



E. VERY LONG ANSWER TYPE QUESTIONS

Question 1. Explain in detail any three pricing strategies.

Answer: Following are the various pricing strategies:

1. Variable pricing technique:
Variable pricing technique is the one in which different prices are charged from different categories of customers. There is price discrimination. Many factors are responsible for the variation in the price. If a customer is purchasing more quantity of the product, he will be offered lower price. If the demand for the product increases in the market then higher price can be charged. This method has both the objectives viz. selling more quality and also charging higher price but at different times, e.g. Indian railways charges different fares for AC 3 tier, AC 2 tier, second class and general compartment.
2. Base pricing and discount: Base pricing and discount method is the method in which the entrepreneur fixes one price for its commodity. This price is calculated in advance considering the point that discount will be offered during the sale. Here, the discount offered is of various types. Depending on the type of customers the various rates of discount are fixed. Discount is offered to all the customers but at different rates. The wholesaler discount may be different from, volume discount, discount for transaction and off-season discount.
3. Skimming pricing method:
Skimming price method is the method of pricing in which the product is introduced in the market with a very high price. High price is kept for recovering the cost of production quickly. Such entrepreneurs normally bring something new in the market with more utility value. Product is introduced with a lot of expenditure on advertisement. High price tends to bring back revenue quickly. High class people are the target of such method of pricing e.g. Philips introduces its new product with the same method, Rumalaya also follows the same trend.
4. Cost plus pricing method: In this method the cost of production of one unit of the product is calculated. This cost covers all the types of costs including explicit cost, variable cost, fixed cost, etc. to this is now added the preplanned profit margin.
This method of pricing is very simple method. It can easily be used for determining the price. Any changes in the cost of production or the margin of profit change the price in the same direction. It automatically gets adjusted to the change. Profit margin is not to be calculated. It is already fixed. Thus, by multiplying the profit per unit with the volume of the product, the total profit can be determined. Any upward rise in cost is easily visible. This provides an idea to the entrepreneur to adjust his production for keeping the cost as low as possible. Comparatively less calculations are involved, which makes the implementation of this method simple. This method can easily be implemented because of its simplicity to understand and easy calculations.

Question 2. Explain the important factors affecting the choice of

channels of distribution by the manufacturer.

Answer: While selecting a distribution channel, the entrepreneur should take into account the following factors:

1. Considerations related to product: It includes the following:
 - (a) Unit value of the product: When the product is very costly distribution channel is preferred. For example, industrial machinery or gold ornaments. On the other hand, for less costly products long distribution channel is used.
 - (b) Standardised or customised product: Such products have pre-determined cost and there is no scope for alteration. For example: Utensils of MILTON, for these long distribution channel is used.
On the other hand, customised products are those which are made according to the discretion of the consumer and also there is a scope for alteration, for example; furniture. For such products face-to-face interaction between the manufacturer and the consumer is essential. So for these direct sales is a good option.
 - (c) Perishability: Highly perishable goods should have short channel. On the contrary, a long distribution channel can be selected for durable goods.
 - (d) Technical nature: If a product is of technical nature, direct channel should be preferred. This will help the user to know the necessary technicalities of the product.
2. Considerations related to market:
 - (a) Number of buyers: If the number of buyers is large then it is better to take indirect and long channel of distribution. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.
 - (b) Types of buyers: If the more buyers belong to general category then there can be more middlemen. But in case of industrial buyers there should be fewer middlemen.
 - (c) Buying habits: Manufacturer can take the services of middlemen if financial position does not permit to sell goods on credit to those consumers who are in the habit of purchasing goods on credit.
 - (d) Buying quantity: If the goods are bought in smaller quantity then middlemen can be employed.
 - (e) Size of market: If the market area of the product is scattered then the producer must take the help of middlemen, i.e., long channel.
3. Considerations related to manufacturer/company:
 - (a) Goodwill: Good reputation need not depend on the middlemen as the firm can open his own branches easily.
 - (b) Desire to control the channel of distribution: A manufacturer's ambition to control the channel of distribution affects its selection. Consumers should be approached directly by such type of manufacturer. For example, electronic goods sector with a motive to control the service levels provided to the customers at the point of sale are resorting to company owned retail counters.
 - (c) Financial strength: A strong financial base of a company can have its own channels. On the other hand, financially weak companies would have to depend upon middlemen.
4. Considerations related to government: Only a license holder can sell medicines in the market according to the law of the government. In this situation, the manufacturer should take sell through middlemen who have the relevant license.
5. Others:
 - (a) Cost: A manufacturer should select such a channel of distribution which is less costly and also useful from other angles.
 - (b) Availability: Other channel of distribution can be selected if the desired channel is not available.

