

# GENERAL FOUNDATION COURSE

for

Class 12th

(Vocational)



**PUNJAB SCHOOL EDUCATION BOARD**

Sahibzada Ajit Singh Nagar

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## **PREFACE**

Punjab School Education Board has been updating the school level syllabi compatible with modern approach and latest research. The Board has also launched a special drive to prepare new text books as per latest National Policies in this regard. The present book is a part of this prestigious programme.

The knowledge in the subject of General Foundation Course is essential for enhancement of efficient usage of vocational education in every field. Vocationalization of education is done to encourage all round development of a skilled worker. For every worker to have latest information of the skill is essential.

In view of these requirements, Punjab School Education Board has published a book on this subject. The present book of 12 th class Vocational Stream is prepared according to the revised syllabus. Every effort has been made to include each information regarding the subject, in this book. I hope, it will be useful for students and teachers of vocational education.

All suggestions for the improvement of the book will be highly appreciated.

**Chairperson  
Punjab School Education Board**

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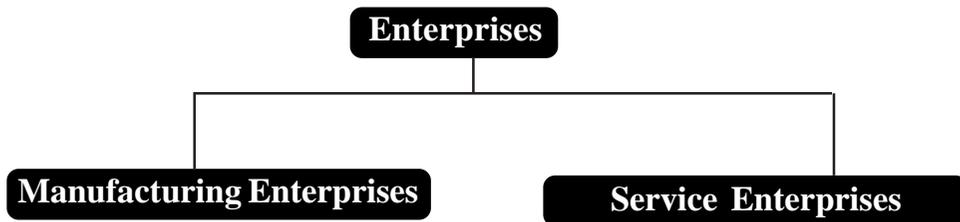
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Chapter -1

## Establishing a Unit

The basic aim of vocational education is to enable a learner to earn while he learns. Vocational education provides hands on experience to students. So the students must be acquainted with establishing small enterprises, so that they can become self reliant.

Enterprise can easily be set up for self-employment. You can choose an activity, depending upon your interest and suitability not only to become self-employed, but also to generate employment for others. Enterprises have been classified into two categories:



- I. Manufacturing enterprises are those which manufacture goods. These are classified as:
  - a. Micro enterprises: In which investment up to 25 Lakh is required.
  - b. Small enterprises: In which investment above 25 Lakh and up to Rs 5 crores.
  - c. Medium enterprises: In which investment above 5 crore and up to Rs 10 crores.
- II. Service enterprises are those which provide services like denting, painting, servicing etc.
  - (a) Micro enterprise: Investment up to Rs 10 Lakh, (b.) Small enterprise: Investment above Rs 10 Lakh and up to Rs 2 crores. (c) Medium enterprise: Investment above Rs 2 crores and up to Rs 5 crores

### **a) How to select an activity for Self-Employment:**

When you plan to set up an enterprise you have to think about the product you have to produce. When you decide about the product say nut-bolts, steel almirah, chairs and steel table etc. or may be anything, Micro Small Medium Size Enterprises

Development Institutes (MSMEDI's) and District Industrial Centres (DIC's) can provide you expert guidance for identification of a suitable activity.

A preliminary market study of product service needs to be undertaken to analyze consumption and availability pattern about product. If there is a gap in demand and supply, the activity considered ideal for selection. This kind of information is available with MSMEDI's and DIC's.

**Assessment of Market Potential:** Market potential is the aggregate demand about that product. The prospective entrepreneur can estimate local demand, demand within the state or country. Meetings with wholesalers and retailers can provide necessary inputs regarding market potential. MSMEDI's and DIC'S can also provide information regarding market potential. After taking decision about product or service, next step is:

### **b) Where can the Enterprise be set up**

The enterprise can be set up in a designated industrial area, where infrastructure facilities are available or near to the market identified. Special industrial zones are established by Government to promote industry.

Inputs required for setting up an enterprise:

- i. Land and building.
  - ii. Machinery.
  - iii. Raw Materials.
  - iv. Power and Water.
  - v. Skilled Manpower.
  - vi. Capital.
- i. Land and building:** After deciding about the product, the prospective entrepreneur has to decide about requirement of land. He needs sufficient land for his enterprise. Then the design of building has to be decided. DIC's can provide guidance in this matter.
  - ii. Machinery:** To manufacture a product, necessary machines are required. The prospective entrepreneur has to plan about these machines. Keeping in view the production capacity, machines are installed.
  - iii. Raw Materials:** To prepare the product, necessary raw materials are required. Entrepreneur has to decide about raw materials. Where these will be available of good quantity and at reasonable price also.

- iv. **Power and Water:** Power and water are the essential inputs in a manufacturing process. So prospective entrepreneur should make arrangement of uninterrupted supply of power and water.
- v. **Skilled Manpower:** To manufacture the product, skilled and efficient manpower is required. So the entrepreneur has to plan about manpower. He has to hire these persons,
- vi. **Capital:** To run an enterprise, capital is the main requirement. The entrepreneur has to arrange sufficient amount of capital to run the enterprise.

### **Financial Assistance.**

To establish an enterprise, finance is the main requirement. The entrepreneur has to find sources that can provide him financial help. Financial assistance is available from institutions such as:

- i. Nationalized Banks e.g. State Bank of India, Punjab National Bank etc.
- ii. Small Industrial Development Bank
- iii. Regional Rural Banks
- iv. National Small Industries Corporation
- v. State Financial Corporation's e.g. Punjab Financial Corporation.

These institutions provide financial assistance depending on the project requirement and promoters background. Financial assistance has two components:

- i. Loan for fixed capital is used to acquire plant, machinery, land and building,
- ii. Working capital loan is used to meet day to day operational cost of the production. State Financial Corporation and National Small Industries Corporation generally provide working capital. However, under package assistance, State financial corporation also provide a composite loan covering plant and machinery and working capital.

### **How to choose the most suitable source of funding?**

Any of the financial institution can be approached to get funds keeping in view their specific schemes. Evaluate and compare the terms and conditions, including rate of interest and prepayment period of loan offered by different financial institutions. Select the financial institution which offers the funds at minimum rate as per your repayment plan to suit your project. Choose the institution which is nearby the project site, if other terms and conditions are similar.

### **Eligibility Criteria :**

The eligibility criterion for getting a loan is return on the investment and profitability of the project proposed to be set up. Any financial institution will support the project if repayment is assured.

### **How much money the entrepreneur is required to invest out of his own resources?**

Some portion of the total investment has to be contributed by the entrepreneur out of his own sources. This is called 'Margin Money'. Financial institutions insist on 10-25% margin money depending upon the category of the entrepreneur and risk factor. If the entrepreneur does not have margin money, then he can raise loan from SBI & other banks. DIC's provide necessary assistance in this matter.

### **Procedure to get loan:**

An entrepreneur should approach the financial institution e.g. banks, State Financial Corporation, National Small Industrial Corporation. He should study their loan conditions before he should approach that financial institution which offers soft loan terms. Application in prescribed performa has to be submitted along with project report. The following documents should be submitted:

- Proof of ownership of land
- Proof of residence
- PAN card copy
- Bank account and statement
- Copy of Adhar card
- Income tax assesment certificate of partners
- Architects's estimate for construction cost.
- Quotations for plant and machinery
- Balance sheet for last three consecutive years of promoters

The loan is given by the institution if the application meets the norms.

The loan amount can be used to cover all types of investments required in the project such as machinery and equipment, working capital, land and building. The banks and State Financial Corporation's offer assistance for land and building or shed to certain extent.

The Housing Development Corporation (HUDCO) also Provides funds for land and building. The general conditions for getting financial assistance are :

- i. Eligibility criteria :** In this certain conditions are laid to get financial assistance. e.g. age, educational qualification etc. technical knowledge and experience.
- ii. Economic viability :** The Project is assessed by DIC's whether it is economically viable or not Economically useful project is allowed to be installed.
- iii. Promoter's contribution :** Promoters contribution in the shpe of margin moeny is kept in view. If promoters contribute more than margin money, it is taken as a plus point.
- iv. Capacity to Repay loan :** The capacity to repay loan of promoters is critically watched. If the promoters are not able to repay the laon, banks or institution hesitate to advance the loan.
- v. Collateral Securities/ Guarantee :** The guarantee against which loan is raised are also viewed. Guarantor should be finantically sound, so that he can repay loan in case of default.

### **Project Report:**

The project report is a document which gives an account of the project proposal to ascertain the prospects of the proposed plan. The project report contains detailed information about:

- Land and building required
- Manufacturing capacity per annum
- Manufacturing process
- Machinery and equipment along with their prices and specifications
- Raw material requirement
- Power and water required
- Man power needs
- Marketing
- Cost of the project and production
- Financial analysis

A project report is prepared with the help of prescribed guidelines available with MSEDI's and DIC's. Model Performa for preparing the project report is available with MSEDI's and DIC's.

### **Training:**

Skill development training is provided to entrepreneurs by State Government through their technical institutions. These institutions provide entrepreneurial training and technical training to entrepreneur. The training is of 2 - 4 weeks duration. Short term training programmes for managers and supervisors are provided to upgrade their knowledge and skills.

### **Pollution control needs of the Project:**

If the project is covered under the list of the polluting industries as defined by State Government, it will be necessary to get specific clearance from the State Pollution Control Board. Pollution control measures have to be installed by the enterprise as per need. Such polluting enterprises can only be set up in the designated industrial areas or localities and may have to be linked up with Common effluent treatment facility, if available in the area. Pollution Control Board provides details of pollution control equipments.

### **Registration of the firm:**

Small scale and ancillary units should seek registration with the directorate of Industries of the State Government. The main purpose of registration is to maintain statistics and maintain a roll of such units for the purpose of providing incentives and support services. States have their own package of facilities and incentives for small scale industries. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support.

### **Objectives of Registration Scheme:**

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the unit to avail statutory benefits, mainly in term of protection.
- To serve the purpose of collection of statistics.

### **Features:**

- DIC (District Industries Centre) is the primary registering centre.
- Registration is voluntary and not compulsory.

- Two types of registration is done in all states. First a provisional registration certificate (PRC) is given. After the commencement of production a permanent registration certificate is given.
- PRC is normally valid for 5 years.

### **Provisional Registration Certificate (PRC):**

This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.

- To obtain facilities for land, accommodation etc.
- To obtain various necessary NOC's and clearances from regulatory bodies such as Pollution Control Board, labour regulations etc.

### **Permanent Registration Certificate:**

It enables the enterprise to get the following concessions:

- Income tax exemption and sales tax exemption as per State Government policy.
- Incentives and concessions in power tariff etc.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.
- Permanent registration of tiny units should be renewed after 5 years.

### **Procedure for Registration:**

The following is the procedure for registration:

- A unit can apply for PRC for any item that does not require industrial license which means items listed in schedule-III and items not listed in schedule-I and II of licensing exemption notification.
- Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.
- PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
- Once the unit commences production, it has to apply for permanent certificate on the prescribed from,

**Deregistration:**

A small scale unit can violate the regulations in the following ways, which will make it liable for deregistration:

- It crosses the investment limits.
- It starts manufacturing any new item that requires an industrial license.

**Location.**

Location plays a crucial role in starting a small scale enterprise. While a farming or farm related enterprise need not be accessible to buyers, the micro entrepreneur will have to travel to the market to sell the produce. When the business involves fresh produce, timely sale is crucial e.g. fruits, vegetables and flowers are highly perishable and have to be sold quickly. Easy access to markets is important. In case of services, micro enterprise location should encourage people to come to the entrepreneur's place which must be easily accessible to clients and be somewhat attractive. Low cost decorations can be used to attract clients, while good service will ensure their return.

**Size:**

The size of business should be ideal. Small business size cannot be economical. Too small size will not be able to bear the costs of production and profit margins will be low. Too big size will bring problems of finance and management. So size of enterprise should be within controllable limits.

**Plant Layout:**

Plant layout may be defined as a technique of locating machines, process and plant services within the factory so as to achieve right quantity and quality of output at the lowest possible cost of manufacturing.

**Objectives:**

- Proper and efficient utilization of land.
- To provide enough production capacity.
- To reduce material handling costs.
- To reduce accidents.
- To increase labour efficiency.

**Types of layout:**

Plant layout facilitates the arrangement of machines, equipment and other

physical facilities in a planned manner within the factory premises. It differs from plant to plant, from location to location and from industry to industry. It is of three types:

- Manufacturing Unit
- Traders
- Service establishments

**Advantages:**

- Continuous flow of work
- Lesser investment in inventory
- Optimum use of floor space
- Lower cost of manufacturing per unit
- Quick output

**Disadvantages:**

- Heavy overhead charges
- High initial capital investment

**Factors influencing Layout:**

- **Repair and maintenance:** Machines should be so arranged that adequate space is available between them for movement of equipment and people required for repairing the machines.
- **Human Needs:** Adequate arrangement should be made for cloakroom, washroom, lockers, drinking water, toilets and other facilities.
- Plant environment.
- Heat, light, noise, ventilation and other aspects should be duly considered.
- Layout should be conducive to health and safety of employees. It should ensure free and efficient flow of men and materials.

**Sanitation**

It is essential that the building is properly constructed. Routine monthly inspection should be made to ensure that floors and walls have not developed any cracks. Windows and ceiling panels are intact and in place. This should be part of the

job description for a member of staff, who should tick off each check against a written checklist.

A supervisor/manager should ensure that the checks are done properly. Good sanitation in the manufacturing unit and good hygiene by workers are essential to produce high quality products. Quality assurance procedures include proper cleaning of equipment, processing rooms, washing hands and removal of wastes as they are produced. Together, a manager and processing staff should develop a cleaning plan and personal hygiene rules that ensure safe production.

