the set of rules or principles that the organization should follow. While in the business ethics refers to a code of conduct that businesses are expected to follow while doing a business.
- Through ethics, a standard is set for the organization to regulate their behavior. This helps them in distinguishing between the wrong and the right part of the businesses.
- The ethics that are formed in the organization is not any rocket science. They are based on the creation by a human mind. That is why ethics depend on the influence of the place, time, and the situation.
- Code of conduct is another term that is used extensively in businesses nowadays. It is a set of rules that are considered as binding by the people working in the organization.
- Business ethics comprises of all these values and principles and helps in guiding the behavior in the organizations. Businesses should have a balance between the needs of the stakeholders and their desire to make profits.
- While maintaining these balances, many times businesses require to do tradeoffs. To combat such scenarios, rules and principles are formed in the organization.
- This ensures that the businesses gain money without affecting the individuals or society as a whole. The ethics involved in the businesses reflects the philosophy of that organization.



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- One of these policies determines the fundamentals of that organization. As a result, businesses often have ethical principles. There is a list of ethical principles involved in the businesses.

“Business ethics in short can be defined as the systematic study of ethical matters pertaining to the business, industry or related activities, institutions and beliefs. Business ethics is the systematic handling of values in business and industry.” —John Donaldson

## VIRTUES REQUIRED FOR ETHICAL WORKING IN A BUSINESS

### 1. HONESTY

Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.

### 2. INTEGRITY

Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honorable and upright; they will fight for their beliefs. They will not sacrifice principle for expediency, be hypocritical, or unscrupulous.

### 3. PROMISE-KEEPING & TRUSTWORTHINESS

Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.

### 4. LOYALTY

Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former





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employer, and refuse to engage in any activities that take undue advantage of their previous positions.

## 5. FAIRNESS

Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor indecent means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.

## 6. CONCERN FOR OTHERS

Ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule, help that in need, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

## 7. RESPECT FOR OTHERS

Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.

## 8. LAW ABIDING

Ethical executives abide by laws, rules and regulations relating to their business activities.

## 9. COMMITMENT TO EXCELLENCE

Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavor to increase their proficiency in all areas of responsibility.

## 10. LEADERSHIP

Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.



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## 11. REPUTATION AND MORALE

Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.

## 12. ACCOUNTABILITY

Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities

**Topic: discuss why ethical problems arise in business**

## REASONS FOR ETHICAL PROBLEMS IN BUSINESS

**There are 6 main reasons for Ethical Problems. They are:**

1. LACK OF INTEGRITY
2. ORGANISATIONAL RELATIONSHIP PROBLEM
3. CONFLICT OF INTEREST AMONG VARIOUS STAKEHOLDERS
4. ADVERTISING THAT IS FALSE AND MISLEADING
5. COMPETITON
6. TECHNOLOGICAL INVENTIONS

The main route of the ethical problems in business and industry might be personal ego, personality clash, personal interest and business interest conflict, ineffective leadership etc. Sometimes, employees take advantage of a business situation for their personal needs as against company's interest. Following are the main reasons as to why ethical problems occur in a business:

### 1. Lack of integrity

- In today's world, we rarely see people with integrity. Businesses are carried out by human. So it is important for employees to have complete integrity.
- They should show fairness and honesty in their dealings with their clients, vendors, customers and other stakeholders.
- Company should create atmosphere where it reflects in treating customers with high respect and honesty. If this integrity is not maintained in every dealing of the organization it will suffer in the long run.



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- They may also face the intervention of the government in case of integrity is not maintained.

## 2. Organizational relationship problems

- **Companies should have clearly stated goals, objectives and missions.**
- All employees of the company should be made aware of their duties and responsibilities to achieve company's goals and objectives.
- Companies should have zero tolerance policy. If an employee who rebels against its policies, strict action should be taken against unethical behavior of employees.
- For example, employee using office vehicles for personal work, top management Executives stealing money from company accounts with the help of other employees and using it for personal gains etc.
- The organization should not be bias towards any employee. The relationship with all the employees should be equal.

## 3. Conflict of interest among various stakeholders

- Conflict of interest occurs when it is difficult for employee to fulfill his duties clearly due to competing professional and personal obligations.
- It is never a dilemma but it is perceived as a dilemma by an employee whether to go-in for personal goals or professional duties.
- For example, an employee who works in the evening part-time for a company that makes similar products as his full-time employer, a member of the Board of Directors gives advice to a competitor making similar products in return for fees, Minister for government employed awarding contracts to its close relative or friend without proper credentials etc.
- All these are examples of the conflict of interest which creates ethical issues in the business or professional life.

## 4. Advertising that is false and misleading

- Advertising is believed to enhance buyer's response to products or services offered.
- In order to increase company's volumes and profits, many a times, companies resort to misleading and deceptive advertisement.
- It can mislead consumers. At the Same time, it has given rise to attributes like class consciousness, materialism, ever-increasing consumption pattern etc. deceptive advertisement also affect competitors adversely.



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- For example, misleading advertisement by various health food brands, fairness creams etc.
- Thus, in order to resolve this problem, tighter control of media is required. Also, consumer needs to be educated to buying critically judge various advertisements and then make buying decisions.

## 5. Competition

- In today's competitive world, every business is struggling to compete for their share in market.
- Under such pressure and for survival, the organization may indulge into unethical practices to earn profit and try to survive in this fiercely competitive world.

## 6. Technological Inventions

- Technological inventions had raised new ethical issues for business.
- The agricultural and industrial revolutions introduced ethical issues such as possibility of exploiting labour, damaging the environment massively and manipulating the new financial markets.
- Information technology has raised issues related to privacy and intellectual property rights, nanotechnology is criticised to be harmful if nano particles are inhaled by humans and the other potential harms caused due to release of nano particles in the environment.

**Topic : discuss various approaches to business ethics and its practical applications in business**

## VARIOUS APPROACHES TO BUSINESS ETHICS

### 1. UTILITARIANISM

This is a normative ethical theory that places the locus of right and wrong solely on the **outcomes (consequences)** of choosing one action/policy over other actions/policies. As such, it moves beyond the scope of one's own interests and takes into account the interests of others.

### 2. DEONTOLOGICAL

This is an ethical theory that places special emphasis on the relationship between duty and the morality of human actions. The term *deontology* is derived from the Greek Deon, “duty,” and logos, “science.” In deontological ethics an action is considered morally good because of some characteristic of the action itself, not because the product of the action is good.



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Deontological ethics holds that at least some acts are morally obligatory regardless of their consequences for human welfare.

### 3. VIRTUOUS ETHICS

This mainly deals with the honesty and morality of a person. It states that practicing good habits such as honesty, generosity makes a moral and **virtuous** person. It guides a person without specific rules for resolving the **ethical** complexity.

### 4. COMMUNITARIAN ETHICS

Communitarianism is a philosophy that emphasizes the connection between the individual and the community. Its overriding philosophy is based upon the belief that a person's social identity and personality are largely molded by community relationships, with a smaller degree of development being placed on individualism. Although the community might be a family, communitarianism usually is understood, in the wider, philosophical sense, as a collection of interactions, among a community of people in a given place (geographical location), or among a community who share an interest or who share a history.

### 5. FAIRNESS AND JUSTICE

The fairness approach assumes that people should be treated equally regardless of their station in life, that is, they should not be subject to discrimination.

## HOW TO APPLY VARIOUS APPROACHES INTO BUSINESS

### 1. UTILITARIANISM

- It refers to social cost and benefit analysis:
- Utilitarianism focused on the right and wrong action.
- It deals with the after effects of a Utilitarianism ties to weigh the consequences or after effect of an action by measuring its impact on the beneficiaries of the activity impact on larger community.
- Roots of utilitarianism are found in normative ethics. It deals with the morality of an action or activity being conducted for the benefit of many people.
- In utilitarianism, people may experience higher and lower pleasures as it was propagated in Maslow's Need Hierarchy Theory.



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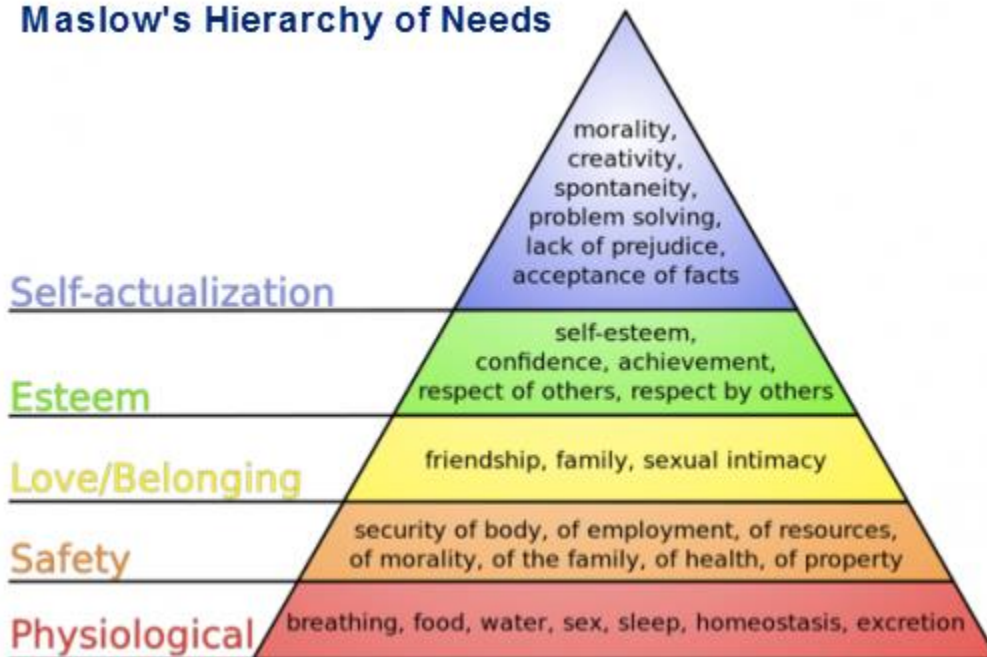
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- As indicated by Maslow, individuals who are working for the fulfillment of lower order needs are satisfied by getting nourishment through food, apparel through clothing and shelter.
- When they get these, they might want to get security of these physiological needs: That implies they need affirmation of work. After short time, they understand that societal position is likewise administered (governed) by monetary or economic status and therefore, they work all the more.
- They earn more and have better purchasing power to fulfill their basic needs. Once these requirements are fulfilled, people become conscious of community welfare work and recognition.
- This turns into a beginning stage for corporate social responsibility. Including above and beyond, individuals might want to fulfill the higher order needs of self-actualization; wherein one might want to work for the advantage of substantial number of individuals which includes towards the welfare of community at a large; in the meantime, it would fulfill individual needs of all people who work for the welfare of the community.