(c) Possibilities of sales: Such a channel which has a possibility of large sale should be given weight age.

Question 3. Explain promotional mix in detail.

Answer: Promotion refers to all the activities undertaken to make the product or service known to the user and trade. It is a method to spread the word about the product or service to customers, stakeholders and the broader public. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes. Various approaches a company can use to promote its products are:

1. Above-the-line: It uses mass media methods and focuses on advertising to a large audience. It includes print, online, television and cinema advertising, press, online banner advertisements, place advertisements on billboards, etc. Above-the-line promotion is very expensive so before taking it a lot of thought must be given. Also at times they are not under the control of organisation.
2. Below-the-line: These are very specific, memorable activities focused on targeted groups of consumers. They remain under the control of the organisation. It deals with developing the brand by creating awareness and building a brand profile. It includes the activities like sponsorship, sales promotions, public relations, personal selling, direct marketing, etc.
3. Through-the-line: It refers to an advertising strategy involving both above-and below-the-line communications in which one form of advertising points the target to another form of advertising thereby crossing the "line".

Question 4. Explain any six commonly used media options.

Answer: Commonly used media options are as follows:

1. Window display or office front: It is the external presentation of the firm/enterprise. An attractive, well maintained exterior with clear, bold sign writing is an essential start. Windows should be bright, attractively presented, clean and well lit at night. The display should be arranged neatly so that it has a remarkable impact to attract attention.
2. Press advertising: It is a form of general advertising and includes advertising in all press like newspapers, magazines and journals. This form is a key to image building, information dissemination and sales campaigns. It is also a very cheap compared to other forms.
3. Radio: It is an ideal medium due as it has ability to reach specific target groups like teenagers, grocery buyers, etc. It has only sound effect. It covers spot adverts, promotions or talk back/ RJ discussions. Most radio stations offer packages for advertising.
4. Television: It is a powerful advertising medium as it creates impact through sight, sound and movement. It has high producing cost which makes it prohibitive for small businesses.
5. Direct mail: This is a broad category covering direct communication with the consumer through email, post or fax. It can include newsletters, catalogues and letters.
6. Outdoor: This advertising is done outdoors, including static advertising such as billboards, backs of street benches and bus shelters or mobile advertising displayed on buses, trains, taxis or towed signage.
7. Cinema: Firm can purchase cinema advertising for a set amount of screenings or runs. Most providers of this category offer packages which include production and screening of your advertisement.

Question 5. Enlist some typical sales promotion activities.

Answer: Following is the list of some typical sales promotion activities:

1. Consumer promotions:
 - (a) Point of purchase display material
 - (b) In-store demonstrations, samplings and celebrity appearances
 - (c) Competitions, coupons, sweepstakes and games
 - (d) On-pack offers, multi-packs and bonuses
 - (e) Loyalty reward programmes
2. Business promotions:
 - (a) Seminars and workshops
 - (b) Conference presentations -
 - (c) Trade show displays
 - (d) Telemarketing and direct mail campaigns
 - (e) Newsletters
 - (f) Event sponsorship
 - (g) Capability documents
3. Trade promotions:
 - (a) Reward incentives linked to purchases or sales
 - (b) Reseller staff incentives
 - (c) Competitions
 - (d) Corporate entertainment
 - (e) Bonus stock
4. Sales force promotions:
 - (a) Commissions
 - (b) Sales competitions with prizes or awards
 - (c) Back to top



Question 6. Explain the methods of negotiation.

Answer: Methods of negotiation are as follows: Integrative or win-win: Here each side is working towards a solution where everyone wins something. They can make trade offs and look at multiple issues. The involved parties may try to expand the pie rather than divide it. This method fosters trust and good working relationships. Distributive or win-lose: Here one party gets what it wants, and the other party has to give something up. This type of negotiation does not lead to lasting or positive relationships. Here one party remains unsatisfied and so it does not lead to a healthy relationship. Inductive: This method involves starting on small details and working upward until a settlement is reached. Here the solution is sought from the grass root level by understanding each and every minute detail. For example, an employer and labour union are negotiating the details of an employee pension and investment

plan. Small details are addressed one at a time. Deductive: Deductive negotiations start with an agreed upon strategy. They rely on established principles and a formula to frame the negotiation while the parties work out the details. Here each parties is the gainer and jointly the result is met. It is based on the mutual agreement.

Mixed: Mixed negotiations are the most common, they are a blend of inductive and deductive methods.