### **Insurance:**

To cover all risks of the enterprise, insurance cover is must. These insurances are important if you are personally liable for any debts incurred.

### **Existing Insurance Policies:**

You may have some existing insurance policies that need to be amended when you start your micro enterprise, especially if you will be working from home. Policies that often need to be amended include:

- Building insurance
- Contents insurance
- Vehicle insurance

Your first step will be to speak to your existing insurer and make them aware of the change in your circumstances. The extent of any amendments required and any additional costs will depend on the nature of your enterprise and the detail of your existing policies. If you don't review your existing policies, you will continue to pay your annual premium, but there is a risk that your insurance company will not agree to pay a claim.

### **Liability Insurance:**

Liability insurance is designed to provide financial cover in the event of your organization being sued or held legally liable for costs and compensation because something has gone wrong. E.g. someone got injured or property has been damaged and your organization is held responsible.

There are large numbers of insurance companies offering liability insurance for your enterprise, to which you can contact directly. You can also compare policies and prices through company websites.

There are various different types of liability insurance:

**i. Public Liability Insurance:**

Public liability insurance covers injury to members of the public or damage to their property as a result of enterprise activities. Public liability insurance will generally cover costs such as legal expenses, compensation claims and medical treatment.

**ii. Product Liability Insurance:**

It relates to physical goods that you sell including food items. You are responsible for the quality and safety of your products that you supply or manufacture. If someone becomes ill, injured, their property is damaged as a result of a faulty product then you could be found liable for the losses.

**iii. Professional indemnity Insurance:**

Professional indemnity insurance provides cover for people who offer services such as advice or design work. It is a regulatory requirement in a number of professions such as law and accountancy and offers protection from claims of negligence as a result of the advice or service they have provided.

**iv. Employer's Liability insurance:**

If your organization employs staff, you should take out employers liability insurance, which in most cases will be a legal requirement. Employer's liability insurance covers you in the event of employees being injured or becoming ill as a result of their work. You are responsible for the health and safety of your employees.

**Health and Safety:**

All organizations have a legal responsibility to protect the health and safety of their staff and other people. It is very important that you take health and safety in your organization seriously. Under health and safety legislation you have a responsibility to:

- Make the workplace safe and control risk to health.
- Ensure that plant and machinery are safe.
- Ensure substances are stored and used safely.
- Provide adequate welfare facilities (e.g. toilet, drinking water etc.)
- Provide necessary training for health and safety.
- Fire fighting arrangement should be proper and workable also.

## **Availing Incentives, Support and Procedural requirement**

To encourage industrial development and employment generation in the State, it is must that fresh impetus is given to industry and commerce. Hence State Government announces a package of fiscal incentives for setting up new industry. Alive to the needs and aspirations of SME sector, the package provides for liberal incentives to this segment.

To encourage small entrepreneurs many incentives are given to them. Many institutions departments provide help and active support to these prospective entrepreneurs. We will study their role one by one as under :

### **I. Revenue Department:**

The first step in establishing the enterprise is to own a land in industrial estate or industrial focal point. Revenue Department provides 100% exemption from payment of stamp duty on purchase of land or lease of land. If entrepreneur has purchased land before submission of application for setting up an enterprise, then refund of stamp duty is allowed.

### **II. Municipal Council/Corporation:**

If enterprise is established within municipal council limits, then 100% exemption from payment of property tax shall be given. This incentive is given for 7 years from the date of approval. It provides water and sewerage connection to the entrepreneurs. Well developed roads are provided by corporation.

### **III. Electricity Department:**

This department provides electrical connection to enterprise and ensures continuous supply of electricity to the concern. 100% exemption is given from payment of electricity duty on power consumed by the enterprise. This incentive would be available for a maximum period of 7 years from the date of approval.

### **IV. Taxation Department:**

VAT and CST incentive shall be available to new small and medium units having fixed capital investment from 01 crore to 10 crore, which have obtained term loan from a financial Institution. The incentive shall be available only to units set up in Industrial Focal Points and Industrial Estates. The incentive would be available for a maximum period of 7 years from the date of approval. The incentive shall commence only after the date of production.

### **Exemption from clearance from Pollution Control Board:**

The units notified by Department of IT, Government of Punjab will not require any NOC (No objection certificate) from Punjab Pollution Control Board (PPCB).

Exemption from inspection under various laws:

The units will be exempted from inspections under the following acts and rules framed there under, barring inspections arising out of specific complaints. The units will be permitted to file self-certification as in prescribed formats,

- i. The Payment of Wages Act, 1936.
- ii. The Minimum Wages Act, 1948.
- iii. The Factories Act 1948.
- iv. The Employment Exchange Act, 1959.
- v. The Punjab Shops and Commercial Establishment Act, 1958.
- vi. The Contract Labour (Regulation and Abolition) Act, 1970.

### **Promotional Schemes:**

Government accords the highest preference development of MSME by framing and implementing suitable policies and promotional schemes. Besides providing developed land and sheds to the entrepreneurs on actual cost basis with appropriate infrastructure, special schemes have been designed for specific purposes like quality up-gradation, common facilities, entrepreneurship development and consultancy services at nominal charges.

Government of India has been executing the incentive scheme for providing reimbursement of charges for acquiring ISO 9000 certification to the extent of 75% of the cost subject to a maximum of Rs 75000/- in each case. ISO 9000 is a mechanism to facilitate adoption of consistent management practices and production techniques as decided by entrepreneur himself. This facilitates achievement of desired level of quality while keeping check on production process and management of the enterprise.

MSME units with a turnover of Rs 1 crore or less per year have been exempted from payment of excise duty. Moreover there is a general scheme of excise exemptions for MSME brought out by the Ministry of Finance which covers most of the items. Under this, units having turnover of less than 3 crore are eligible for concessional rate of excise duty. Moreover, there is an exemption from excise duty for MSME units producing branded goods in rural areas.

Credit to micro, small, medium scale sector has been covered under priority sector lending by banks. Small Industries Development Bank of India (SIDBI) has been established as the apex institution for financing the MSME. Specific schemes

have been designed for implementation through SIDBI, State Financial Corporation etc. Loans up to Rs 5 Lakh are made available by the banks without insisting on collaterals. Further credit guarantee fund for micro, small and medium enterprises has been set up to provide guarantee for loans to MSME up to Rs 25 Lakh extended by commercial banks and some regional rural banks.

All the State Governments provide technical and other support services to small units through their Directorate of Industries and District Industries Centre. The following are the common areas of support.

**a. Development and Management of Industrial Estates:**

State government establishes industrial estates and provides infrastructural facilities to new enterprises.

**b. Suspension of Sales tax:**

As a measure of incentive, sales tax for a certain period is not levied on the new enterprise.

**c. Power Subsidy:**

Subsidy in power connection and exemption of electricity duty is provided to new enterprises as a measure of incentive.

**d. Capital Investment Subsidy:**

In some zones, capital investment subsidy is provided to strengthen the micro and small enterprises.

**e. Seed Capital assistance scheme:**

In some areas, the assistance in margin money is provided by the banks.

**f. Priority in allotment of power connection and water connection:**

In some zones, new enterprises are given priority in allotment of power connection and water connection.

**g. Consultancy and technical support:**

Government provides consultancy and technical support to new enterprises.

**h. Prize and Awards:**

Government of India runs a scheme for giving National awards to micro, small, medium scale entrepreneurs providing quality products in 11 selected industry groups of consumer interest. The winners are given trophy, certificate and cash prize of Rs 25000/- each.

### **Credit link capital subsidy scheme for technology up gradation.**

This scheme aims at facilitating technology up gradation of micro and small enterprises by providing 15% capital subsidy on institutional finance availed by them for induction of well established and improved technology in approved sub sectors. The admissible capital subsidy under the revised scheme is calculated with reference to purchase price of plant and machinery. Maximum limit of eligible loan for calculation of subsidy under the revised scheme has also been raised from Rs 40 Lakh to Rs 100 Lakh. 22000 units have availed 1140 crore assistance up to 28.02.2013.

### **Credit Guarantee Fund Scheme for Micro and Small Enterprises.**

The credit guarantee fund scheme for micro and small enterprises (CGMSE) was launched by Government of India to make available collateral free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) established a trust named Credit Guarantee Fund trust for micro and small enterprises to implement the credit guarantee fund scheme for micro and small enterprises. The scheme was formally launched on August 30th, 2000 and is operational with effect from 01 January 2000. The corpus of CGMSE is being contributed by the Government and SIDBI in the ratio of 4:1 and has contributed Rs 1906.55 crore to the corpus of the trust. Eligible lending institutions are Public Sector Banks, Regional Rural Banks, SIDBI and NSIC etc. The credit facilities which are eligible to be covered under the scheme are both term loans and working capital facility up to 100 Lakh per unit, extended without any collateral security.

### **Quality Up gradation for small scale sector through incentive for ISO 9000/ ISO 14001/HACCP:**

The small scale sector has emerged as dynamic sector of Indian economy and has been making significant contribution to industrial production. The process of economic liberalization and market reforms has opened up the Indian small scale sector to global competition. To increase the strength of small scale sector, Government introduced an incentive scheme for their quality improvement. This scheme provides incentive to those small scale units who acquired ISO 9000/ISO 14001/HACCP certificates. This scheme includes reimbursement of expenses for acquiring ISO 9000 and other certificates.

**The main features of the scheme are:**

- i. The scheme envisages reimbursement of charges of acquiring ISO 9000/ISO 14001/HACCP certificates to the extent of 75% of the expenditure subject to Rs 75000/- in each case.
- ii. The permanent registered small scale units are eligible to avail this incentive scheme.
- iii. The scheme is applicable to those SSI units who have already acquired ISO 9000/ISO14001/HACCP certificates.

**Market Development Assistance Scheme for Micro/Small Manufacturing Enterprises:**

This scheme offers funding for participation by manufacturing small and micro enterprises in International Trade Fairs and Exhibitions under MSME India stall. Reimbursement of 75% of one time registration fee and 75% of annual fees paid by small and micro units for the first three years for bar code.

**Government Funding and Schemes:**

An entrepreneur requires a continuous flow of funds not only for setting up of his business, but for successful operation as well as regular modernization of the industrial units. To meet this requirement, the State and Central Government have undertaken several steps like; setting up of banks and financial institutions and formulating various policies and schemes. All such measures are specially focussed towards the promotion and development of small and medium enterprises.

The public sector banks are the major source of financial assistance to the industrial sector. They extend credit support to the firms in the form of loans, advances, term loan and export finance etc. Following are some institutions:

- i. State Bank of India (SBI):** It provides a wide range of financial products and services that can cater to any business requirement. Its various funding schemes are:
  - a. Working capital finance extended to all segments of industries and service sector.
  - b. Corporate term loans to support capital expenditure for setting up of new venture.
  - c. Deferred payment guarantees to support purchase of capital equipment.
  - d. Project finance: A new project started by existing firm is financed by the bank.

**ii. Bank of Baroda (BOB):** It offers various products and services that meet the specific requirements of business enterprises, particularly the small scale units. Various schemes relating to the provision of loans and advances by the bank include:

- a. Working Capital Finance.
- b. Term Finance.
- c. Small and Medium Enterprise (SME) Loan Pack.
- d. Small Business Borrowers.
- e. Traders Loan.

**iii. Andhra Bank:** It has also devised a host of loan schemes to meet the financial requirements of an enterprise. These particularly cater to the corporate and agricultural sector. Some of its important funding options include:

- a. Working Capital Loans.
- b. Export & Import Finance.
- c. Advance against Shares.
- d. Term Finance.
- e. Corporate Loans.
- f. Project Finance.
- g. Infrastructure Project Finance.
- h. Kisan Vikas Card.
- i. Kisan Sampathi.
- j. Self Help Groups-Bank Linkage Programme.
- k. Kisan Green Card.

Small scale industries need credit support on a continuous basis for running the enterprise as well as for its diversification and modernisation. Recognising the need for a focused financial assistance to such industries, the Government of India, together with the State Governments, has formulated several policy packages including schemes and funds for their growth and development. Most of these programmes of the Central Government are implemented through the following two principal organisations:

**1. Small Industries Development Organisation (SIDO):** It is an apex body for promotion and development of small scale industries in the country. Its major activities include:-

- Advising the Government on formulation of policies and programmes for the small-scale industries.

- Conducting periodical census/survey of the small scale industry and generating data/reports on various important parameters/indicators of growth and development of the sector.
- Maintaining close liaison with other Central Ministries, Planning Commission, State Governments, Financial Institutions and other organisations concerned with the development of small-scale industries.
- Facilitating linkage of small-scale industries as ancillaries to large and medium scale industries.
- Developing human resource base through training and skill upgradation.

For achieving its objectives, SIDO has devised a comprehensive range of schemes for providing credit facilities, technology support services and marketing assistance, etc. Some of the major schemes are:

- Credit Linked Capital Subsidy Scheme for Technology Upgradation.
- Credit Guarantee Scheme.
- ISO 9000/ISO 14001 Certification Reimbursement Scheme.
- Integrated Infrastructure Development (IID Scheme).
- SSI MDA Scheme.
- Assistance to Entrepreneurship Development Institutes.
- Micro Finance Programme.