## Maslow's Hierarchy of Needs



Source: Wikipedia



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## 2. VIRTUE ETHICS

- Employees who hold a set of morals and virtues personally will use them every day, both in and out of work.
- This is why it is important to hire employees with a strong set of virtues, because these behaviors will carry over into the work environment.
- Virtue ethics focuses on the employee individually and considers who they are. Are they stand-up citizens within the community? Or are they known for selfish, reckless behavior?
- Virtue ethics is a unique approach in the workplace because it does not focus on employees as a whole.
- Additionally, the approach does not focus on only work behaviors. Instead, the theory holds that a good person will be a good employee.
- However, this approach does have one issue similar to the saying 'nice guys finish last,' 'last' meaning that a nice guy will be bypassed for promotion.
- **Virtues** are behaviors like compassion, trustworthiness, responsibility, honesty, etc. Similarly, ambition is also considered a virtue, and employees with ambition who are willing to step on others to succeed can be more noticed than the nice guy.
- This shows how different individuals can have different virtues, which, in turn, can create a tense work environment.
- Offices can develop cliques that are made up of individuals with similar virtues. This can cause trouble by creating an 'us versus them' mentality.



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## ORGANISATIONAL BEHAVIOUR

### B.B.A - 4

<u>SR NO</u>	<u>NAME OF CHAPTER</u>
1	INTRODUCTION TO OB
2	UNDERSTANDING INDIVIDUAL BEHAVIOUR
3	DYNAMICS OF GROUP AND TEAM
4	BASIC LEADERSHIP AND MOTIVATION THEORY





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## **CHAPTER : 01**

### **INTRODUCTION TO ORGANISATIONAL BEHAVIOUR**

#### **TOPIC : FEATURES OF ORGANISATIONAL BEHAVIOUR**

➤ **Meaning of organisational behaviour**

Organisation behaviour is the study and application of knowledge about how people as individual and group act within organisation

➤ **Features of organisational behaviour**

1. **Organisational behaviour is science**

Knowledge of organisational behaviour is based on science . It seeks to develop knowledge base using a research oriented approach

2. **Organisational behaviour is applied science**

It is the application of knowledge about individual and group act within organization

3. **Organisational behaviour is study of human behaviour**

Organisational behaviour help to systematically describe how people behave under various situation

4. **Organisational behaviour is study about behaviour in organisation**

Organisational behaviour managers not only focus on understanding individual behaviour but they also study behaviour of people In group Since people influence and influenced by work environment

5. **It is interdisciplinary in nature**

Organisational behaviour is an applied science which comprises principle of many other behaviour science such as psychology , sociology etc

6. **Organisational behaviour recognise that organisations are dynamic**

In studying organisational behaviour it is important to understand that organisations are ever changing open system which transform the resources from environment into output which is again transformed the back to input in the cycle continuous

#### **TOPIC : IMPORTANCE AND LIMITATIONS OF ORGANISATIONAL BEHAVIOUR**

##### **Importance of Organizational Behavior:**

1. It builds better relationship by achieving people's, organizational, and social objectives.



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2. It covers a wide array of human resource like behavior, training and development, change management, leadership, teams etc.
3. It brings coordination which is the essence of management.
4. It improves goodwill of the organization.
5. It helps to achieve objectives quickly.
6. It makes optimum utilization of resources.
7. It facilitates motivation.
8. It leads to higher efficiency.
9. It improves relations in the organization.
10. It is multidisciplinary, in the sense that applies different techniques, methods, and theories to evaluate the performances

### Limitations of Organizational Behavior:

1. **Behavioral bias:** It further causes dependence, dis-contentment, indiscipline, and irresponsibility.
2. **Law of diminishing returns:** It says that beyond a certain point, there is a decline in output even after each additional good or positive factor.
3. **Unethical practices and manipulation of people:** Knowledge of motivation and communication acquired can be used to exploit subordinates in an Organization by the manipulative managers

### SOME IMPORTANT EXTRA QUESTIONS :

- 1) **RELATION BETWEEN ORGANISATIONAL BEHAVIOUR AND MANAGEMENT**
- 2) **FEATURES AND COMPONENTS OF INTERNATIONAL ORGANISATIONAL BEHAVIOUR**
- 3) **COMPONENTS , FEATURES AND SIGNIFICANCE OF POSITIVE ORGANISATIONAL BEHAVIOUR**



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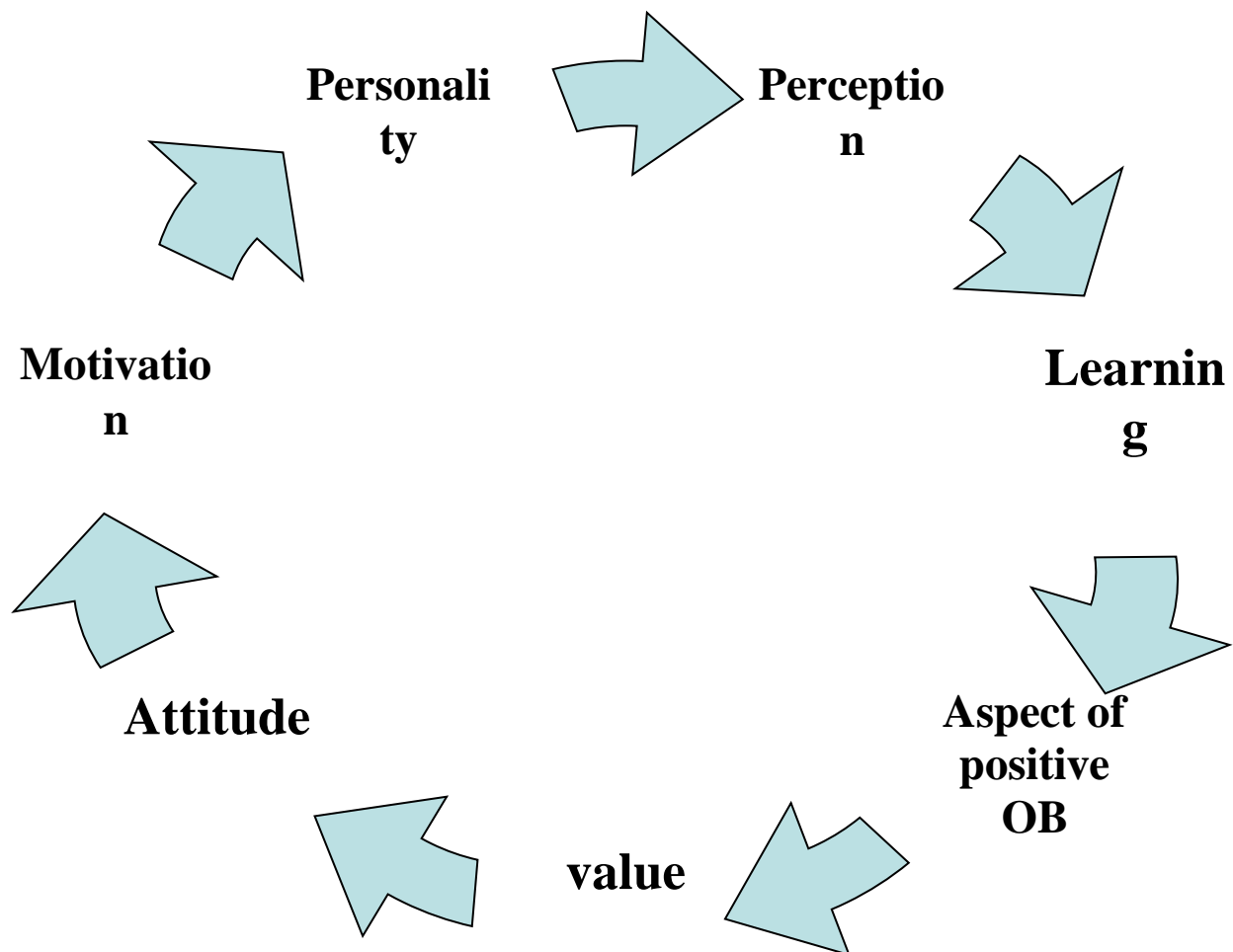
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## CH.02

### UNDERSTANDING INDIVIDUAL BEHAVIOUR

#### TOPIC : COMPONENTS OF INDIVIDUAL BEHAVIOUR

There are many forces that affect individual behavior. The key forces are....



#### 1) PERCEPTION :

The basic process of sensitizing stimuli by the sensory organs is called sensation and the process of selecting meaningful interpretation of of such stimuli is called perception



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## 2) LEARNING :

Learning is a dominant psychological process that determine one's behavior

## 3) ATTITUDE :

Attitudes are cognitive processes. They are an important part of one's personality. they are an important factor that determine response towards any stimuli

## 4) PERSONALITY :

Personality is the key determinant of an individual response to any stimulus.....