Question 7. Explain the reasons for business failures. Or Satnam, an IIT-IIM graduate, started three chemists shops at Amritsar, Patiala and Chandigarh in the name of 'Quality Medicines'. Encouraged with the success of these shops Satnam opened 50 more shops in different parts of Punjab. His strategy was to cut price, focus on lower and upper middle class and open shops near hospitals. He operated on very thin margins. But he was not able to maintain sufficient funds to meet the day-to-day expenses of the business. The staff at the shops did not give much attention to the customers and there was very poor system of control. Because of this mismanagement he started incurring huge losses and his business failed. Based on the above paragraph, identify and explain any four causes of business failure of Satnam. [MI India 2015]

Answer: Following are the reasons of business failures:

1. Lack of industry experience: The internal resources of a firm has to match the needs of the environment to which the firm belongs. Lack of experience in the field will lead to poor organization of a firm and resources. This may lead to loss and business failure.
2. Inadequate financing: Financing is the lifeblood of a business at every stage. Many businesses fail due to lack of proper financing channels. The lack of planning for funding to support opportunities for growth is the root cause of failure. Planning in advance, rather than looking for financing just when needed, is a good practice. It includes lack of sufficient awareness of the costs involved in raising capital, lack of alternative sources in case of rejection from financiers, etc.
3. Lack of adequate cash flow: Cash flow is the measure of a firm's ability to maintain sufficient funding to meet its expenses for the day-to-day activities of the business. Many businesses fail because owners have a difficult time projecting what cash will come in every month, and thus, how much can be produced. Cash flow projections and its knowledge will help owners to understand how much they can afford to spend.
4. Poor business planning: Ninety per cent of business failures are caused by a lack of general business management skills and planning. Owner, manager must have sufficient knowledge of such skills. This will lead to proper understanding of the practical situation which can then be resolved using basic management skills.
5. Management incompetence: Ninety per cent of business failures are associated with "management inadequacy", which can be due to either management inexperience or incompetence. A good strategic plan is only good as the management's ability to implement changes in day- to-day operations.
6. Ignoring the competition: Customers always looking for the better deal. If competition offers better products, services, or prices, the customers will succeed at the expense of the business. So keeping an eye on competitors and positioning the products accordingly is vital to staying in business.
7. Unworkable goals: Setting goals is one thing and setting workable goals is another. Enterprises are influenced by uncertainty. Setting realistic goals, within the bounds of

- acceptable risk taking and optimism, is important.
8. Diminished customer base
 9. Uncontrolled growth
 10. Inappropriate location
 11. Poor system of control
 12. Lack of entrepreneurial skills.

F. HIGHER ORDER THINKING SKILL

Question 1. Varshini started her high end boutique in a posh locality, but she was not aware of how to make her boutique popular in the area. Suggest some measures for it.

Answer: Varshini is suggested the following:

1. To create a brand name for the product.
2. To have a simple logo and tag line for the boutique.
3. Go for the advertising through pamphlets and door to door publicity.
4. Arrange for seminars related to ladies.
5. Sponsor the programmes of ladies like kitty party, etc.
6. Cover the marriages and other social programmes and display the brand name and the products.
7. Arrange for promotional schemes like buy two and get one free.

G. APPLICATION BASED QUESTIONS

Question 1. Arvind has started his Italian food based restaurant. Does he have to register his trademark? And give the reasons for the same.

Answer: Trademark refers to words, names, symbols and product design features that are used to distinguish the products or services of one manufacturer or seller from another.

Arvind must go for registering as:

1. it helps in preventing others from copying.
2. there is legal action available if anybody is found copying the product or any related aspect.

Question 2. Imagine that you have started selling FMCG goods then what kind of promotional strategies will you be using?

Answer: I can go for following promotional strategies:

Contests: It is commonly used promotional strategy. Many contests don't even require a purchase. This will be done as people like to win prizes.

Mail Order Marketing: Customers who come into our business are not to be overlooked, such customers have already decided to purchase the product. These are customers who are already familiar with the product and represent the target audience.

Product Giveaways: Product giveaways and allowing potential customers to sample produce. This method will be used to introduce new food and household products.

Point-of-Sale Promotion: Point-of- sale is a way to promote new products or products a store needs to move. These items are placed near the checkout in the store and are often purchased by consumers on impulse as they wait to be checked out.

Branded Promotional Gifts: Giving away functional branded gifts can be a more effective promotional move than handing out simple business cards. These are gifts we can give to customers that they may use, which keeps our business in plain sight rather than in the trash.

After-Sale Customer Surveys: Contacting customers by telephone or through the mail after a sale is a promotional strategy that puts the importance of customer satisfaction first while leaving the door open for a promotional opportunity.