**2. National Small Industries Corporation Ltd (NSIC):** It has been established with the objective of promoting, aiding and fostering the growth of small scale industries in the country. It has been assisting small enterprises through a set of specially tailored schemes which facilitate marketing support, credit support, technology support and other support services as under :

- **Marketing Support Schemes:** Sound marketing is critical for the growth and survival of small enterprises. NSIC acts as a facilitator to promote small industries products and has devised a number of schemes to support small enterprises in their marketing.
- **Credit Support Schemes:** NSIC facilitates credit requirements of small enterprises in several areas. These include:
  - ◆ **Equipment financing:** Through schemes like 'Hire Purchase' and 'Term Loan' for the procurement of equipments.
  - ◆ **Financing for Procurement of Raw Material:** by facilitating bulk purchase of basic raw materials at competitive rates,

import of scarce raw-materials, etc. NSIC also takes care of all the procedures, documentation and issue of letter of credit in case of imports.

- ◆ Financing for marketing activities: such as internal marketing, exports and bill discounting, etc.
  - ◆ Financing through syndication with banks: by entering into strategic alliances with commercial banks so as to facilitate fund requirement of the small enterprises. It involves an arrangement of forwarding the loan applications of the interested small enterprises to the banks.
  - ◆ Performance and credit rating scheme for small industries: so as to enable the small enterprises to ascertain the strengths and weaknesses of their existing operations and take corrective measures accordingly. NSIC is operating the scheme through agencies like ICRA, ONICRA, Duns & Bradstreet (D&B), CRISIL, FITCH, CARE and SMERA.
- **Technology Support Schemes:** NSIC offers small units various support services through its Technical Services Centres' and 'Extension Centres'. The services provided include advise on application of new techniques; material testing facilities through accredited laboratories; energy and environment services at selected centres; classroom and practical training for skill up gradation, etc.



## Resource Mobilization

For any industrial organization Resource Mobilization means mobilizing resources. Now resources can include many different things, not just money, for your organization, but raw-material and manpower also included in it.

To start any industrial unit basic e needs are:

1. Finance.
2. Manpower.
3. Raw-Material.

**FINANCE :** To start any industrial unit industrialist needs finance. Even he can start unit with saving done by him and his family members but in order to well establish of his unit he needs finance. For which he takes loan.

Thus, for any industrial unit there is need of capital. There are two types of capital.

1. Fixed Capital
2. Working Capital

### 1. Fixed Capital

Fixed capital is the capital which is associated with the fixed costs like purchase of land, building, machines etc.

### 2. Working Capital

Working capital is the capital which is associated with the routine expenses of industry such as to purchase of raw-material, payment of wages/ salary, Electric & Water charges etc.

An enterpreneur can get a loan for both types of capital. That is provided by the following organizations:

1. State Bank of India.
2. State Bank of Patiala.
3. Co-operative Banks.
4. Oriental Bank of Commerce.
5. Punjab National Bank.

6. Industrial Development Bank of India (IDBI).
7. Punjab Village and Khadi Craft Board .
8. State Financial Corporation.

Reserve Bank of India issued guidelines to nationalized banks regarding loan amount, term of loan, formalities to be completed before sanctioning the loan.

**Loan facility provided by some non-banking financial companies also:**  
These are the financial institutions that provide banking services, while these do not have a banking license. These institutions cannot take deposits from the general public.

Such non-banking financial companies are not entitled to accept public deposits according " to The Reserve Bank of India Act, 1934"

Some Non-Banking Financial Companies are:

1. V & C Vaults & Finance Ltd. New Delhi.
2. Muthoot Capital Services Ltd., Thiruvananthapuram.
3. K.Z. Leasing & Finance Ltd, Ahmedabad.
4. P. H. F. Finance Ltd, Jalandhar.

There are some financial schemes of Punjab National Bank :

1. Sarthak Udyami - Scheme for financing Micro and Small Enterprises.
2. PNB Pragati Udyami - Scheme for financing Industry related Services/ Business Enterprises.
3. PNB Kushal Udyami.
4. PNB Garrage Yogana.
5. Loans for setting up Industrial Estates.
6. PNB Vikas Udyami - Scheme for Loans acquisition of ISO - 9000 Series Certification.
7. SME Sahayog Scheme.
8. PNB Artisan Credit Card - Scheme to provide hassle-free financial support to Artisans.
9. PNB Laghu Udyami Credit Card - A simplified Loan Delivery Mechanism.

10. Scheme for Advances to Small Road Transport Operators.
11. Scheme for Advances to Owner-Drivers of Taxi Cars, Three Wheeler, Station Wagons, Tempos.

Punjab National bank can provide loan according to need of the Entrepreneur for fixed capital and also provide loan for working capital upto 20% of annual turnover for his routine expenses. To take loan from Punjab National Bank entrepreneur can apply online for which time limit set by bank is as follows:

Loan Amount	Time Limit
Upto Rupees 2 Lac	2 week
Above Rupees 2 Lac but upto Rupees 50 Lac	4 week
Above Rupees 50 Lac but upto Rupees 1 Crore	5-6 week
Above Rupees 1 Crore but upto Rupees 100 Crores	6-7 week
Above Rupees 100 Crores	8-9 week

Bank can provide loan upto Rs. 10 lac without any collateral security.



H.O.: 7 Bhikhaiji, Cama Place, New Delhi

BO: \_\_\_\_\_

Date: \_\_\_\_\_

### Provisional Acknowledgement

Received application for credit facility of Rs. \_\_\_\_\_ A system generated acknowledgment shall be sent to you through email and SMS on registered email and mobile phone containing user ID and password through which you can track the status of your application by logging on our corporate website [www.pnbindia.in](http://www.pnbindia.in).

Signature of Branch Official

**APPLICATION FOR MICRO, SMALL & MEDIUM ENTERPRISES  
(MSME) FOR LOANS UP TO Rs.100 LAKH**

To be submitted along with documents as per the checklist

1.	Name of the Unit / Applicant *							
2.	Regd. Office Address*							
3.	Address of the factory /Shop/Business*							
Telephone No.*								
E-mail ID*								
Mobile No.*								
PAN Card No.								
4.	Whether applicant belongs to SC/ST/OBC/Minority Community etc*.	v	SC	ST	OBC	Minority	General	
5.	Constitution	v	Proprietary	Partnership	Pvt. Ltd.	Ltd. Company	Co-op.society	Any Others (Specify)
6.	Date of Establishment*							
7.	State*:		City where loan is required*:		District:			
	Branch where loan is required:							
8.	Name of Proprietors/Partners/Directors Of Company and their Addresses:*							
S No.	Name	Date of Birth	Father/Spouse	Academic qualification	Mobile No.			
1.								
2.								
3.								

8.	Name of Proprietors/Partners/Directors Of Company and their Addresses:*			
S No.	PAN No.	Residential Address	Telephone No.	Experience in the line of activity (Years)
1.				
2.				
3.				

9.	Line of activity*	Existing :
		Proposed (#)

# if a different activity other than existing activity.

10. Name of Associate Concerns and Nature of Association:

Name of the Associate concerns	Addresses of the Associate Concerns	Presently Banking with	Nature of Association	Extent of Interest as a Prop./Partner Director/or Just investor in Associate concern

11.	Relationship of Proprietor/Partner/Director with the officials of the Bank/Director of the Bank: Please select (Yes/No)	
-----	---	--

12(a).	Banking/Credit Facilities (Existing) (Rs. In Lakh)						
	Type of facilities	Limits (in lakhs)	Outstanding as on .....	Presently banking with	Security lodged	ROI	Repayment terms
	Current Account						
	Cash Credit						
	Term Loan						
	LC/BG						
	Others						
	Total						
If Banking with PNB, customer ID to be given,							
12(b).	It is certified that our unit has not availed any loan from any other Bank/Financial Institution in the past and I am no indebted to any other Bank/Financial Institution other than those mentioned in 12(a) above.						



15. Details of collateral security offered, if any including 3rd party guarantee:-

(\* As per RBI guidelines banks are not to take collateral security for loans upto Rs. 10 Lakh to MSME Units)

(a) Guarantee if offered:-

S. No.	Name of Guarantor	Address	Relation with borrower	Net worth	Telephone No.	Mobile No.	PAN No.	Loans if any

(b) Other Collateral Security:-

S. No.	Name of Owner of Collateral	Collateral Security		
		Nature	Details	Area Valuation (Rs. In Lakh)

16.	<b>Past performance/future estimates</b> (Actual performance for two previous years, estimates for current year and projections for next year to be provided for working capital facilities. However for term loan facilities projections to be provided till the proposed year of repayment of loan on separate sheet)				
	Amount in Lakh				
	Net Sales	Past Year II (Actual)	Past Year I (Actual)	Present Year (Estimates)	Next Year (Projections)
	Net Profit				
	Capital (Net Worth in case of companies)				

17. Status regarding statutory obligations:		
Statutory Obligations: Remarks (Any details in connection with the relevant obligation to be given)		
Whether complied with). Select Yes/No/NA whichever is applicable.		
1.	Registration under shops and Establishment Act	Yes / No / NA
2.	Registration under SSI/MSME (Provisional/Final)	Yes / No / NA
3.	Drug License (if applicable)	Yes / No / NA
4.	Latest Sales/VAT Tax Return Filed	Yes / No / NA
5.	Latest Income Tax return filed	Yes / No / NA
6.	Any other statutory dues remaining outstanding	Yes / No / NA
7.	Any other specify	Yes / No / NA

18.	ID Proof	v	Passport: Aadhaar Card:	Voter Identity: Identiy Card:	PAN Card:	Driving Licence: Job Card:
18 (a).	ID Proof No.					

19.	Address Proof	v	Electricity Bill:	Telephone Bill:	Bank Account Statement of any other bank:	
			Letter from reputed employer:	Letter from recognized public authority verifying the address of the customer to the satisfaction of the bank:		Ration Card:
19 (a).	Address Proof No.					

20.	SPACE FOR THE PHOTO		SPACE FOR THE PHOTO	SPACE FOR THE PHOTO
	SIGNATURE		SIGNATURE	SIGNATURE
Only one photo of proprietor/each partner/each working Director is required to be affixed.				

I/We certify that all information furnished by me/us is true; that I/We have no borrowing arrangements for the unit except as is in the application; that there is no overdue/statutory dues against me/us/promoters except as indicated in the application; that I/We shall furnish all other information that may be required in connection with my/our application that this may also be exchanged by you with any agency you may deemed fit and you, your representatives, representatives of the Reserve Bank of India or any other agency as authorized by you, may at any time, inspect/verify my/our assets, books of account etc. in our factory/business premises as given above.

Date...  
.....  
Place...  
.....

**Signature of Applicant**

---

**For Branch use:**

1. Application received and entered.
2. Acknowledgment given to applicant.
3. Photo & Signature of applicant should be attested/verified by Branch official.

## **RAW-MATERIAL:**

It is important for an industrial unit that it always arrange a good supply of raw materials so as final product become better. Because if the product is fine then it will get the same success in the market.

Entrepreneurs must have to purchase the raw-material from three or four places instead of one place and purchase from such persons / organizations who provide required material in proper time at reasonable cost. Raw-material is the backbone of any unit because if raw material will be available at the right time, then the product will be ready in time. For this reason, one should not depend on one person/ organization for the raw material but should negotiate with several organizations for raw material.

Machines need raw materials all the times. To avoid that machines do not stand for lack of raw materials shortage one should keep proper stock of raw material. For which the entrepreneur is required to store required stock of raw material in appropriate manner.

## **Need of Workers:**

Workers in any industry play a major role in smooth running of industry. These are skilled and unskilled workers. To meet the requirement of Skilled / unskilled workers, one has to approach employment office, advertisement or internet. If the skilled workers are not available then unskilled staff can be made to skilled worker after proper training.

This type of training can be of two types:

- 1. Before Recruitment:** To perform any special task one need training. So before hiring workers training is provided to them.
- 2. After Recruitment:** After recruitment, training is provided according to the required of machines.

Entrepreneur ensure that he will appoint efficient workers for his business. Different industries can employ different methods to recruit staff based on their needs and requirements, but there are some sound tips to recruit staff for any business.

- Develop a job outline prior to recruiting: Outline the position being filled including time requirements, job duties, required education and any other requirements that an ideal candidate should have. This will help you to present a clear vision to potential candidates

- Establish an intern program : Contact with local colleges or schools to employ interns or students seeking work-study credits and experience. Working with interns will give you the inside edge to recruit the best and the brightest as soon as they graduate.
- Give yourself as much time as possible : It's important to take your time when making staffing decisions to ensure that you choose the best candidate for the job. Leave a window of opportunity to reflect on potential candidates instead of rushing to make a hasty decision.
- Ask for recommendations from colleagues. : Ask around to colleagues whose opinions you trust for any recommendations of people that might fit your job requirements.
- Highlight the benefits given to employees: To enhance the enthusiasm of candidates enlighten benefits given to employees like health insurance, employee discounts, performance bonuses etc.
- Offer more pay than others : Candidate will choose that organization where he will get more money. So offer slightly above the average pay for the position.
- Advertise with relevant organizations : Advertise the job opening with professional organizations. This will increase the number of qualified candidates that see your listing.

Various Salary & Wages Legislation passed by Government must be kept in mind while recruiting the Employees:

Minimum Wages Act, 1948

Payment of Gratuity Act, 1972

Weekly Holidays Act, 1942

Beedi and Cigar Workers Act, 1966

Contract Labour (Regulation and Abolition) Act, 1970

Payment of Bonus Act, 1965

Employees' Provident Fund and Miscellaneous Provisions Act, 1952

Interstate Migrant Workmen Act, 1979

Child Labour (Prohibition and Abolition) Act, 1986

Industrial Employment (Standing Orders) Act, 1946

Following points are to kept in mind while dealing with employees so that recruited employees work sincerely and honestly for such organizations:

- Employer listen carefully their employees and praise them for their good work.
- The provision of training to employees from time to time.
- Incentive facilities must be provided to employee from time to time.
- Employer must understand employee's feelings.