## 5) VALUE:

Value are closely related to attitudes .they are basic conviction that a specific mode of conduct is personally or socially preferable to an opposite mode of conduct

## **TOPIC : EXPLAIN THE MEANING AND FEATURES OF PERCEPTION :**

### **INTRODUCTION:**

Perception is the organization, identification, and interpretation of sensory information in order to represent and understand the environment.

### **What is Perception**

Perception depends on complex functions of the nervous system but subjectively seems mostly effortless because this processing happens outside of conscious awareness.

According to Joseph Reitz; "Perception includes all those processes by which an individual receives information about his environment—seeing, hearing, feeling, tasting and smelling."

### **FEATURES OF PERCEPTION:**

1. Perception is very important in understanding human behavior because every person perceives the world and approaches life problems differently. Whatever we see or feel is not necessarily the same as it really is. When we buy something, it is not because it is the best, but because we take it to be the best.
2. If people behave on the basis of their perception, we can predict their behavior in the changed circumstances by understanding their present perception of the environment. One person may be viewing the facts in one way which may be different from the facts as seen by another viewer.
3. With the help of perception, the needs of various people can be determined, because people's perception is influenced by their needs.
4. Perception is very important for the manager who wants to avoid making errors when dealing with people and events in the work setting. This problem is made more complicated by the fact that different people perceive the same situation differently. In order to deal with the subordinates effectively, the managers must understand their perceptions properly.
5. Perception can be important because it offers more than objective output; it ingests an observation and manufactures an altered reality enriched with previous experiences.
6. Perception builds character (not necessarily good or bad character) that defines different roles individuals fall into the clown, the hypocrite, the self-righteous, the victim, etc..



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7. It is vitally important if we want to get along with others to try to see things from their perspective or walk in their shoes for a while. If we walk in their shoes we will gain a new perspective about things and in that understand the other and also can love and help the other more appropriately.

## **TOPIC : PROCESS OF PERCEPTION:**

### **INTRODUCTION :**

In this overview of perception and the perceptual process, we will learn more about how we go from detecting stimuli in the environment to actually taking action based on that information and it can be organized into our existing structures and patterns, and are then interpreted based on previous experiences.

Although the perception is a largely cognitive and psychological process, how we perceive the people and objects around us affects our communication.

Actually perception process is a sequence of steps that begins with the environment and leads to our perception of a stimulus and action in response to the stimulus.

### **PROCESS :**

In order to fully understand how the perception process works, we have to follow each of the following steps. 3 stages of perception process are;

1. Selection.
2. Organization.
3. Interpretation.

#### **Selection**

The world around us is filled with an infinite number of stimuli that we might attend, but our brains do not have the resources to pay attention to everything.

Thus, the first step of perception is the decision of what to attend to.

#### **Organization**

Once we have chosen to attend to a stimulus in the environment, the choice sets off a series of reactions in our brain.

This neural process starts with the activation of our sensory receptors (touch, taste, smell, sight, and hearing).

Organizing is the second part of the perception process, in which we sort and categorize information that we perceive based on innate and learned cognitive patterns.

#### **Interpretation**

After we have attended to a stimulus, and our brains have received and organized the information, we interpret it in a way that makes sense using our existing information about the world Interpretation simply means that we take the information that we have sensed and organized and turn it into something that we can categorize.

By putting different stimuli into categories, we can better understand and react to the world around us.

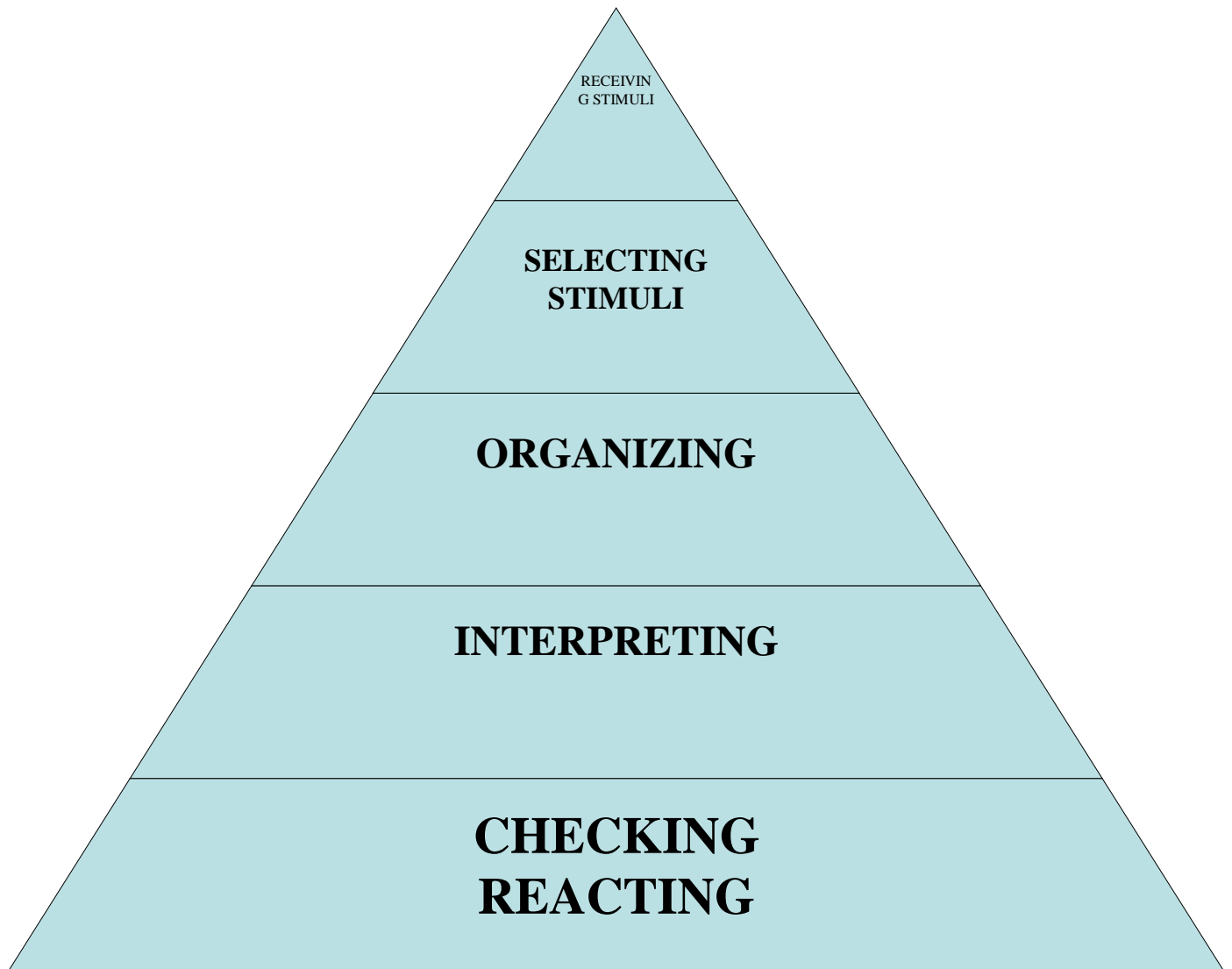


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## TOPIC : EXPLAIN THE MEANING AND FEATURES OF LEARNING

### INTRODUCTION :

The process of learning is continuous which starts right from the time of birth of an individual and continues till the death. We all are engaged in the learning endeavours in order to develop our adaptive capabilities as per the requirements of the changing environment. For a learning to occur, two things are important: 1. The presence of a stimulus in the environment and 2. The innate dispositions like emotional and instinctual dispositions. A person keeps on learning across all the stages of life, by constructing or reconstructing experiences under the influence of emotional and instinctual dispositions.

### MEANING :

- Learning involves a behavioural change which can be better or worse.
- This behavioural change should take place as a result of practice and experience. Changes resulting from maturity or growth cannot be considered as learning

### FEATURES :

1. When described in the simplest possible manner, learning is described as an experience acquisition process.
2. In the complex form, learning can be described as process of acquisition, retention and modification of experience.
3. It re-establishes the relationship between a stimulus and response.
4. It is a method of problem solving and is concerned about making adjustments with the environment.
5. It involves all those gamut of activities which may have a relatively permanent effect on the individual.
6. The process of learning is concerned about experience acquisition, retention of experiences, and experience development in a step by step manner, synthesis of both old and new experiences for creating a new pattern.
7. Learning is concerned about cognitive, conative and affective aspects. Knowledge acquisition process is cognitive, any change in the emotions is affective and conative is acquisition of new habits or skills.

## TOPIC : EXPLAIN PRINCIPLES OF LEARNING

5 principles of learning are;

1. Participation.
2. Repetition.
3. Relevance.
4. Transference.
5. Feedback.



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## 1. Participation

Learning should permit and encourage active participation of the learner. Participation **improves motivation** and apparently engages more senses that reinforce the learning process. As a result of participation, people learn more quickly and retain that learning longer.

For example, most people never forget how to ride a bicycle because they actively participated in the learning process.

## 2. Repetition

An important principle of the learning is to provide the learner with the opportunity for practice and repetition. To gain the **full benefit of training** learned behaviors must be overlearned to ensure smooth performance and minimum of forgetting at a later date.

Proficiency in learning and retaining new skills is improved when individuals visualize themselves performing the new behavior.

## 3. Relevance

Learning is helped when the material to be learned is meaningful. The learning should be problem-centered rather than content centered.

People are motivated to learn when training is immediately relevant to help them solve a current problem. Learning something just because someone says “it is important” is not as motivating.

## 4. Transference

Because the training occurs in a special environment, an important question to ask is whether learning will transfer to the actual job situation.

Transfer of training occurs when trainees can apply the knowledge and skills learned in training course to their jobs. If the learning in one setting does not transfer to the actual job situation, the training has failed.