**Points to remember:**

1. Main three requirements for industry are finance, raw material and employee.
2. Two types of capital is needed for industry: Fixed assets and Working capital.
3. To lending money to the industry, there are many banking and non-banking organizations are present.
4. Instructions for loan to nationalized banks are issued by the Reserve Bank of India.
5. Entrepreneurs need to buy raw-material from more than one persons.
6. Sufficient stock of raw material should be kept in order to prevent shutting down of machines.
7. PNB can provide loan upto Rs. 10 lac without collateral security.
8. Workers are of two types : Skilled and Unskilled.
9. Unskilled employee can be skilled after training.
10. Different laws regarding wages, formed by government should be kept in mind while recruitment.

**EXERCISE**

**Fill In The Blanks**

1. Instructions for loan to \_\_\_\_\_ banks are directed by the Reserve Bank of India.
2. There are \_\_\_\_ types of Capital.
3. \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ are the major need of an industry.
4. Unskilled workers with the training can be converted to \_\_\_\_\_.
5. Punjab National Bank can provide loan upto Rs. \_\_\_\_\_ without collateral security.

**Short answer questions:**

1. What is meant by Resource mobilization?
2. There are how many types of training after selection?
3. Who can give loan for capital to entrepreneur?
4. What is the need of training after selection?
5. What are the various laws should be aware of at the time of recruitment and salary/wages of employees?
6. Write note on non-banking financial companies.
7. Mention benefits of tip "highlight the benefits given to employees" while recruitment.

**Long answer questions:**

1. To recruit what step should follow by any business?
2. An entrepreneur from where and how, manage the raw materials? Write a note.
3. Write note on various loan schemes governed by Punjab National Bank.

\* \* \*

## Chapter -4

# MARKET ASSESSMENT

Market assessment is a detailed and objective evaluation. of the potential of a new product, new business idea or new investment.

It is comprehensive analysis of Market trends, competition, risk, entry barriers, opportunities and the company's resources. Whether you're thinking about launching a new product or venturing into a new Market, conducting a market assessment is the crucial step in determining if there is need or a potential customer base for your product. Is the need of product?

Entrepreneur wanted to know the market because by which he can understand the needs of his customers and supply the goods after correct valuation.

A well executed market assessment will enable the industry to decide where to use limited resources that will provide the best returns on investments.

The goal of a market analysis is to determine who are the customers? What they want from your company? Through this meet the needs of customers profit can be earned. Important elements of market assessment are: size of market, market growth rate, market profitability, industry cost structure, distribution channel and market trends:

- **Size Of Market:** To know the size of market businessman has to know the potential customers. There are many ways to find the size of the market, under a common technique used the following formula is used :
- $\text{Market size} = \text{number of buyers in the market} \times \text{quantity purchased by an average buyer in the market per year} \times \text{price of an average unit}$  "

Some external sources to determine the size of market:

- o Government Data.
- o Trade association data.
- o Financial data from industry experts.
- o Customer surveys.

- **Market Growth Rate:** Companies need to assess how much the market will grow? On the basis of the market's current growth they can guess future growth. To predict the growth rate of the market, Companies growth can see the data of supplement market. Due to increased Competition and less brand recognition of customers market growth may be reduced.
- **Market Profitability:** Different companies in a market will have different levels of profitability. How difficult it is to make money in the market so possibility of market's average profit works as guidance. Michael Porter devised a useful framework for evaluating the attractiveness of market. This framework, known as Porter's five forces. These five forces that affect market are:
  - Buyer power.
  - Supplier power.
  - Barriers to entry.
  - Threat of substitute products.
  - Rivalry in the industry.
- **Industry Cost Structure:** The cost structure of any industry is the important key for success of that industry. The cost structure is also helpful for formulating strategies to develop a competitive advantage.
- **Distribution Channels:** The following aspects of the distribution system are useful in a market analysis:
  - Existing distribution channels - Those customers who directly consume the product.
  - Trends and emerging channels - new channels can offer the opportunity to develop a competitive advantage.
  - Retailers can ask for more margins.
- **Market Trends:** Changes in the market are important because they often are the source of new opportunities and threats. The merchant can identify the trend of market with the help of technical analysis. With the passage of time value reaches conflicting or associate level.

## Demand

Consumption of a product in the market depends on the market demand. Demand means the amount of product that specific user or buyer is ready to buy at a specific price in a specific period.

The Law of Demand describes the inverse relationship of price and the quantity demanded all other factors remaining constant. If the price is high, the quantity demand decreases and if the price decreases, then the quantity demand will increase. Production of product can be increased at a time when demand increases.

### Determinants of demand:

1. Price of the good.
2. Taste and desire of consumer.
3. Income of the consumer.
4. Price of substitute product.
5. Future expectation of consumer.

All the above determinants are directly associated with the consumer, So to know nature of the consumer's need market search is done. Data collected from this study, is analyzed and a specific result can be reached..

### Elasticity of Demand

1. **Availability of substitute goods:** Availability of substitute is the main factor to affect price elasticity of demand. In common where more substitutes are available, greater is the elasticity of demand. e.g. when price of coffee increased by 50 paise then consumer can substitute morning coffee with tea. It means tea is substitute product for coffee, so consumer will purchase more tea than coffee.
2. **The amount of income available to spend on product:** This factor also determines the elasticity of demand that how much can a person spends on specific service/product? Suppose a person has Rs. 6/- to purchase coca cola and price of coca cola has increased Rs. 2/- from Rs. 1/- but the income of the person remains same, then the person can purchase only 3 coca cola instead of 6 coca cola. It means the demand of coca cola has decreased. Similarly this demand will increase if price decreases and if the income remains same. So the quantity demanded is sensitive to the price.

3. **Time:** Time is the third effective determinant. If the price of cigarettes has increased by Rs 2/- then consumer of tobacco will purchase cigarette. It means demand of tobacco is stable because increase in price of tobacco does not impact on demand related to its price. But if the person is ready to change his habit with time and leave the consumption of tobacco then cigarette in long time will be flexible for that consumer.
4. **Complementary Goods:** Complementary goods also impact on demand. As there is a change in the price of a specific pen then this would result in change in demand of refill or ink being used in this pen.

### **SUPPLY**

Understanding the demand is not enough to understand the market. To understand the market we need to understand the supply also. In contrast of demand, the supply expands with a rise in price and contracts with a fall in price. It means if price of any commodity rises then supplier of that commodity will supply more goods, but if the price falls then supplier will reduce production.

“Supply is the amount of commodity which the producer is willing to supply at a particular price during a certain period of time.”

As there is change in production cost the producer also change, the supply of product at a specific price.

#### **☞ Factors Affecting Supply:**

##### **o Negative factors:**

1. Increased cost of production.
2. Strict Government policies.
3. Pessimistic market.
4. Reduction in competitors in market.

##### **o Positive factors:**

1. Decreased cost of production.
2. Gentle Government policies.
3. Optimistic market.
4. Entrance of new competitors.
5. New technology.

It is not necessary for entrepreneurs that they will prepare the best products and sell in market and would get right amount of profit. Success of entrepreneur in the market depends upon several factors like Distribution of product, Delivery of product, Storage of product, Credit policy and after sales service.

### **Distribution of Product:**

Distribution is the process of making a product or service available for use or consumption by a consumer. Distribution of products takes place by means of channels. A firm can design any number of channels they require. These channels are called intermediaries (Agent / broker). These Channels are involved in making the product available for consumption to end-user. Agents and brokers act on behalf of the producer. A zero level channel has no intermediaries. This is typical of direct marketing.

### **Delivery:**

Delivery is the process of transporting goods from a source location to a predefined destination. Commonly goods are delivered from a point of production (factory or farm) through one or more points of storage (warehouses) to a point of sale (retail store), where the consumer buys the good and is responsible for its transportation to the point of consumption. Products sold via catalogue or the Internet may be delivered directly from the manufacturer or warehouse to the consumer's home.

It effects on sales that how product reaches after sale to consumer through wholesaler or retailer on what terms.

### **Storage:**

Storage means safe holding and protecting commodities for later use. Storage facility works as reservoir during seasonal changes and in reducing demand. Market supply of products varies from time to time. But the manufacturing of products by machines can not be changed. If Production is reduced from machines then per product cost will be increased. For this reason, when the market supply is reduced that time product is stored and when supply is increased by more production then stored product sent to market.

It is important for storage of products various steps of cautions are to be applied after considering all threats in the market so as the risk could be reduced. Entrepreneur needs to consider the possible risks as above on next page:

- Difficulties in reaching at emergency gates etc. due to lack of proper storage.
- In the rush to the store heavy items are stocked at the height of the head.
- Possibility of contamination or risk due to inappropriate goods stored together.
- Equipment breakdown due to environmentally destructive.

Above all risks can be prevented with a good storage management.

### **Credit policy for customers/buyers:**

Each entrepreneur expects cash for his product. But the customer/buyer wants to pay for the product after its sale/consumption. So entrepreneur decides how much and in what circumstances he is willing to give credit. So one credit policy is that if you are agreed to bill on credit and when he will be able to pay and it also needed to include in this policy that if payment before the due date is made then what will be the discount? And if payment after the due date what will be the interest or penalty? While creating the credit policy, market conditions and competitive policies are also kept in mind.

### **After Sales Service:**

Each customer will buy any product in any situation. But at the time of any default in product, what assistance will be given by seller and for what time? It impacts on popularity of product. Sale of a product whose one-year warranty / guarantee is being provided by the company is better than the product whose six month warranty/ guarantee is being provided by the other company. If repair cost of any product is more, then also its sale will be lower.

### **Market segmentation:**

It is a marketing strategy in which the broad target market is deployed in a subset of those consumers whose former needs are equal, after that develop a strategy for targeting them and implement this strategy. Market segmentation strategies can be used to identify customer and to provide accurate data for status of achievement of market objective.

## EXERCISE

### Fill in the blanks:

1. Market assessment done by \_\_\_\_\_
2. Changes in the market are important because they often are the source of new opportunities and \_\_\_\_\_
3. The cost structure is also helpful for formulating \_\_\_\_\_ to develop a competitive advantage.
4. Demand increases, when price is \_\_\_\_\_.
5. Price increases, when supply is \_\_\_\_\_.

### TRUE / FALSE

1. Through market assessment knowledge is provided, how to use the limited resources.
2. Entrepreneur wants to sell product as possible as in cash.
3. In direct marketing maximum profit is gained.
4. Entrepreneur sold entire in market that he produces.

### Short answer questions:

1. What is mean by market assessment?
2. What are the determinants of Demand?
3. What are the sources to know size of market?
4. For which reasons supply can decreased?
5. What are the risks that entrepreneur have to remember while storage?

### Long answer questions:

1. What is mean by elasticity of demand? Enlighten the components affecting elasticity of demand.
2. What is the need of delivery of product to the consumer, the wholesaler, the retailer etc. after sale? Is it having any affect on the sale of product?
3. What is the need of credit to customer by entrepreneur? Explain.

## Chapter -5

# Decision Making

Decision making is an essential aspect of modern management. It is a primary function of management. Decision making is the key part of manager's activities. Decisions are important as they determine both managerial and organizational actions. A decision may be defined as "Course of action which is consciously chosen from amongst a set of alternatives to achieve a desired result".

It is rightly said that first important function of management is to take decision on problems and situations. Decision making prevails on all managerial actions. It is a continuous process. Decision is a choice from among a set of alternatives. Literally speaking, decision word is derived from Latin word 'de ciso' which means 'cutting away' or 'cutting off or in a practical sense to come to conclusion. Decision making is a process by which course of action is taken.

According to Peter Drucker "Whatever a manager does, he does through decision making. A manager has to take a decision before preparing a plan for execution. Management is always a decision making process. Decision making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem.

### **Features of Decision Making:**

#### **i. First managerial action:**

Decision making is the first managerial action. In planning also, we choose among given alternatives. So the decision making is involved at every stage.

#### **ii. Choice:**

Decision making involves choice. Decision making is choosing from among two or more alternatives course of action. It is rightly said that decision making is fundamentally choosing between the alternatives. The alternatives may be two or more. Out of such alternatives, the most suitable is to be selected for actual use.

#### **iii. Continuous activity:**

Decision making is a continuous activity and a dynamic process. It pervades all organizational activity. Manager has to take decisions on various policy and administrative matters. It is a never ending activity in business management.

**iv. Mental activity:**

Decision making is an intellectual and mental activity and requires knowledge, skill, experience and maturity on the part of decision maker.

**v. Based on reliable information:**

Good decisions are always based on reliable information. The quality of decision making at all levels of the organization can be improved with the help of efficient management information system.

**vi. Goal oriented process:**

It aims at providing a solution to a given problem before a business enterprise. It provides solutions to problems faced by a business unit.

**vii. Means and not the end:**

Decision making is a means for solving a problem and not the end in itself.

**viii. Time consuming activity:**

Decision making is a time consuming activity as various aspects need careful consideration before taking final decision.

**ix. Needs effective communication:**

Decision making needs to be communicated to all concerned parties for suitable follow up action.

**x. Responsible job:**

Decision making is responsible job as wrong decision proves to be too costly to the organization. It is not a casual activity. It is a delicate and responsible job.

**Advantages of Decision Making:**

**i. Primary function:**

Decision making is the primary function of management. It starts from top level of management. Without decision, action will not be possible and resources will not be put to use.

**ii. Facilitates entire management:**

Decision making creates proper ground for the first management activity called

planning. Planning gives concrete shape to broad decisions about business objectives. Decision making is necessary while performing other management actions like organizing, staffing, coordinating and communicating.

**iii. Continuous process:**

Continuous decision making is a must in case of all managers. Follow up actions are not possible unless decisions are taken.

**iv. Decision making is essential:**

Decisions are required to be taken regularly as new problems, difficulties and challenges develop before a business enterprise. It may be due to changes in the external environment. Such changes lead to new problems and new decisions are needed.

**v. Delicate and responsible job:**

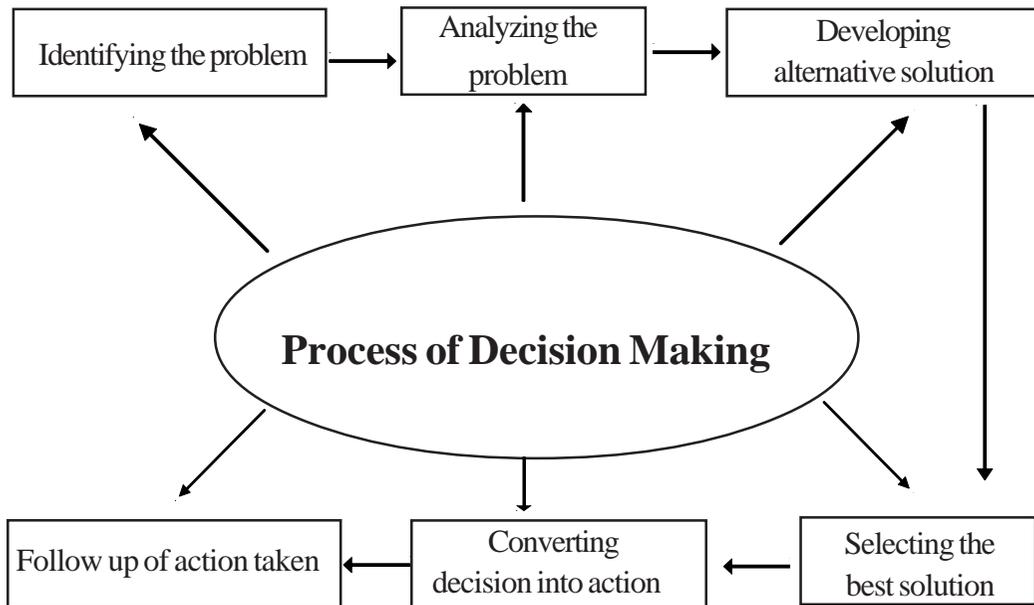
Managers have to take quick and correct decisions while discharging their duties. Management activities are possible only when suitable decisions are taken. Correct decision provides opportunities of growth, while wrong decision leads to loss and instability to a business unit.

**Steps involved in decision making process:**

Decision making involves a number of steps which need to be taken in a logical manner. This is treated as a rational decision making process. It is lengthy and time consuming. It prescribes some rules and guidelines as to how a decision should be taken. It involves following six steps:

- i. Defining the problem.
- ii. Analysing the problem.
- iii. Developing alternative solution.
- iv. Selecting the best solution out of the available alternatives.
- v. Converting the decision into action.
- vi. Ensuring feedback for follow up.

## Decision Making Process:



### I. Identifying the problem:

Identification of the real problem before a business enterprise is the first step in the process of decision making. It is rightly said that a problem well defined is a problem half solved. Information relevant to the problem should be gathered so that critical analysis of the problem is possible. This is how the problem can be diagnosed. Clear distinction should be made between the problem and symptoms which may cloud the issue. The manager should search the critical factor at work. It is the point at which the choice applies. Similarly while diagnosing the real problem the manager should consider causes and find out whether they are controllable or not.

### II. Analyzing the problem:

After defining the problem, the next step in the decision making process is to analyse the problem in depth. This is necessary to clarify the problem in order to know who must take the decision. The following four factors should be kept in mind:

- a. Futurity of the decision
- b. The scope of its impact

- c. Number of qualitative considerations involved
- d. Uniqueness of the decision

### **III. Collecting relevant data:**

After defining the problem and analyzing its nature, the next step is to obtain the relevant information/data about it. There is information flood in the business world due to new developments in the field of information technology. All available information should be utilized fully for analysis of the problem. This brings clarity to all aspects of the problem.

#### **iv. Developing alternative solutions:**

After the problem has been defined, diagnosed on the basis of relevant information, the manager has to determine available alternative courses of action that could be used to solve the problem at hand. Only realistic alternatives should be considered. It is equally important to take into account time and cost constraints and psychological barriers that will restrict the number of alternatives. If necessary, group participation techniques may be used while developing alternative solutions as depending solely on solution is undesirable.

#### **v. Selecting the best solution:**

After preparing alternative solutions, next step in the decision making process is to select an alternative that seems to be most rational for solving the problem. The alternative thus selected must be communicated to those who are likely to be affected by it. Acceptance of the decision by group members is always desirable and useful for its effective implementation.

#### **vi. Converting decision into action:**

After the selection of the best decision, the next step is to convert the selected decision into an effective action. Without such action, the decision will remain merely a declaration of good intention. The manager has to convert his decision into action through his skill, so that his subordinates should be taken into confidence and they should be convinced about the correctness of the decision. Thereafter the manager has to take follow up steps for the execution of decision taken.

#### **vii. Ensuring Feedback:**

Feedback is the last step in the decision making process. The manager has to make built in arrangement to ensure feedback for continuously testing actual

developments against the expectations. It is like checking the effectiveness of follow up measures. Feedback is possible in the form of organized information, reports and personal observation. Feedback is necessary to decide whether the decisions already taken should be continued or be modified in the light of changed conditions.

Every step in the decision making process is important and needs proper consideration by managers. This facilitates accurate decision making. Even qualitative techniques such as Critical Path Method and Operation Resolve are useful for accurate decision making. Management activities are just not possible without decision making as it is an integral aspect of management process itself.



## **Materials Management**

Material management is an approach for planning, organizing and controlling all those activities principally concerned with the flow of materials into an organization. The scope of materials management varies greatly from company to company and may include material planning and control, production, planning, purchasing, inventory, control, in plant materials movement and waste management.

It is a business function for planning, purchasing, moving, storing material in a optimum way which help organization to minimize the various costs like inventory, purchasing, material handling and distribution costs.

The fundamental objectives of the materials management function, often called the famous 5 R's of materials management are acquisition of materials and services.

- Of the Right Quality
- In the Right Quantity
- At the Right Time
- From the Right Source
- At the Right Price

### **Objectives of Materials Management:**

- To buy at the lowest price.
- To maintain continuity of supply.
- To maintain reliable alternate sources of supply.
- To minimize the overall cost of acquisition by improving the efficiency of operation.
- To develop and maintain good supplier relationship.
- To achieve a high degree of cooperation and coordination among various departments.

Material management can be defined as “that function of business which is responsible for the coordination of planning, sourcing, purchasing, moving, storing and controlling materials in an optimum manner so as to provide service to the customer at a minimum cost”.

## **Functions of Material Management:**

**i. Purchasing:** Primarily, the job of materials manager is to provide to the user departments right material, at the right time, in right quantity, of right quality, at right price and from right source. To meet these objectives the activities undertaken include selection of source of supply, finalization of terms of purchase, placement of purchase orders, follow up, maintenance of relations with vendors, approval of payments to vendors, evaluating vendors etc.

### **ii. Planning Materials:**

Planning for getting the materials is the starting point for the whole material management function. Materials planning set the procurement function and the subsequent material functions rolling.

Material planning is a scientific way of determining the requirements starting with raw materials, consumables, spare parts and all other materials that are required to meet the given production plan for a certain period. Material planning is derived from the overall organizational planning and hence it is always a sub plan of the broad organizational plan. What it does is forecasting and initiating for procurement of materials.

## **Factors affecting material planning:**

### **i. Macro factors:**

Global factors such as price trends, business cycles, govt's import and export policies etc. are called the macro factors. Credit policy of the government is a critical factor as banks follow these guidelines only while extending financial support to a business entity.

### **ii. Micro factors:**

These are essentially the factors existing within the organization such as corporate policy on inventory holding, production plan, investment etc. For any organization factors such as lead time of procurement, acceptable inventory loads, working capital, seasonality, delegation of power etc.

Material requirement planning has as its starting point, the annual production plan of the manufacturing concern. Once a firm determines its annual production plan, the overall material requirement to meet the given production plan is worked out. It is a detailed analysis encompassing the materials and quantities available for use and material quantities which are not available and hence needing procurement, the actual lead time of procurement etc.

### **Issue and accounting of stores and materials or Store Keeping:**

In other words, issue and accounting of stores and materials is called stores function. Other name of store function is store keeping. Store keeping is an important function. It is the function of receiving materials, storing them and issuing them to workshops or departments. The stores department is headed by a store's manager.

### **Objectives of store keeping:**

- i. To protect stores against losses.
- ii. To keep materials ready for issue.
- iii. To avoid overstocking and under stocking
- iv. To facilitate inventory

### **Functions of Storekeeper:**

#### **i. Receipt of materials:**

Materials are received and verified properly and then these are transferred to stores.

#### **ii. Maintenance of materials:**

The storekeeper classifies the materials and stores them in appropriate places. They are maintained in an orderly manner in stores.

### **Flow and control of materials**

Material flow involves production, planning, purchasing, just in time (JIT) and inventory management. Optimization of material flow can have following benefits:

- Improve product quality.
- Reduce purchasing cost.
- Reduce transportation cost.
- Reduce manufacturing cost.
- Increase production.
- Improve consumer satisfaction.
- Reduce product cost.
- Increase cash flow.

### **Quality control and control of operations:**

Quality control means that finished product should be according to specifications. The quality standards fixed must be adhered to. The product should be flawless and safe. The supervisor should maintain the quality control.

**Objectives of Quality Control:**

- To build confidence of consumer
- To check wastages
- To optimize the working capacity

**Advantages of Quality Control:**

- More profit: quality control brings costs down and increases profits.
- Goodwill: Good quality products create goodwill in the market.
- Confidence: Good quality products raise the level of confidence of the employees and management.

**Control of Operations:**

It means that manufacturing process should be within the control limits. The operation should aim at cost effective production.

**Objective:**

- Control of operation should aim at cost effectiveness.
- Control of operation should check wastage of energy and time.

**Advantages:**

- It brings down costs.
- Wastage of time and energy can be checked.
- Optimum working capacity can be achieved.



## Financial Management

### Accounting:-

Generally speaking accounting is the analysis and interpretation of bookkeeping records. It includes maintenance of accounting records and preparation of financial statements.

### Process and Functions of following steps:

- (1) **Identification:** Accounting identifies transactions and events of specific. A transaction is an exchange of goods and sources with cash.
- (2) **Measurement:** Accounting measures the transactions and events in terms of a common measurement unit i.e. currency of the country.
- (3) **Recording:** It is the basic function of accounting. It ensures that all business transactions of financial character are properly recorded.
- (4) **Classification:** It includes the systematic analysis of recorded data so that entries of same nature take at one place.
- (5) **Summarisation:** It makes the data understandable in the form of trial balance, income statement and balance sheet.
- (6) **Analysis:** It helps to identify the financial strengths and weaknesses of the enterprises.
- (7) **Interpretation:** It is concerned with explaining the meaning and significance of the relationship so established by the analysis.
- (8) **Communication:** Accounting information should be properly communicated in proper form and manner.

### Advantages of Accounting:-

Accounting is helpful in many ways:

1. It is helpful in tax assessment.
2. It prevents frauds.
3. It is helpful in planning.
4. It can be used as evidence in court.
5. It is helpful in ascertainment of profit and loss.

### **Book Keeping:-**

Book keeping is a branch of knowledge which explains how to keep a record of financial transactions. Generally speaking book keeping is the art of recording business transactions in a systematic way.

### **Book keeping process:-**

The process of book keeping involves the following steps:

- (i) **Identification of transactions.** All transactions are identified.
- (ii) **Recording:** After identification financial transactions are recorded in the books,
- (iii) **Posting in the ledger.** All transactions recorded in the books of original entry are posted in ledger.
- (iv) **Ledger account balancing.** Accounts maintained in ledger are balanced after periodic intervals,
- (v) **Preparation of Trial Balance.** The balance of all ledger accounts is placed on a separate list with debit and credit columns. This list of balances is known as Trial Balance. It is prepared to check accuracy of the books.

### **Advantages of book keeping:-**

1. It is helpful in preparation of financial statement.
2. It is helpful in prevention of frauds.
3. It can be used as evidence.
4. It can be used as control technique.

### **Accounting Terminology:-**

- (a) **Owner:-** The person who takes the initiative to start the business is called owner.
- (b) **Capital:-** It is the amount invested by the owner into the business. It may be in cash or in kind.
- (c) **Debtor:-** The person from whom amounts are due for goods or services rendered is called debtor. Collectively called 'Sundry Debtors'.
- (d) **Creditor:-** The person to whom amount is owed by the enterprise on account of goods purchased or services rendered is called creditor, collectively called creditors.
- (e) **Receivables:-** It means the amount which outsiders owes the business on revenue accounts when goods are sold as credit to customers,

they may accept bills drawn by the seller (creditor). This bill of exchange for creditors is known as Bills Receivables.