## 5. Feedback

Feedback gives learners information on their progress. Performance feedback is a necessary prerequisite for learning. Feedback improves performance not only by helping learners correct their mistakes but also by providing reinforcement for learning.

Knowledge of results is a positive reinforcement itself. Learning activities have more intrinsic interest if the feedback is available.

Nevertheless, performance feedback should do more than inform learners whether they were right or wrong.





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## TOPIC: COMPONENTS OF LEARNING PROCESS

The **components of learning process** are: drive, cue stimuli, response, reinforcement and retention.

- **Drive:** Learning frequently occurs in the presence of drive – any strong stimulus that impels action. Drives are basically of two types -primary (or physiological); and secondary (or psychological). These two categories of drives often interact with each other. Individuals operate under many drives at the same time. To predict a behavior, it is necessary to establish which drives are stimulating the most.
- **Cue Stimuli:** Cue stimuli are those factors that exist in the environment as perceived by the individual. The idea is to discover the conditions under which stimulus will increase the probability of eliciting a specific response. There may be two types of stimuli with respect to their results in terms of response concerned: stimulus generalization and stimulus discrimination.
- **Responses:** The stimulus results in responses. Responses may be in the physical form or may be in terms of attitudes, familiarity, perception or other complex phenomena. In the above example, the supervisor discriminates between the worker producing low quality products and the worker producing high quality products, and positively responds only to the quality conscious worker.
- **Reinforcement:** Reinforcement is a fundamental condition of learning. Without reinforcement, no measurable modification of behavior takes place. Reinforcement may be defined as the environmental event's affecting the probability of occurrence of responses with which they are associated.
- **Retention:** The stability of learned behavior over time is defined as retention and its contrary is known as forgetting. Some of the learning is retained over a period of time while others may be forgotten.

## TOPIC: EXPLAIN THE MEANING AND FEATURES OF PERSONALITY

### **Introduction**

In modern organisations, personality attributes of a manager are considered important, since they affect the entire behavioural pattern of the person. In common parlance, personality refers to the impression, which an individual forms on others through his personal attributes making attractive or unattractive view

### MEANING:

Personality is made up of the characteristic patterns of thoughts, feelings and behaviour of an individual. These attributes make a person unique. Personality originates within the individual and remains fairly consistent throughout life. Personality exhibits distinctive qualities of a person, especially those distinguishing personal characteristics that make one socially appealing. If a person wins an election on his own, society may say that he/she has won “more on personality than on capability”.

### FEATURES

If you apply for a job you'll be asked to list your personal qualities. Employers are assuming that your personality is to an extent fixed and won't change much from one year to the next, Most of us can relate to that idea, but where does our personality come from? Is it in our genes or is it created more by the circumstances of our childhood?



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Of course the answer is both. There are bound to be genes which influence our behaviour simply because our brain and the chemicals that operate within it are made by genes. But trying to find any one of the hundreds of genes involved is notoriously difficult. The genetics of behaviour is complex, because personalities are complex. Scientists are only just beginning to have any success in understanding how genes influence behaviour.

## **i. Personality is organized and constant**

ii. Personality is psychological, but is used by biological needs and processes.

iii. Personality causes behaviour to happen.

iv. Personality is displayed through thoughts, feelings, behaviours and many other way

## **TOPIC: PERSONALITY TRAIT**

### **Openness**

This trait features characteristics such as imagination and insight.<sup>1</sup> People who are high in this trait also tend to have a broad range of interests. They are curious about the world and other people and eager to learn new things and enjoy new experiences

### **Conscientiousness**

Standard features of this dimension include high levels of thoughtfulness, good impulse control, and goal-directed behaviors.<sup>1</sup> Highly conscientious people tend to be organized and mindful of details. They plan ahead, think about how their behavior affects others, and are mindful of deadlines.

### **Extraversion**

Extraversion (or extroversion) is characterized by excitability, sociability, talkativeness, assertiveness, and high amounts of emotional expressiveness.<sup>1</sup> People who are high in extraversion are outgoing and tend to gain energy in social situations. Being around other people helps them feel energized and excited.

### **Agreeableness**

This personality dimension includes attributes such as trust, altruism, kindness, affection, and other prosocial behaviors.<sup>1</sup> People who are high in agreeableness tend to be more cooperative while those low in this trait tend to be more competitive and sometimes even manipulative.

### **Neuroticism**

Neuroticism is a trait characterized by sadness, moodiness, and emotional instability.<sup>1</sup> Individuals who are high in this trait tend to experience mood swings, anxiety, irritability, and sadness. Those low in this trait tend to be more stable and emotionally resilient.

## **TOPIC : TYPE OF PERSONALITY**

### **TYPE A**

A Type A personality likes to be in charge and be in control of their environment and their lives. They're normally not very detail-oriented, choosing to delegate details to others. They're usually very goal-



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oriented and practical in their solutions. And arriving at their solutions and goals will entail a no-nonsense, bottom-line approach.

## **TYPE B**

The Type B personality is a very outgoing, energetic, and fast-paced individual who likes to be around people and enjoys being the center of attention. They're good relationship builders, and most people like them right away. Their driving need is for approval, so they try to like everyone in hopes everyone will like them too. Compliments, acknowledgement of their achievements, words of admiration, and even applause from groups will be the most important thing you can do for them.

## **TYPE C**

The Type C personality is a very detail-oriented individual who likes to be involved in things that are controlled and stable. They're interested in accuracy, rationality, and logic. People who can't seem to control their emotions will bother them because Type C personalities believe being emotional makes objectivity difficult or perhaps impossible. They also dislike being around people who are full of hype, since they desire facts, accuracy, and logic. Other people's emotions may not be a priority for them, as they tend to strive for the facts and let the chips fall where they may.

## **TYPE D**

A Type D personality takes a slower, easier pace toward their work and life in general. They seek security and longevity on the job and are very happy doing a repetitive task, day in and day out. The repetition allows them to become very skilled in what they do. Likewise, they won't like it if the rules change a lot, as that's contrary to their desire to minimize change and stick with what they know works. For the Type D personality, even though the current way may be unpleasant, they worry that the unknown may be even worse.



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## CH.03 DYNAMICS OF GROUP AND TEAM

### TOPIC: EXPLAIN FACTORS AFFECTING GROUP DYNAMICS

#### **1. Group Member Resources:**

The members' knowledge, abilities, skills; and personality characteristics (sociability, self-reliance, and independence) are the resources the group members bring in with them. The success depends upon these resources as useful to the task.

#### **2. Group Structure:**

Group size can vary from 2 people to a very large number of people. Small groups of two to ten are thought to be more effective because each member has ample opportunity to take part and engage actively in the group. Large groups may waste time by deciding on processes and trying to decide who should participate next.

#### **Group Roles:**

In formal groups, roles are always predetermined and assigned to members. Each role shall have specific responsibilities and duties. There are, however, emergent roles that develop naturally to meet the needs of the groups.

#### **Group Norms:**

Norms define the acceptable standard or boundaries of acceptable and unacceptable behaviour, shared by group members. They are typically created in order to facilitate group survival, make behaviour more predictable, avoid embarrassing situations, and express the values of the group.

#### **Group Cohesiveness:**

Cohesiveness refers to the bonding of group members or unity, feelings of attraction for each other and desire to remain part of the group. Many factors influence the amount of group cohesiveness – agreement on group goals, frequency of interaction, personal attractiveness, inter-group competition, favourable evaluation, etc.

#### **3. Group Processes:**

Decision-making by a group is superior, because group generates more information and knowledge, generates diverse alternatives, increases acceptance of a solution, and increases legitimacy. But it is also true, that decision making is like 'munde munde matirbhinna'

#### **Turning Groups into Effective Teams:**

All teams are groups but not all groups are teams. Teams often are difficult to form because it takes time for members to learn how to work together. People in every workplace talk about building the team, working as a team, and my team, but few understand how to create the experience of team work or how to develop an effective team. Belonging to a team, in the broadest sense, is a result of feeling part of something larger than oneself. It has a lot to do with your understanding of the mission or objectives of your organization.

#### **Eight Cs for Team Building:**

To show business results and profitability, ways are explored by the executives to improve their productivity.



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## 1. Clear Expectations:

The managers must clearly tell the team members of the expected performance and the team members must understand the reason for its creation. For it the organization must support the team with resources of people, time and money.

## 2. Commitment:

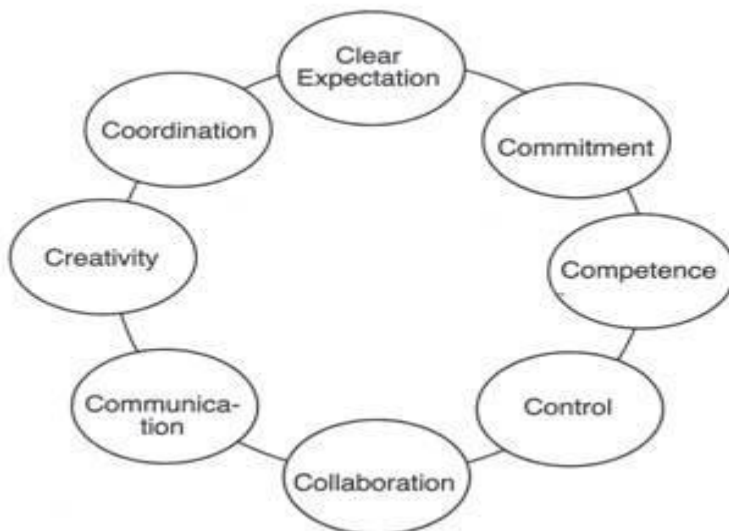
Team members must participate in the team, feel that the team mission is important, and show commitment to accomplishing the team mission and expected outcomes. Commitment will come if team members perceive their service as valuable to the organization and to their own careers.

## 3. Competence:

Team members must have the knowledge, skill and capabilities, the resources, strategies and support needed to accomplish its mission to address the issues for which the team was formed.

## 4. Control:

The team must have not only enough freedom and empowerment to feel the ownership necessary to accomplish its charter, but also the accountability. There has to be a defined review process.



## 5. Collaboration:

The team should understand group processes and work effectively and cooperatively with other members of the team. For it they have to understand the roles and responsibilities of team members, team leaders, and team recorders.

## 6. Communication:

To make team members clear about the priority of their tasks, and receive regular feedback, team members must clearly and honestly with each other. Diverse opinions be welcome and conflicts be taken up positively.



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## 7. Creativity:

The team should value creative thinking, unique solutions, and new ideas; and reward members who take reasonable risks to make improvements. If necessary, it should provide the training, education, access to books and films, and field trips to stimulate new thinking..

## 8. Coordination:

Teams should understand the concept of internal customer to whom they provide a product or a service. Team efforts need to be coordinated by a central leadership team that assists the groups to obtain what they need for success.

## TOPIC: EXPLAIN MEANING AND FEATURES OF GROUP DYNAMICS

### What is Group Dynamics?

Group dynamics deals with the attitudes and behavioral patterns of a group. Group dynamics concern how groups are formed, what is their structure and which processes are followed in their functioning. Thus, it is concerned with the interactions and forces operating between groups.

- (a) 2 or more persons (if it is one person, it is not a group)
- (b) Formal social structure (the rules of the game are defined)
- (c) Common fate (they will swim together)
- (d) Common goals (the destiny is the same and emotionally connected)
- (e) Face-to-face interaction (they will talk with each other)
- (f) Interdependence (each one is complimentary to the other)
- (g) Self-definition as group members (what one is who belongs to the group)
- (h) Recognition by others (yes, you belong to the group).

## TOPIC: EXPLAIN TYPES OF GROUP

### Formal and informal groups:

A formal group is a work unit i.e. established as a part of an organization and its structure to achieve, for specific objectives. The different groups are created as per sections and function. There are two types of formal groups:

- (i) Command group
- (ii) Task group

Command group is consisted of manager and top level officials while task group is assembled for undertaking certain specified task. In formal group every member is entrusted with his authority and responsibility specifically.

An informal group is a voluntarily unofficial formation of a small number of members of an organization, who are mutually attracted and shared background, interest, needs, etc. A few member in an organization may come together to protect their interest. Informal organization comes into existence naturally in the business unit due to informal groups. E.g. Music groups, magazines, circulars, group of aged person, etc.



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## **2.2 Primary and secondary groups:**

The term primary group is almost identical to a small group. The group members are limited. Hence, the person of the group can personally contact each other as well as get mutual co-operation. Besides friendship, aims of task are also accomplished in these groups. E.g. Family, friends circle, etc.

A secondary group is a large unit and it is made up of several primary groups. In secondary groups, personal relations and unity of purpose are not strong as like the primary groups. E.g. villages, cities etc.

## **2.3 Task group:**

Task groups are created for accomplishing specific objectives of organization. Such groups are also known as team. The manager himself creates such groups. Friendship is also created among team member. The member possesses the membership of their own formal group and also possesses the membership of other informal groups.

## **2.4 Interest group:**

When the aims of the person are common, interest of the person are common, groups are created. Every member holds common interest and share voluntarily. E.g. If the persons get together for demanding before the management improving working condition i.e. labor union.

## **2.5 Reference groups:**

Such groups come into existence due to individual values and individual trends. Reference group is the one with which he identifies or to which he would like to belong. The attractiveness of the reference groups makes the norms of that group to attract more individuals. The members of the group compare themselves with each other socially and make change in behavior. E.g. Union of advocates, group of doctors, etc.

## **2.6 Open and close group:**

The types of groups are determined in it as per the membership of the group with regard to changing group membership. In open groups due to their nature members keep changing. New members are joining and existing ones leaving the groups

## **TOPIC: EXPLAIN REASON FOR JOINING GROUP**

### **Security**

Probably the strongest reason for group formation is the people's need for security. By joining a group we can reduce our insecurity – we feel stronger, have fewer self-doubts, and are more resistant to threats..

### **Esteem**

An individual can increase his self-esteem through group membership.

First, one may gain esteem by becoming a member of a high-status group. Associating with high-status people is reinforcing, and one who belongs to such a group is usually accorded a high status by outsiders.



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## Affiliation

Another reason why people join groups is that they enjoy the regular company of other people, particularly those who possess common interests. Individuals may seek out others at work who shares common hobbies or common backgrounds.

## Power

Membership of groups **offers power to members** in at least two ways.

First, there are sayings such as “united we stand, divided we fall” and there is strength in numbers.” These are driving forces behind unionizations. Workers enjoy much greater power collectively than they do as individuals. Second, the leadership of an informal group enables an individual to exercise power over group members, even if he does not enjoy the formal position of authority in the organization.

## Identity

Group membership contributes to the individual’s eternal quest for an answer to the question “who am I”. It is common knowledge that’ tries to understand ourselves through the behavior of others towards us.

If others praise us, we feel we are great, if others enjoy our jokes, we see ourselves as funny persons, and so on. Groups provide several “others” who will laugh, praise or admire us.

## Huddling

One more reason why individuals want to join groups is for huddling.

Because of the way bureaucracies work, individuals, particularly executives, make use of informal get-togethers called huddles. There are intimate task-oriented encounters of executives trying to get something done.

Huddling enables executives to deal with emerging matters and minimize the amount of surprise.

## **TOPIC : PROCESS OF GROUP FORMATION**

### **Forming stage:**

Forming stage is the first stage. In this stage, group members should be aware about the objectives of the group. In the forming stage, there is an uncertainty about the objectives, structures and also leaders. Slowly and gradually the leadership is clear and the leader provides guidance to the members. Leader of every group should have clear idea about the group objectives and all of its aspects. So that if members have any doubt regarding group they can make clear.

### **Storming stage:**

In the storming stage conflict arises because of inter personal behavior. This behavior of the member is natural. Clash is going to take place in any type of group. Clash is a common thing but if the clash goes beyond its limit then the problems become complex. The leader should

Create an atmosphere to see that the clash is prevented.

To prevent such a clash method of communication should be implemented and through that mutual trust among the members can be maintained. If required, leader should use his authority for the compromise.





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## Norming stage :

Every group has certain rules and regulations, which are to be implemented by the group members. With the passage of time these rules and regulations are recognized by the members. Such rules make the relations of members very close. At this stage the members are able to understand the group and the group is able to understand its members. With the accepted regulations, the members get more united. They recognize the importance of regulations in accomplishing objective. At this stage, the members forget all the differences and are removed away from uncertainties, which makes the group stronger.

## Performing stage:

At this stage the group structure would be completely active and implements all those rules. The strength of the group becomes dynamic for understanding each other and carrying out tasks. The members are completely aware about the process of the group. Consequently, it is more connected with others with inter- attraction, which strengthens the feeling to get united with each other. It affects the group behaviour.

## Adjourning stage :

The function of the group is completed at this stage. Slowly and gradually it is concentrated on winding up the group activities. The group is dispersed. Hence, at this stage the responses of the group are different.

Some of the members are despaired or unhappy. They feel sad because either the tasks carried out in friendly manner are over or the work of the group is completed. But they are glad also as they have accomplished the work successfully together.

## TOPIC: DIFFERENCE BETWEEN FORMAL AND INFORMAL GROUP

### *Differences between Formal Group and Informal Group*

Basis for Comparison	Formal Group	Informal Group
Meaning	Groups created by the organization, to accomplish a specific task, are known as Formal Groups.	Groups created by the employees themselves, for their own sake are known as Informal Groups.
Formation	Deliberately.	Voluntarily
Size	Large.	Comparatively small.
Life	It depends on the type of group.	It depends on the members.
Structure	Well Defined.	Not well defined.
The importance is given to	Position.	Person.
Relationship	Professional.	Personal.
Communication	Moves in a defined direction.	Stretches in all the directions.



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## **TOPIC : CHARACTERISTICS OF TEAM**

### **Ideal Size and Membership**

The team should be the minimum size needed to achieve the team's goals and include members with the right mix of skills and talents to get the job done.

### **Fairness in Decision-Making**

Ideally, teams will make decisions by consensus. When consensus is not feasible, teams will use fair decision-making procedures that everyone agrees on.

### **Creativity**

Effective teams value original thinking and will produce new and unique approaches to organizational problems.

### **Accountability**

Members must be accountable to each other for getting their work done on schedule and following the group's rules and procedures.

### **Purpose and Goals**

Every team member must clearly understand the purpose and goals for bringing this particular group of individuals together.

### **Action Plans**

Help the team determine what advice, assistance, training, materials, and other resources it may be needed.

### **Roles & Responsibilities**

Teams operate most efficiently if they tap everyone's talents. All members understand their own duties and know who is responsible for what.

### **Information Sharing**

Effective discussions depend upon how well information is passed between team members – hoarding information cannot be tolerated. A proliferation of new technologies has made this easier than it has ever been.



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## Good Data

With information sharing comes the requirement for good data. Teams that use good data for problem-solving and decision making have a much easier time arriving at permanent solutions to problems.

## Meeting Skills and Practices

All team members must commit to a common method for conducting meetings. There is no ‘best’ method, but everyone must be on the same page.

## Decision Making

This is really a subset of the ‘Skills & Practices’. There is no ‘one way’ to reach a decision, but it must be a recognized path and transparent to all team members.

## Participation

Since every team member has a stake in the group’s achievements, everyone should participate in discussions and decisions, share a commitment to the team’s success, and contribute their talents.

## Ground Rules

Groups invariably establish ground rules (or “norms”) for what will and will not be tolerated within the group. Many members will want to skip the laying of ground rules, but in the long run investment up front will head off major issues down the road.