- (f) **Payables:-** It means the amount which business owes to outsiders on revenue accounts when goods are purchased on credit from supplier. The customer may accept bills drawn by seller. This bills of exchange for a customer is known as 'Bills Payable'.
- (g) **Debit and Credit:-** The left hand side of any account is called debit side and is written as 'Dr' and right hand side is called credit and written as 'Cr'.
- (h) **Purchases:-** The purchase of raw materials for production or purchase of finished goods for sale is called Purchases,
- (i) **Sales:-** Term sale is used for finished goods. It may be cash sale or credit sale,
- (j) **Stock:-** The goods left unsold at the end of the accounting period is called closing stock. It may be of raw material or finished goods,
- (k) **Assets:-** An asset is any owned physical object or right having money value e.g cash, debtors, investments, stocks, goodwill and building etc.
- (l) **Liability:-** It refers to an amount owing by one person (debtor) to another (creditor) payable in money, goods or services,
- (m) **Loss:-** Excess of expenses over revenue is called loss.  
 $Loss = Expense - Revenue,$
- (n) **Profit:** Excess of revenue over expenses is called Profit.  
 $Profit = Revenue - Expenses.$
- (o) **Account-**Account is a date wise summary of transaction relating to persons, property or expenses and incomes. It has two sides. Left hand side of the account is called debit side and right hand side of the account is called credit side.

### **Types of Accounts:-**

Accounts are of following types:-

1. **Personal Accounts:-** The account of the persons with whom various transactions are entered into such as credit sale, credit purchase, sales return, cash or cheque received etc.
2. **Impersonal Accounts:-** The accounts which do not relate to the persons are called impersonal accounts.

3. **Real Accounts:-** The accounts related to property of business are called real accounts such as land, building, plants furniture, goodwill etc.
4. **Nominal Accounts:-** The accounts of expenses, losses, gains are known as nominal accounts such as rent account, interest received account etc.

### **Double Entry System:-**

Double entry system is the system under which each transaction is regarded to have two fold aspects and both the aspects are recorded to obtain complete record of dealings. Double entry system of book keeping adheres to the rule that for each transaction the debit amount must be equal to credit amount. This is why this system is called double entry system.

$$\text{Capital} + \text{Liabilities} = \text{Assets}$$

$$\text{Assets} - \text{Liabilities} = \text{Capital}$$

### **Features of Double Entry System:-**

1. It includes two parties. One party receiver and other party giver.
2. Each account has two sides. Left (debit) and right (credit).
3. For each transaction debit amount is equal to the credit amount.

### **Advantages of Double Entry System:-**

- (i) It enables to keep a complete record of business transactions,
- (ii) It explains financial position,
- (iii) It reduces errors,
- (iv) It prevents frauds.

### **Disadvantages of Double Entry System:-**

- (i) It is lengthy process,
- (ii) It is expensive.

### **Books of Original Record:-**

Books of original record include those books in which the entries are made at first hand. These are journal, ledger, cash book and other subsidiary books.

**Journal:-** Journal means a daily record. It is called a book of original entry because every business transaction is first recorded in this book. It is called day book. The entries are recorded datewise.

### Specimen of Journal:-

Date	Particular	Ledger Folio	Debit (Amount)	Credit (Amount)
2013, Jan 2	Machinery Account Dr		5000	
	To Cash Account			5000
Purchase of Machinery for cash				

### Journal has 5 (Five) columns:-

- i. **Date:** In this column, year is written, then month and date of transaction.
- ii. **Particulars:** The name of the account to be debited is written on first line with word Dr. the name of the account to be debited is written in the next line with prefix 'To'.
- iii. **Narration:-** It is a brief explanation of the transaction. It enables every one going through the journal entry to have an idea about the transaction. Word 'Being' is prefixed before the narration.
- iv. **Ledger Folio (L.F.):**- On the ledger folio, column ledger page number is written where a particular account is posted.
- v. **Debit and Credit amount:-** Every transaction has got debit aspect and its corresponding credit aspect of the same amount. The debit and credit amounts are recorded in these columns against the accounts debited and credited respectively.

### Rules of Double Entry System:-

- I. Personal Account - Debit the receiver  
Credit the giver.
- II. Real Account - Debit what comes in  
Credit what goes out.
- III. Nominal Account - Debit all expenses and losses  
Credit all incomes and gains.

### Specimen Transaction:-

- (i) Sham started the business with Rs. 1,00,000/-.
- |                          |     |          |          |
|--------------------------|-----|----------|----------|
| Cash account             | Dr. | 1,00,000 |          |
| To Shams Captial Account |     |          | 1,00,000 |



### Journal

Dr.		Cr.		
Date	Particulars	L.F.	Debit Amount	Credit(Amount)
2013	Machinery		10,000	
Jan 1	Account			

Dr.		Cr.	
	To Cash Account		10,000
	(Being Machinery Purchased for cash)		

### Ledger (Machinery Account)

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2013	To Cash		10,000				
Jan 1	Account						

### Cash Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2013					By Machinery		10,000
Jan 1					Account		

**Explanation :** -In the above example, machinery account is debited in journal with the help of cash account. In ledger, machinery account is also given debit with same amount and reference of cash account is made in particular column. Cash account is credited in journal with the help of machinery account. In ledger, each account is also credited with the same amount and reference to machinery account is made in particular column. Other books of original record are:-

- (i) **Cash Book:-** It records receipts and payments of cash including transactions relating to bank,

- (ii) **Purchase Book:-** It records credit purchases of goods meant for sale.
- (iii) **Returns Outward Book:-** It records return of the goods to the supplier due to any of the reasons,
- (iv) **Sales Book:-** It records credit sales of the goods dealt in by the business,
- (v) **Returns Inward Book:-** It records the return of goods by the customers to the business.
- (vi) **Bills Receivable Book:-** It records the receipts of bills of exchange promising notes and hundies.

**Final Accounts:-**

The Trading Account and Profit and Loss Account do not help in ascertaining the real position of assets, liabilities and capital. The Trading Account discloses either gross profit or gross loss while profit and loss account discloses net profit or net loss. To know what is the financial position of business in terms of what is owned by it and what it owes to the proprietor and to the outsiders, a balance sheet is prepared. A balance sheet is prepared at a particular point of time. It means the balance sheet discloses the assets owned by the business and the total claim of outsiders and owners against these assets at a particular point of time.

**Specimen of Balance Sheet**

Balance Sheet of M/s Arc Furnaces as on 31st March, 2013.

Liabilities	Amount	Assets	Amount
Capital		Fixed Assets	
Add Net Profit		Good will	
Add Interest in Capital		Land and buildings	
Less dearings		Plant and Machinery	
Fixed Liabilities		Loose tools and stores	
Loans (Long Term)		Furnitures, fixtures and fittings	
Reserve		Vehicles	
General Reserves		Patents, designs etc	
Current Liabilities		Live stock	
Sundry Creditors		Investments	

Liabilities	Amount	Assets	Amount
Bills Payable		Current Assets	
Bank Over draft		Closing Stock	
Outstanding expenses		Raw Material	
Income received in advance		Work in Progress	
		Finished Goods	
		Stock of goods as consignment	
		Sundry debtors	
		Bills receivables	
		Pre paid expenses	
		Incomes due but not received	
		Cash at bank	
		Cash in Hand	
		Losses & Expenses not written off	

**Understanding Financial Statements:-** The basic objective of preparing financial statements is to find out the profit or loss during a particular period. To be able to understand financial statements we have to understand the following adjustments:-

- (a) **Outstanding expenses:-** All such expenses which are due for payment in one accounting year but actually paid in future accounting year are called outstanding expenses e.g. salaries of October month are not paid in October and in November it becomes outstanding salary.
- (b) **Prepaid expenses:-** The benefit of some of the expenses already spent will be available in the next accounting year also such a portion of the expense is called pre paid expenses. General Insurance, Rent, Telephone bill are paid in advance. These are called pre paid expenses.
- (c) **Accrued Income:-** There may be certain incomes which have been earned during the year but not yet received till the end of the year. These are called accrued income such as rent, commission and interest on investment.

- (d) **Income received in advance:-** Businessman receive certain amounts during a particular trading period which are to be earned by them in future periods e.g. rent received in advance.
- (e) **Closing stock:-** It represents the unsold stock at the end of the year. Closing stock is valued at the end of the year.
- (f) **Depreciation:-** The value of fixed assets diminishes gradually with their use for business purposes.

**Cost Concept:-** Costs are the sum of all the payments to the factors of production engaged in the production of that commodity. Costs are of 3 types:-

- a. Total Cost,
- b. Average Cost,
- c. Marginal Cost.

**a. Total Cost:-**It is the sum of all expenditure incurred in producing a given volume of output. It comprises of two types of costs.

- (i) Total Fixed Cost.
- (ii) Total Variable Cost.

$$\text{Total Cost} = \text{Total Fixed Cost} + \text{Total Variable Cost}$$

- (i) Total Fixed Costs are those costs which do not change with change in the quantity. These are also called supplementary costs or Indirect costs. It includes rent, salary of staff, depreciation, interest on fixed capital, license fee etc.

**b. Average Cost:-** Per unit cost of a good is called its average cost.

$$\text{Average Cost} = \frac{\text{Total Cost}}{\text{Quantity}}$$

**c. Marginal Cost:-** It can be defined as the addition made to the total cost by production of one more unit of a commodity.

$$\text{Marginal Cost} = \frac{\text{Change in total cost}}{\text{Change in quantity}}$$

**Price:-**

Price is the exchange value of a product or service expressed in terms of money. Hence price represents the value attached to the goods or services offered by the

firm. Price is defined as the money consideration offered in change of a specified unit of a goods or service price is the crucial element of marketing because the customer is very sensitive to it. A slight change in price may shift a customer to competitor's product. So pricing decision should be taken with caution. Price may be called by difference names e.g. price for using public transport system is called fare and price for a job is salary etc.

### **Objectives of Pricing:-**

1. To maximize profit.
2. To protect survival of the firm.
3. To attain and maintain larger share of the firm.
4. To maintain stability of pricing strategies.

### **Pricing Strategies:-**

- (i) **Skimming price:-**Skimming pricing means very high price. It is set to draw out maximum profit. It happens in case of new product being launched. For example mobile phones were quite costly during initial year of their launch.
- (ii) **Penetrating Pricing:-** It means low pricing to capture market share e.g. LG introduced air conditioners at low price to capture the market.
- (iii) **Differentiated Pricing:-** In this, a firm charges different prices for different units of a commodity though these units are identical e.g. single unit is sold at high price but in bulk, sale price per unit is less.

### **Budgeting and Control:-**

A budget is the monetary expansion of the business plan and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, coordination and control of business enterprise.

### **Types of budgets:-**

- (a) **Sales Budget:-** A sales budget is an estimate of expected sales during a budget period. It is known as backbone of the enterprise. A sales budget is the starting point on which other budgets are also based.
- (b) **Selling and distribution cost budget:-** It forecasts the cost of selling and distributing the products. The budget depends on sales budget. These expenses will vary with the expected sales figure during the period.
- (c) **Production Budget:-** This budget is prepared in relating to the sales

budget whatever is to be sold should be produced in time so that it could be delivered to the customer.

- (d) **Cost of Production Budget:-** The production budget determine the number of unit to be produced. When these units are converted in monetary terms it becomes a cost of production budget. The cost of production budget is the total amount to be spent on producing the units specified in the production budget.
- (e) **Materials Budget:-** It is concerned with determining the quantity of raw materials required for production. The programme for purchasing raw material is adjusted according to the production budget.

### **Control:-**

Control is one of the managerial functions. Control is the process of checking whether the plans are being implemented or not. Planning is the first function of management while controlling is the last function of management.

### **Features of control:-**

1. It is a managerial function.
2. Control is forward looking.
3. It is a continuous activity.
4. It is related to planning.

### **Steps in controlling process:-**

- (i) Setting of control standard.
- (ii) Measurement of actual performance.
- (iii) Comparing actual and standard performance.
- (iv) Taking corrective action.



## Marketing Management

### Marketing Concept:-

Marketing may be defined as an exchange transaction that takes place between the buyer and seller. Traditionally speaking, marketing consists of those efforts which effect transfer in ownership of goods and care for their physical distribution.

Marketing is concerned with all the resources and activities involved in the flow of goods and services from the producer to consumer.

### Objectives of Marketing:-

1. **Creating Demands:-** The firm should first determine the needs and wants of customers. The product should be designed according to such needs.
2. **Capturing Market Share:-** The very next objective of marketing management is to capture a reasonable share of the market. It will be possible through advertisements and sales promotion.
3. **Building Goodwill:-** Marketing Management can help in building and promoting goodwill of the firm . It can be possible through prompt supply of quality goods, reasonable price and efficient after sale service.
4. **Attainment of Consumer Satisfaction:-** Consumer satisfaction should be the main objective of market management. The consume should be provided right product at right price and above all at right time.

### Four P's:-

Four P's collectively are called Marketing Mix. Marketing mix

It is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system.

Four P's stands for product, price, promotion and physical distribution.

- A. **Product:-** A product is the stepping stone of marketing activities and product offers certain utilities for the customer. It can be classified as under:-
  - (i) **Consumer Goods/Products:-** The goods which are available to the

consumer for ultimate use are called consumer goods e.g. soap, toothpaste, bread and biscuits etc. These products can be further classified as under:-

- a. Durable Products:-** The products which are used for a longer period of time are called durable goods etc. T.V., Machine machine, fridge etc.
- b. Non - Durable Products:-** The products which are consumed over a short period of time are called non durable products e.g. vegetables, fruits, milk etc.
- c. Services:-** These are the products which offer some kind of service to the consumer e.g. electricity, transport etc.

(ii) Industrial Products:- These are intermediate products and not ultimate products. These are further used is prepare ultimate products e.g. machinery, tools and wheat flour to make bread.

### **Branding:-**

A brand means a sign or symbol of quality. It is a name associated with the product. It is link between the consumer and producer. Branding is the practice of giving a specific name to a product. E.g. Ariel, wheel and woodland are some names used for products of various producers. Trade mark is a legal term while brand has been duly registered under trade name. Brand enjoys legal protection. Popular brands are Nokia in Phone, Nike in wears, Addidas in stores and Close up in toothpaste.