## Clear Roles

How we apportion the team purpose will in large measure determine the- team synergy. High-performing teams leverage individuals’ different roles against collective work products.

## Accepted Leadership

High-performance teams need competent leadership. When such leadership is lacking, groups can quickly lose their way. Whereas a common, compelling task might be the biggest contributor to team effectiveness, inadequate team leadership is often the single biggest reason for team ineffectiveness.



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## Effective Processes

Teams and processes go together. It would never occur to a surgical team, construction crew, string quartet, or film crew to approach tasks without clearly defined processes. The playbook of a football team or the score sheet of a string quartet clearly outlines the necessary processes.

## Solid Relationships

One of the biggest misperceptions in the world of teams and teamwork is the belief that to work and communicate effectively, team members must be friends.

In fact, the diversity of skills, experience, and knowledge needed to divide tasks effectively almost precludes high levels of friendship, which is most often based on commonality — of the way people think, their interests, or beliefs.

## Excellent Communication

Communication is the very means of cooperation. One of the primary motives of companies choosing to implement teams is that team-based organizations are more responsive and move faster. A team cannot move faster than it communicates.

## TOPIC : TYPES OF TEAM

### Executive Team

An executive team is a management team that draws up plans for activities and then directs these activities.

An example of an executive team would be a construction team designing blueprints for a new building, and then guiding the construction of the building using these blueprints.

### Command Team

The goal of the command team is to combine instructions and coordinate action among management. In other words, command teams serve as the “middle man” in the task.

For instance, messengers on a construction site, conveying instructions from the executive team to the builders would be an example of a command team.



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## Project Teams

A team used only for a defined period of time and for a separate, concretely definable purpose often becomes known as a project team. This category of teams includes negotiation, compassion and design team subtypes.

## Advisory Teams

Advisory teams make suggestions about a final product. For instance, a quality control group on an assembly line would be an example of an advisory team. They would examine the products produced and make suggestions about how to improve the quality of the items being made.

## Work Teams

Work teams are responsible for the actual act of creating tangible products and services. The actual workers on an assembly line would be an example of a production team, whereas waiters and waitresses at a diner would be an example of a service team.

## Action Teams

Action teams are highly specialized and coordinated teams whose actions are intensely focused on producing a product or service. A football team would be an example of an action team. Other examples occur in the military, paramedics, and transportation (e.g., a flight crew on an airplane).

## Sports Teams

A sports team is a group of people which play sports, often team sports together. Members include all players (even those who are waiting their turn to play) as well as support members such as a team manager or coach.

## Virtual Teams

Developments in information and communications technology have seen the difference of the virtual work team.

## Work Teams

Work teams (also referred to as production and service teams) are continuing work units responsible for producing goods or providing services for the organization. Their membership is typically stable, usually full-time, and well-defined. These teams are traditionally directed by a supervisor who mandates what work is done, who does it, and in what manner is it executed.



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## Self-Managed Team

Self-managed work teams (also referred to as autonomous work groups) allow their members to make a greater contribution at work and constitute a significant competitive advantage for the organization

## Parallel Teams

Parallel teams (also referred to as advice and involvement teams) pull together people from different work units or jobs to perform functions that the regular organization is not equipped to perform well.

## Management Teams

Management teams (also referred to as action and negotiation teams) are responsible for the coordination and direction of a division within an institution or organization during various assigned projects and functional, operational and/or strategic tasks and initiatives.

## Managed Team

Managed groups sometimes also work together as a team on a single, focused objective or task. In such groups, people may come from diverse background, with each bringing a specialized skill to the team.

## TOPIC: MAKING TEAM EFFECTIVE

### 1. Define the purpose

Clearly define the purpose of the team, including the overall outcome it has been brought together to achieve. What do you want to create, improve or change? What is the purpose of each person's role in the team? Providing a clear, inspiring vision sets the foundation for successful teamwork, and helps guide the direction of the group when they face challenges and decisions.

### 2. Assemble the team

High performance teams are comprised of individuals that passionately embrace the vision, believe their contribution is meaningful and are motivated to give their best effort. All team members should trust, respect and support each other. Select members with complementary skills and abilities, who can bring a diverse range of viewpoints and ideas to the table. Achieving a good balance of personality types will enable the group to work together harmoniously but also challenge each other when necessary.



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### **3. Determine the goals**

Once the team is established and united behind a shared, compelling purpose, the next step is to break the vision down into smaller, manageable goals and tasks. Outline the required tasks in a schedule, with agreed deadlines, milestones and responsibilities. Decide the role that each team member will play. Be sure to also consider other resources required in terms of time, materials, space, support and money.

### **4. Set expectations**

To ensure that each member understands what is expected of them, define a standard of conduct for the team. Will communication be frequent, open, honest and transparent? Will contributions be encouraged, valued and recognised? Will conflict be handled in a constructive way? Will team decisions and feedback be respected? Setting clear standards from the outset will ensure that each member's conduct and contributions are appropriate.

### **5. Monitor and review**

Regularly review the group's performance through team meetings and one-on-one catch ups to ensure that progress is being made. Good questions to ask are: how are we doing? What have we achieved so far? What have we learned? What isn't working so well? How can we improve? Monitoring and reviewing progress allows for adjustments and improvements to be incorporated along the way.

### **6. Celebrate and reward**

Make the time to regularly recognise, reward and celebrate both team and individual performance. This will help to build morale and bolster the motivation of the group to continue their hard work. Find the most appropriate way to celebrate team milestones, such as a personal 'thank you' at a team meeting, an email copied to senior managers, or a team lunch. Ensure that recognition is consistent, and that the method you choose inspires and reinforces the team members to continue their positive contribution to the team's progress.



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## CH.04

### BASIC LEADERSHIP AND MOTIVATION THEORY

#### ➤ McGregor's Theory

##### 1.00 Introduction:

Prof. Douglas of the U.S.A. has presented his view on theory X and theory Y in his famous book 'The human side of enterprise' in 1960. He has given theory X to the old and traditional management belief and theory Y to the modern management belief. Theory X and theory Y are such presumptions, which are derived from McGregor's experience.

##### 2.00 Theory 'X':

###### 2.1 Meaning:

Theory X is the conventional presumptions of managerial control and direction. As per theory X the old and traditional approach of mgt is that a worker does not like to work hence they must be dealt with very strictly. Theory X is emphasis on the negative behavior.

###### 2.2 Assumption of theory X:

McGregor calls theory X in the following assumptions:

1. The average employees working in any given enterprise have dislike for the work. He works as little as possible and will avoid it.
2. The employee is required to be directed by fears of supervision, discipline, control and punishing steps.
3. The average human being prefers to be directed, wishes to avoid responsibility, he has relatively little ambition and wants security above all.
4. An employee gets satisfy by fulfilling his lower level requirements and is not so serious about the higher level requirements.
5. An average employee neither wishes change nor welcomes it. He is against the change.

###### 2.3 Policy employed by management:

According to theory X, only management can get the objectives of organization as human being is basically lazy. High degree of control and threat of punishments are the ways to manage such people.

1. Without active intervention by the management, people would be passive to organizational needs therefore management must be made control and punished over employees.
2. For maintain proper standards of production, they are required to be threatened with the weapon like termination of service also.
3. As he dislikes work no amount of monetary incentive will motivate him. He has to be threatened to get sufficient efforts.
4. As per this theory fixing the quantum of work to be done in a day as well as controls related to production are essential.

###### 2.4 Solution:

The behavior of employees as assumed by theory 'X' is due to environment. So, it is the responsibility of management to provide proper environment. They would be prepared to take responsibility.

In this connection McGregor has used Maslow's theory for motivation. Here, the human needs are divided into 3 groups.





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## **1. Primary Needs:**

Every employee has to satisfy primary needs like food, clothing and shelter. If he gets enough salary then he can satisfy their primary needs and need not to worry about their future if management provides security of their future.

## **2. Social Needs:**

Every human being wishes to get position and status. This can be satisfied by promoting employees. Promotion should include higher position, more salary and other benefits.

## **3. Egoistic needs:**

Every human being wants to satisfy their egoistic need. This need is satisfied only if responsibility is given to him and if he is invited to suggestions.

According to this theory, the employees are not lazy by nature but they do not like to do work because of some unsatisfied needs are there. So, management can provide some facilities and motivation.

## **3.00 Theory ‘Y’:**

### **3.1 Meaning:**

Theory ‘Y’ is formal presentation. Here employees are not lazy and idle. Human being is shown as sincere and having own liking for work in it. Employees like to take responsibilities.

### **3.2 Assumption of theory ‘Y’:**

1. The employees have natural liking for work. Work may be a source of satisfaction to him.
2. External control and threat of punishment is not the important tool to accomplish objectives. Man will exercise self-control and self-direction in the service of objectives. It means they are self-motivated.
3. By efforts directed towards the achieving organizational objectives, the employees get satisfaction of their ego as their reward.
4. An average employee likes to accept responsibility in proper situation and he fulfills it with commitment.
5. The capacity to exercise high degree of imagination ingenuity and creativity in the solution of organization problems can widely be seen.
6. Under the condition of modern industrial life, the intelligence of the average human being is partially utilized.

From the above assumptions, it is made clear that this theory is basically different from theory ‘X’. It is reasonable to assure that as younger generations of manager enter the business world, they will apply modern concept of management. For providing motivation and encouragement to employee, steps should take him to higher status, prestige and job-satisfaction.

## **3.3 Policy adopted by management:**

According to McGregor, if managerial policy is formulated as per ‘Y’ theory then encouraging outcomes can be obtained. These policies can be stated as follows.

### **1. Decentralization of authority:**

Decentralization consists in delegation of authorities to heads of departments and to give freedom in work. This decentralization of authority becomes beneficial to the firm because this will satisfy employee’s ego. So, satisfaction of the employees can be maintained.



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## **2. Job satisfaction:**

In this theory, it is assumed that the employees are ready to accept responsibilities. So, they are prepared to face the challenges. For that the job should be so and large that they can face challenges. These will increase his interest towards job.

## **3. Participation in management:**

As per the modern management approach, employee is not just a labor or servant. Co-partnership and discussing management should be adopted in the firm. Before taking decision sub-ordinates would provide an opportunity to develop creative and satisfied the sense of self-realization.

## **4. Self evaluation:**

Under this theory, it is considered that an employee is living factor and he taken into confidence and then his performance is evaluated. The supervisor has to play the role of friendly guide, not the judge.

According to McGregor, under theory 'Y', co-operation and harmony should be established between labor and management. He recommended a number of innovative ideas which are consist with theory 'Y'.

## **4.00 Conclusion:**

The manager can adopt any one of the 'X' and 'Y' theories to determine his managerial behavior. If the management adopts the theory 'X', then strict control, punishing steps and precious guidance would prove to be important aspects. If management adopts 'Y' theory, then there would be favorable trends towards employees is required. Though human being is not perfect like 'X' theory or 'Y' theory.

### **➤ TOPIC : Adams' Equity Theory**

#### **Balancing Employee Inputs and Outputs**

Adams' Equity Theory calls for a fair balance to be struck between an employee's inputs (hard work, skill level, acceptance, enthusiasm, and so on) and an employee's outputs (salary, benefits, intangibles such as recognition, and so on).

According to the theory, finding this fair balance serves to ensure a strong and productive relationship is achieved with the employee, with the overall result being contented, motivated employees.

#### **Understanding the Theory**

Adams' Equity Theory is named for John Stacey Adams, a workplace and behavioral psychologist, who developed his **job motivation theory** in 1963. Much like many of the more prevalent theories of motivation (such as **Maslow's Hierarchy of Needs** and **Herzberg's Two-Factor Theory**), Adams' Equity Theory acknowledges that subtle and variable factors affect an employee's assessment and perception of their relationship with their work and their employer.

The theory is built-on the belief that employees become de-motivated, both in relation to their job and their employer, if they feel as though their inputs are greater than the outputs. Employees can be expected to respond to this in different ways, including de-motivation (generally to the extent the employee perceives the disparity between the inputs and the outputs exist), reduced effort, becoming disgruntled, or, in more extreme cases, perhaps even disruptive.



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## How to Apply the Adams' Equity Theory

It is important to also consider the Adams' Equity Theory factors when striving to improve an employee's job satisfaction, motivation level, etc., and what can be done to promote higher levels of each.

To do this, consider the balance or imbalance that currently exists between your employee's inputs and outputs, as follows:

Inputs typically include:

- Effort.
- Loyalty.
- Hard work.
- Commitment.
- Skill.
- Ability.
- Adaptability.
- Flexibility.
- Acceptance of others.
- Determination.
- Enthusiasm.
- Trust in superiors.
- Support of colleagues.
- Personal sacrifice.

Outputs typically include:

Financial rewards (such as salary, benefits, perks).

Intangibles that typically include:

Recognition.

- Reputation.
- Responsibility.
- Sense of achievement.
- Praise.
- Stimulus.
- Sense of advancement/growth.
  - Job security.

While obviously many of these points can't be quantified and perfectly compared, the theory argues that managers should seek to find a fair balance between the inputs that an employee gives, and the outputs received. And according to the theory, employees should be content where they perceive these to be in balance

## TOPIC : Hersey and Blanchard'S LIFE CYCLE THEORY

Paul Hersey and Ken Blanchard first developed their 'Life cycle theory of leadership' in 1969<sup>1</sup>. They subsequently renamed the theory 'situational leadership' and continued to develop it both together and individually.



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The theory describes four different leadership styles and four levels of individual or team maturity or readiness. It then combines these to suggest which style of leadership best suits which level of maturity.

The leadership styles are:

## **S1: Telling.**

This style is characterised by one-way communication where the manager defines roles and is very directive about how work will be performed.

## **S2: Selling.**

The manager is still providing direction but is using two-way communication. The team or individual is now encouraged to buy into the decisions being made by the manager.

## **S3: Participating.**

The manager and team (or individual) share the decision making about some aspects of how the work will be performed. The manager is focusing less on directive behaviour and more on supportive behaviour.

## **S4: Delegating.**

While still involved in decisions, the manager has delegated much of the responsibility for performance of the work to the team or individual but retains responsibility for monitoring progress.

A P3 manager needs to be competent in all four styles. While 'S1' may be appropriate where a project manager has enlisted help from a short term contractor, 'S4' is very much the relationship that should be seen between, for example, a programme manager and project manager.

These styles correlate to points on Tannenbaum and Schmidt's leadership continuum and can also be easily aligned with the stages in Tuckman's model of team development.

Alongside the leadership styles are the characteristics of the team or individual. In the earlier version of the model this was called 'levels of maturity' but in later versions this became 'follower readiness'. The four levels of readiness are:

**R1:** Unable and unwilling or insecure.

**R2:** Unable but willing or confident

**R3:** Able but unwilling or insecure



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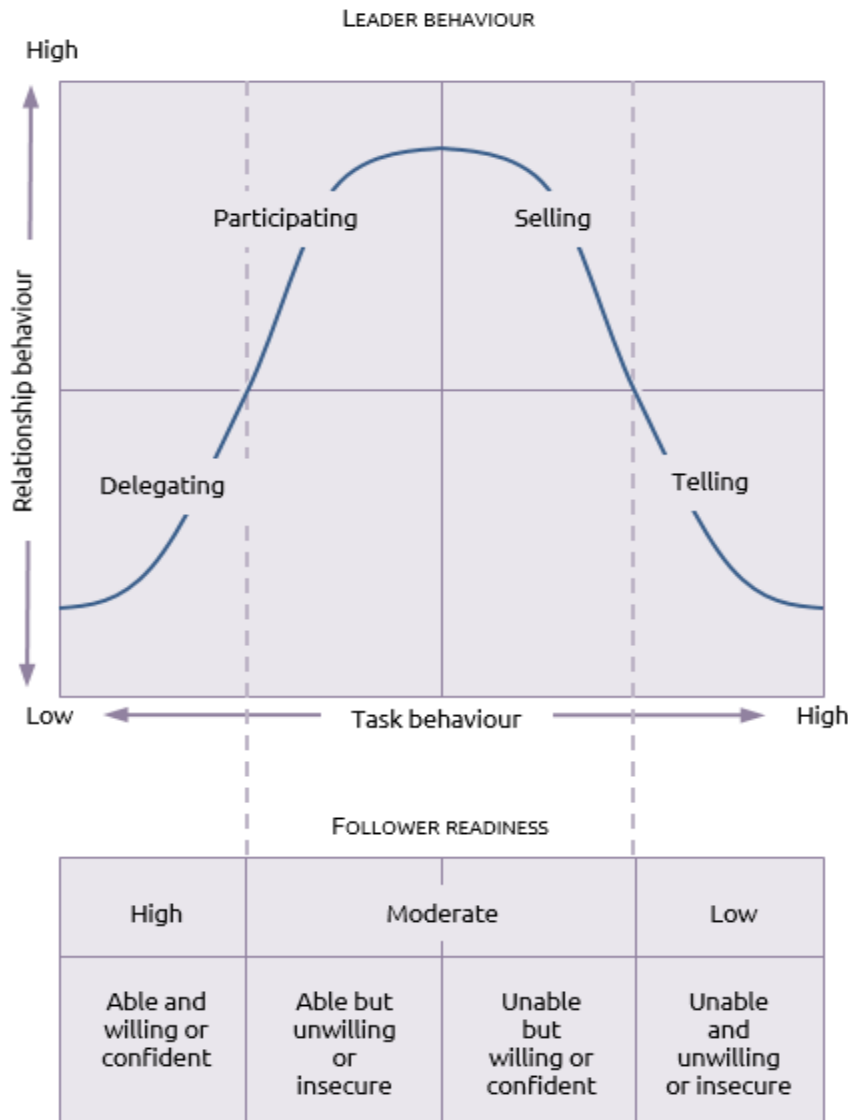
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**R4:** Able and willing or confident

Putting the leadership styles together with the levels of readiness results in the diagram below:



- **Telling**
- When the team member first arrives there may be anxiety, tension or confusion. The manager should adopt a task oriented approach, providing specific instructions and closely supervising performance.
- **Selling**
- As individuals begin to understand what is required the manager will spend more time establishing a relationship of trust and mutual understanding. Since the individual may not yet have developed



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sufficient competency to assume full responsibility for the task it is still necessary to explain decisions and provide opportunity for clarification.

- **Participating**
- As the individual develops high levels of competency and motivation, greater delegation and group decision making is possible. The leader concentrates on developing relationships with individuals.
- **Delegating**
- Finally a point is reached where team members are confident in their ability, trusted to get on with the task and have a good relationship with the manager. Both task and relationship behaviour drop to low levels. Complacency on the part of the manager is now, perhaps, the greatest danger.

## **TOPIC : CONTINGENCY THEORY**

### **What is the contingency theory of leadership?**

The contingency theory of leadership supposes that a leader's effectiveness is contingent on whether or not their leadership style suits a particular situation. According to this theory, an individual can be an effective leader in one circumstance and an ineffective leader in another one. To maximize your likelihood of being a productive leader, this theory posits that you should be able to examine each situation and decide if your leadership style is going to be effective or not. In most cases, this requires you to be self-aware, objective and adaptable.

### **Contingency theory of leadership in the workplace**

In the workplace, there are dozens of factors that can affect a leader's effectiveness. These include things like the size of the team, the scope of a project and the expected delivery date for a result. Different leaders, each with unique leadership styles, will respond to these variables in different ways. Contingency theorists would say that no matter how successful a leader is, there will always be a particular situation that will challenge them. Therefore, leaders must be willing to acknowledge the fact that their success depends partially on their circumstances in addition to their personal skills.