### **B. Price :-**

Price is the exchange value of a product or service expressed in terms of money. Hence price represents the value attached to the goods or services offered by the firm. Price is defined as the money consideration offered in change of a specified unit of the goods or service price is the crucial element of marketing because the customer is very sensitive to it. A slight change in price may shift a customer to competitor's product. So pricing decision should be taken with caution. Price may be called by difference names e.g. price for using public transport system is called fare and price for a job is salary etc.

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(iii) **Discriminatory Pricing :-** In this, a firm charges different prices for different units of a commodity though these units are identical e.g. single unit is sold at high price but in bulk, sale price per unit is less.

**C. Promotion -** Promotion is an important element of marketing mix. It is the process of communication with the potential buyers. The potential buyers are provided with information about the product. Promotion includes personal as well as impersonal communication with potential buyers.

**Tools of Promotion:-** The following are the tools of promotion:-a. Advertising:-

- a. Advertising is the art of influencing human action to buy one's product. It is a technique of popularizing one's product. It is also called as salesmanship in print.

**Types of Advertising Media:-** Advertising media means the medium or channel through which the advertising information is communicated by the advertiser to the prospective customers.

- i. **Press Media:-** Press media of advertising refers to the publication of advertisements in newspaper, magazines and journals. This is the most important media used by the advertisers e.g. The Tribune, The Aajit, The Hindustan Times etc,
- ii. **Outdoor Media:-** Outdoor media refers to the display of advertisements in open places wherefrom people generally go through e.g. Bus stands, Railway Stations, Airports, Roads and busy streets. It includes posters, painted displays, electrical arrangements, sky writing etc.
- iii. **Poster Advertising:-** It is a method of transmitting information direct to potential customer through the medium of post. It is also delivered by salesman. It includes cards, sales letter, circular, catalogues etc.

- iv. **Other Media:-** Other media includes firms, radio, television, window displays, showrooms and fairs.

**b. Sales Promotion:-** It includes short term use of incentives that raise interest of the consumer. It is technique of changing prospective buyer into potential buyer.

Methods of sales promotion:-

- i. **Rebates:-**It means the selling price of the product is lowered than the original price to clear stock. It is allowed to a customer for a limited period.
- ii. **Discounts:-**It is a reduction of certain percentage of price from the list price. It is allowed to customer for a limited period,
- iii. **Free Samples:-** Sales person may distribute free samples of products to customers to get favour in increasing sales,
- iv. **Free Gifts:-** A free gift is provided as the purchase of a particular product

**c. Personal Selling:-** It is a method of attracting and convincing the customer to go for a particular period. Personal selling is the process of assisting and persuading people to buy a product or service through direct personal contact. It involves face to face communication between a seller and a buyer.

#### **D. Physical Distribution:-**

Physical distribution is the process of delivering the product to the consumer at the right time and at proper place. It is the important function of marketing. Physical distribution involves management of physical flow of raw materials and finished products from the part of production is the point of consumption. In brief it involves all activities in the flow of goods from producer is consumer.

Objectives are as under-

- a. It provides better customer service.
- b. Effective distribution system helps to enhance sales.
- c. A well organized distribution system helps in bringing down costs and thus increases profit.

#### **Components of Physical Distribution:-**

- i) **Transportation-**Transport system is the backbone of distribution system. The efficient and cost effective transport system like railways, roadways, air and sea facilitates the physical distribution.
- ii) **Stock:** To meet the consumer needs, firm should have sufficient stock. To keep the operation going on, the firm should maintain the sufficient stock.

- iii) Warehousing:- A warehouse is a place where the goods are stored. There is a time gap between the production of goods and their sales. During this dormant period, the goods are kept in stores e.g. woollen clothes are stored in summer and are sold in winter.
- iv) Order Processing: It means time and steps involved between taking orders from the customers and delivering the goods. The earlier order processing develops consumer satisfaction and builds confidence of enterprise.

These four P's i.e Product, Price, Promotion and Physical Distribution are main areas of marketing mix.

### **Packaging:-**

Packing means wrapping the goods for the purpose of their protection and convenient handling. Packet goods are only easy to handle but their durability also increases. Package simply means case of packing goods. It may be a container, wrapper or box. Packaging means placing of goods in small packages like boxes, bottles, tins and jars. Its sale aim is convenient sale to end user. Simply speaking packaging covers all those activities that involve designing and producing the container of a product.

### **Types of packaging:-**

- (i) **Primary Package:-** It is the packing of the product at the production level e.g. a tube used to pack toothpaste and a box is used to pack tea leaves. Primary package becomes a part of the product. It is inseparable from the product.
- (ii) **Secondary Package:-** Secondary package is used to protect the product. A toothpaste tube is packed in a card board box. Secondary package can be thrown when the product is used..
- (iii) **Transportation Package:-** It is the third stage package. It is used for storing and transportation of products e.g. a fridge or a T.V. is packed in card board box in order to protect them in transportation. This package is thrown when the product is in use.

### **Commonly used packages are as under:-**

- a. Cardboard containers
- b. Paper bags
- c. Glass containers
- d. China jars
- e. Plastic containers

- f. Tin containers
- g. Wooden boxes
- h. Straw baskets

### Functions of Packaging

Following are the functions of packaging:-

1. It provides identity and percentage to the product.
2. It facilitates branding and advertising.
3. It protects goods during transportation, storage and during use.
4. It creates demand and increases sale.
5. It ensures the supply of goods of right quality.
6. It facilitates convenient material handling.
7. It provides attractive display of goods.

### Channels of distribution

Channels of distribution indicates the routes through when goods and services flow from producers to consumers. The movement of goods is facilitated by a number of middleman that comes between a producer and a consumer. These middleman form channels of distribution.

Generally there are four types of channels

1. Producer → Consumer
2. Producer → Retailer → Consumer
3. Producer → Whole Saler → Retailer → Consumer
4. Producer → Agent → Whole Saler → Retailer → Consumer

### Roles of Channels of Distribution

Channels of distribution play important role in achieving marketing objectives. These helps in following ways:-

- a. **These increases the efficiency of system.** It is quite difficult for the producer to satisfy all the consumers at a time. These channels help the producers.
- b. **Smooth flow of goods and services.** These channels facilitate the flow of goods and services.
- c. **Low stock of goods:** Producer has to keep large stocks in the absence of middleman. With the presence of these middlemen burden on the producer is diffused.

- d. **Nearness to customers:** The producers cannot make personal contacts with large number of consumers but the middleman especially retailers are directly in touch with the consumers. The middleman is the channel of distribution is sole selling agent.
- e. **Sole Selling Agent:** Sole selling agent is a key person appointed by the company for handling the business of the company for a particular area.

Simply speaking sole selling agent means a person appointed by the company and authorised for marketing and selling the product. He gives salary or commission for the taks taken.

#### **Functions of Sole Selling Agent:-**

1. He acts as a link between producer and consumer.
2. He is in direct touch with consumer and provides market information to producer.
3. He creates demand and provides satisfaction to consumer.
4. He shares burden of the producer.
5. He will sell exclusively the products of the company and other brands.
6. Sole selling agents are appointed territory wise.

#### **Wholesaler**

A wholesaler is a person who purchased goods in bulk quantity from producer and sells them in small quantities but it acts as a link between them. Wholesaler is a vital link in the channel of distribution.

#### **Functions of a wholesaler**

Following are the functions of Wholesaler-

1. A wholesaler purchases goods from various producers and assembles these products in his warehouse.
2. A wholesaler purchases goods in bulk quantities and stores them in his warehouse.
3. Wholesale provides credit facility to retailers.
4. Wholesaler bears al the trade risks arising out of a sudden fall in prices of goods or by way of damage.
5. Wholesaler provides valuable market information to retailers and producers.

## **Retailer**

The word Retailer has been derived from the French word Re-tailor which means 'to cut again'. Thus retailing means to cut off small portions from large lumps of goods. A retailer is the last middleman in the chain of distribution. He is a link between the wholesaler and the consumer. Retailer is a person who sells directly to the ultimate consumer for personal and non business use. Retailer is end sale or terminal sale.

### **Functions of a Retailer**

Following are the functions of retailer:-

1. **Buying & Assembling :-** A retailer assembles a variety of goods as per tasks and demands of the consumers. He buys a line of various goods and displays these goods. He performs the twin function of buying and assembling of goods.
2. **Storage:-** He keeps stock of goods in his warehouse for further use.
3. **Selling:-** Retailer performs end sale. He sells goods to end users. There is no further sale. It is also called terminal sale.
4. **Risk bearing:-** The retailer bears the risk of physical damage of goods and price fluctuations. Generally he bears trade risks.
5. **Packing:-** A retailer packs his goods in small packets. He also grades his goods.
6. **Credit:-** Retailer sells goods as credit for the facility of his customers.
7. **Free Home Delivery:-**He provides free home delivery facility to his customers.
8. **Advertising:-** Retailer displays goods and also advertises.

### **Stockists:-**

Simply speaking, stockist is a dealer who undertakes to maintain stocks of a specified product on favorable buying terms granted by the producer. The stockist are appointed by the company area wise. They are appointed as commission basis. They are responsible to serve the distributor and retailers. Each stockist may serve around 500-100 retailers in the area. All the stockists are not the same in their storage. Every stockist may has his own set of categories which he can store the best. For example a stockist can store sugar, rice and tea leaves. Some may be specialist in handling premium products and some in frozen foods. The company selects the stockist on the basis of their specialty e.g. HUL categorizes them U1 and U2 where U1 is for general products and U2 stockist handle only premium products.

### **Distributor:-**

Distributor is the keystone in distribution channel. Keystone is the one which locks other stones into their position. Similarly distributor is link between producer and retailer. Broadly speaking, distributor is a person who purchases from the producer in bulk quantity and redistributes it's in small quantities to retailers. Distributor has a set of products in defined territory. In the given territory, he will be responsible for the redistribution of the products.

### **Functions of Distributor:-**

1. Distributor has to purchase products in bulk from manufacturer and distribute them to retailers.
2. He takes orders from retailers and ensures timely delivery of products.
3. He maintains sufficient stock of products.
4. He provides financing facility to retailers.
5. He helps in minimizing consumer complaints.

### **Cost Purchase Procedure:-**

Cost Purchase procedure involves a series of stages to make a purchase of products. The following are the stages:-

- a. **Allocation of Budget:-** In this stage, the sufficient amount is sanctioned by Finance Department to make the purchase.
- b. **Placing of Indent:-** Indents are placed by concerned department as per requirement and non availability of these goods in the stock.
- c. **Consideration of Indents:-** These indents are considered by purchase committee.
- d. **Calling of Tender-**Tenders are called for the purchase of products. Tender notice is given in two leading dailies. In notice, specifications should be maintained alongwith the earnest money.
- e. **Opening of Tender:-** Tenders are opened as the specified date mentioned in the form in the presence of bidder and purchase committee. Comparative statement is prepared. Company quoting the lowest price as per specification should be given the order.
- f. **Placement of Order:-** When purchase proposal is approved by the Committee, the competent authority grants sanction of expenditure. The purchase officer shall prepare the purchase order and will send to vendor.

### **Small Scale Suppliers:-**

Small Scale Suppliers are self help individual groups. These persons are trained by big companies like HUL (Hindustan Unilever Ltd). They are financed and cycles are also given to these persons for door to door selling. It is called 'distribution trade'. These are also called micro entrepreneur in door to door selling. They cover small towns and villages which are inaccessible. Company provides job opportunity to these people. Generally Company ties up with local NGO and Government to ensure the success of this system e.g. shakts, HUL's door to door selling operation in India provides work for large number of people in poor rural communities. As part of HUL's sustainable living plan (SLP) they have set targets to increase the number of small scale distributors with whom they wish.

### **Salesmanship:-**

Personal selling is the oldest and most common form of sale promotion. It involves direct selling by the manufacture to the prospective buyer. It is a face to face communication with the potential customer for the purpose of persuading the buyer to buy a particular product. It is important method of understanding the needs, nature and behavior of the prospective customers and giving them full information about the product.

### **Objectives of Salesmanship:-**

- (i) To introduce new product with personal touch.
- (ii) To create demand for the product.
- (iii) To clear the doubts of customers personally.
- (iv) To create effective selling atleast cost.
- (v) To provide valuable feedback to the manager.

### **Characterstics of Goods Salesman:-**

The success of personal selling depends upon the skills of salesman. An effective salesman should be completely aware of the product and should be able to convince the prospective buyer. The following are the features of good salesman.

- (i) **Pleasing Personality.**-The personality of the salesman should be attractive and charming.
- (ii) **Wellmannered and Soft Spoken:-** The salesman should be well mannered and soft spoken. He should not be rash in any case.
- (iii) **Self Knowledge:-** Salesman should have self knowledge. He should know his strengths and weaknesses.

- (iv) **Knowledge of Firm:-** Salesman should know completely about the firm. He should have through knowledge of the objectives, policies and organization chart of the firm.
- (v) **Knowledge of the Product:-** He should have complete knowledge about the product only then he can convince the prospective buyer. He should know nature of products manufacturing details, distribution channel, price and condition of sale.
- (vi) **Knowledge of Competitors:-** To prove superiority of his products he must have full knowledge about competitive products, their positive and negative features, their brands and prices etc.
- (vii) **Knowledge of Customres:-** He should know about nature of customers their tastes, likes, dislikes, education and income etc.
- (viii) **Knowledge of Selling techniques:-** He should know about techniques of salesmanship. He should courteous and sympathetic towards the customers and should not loose patience. He should consider customer as kind.