To lead their team well, managers and supervisors may need to either adapt their leadership style to the current situation or delegate some of their leadership responsibilities to a coworker.

For example: Consider a project manager named Doug. Doug finds it much easier to communicate in writing rather than in person, so he usually encourages his team by sending them thoughtful emails at the end of every week. However, there is a new employee in the office who is not very receptive to written communication. To connect with this employee, Doug will need to either make an effort to change his method and encourage this employee in person or he will have to assign this task to the assistant manager.

In this example, Doug is not a chronically-ineffective leader. He is a good leader who is facing an unexpected challenge. If Doug accepts the fact that he will need to adapt to his situation instead of trying to force his usual methods, he can still be a highly-productive leader who encourages his team effectively.



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The contingency theory of leadership is impacted by a range of specific factors in the average workplace, including:

- Maturity level of the employees
- Relationships between coworkers
- Work pace
- Management style
- Typical work schedule
- Goals and objectives
- Standards for behavior
- Company policies
- Employees’ work styles
- Employees’ morale

## Fiedler model

To understand this theory, we will look at three different models for contingency leadership. The first is Fiedler’s model. This model states that three important factors contribute to “situational favorableness”. To be productive, leaders must consider these factors. However, this theory also considers leadership styles to be fixed and unchangeable. Therefore, if a leader’s style is not a good fit for a particular situation, they will need to be replaced by a different leader. To apply Fiedler’s theory, you have to determine your leadership style and your situation’s favorableness using Fiedler’s model.

## Leadership style

The first step is to use a scale called the Preferred Coworker scale. To use this scale, you must think of a team member you did not or do not enjoy working with. This can be anyone from a former classmate to your current supervisor. Then, you must rate the person on the following scale:

<b>Unfriendly</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>Friendly</b>
Unpleasant	1	2	3	4	5	6	7	8	Pleasant
Rejecting	1	2	3	4	5	6	7	8	Accepting
Tense	1	2	3	4	5	6	7	8	Relaxed
Cold	1	2	3	4	5	6	7	8	Warm
Boring	1	2	3	4	5	6	7	8	Interesting



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Unfriendly	1	2	3	4	5	6	7	8	Friendly
Hostile	1	2	3	4	5	6	7	8	Supportive
Guarded	1	2	3	4	5	6	7	8	Open
Insincere	1	2	3	4	5	6	7	8	Sincere
Quarrelsome	1	2	3	4	5	6	7	8	Harmonious

Add the numbers together to determine your Preferred Coworker score. If your score is low, you are a Low Preferred Coworker leader and are likely to have a more task-oriented leadership style. Task-oriented leaders are more concerned with meeting goals than with maintaining relationships. Task-oriented leaders are organized and excel at completing projects.

Alternatively, a high score would make you a Highly Preferred Coworker leader. HPC leaders are relationship-oriented and focus their energy on building and maintaining healthy and productive relationships in the workplace. They are skilled in conflict management and take multiple variables into account when making decisions.

## **TOPIC : MANAGERIAL GRID :**

### **What Are Leadership Theories?**

Leadership is the art of motivating people to work towards a common goal. But motivating people isn't enough, leaders need to connect with people. Effective leaders exhibit many qualities including, strong communication, management, innovative thinking, level-headedness and resilience in the face of challenges.

For many years, leadership has been a topic of contention among psychologists. Researchers and scholars have tried to discover the qualities and behavioral patterns that successful leaders share giving rise to different schools of thought. One among them is the Managerial Grid Theory of Leadership.

### **What Is Managerial Grid Theory?**

The Managerial Grid Model emerged during a prominent time in leadership studies. Developed in the 1960s, it was proposed by Robert R. Blake and Jane S. Mouton, two management theoreticians. The model was a product of their research findings at Exxon (a large multinational oil and gas company), where they worked to improve leader effectiveness. They found out that a leader's behavior is influenced by:

- The need to adopt different leadership approaches in accordance with situations
- Their psychological makeup





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Blake and Mouton went ahead to establish a ‘Managerial Grid’ in their book, *The Managerial Grid: The Key to Leadership Excellence* (1964). The grid depicts two behavioral dimensions of leadership:

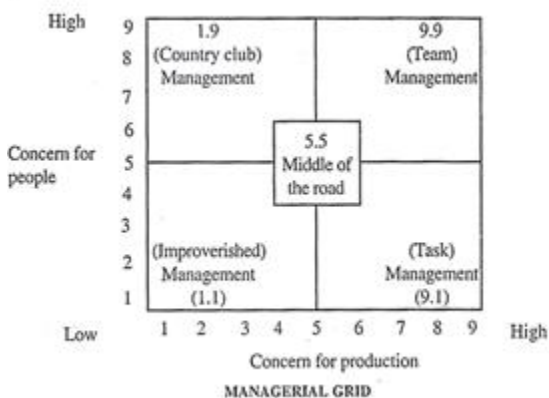
## 1. Concern For People (Vertical Axis)

The degree to which a manager or a leader considers the needs of team members, their interests and personal areas of development when deciding how best to complete a task.

## 2. Concern For Production/Results (Horizontal Axis)

The degree to which a manager or a leader prioritizes organizational efficiency, long-term objectives and high levels of productivity when deciding how best to complete a task.

In a nutshell, the Managerial Grid Theory of Leadership is a framework that helps you determine what leadership style you should pick. It solves a common dilemma faced by many managers, ‘should I focus on tasks or on people?’. If you have a project to manage, the grid helps you pick between task-oriented and/or people-oriented approaches.



## Managerial Grid Leadership Styles

The Blake-Bouton Managerial Model identified five leadership styles from various combinations of the two dimensions of leadership behavior.

### 1. **Impoverished Leadership**

Leaders with this approach have minimal concern for people and production, putting in very little effort to get work done. Blake and Mouton stated that this leadership style was the least effective of all. Low employee satisfaction and business growth make it impossible for such leaders to flourish.

### 2. **Task Leadership**

Leaders with high concern for production but low concern for people are task leaders. Their primary focus is on performance, which is why they plan and control the production environment. In order to successfully achieve business objectives, everyone’s required to perform tasks as per rules, deadlines and procedures. However, paying less attention to employees can lead to an unhappy work environment, further leading to low retention rates.



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### 3. Country Club Leadership

Opposite of Task Leadership, the Country Club Style is characterized by a low concern for production and high concern for people. Such leaders intend to create a cordial and comfortable working environment that increases job satisfaction. People get motivated to work harder because their well-being is prioritized. However, paying less attention to business goals can lead to unsatisfactory outcomes.

### 4. Middle Of The Road Leadership

As the title suggests, this leadership style places equal importance on organizational goals and personal needs. Leaders focus on performance by balancing work requirements and employee morale. However, neither production nor people's needs are fully met.

### 5. Team Leadership

This leadership style is characterized by a high concern for both people and production and is regarded as the most effective leadership style. It creates a highly encouraging workplace culture, where people are motivated, productive and cooperative. They want to champion business goals that are created by the leader.

## Using The Managerial Grid

You can analyze your leadership style by using the Managerial Grid Theory. You can break down the process into these few simple steps.

#### 1. Identify Your Managerial Style

Evaluate how you've acted in a recent situation in terms of tasks and team collaboration. Position yourself on the Managerial Grid accordingly.

#### 2. Identify Areas For Development

Identify from the five leadership styles and see what you associate most with. Does the style suit your needs and context?

#### 3. Situation-Based Contextualization

Some situations will require a task-oriented mindset and others will require a people-oriented mindset. Either way, the Managerial Grid will enhance flexibility.

Learn how to improve self-awareness and personal development with Harappa Education's Leading Self course. The Performance Equation framework will teach you how to recognize your true potential and overcome limiting beliefs. Additionally, the Ladder of Learning framework will help you assess your competence and skills. Learn how to take ownership and shine as an effective leader!

## TOPIC : CHARACTERISTICS OF TRANSFORMATIONAL LEADER

### Core leadership characteristics

There are certain leadership characteristics that, while important, do not inspire organizational change and growth that help companies develop into innovative, consistent industry leaders.

Examples of these core leadership characteristics include:

- Good judgment



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- Communication skills
- Competence or knowledge
- Interpersonal skills
- Confidence

We hear about these leadership characteristics all the time and in many different contexts. While they are very important for leaders to have, there is another level of leadership characteristics that are “must haves” for transformational leaders. These are the leadership characteristics that make an impact and spur growth.

## **Transformational Leadership characteristics that impact organizational growth**

In order to put your organization in a position to grow effectively and on a consistent basis, leaders with the following characteristics not only make them an effective leader — but also a transformational leader:

- 1. Internal motivation and self-management:** Transformational leaders find motivation from within and use that as the driving force to effectively manage the direction of the company. The best natural form of motivation is to love what you do and ensure that your values are aligned with the organization you work with.
- 2. The ability to make difficult decisions:** Difficult decisions are a part of being a leader. Transformational leaders do not back away or put off tough decisions. Difficult decisions are made easier when decisions align with clearly defined vision, values, goals, and objectives.
- 3. Check their ego:** When placed in a position of power, it is easy to let your ego get the best of you. However, transformational leaders keep their ego in check and do not let it get in the way of doing what is best for business. The benefit of checking your ego ensures you put the company first over personal gain and encourages the best input from others within the organization — because when the company succeeds, you as a leader also succeed.
- 4. Willing to take the right risks:** Anyone can take a risk. Transformational leaders take calculated risks that more often than not result in positive outcomes. Trusting your instinct, as well as your team to gather the necessary intelligence is important. Trusting your gut is easier when you have taken the time to research, evaluate and inform your decisions with input from those around you. Failure to take the appropriate risks and make these difficult decisions will inhibit change and your ability to grow.