Personal selling has advantage of being flexible as salesman can make changes wherever necessary but this is not possible in impersonal selling.

Dealing with customers:- Salesman has to deal with customers. So he should possess qualities that can convince the customer. He should be polite, commanding and gentle in voice. He should know the psychological of customer. He should know about product and firm and also about the product of competitors.



## Industrial Relation and Personnel Management

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in organization. When many persons apply for jobs then there will be a scope for recruiting better persons. Simply speaking, recruitment is a linkage activity bringing together those with jobs and those seeking jobs. Recruitment is the process which prompts people to offer for selection in an organization.

Generally there are two sources of recruitment:

- i) Internal source
- ii) External source

**i) Internal Source :** It is the most important source of recruitment. The employees already working in the organization may'-be more suitable for higher jobs. The following are the internal sources of recruitment:

- a. **Transfers.** It involves shifting of persons from present jobs to other similar place. There is no change in rank, responsibility and pay,
- b. **Promotion:** Promotion means shifting of person to position carrying better prestige, higher responsibilities and more salaries. Promotion avenues motivate employees to improve their performance,
- c. **Up gradation:** In this, the employee is given higher post but no financial benefit is given to him. It increases his status and responsibility but no financial gain.
- d. **Demotion:** Demotion is opposite to promotion. If a person is not fit for a post and is negligent in performing his duties, he is demoted one step lower. It is a kind of punishment.

**ii) External Source :** External sources of recruitment are used when suitable employees are not found through internal sources. Following are the external sources:

- a. **Advertisement:** Advertisement is the best method of recruiting persons. Advertisements are given in local or national press. The requirements of job are given in the advertisements. The suitable candidates apply for the job.
- b. **Employment Exchanges:** Employment exchanges are run by government. The unemployed persons get themselves registered with these exchanges. The vacancies may be notified with the exchanges.

- The exchange supplies, a list of candidates fulfilling required qualifications. The job seekers and job givers are brought into contact,
- c. **Educational Institution:** Many jobs require educational and technical qualifications. The employees maintain a close association with the universities and technical institutions. The students are selected during campus selection.
  - d. **Unsolicited Applicants:** Persons in search of employment may contact employers through telephone or by post Personnel department may maintain a record of unsolicited applications. Suitable persons are recruited through this method.
  - e. **Casual callers:** Casual callers are appointed for short periods only. These are appointed as stop gap arrangement. This is an economical method.
  - f. **Labour Contractors:** Labour contractors provide labour to employers. Contractors act as a link between labour and employer. On the demand of the employer, these contractors provide labour.

Both these sources, internal and external are used to recruit the employees.

**Process of Recruitment :** It is called section Procedure. It includes series of steps to select a person. After the receipt of application through various sources of recruitment selection process starts. It is concerned with securing requisite information about the applicant. The purpose of selection process is to determine whether the candidate is suitable for employment or not. If job is not very important then simple procedure is followed. For important job, a number of steps may be followed. The following steps are generally followed.

- i) **Receipt of application :-** Applications are received through advertisement and these applications are scrutinized. Applicants with suitable qualifications are retained and others are rejected.
- ii) **Application Blank :** Suitable candidates of 1st step are given blank application form to fill this form. This form includes bio data, education qualification, experience and salary etc.
- iii) **Written Tests :** In this step, applicants are subjected to written test. Tests give valid judgement about the traits of the applicant.
- iv) **Interview :** After the result of the test, the suitable candidates are called for interview. Interview is a face to face contact. It is purposeful exchange of ideas. After interview the successful candidates are selected.

- v) **Final Selection** : In this step, the candidates are selected and sent to suitable departments, where they are required.
- vi) **Physical/ Medical examination** : A complete medical check up of candidates is done. if they are found fit, then placement order is given to them.

### **Training :**

The finally selected candidates are sent for training.

Training is an organized procedure for increasing the knowledge and skill of people for a specific purpose. The trainees acquire new skill, technical knowledge, Problem solving ability etc. Training gives an awareness of the rules and procedure regarding job to guide their behaviour.

The following are the types of training :

- i) **Induction training** : This type of training is given to newcomers. The trainee is given the full details of the job, he is expected to do. He is also informed about policies, Procedures and ruled which are related to his work.
- ii) **On the job training** : it is most common method which is generally used for under some set of conditions which he has to work. The trainee is attached with his senior colleague.
- iii) **Off the job Training** : This type of training can be given in number of ways. It consists of lectures, conferences, group discussions, case studies, programme instruction etc. This method is used by Government and public enterprises. Generally institutions are established to provide Training to all type of trainees.
- iv) **Apprenticeship Training** : In this training, a worker is attached to a senior worker. The worker learns while observing his senior and helping him in the task. The method is used for teahnnical jobs. Nominal wages are provided during training.
- v) **Refresher training** Refresher training is helpful in acquainting personnel with latest improvements in their work. The changing technological methods require fresh training to existing employees.
- vi) **Vestibule training:** Vestibule training is used to impart training in a class room in plant site. The word Vestibule' means a room in factory premises outside the plant building. The workers are trained at this place in the factory.

So training is quite necessary for the newcomers.

## **Wage Payment**

After successful training, a person is put on job and due monetary benefit should be given to him for his services. The monetary benefit for job is called wage (salary). A wage is remuneration paid for the service of labour. Wage is sum of money paid to the employee by the employer for rendering services under a contract.

**Methods of wage payment:** Generally there are three methods of wage payment.

- i) Time wage system
- ii) Piece wage system
- iii) Incentive wage system

**i) Time wage system:** This is the oldest method of wage payment. The wages are paid according to the time spent by the workers irrespective of his output. The wage rates are fixed for an hour, a day, a week or a month.

**For example:** Wage rate is Rs 25/- per hour.

A worker spends 8 hours. The wage will be  $25 \times 8 = 200/-$  .

Wages = time spent x rate (TxR)

This method is suitable where close supervision is possible and quality of work is more important.

**Merits of time wage system:**

- a. It is the simplest method. It is easy to calculate wages.
- b. Workers get guaranteed minimum wages.
- c. Workers provide better quality goods.
- d. This method is useful for beginners as they get minimum wages.
- e. There is less wastage in this method.

**Demerits of time wage system:**

- a. There is wastage of time as there is no target.
- b. As wages are not related to output, so there is low output.
- c. As wages are not related to output, so more supervision is required to maintain quality of goods.

**ii) Piece wage system:** In piece wage system, wages are based on output and not on time. There is no consideration for the time taken in completing a task. A fixed rate is paid for each unit produced. Workers are not guaranteed minimum wages under this system.

Wages = Output x Piece rate

**For example :** The rate per bolt is Rs 2/- and a worker produces 100 bolts. His wage will be  $100 \times 2 = 200/-$ .

**Merits of piece wage system :**

- a. Wages are linked to the output. The higher the output, the higher will be the wage.
- b. As wages are linked to output, the production goes up.
- c. The machines and other equipment will be put to maximum utilization to increase production.
- d. As wages are linked to output, so workers will not waste time and close supervision is not needed.

**Demerits of Piece Wage System :**

- a. In this method, no guarantee of minimum wages.
- b. As wages are linked to output, the quality of goods is poor.
- c. This method is not suitable for beginners.
- d. Unions oppose this method, as there is no guarantee of minimum wages.

**iii) Incentives :** Monetary incentives are those incentives which offer higher wages for those who improve their performance beyond a certain level. There are different incentive methods for individuals as well as for groups.

**A. Timer Based System :**

- i) **Holsey plan :** This plan was given by F.A. Halsey. In this plan standard time is fixed for completing a work in advance. A worker taking standard time or more is paid for this time taken by him. A worker completing his task in less than standard time is paid for the time he saved.

**Merit :** The method is simple, easy to calculate. Workers get guaranteed minimum wages.

**Demerit :** It is difficult to fix standard time. Workers are given full reward.

- ii) **Rowan Plan:** This plan is similar to Halsey plan. A worker is guaranteed minimum wages for the time spent on the job. He gets bonus for completing the job in less than standard time. The only difference between Halsey and Rowan plan is the method of calculating bonus. In Rowan plan bonus is that proportion of the wages of the time taken which the time save beyond the standard time allowed.

**Merit :** The method is simple, easy to calculate. Workers get guaranteed minimum wages.

**Demerit :** calculation of bonus is difficult. Efficient workers suffer.

- iii) **Emersion plan :** This plan was given by Emersion. A standard output is fixed for determining the efficiency of workers. A worker reaching up to 66.66% of efficiency is paid only minimum wages and bonus is paid only when his efficiency crosses that limit. The rate of bonus increases with the increase in efficiency.

**Merit :** The method is simple, easy to understand. Workers get guaranteed minimum wages.

**Demerit :** Standards are fairly high and workers are unable to achieve it.

- iv) **Bedaux Plan:** The plan was given by Bedaux. The benefit of time saved goes both to the worker and his supervisor in the ratio of 3/4 and 1/4 respectively. A supervisor also helps worker in saving his time, so he is also given some benefit in this method.

**Merits:** It ensures minimum wages to workers. It is simple and easy method.

**Demerit:** Standard task is difficult to perform.

## **B Production Based systems**

- i) Taylor's Differential Piece-rate system: Taylor started this method on the basis of scientific management. The standard time was fixed for completing a task with the help of time and motion study. If a worker completes the task in the standard time, he is paid at higher rate and lower rate is paid, if more than standard time is taken.

### **Main Features:**

- i) No minimum wages are guaranteed.
- ii) Standard time is fixed for completing the task.
- iii) Different rates are fixed for taking standard time or more.

**Merits:** Simple and easy to understand. It offers good incentive to efficient workers.

**Demerit:** Slow workers are punished.

- ii) **GANTT's Task and Bonus plan:** H.L.Gantt gave this method. The workers are guaranteed minimum wages for taking standard time or

more. A person taking less than the standard time gets time wages plus bonus.

**Main features:**

- i) A standard time is fixed for completing the work.
- ii) A worker taking standard or more time gets wages on hourly rate,
- iii) A bonus ranging from 25% to 50% is paid for completing the task in less than standard time.

**Merits:** The method is simple to understand. It guarantees minimum wages to newcomers. **Demerit:** Disparity in wages creates jealousy.

**C. Group Incentive Systems:** There are situations when individual performance may not be measurable. A number of persons may be associated in completing the task. The work of one person may be influenced by the other. Under such situations incentives may be offered for raising group performance. The following are the various types of group incentive plans:

- i) **Priest man's Plan:** Under this plan a standard production is fixed for the whole factory. If production exceeds the standard, then bonus is paid in accordance with the increase. In case production does not reach the standard, then workers get minimum wages only. The workers get sufficient incentive to raise their performance. A team spirit is visible among the workers because production will increase with the collective efforts of everyone in the organization.
- ii) **Scalan Plan:-** Joseph Scalan of United States of America gave this plan. There is a payment of 1% participating bonus for every 1% increase in productivity. The bonus is available to all employees except the top management. The whole amount of bonus is not paid every month. A reserve fund of one half of first fifteen percent is created for offsetting any change in labour cost. In case, this reserve remains unused at the end of the year, this amount is also distributed among employees in the last month of the year.
- iii) **Co-partnership;** Under this scheme the employees are offered shares of the enterprise at reduced rates. The payment is also collected in instalments. The employees share profits of the concern as its members. The basic idea of this method is to make workers feel as a part of the organization and understand viewpoint of the management. As co partners they become more responsible and try to raise the profit.

- iv) **Profit Sharing:** Workers contribute significantly to increase profits of the organization. We know share holders share profit for contributing towards capita). Similarly, workers should get a part of profits for contributing their labour. The workers are an integral part of any organization and their contribution to its prosperity should be rewarded by making then part of profit. Profit sharing is a method of remuneration under which an employer undertakes to pay his employees a share in the net profits of an enterprise in addition to regular wages.

### **Performance Appiasal**

Performance appraisal is a method by which job performance of an employee is evaluated. It is a part of career development and consists of regular review of employee performance within organization.

#### **Features:**

- i) Performance appraisal is a systematic and periodic process.
- ii) It assesses an individual employee's job performance.
- iii) It is conducted annually or si;; monthiv HUI f-'ven quarterlv.
- iv) It helps in providing necessary training to employees.

#### **Merits:**

- i) Performance appraisal (PA) provides feedback to workers about their job performance.
- ii) PA brings effectiveness in organizations performance,
- iii) It enables workers to know about their weakness and strengths,
- iv) PA helps in identifying training needs,
- v) PA helps in capacity building of employees.

#### **Demerits:**

- i) PA creates tension between superiors and subordinates.
- ii) PA has negative effect on the performance of employees.
- iii) PA brings favouritism in the system.
- iv) PA becomes formality in many cases, and then it is 'a tick box' exercise.
- v) Generally PA gives rise io legal cases.

### **Employer Employee Relationship :**

When an employer hires a new employee, he is not just bringing a new member of the workforce, but is also starting a new relationship. Because employers

and employees often work in close association and they develop a relationship. Managing these relationships is vital to business success as stronger relationship can lead to greater employee happiness.

Employer-employee relations should be mutually respectful. The degree of closeness in this relationship will depend both on employer and employee. The employer should neither keep his employee at a distance nor should they be brought too close. There should be a rhythm between the two.

Employer-employee relationship should be based on mutual trust between the both. Employee should be sincere while performing his duty and employer should provide remuneration regularly to employee.

Employer should strengthen the relationship with employees by communicating with them frequently. There should be no communication gap between the employer and the employee. Employee should air their grievances to employer and he should be sincere in redressal of those problems.

Employee and employer relationship should be affectionate and respectful and it should not be romantic in any case.

