
UNIT 8 ADVERTISING

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8.0 OBJECTIVES

After reading this unit, you should be able to:

- **define advertisement**
- distinguish between advertisement and publicity
- identify the purposes of advertising for a business firm
- appreciate the role of advertising in the society
- outline the features of **an** effective advertisement

8.1 INTRODUCTION

While listening to the radio, or viewing television, or reading a **newspaper/magazine**, or walking on a street, you must have come across a number of advertisement messages. These messages mostly appeal to people to buy certain **products** or services. Indeed, advertisements are used by companies to communicate how their products or services may be of use to customers. In modern industrial economies, advertising **plays** a very important role acquainting the public with the nature and quality of **products** or services available in the market.

In this Unit we shall discuss what is meant by advertising, how it is **different** from publicity, the objectives of advertising, the **role of advertising** in the society and the features of **an** effective advertisement.

8.2 WHAT IS ADVERTISING?

Let us start with **an** understanding of what is meant by advertising. **The** American Marketing **Association** has defined advertising as "any paid form of **non-personal** presentation of ideas, goods or services by an identified sponsor". This **definition** includes the following four expressions:

- i) Paid **form**
- ii) Non-personal presentation
- iii) Ideas, goods and services
- iv) Identified sponsor

To understand the definition **clearly**, it is necessary to clarify these expressions. Let us discuss these **expressions** in detail.

- i) **Paid form:** For every advertisement, some money has to be paid to the medium which carries the message. For instance, if the message is published in a magazine, payment must be made for printing and the space used in that magazine. If the matter is printed without any charge, it will not be treated as an advertisement
- ii) **Non-personal presentation:** When a salesman directly talks to the customer about any product, it is personal presentation. If the message is communicated through mass media like radio, television, newspaper, magazine, direct mail, hoardings, etc., it is called non-personal presentation. In the case of advertising, the message is conveyed through non-personal media. In other words, there is no face-to-face communication by salesmen. It implies that if the message is presented to the customer by a salesman, it would not be treated as advertising.
- iii) **Ideas, goods and services:** This implies that advertising may be intended to help selling not only goods but also ideas and services. For instance, banks, insurance companies, airlines, restaurants, dry cleaners, and similar organisations advertise their services and ideas underlying the usefulness of savings, travelling, eating palatable food, etc.. just as manufacturers of automobiles, soaps or hair oil advertise the usefulness of their products. Thus, the phrase ideas, goods and services explains that advertising is concerned with much more than the promotion of only tangible goods.
- iv) **Identified sponsor:** The sponsor of an advertisement is the advertiser. The phrase identified sponsor means that the producer or seller who advertises the product should be known through the advertised message. In other words, the receiver of the message should be able to identify both of source and purpose of the advertisement. If it is not sponsored by any individual or institution, it would not come under advertisement.

Now look at the message presented in Figure 8.1 carefully. We shall analyse this message to find out whether it may be treated as an advertisement or not. First, the message is printed in the newspaper which is a non-personal medium. Secondly, the payment must have been made to the newspaper in which it appeared. Thirdly, the message is about the quality of a product—OCM suitings the perfect fabric. Fourthly, the name of the sponsor or advertiser i.e., VXL India Ltd., is clearly mentioned. It is also obvious that the purpose of the advertisement is to induce customers to buy OCM suitings. We may, therefore, conclude that the printed message in Figure 8.1 is an advertisement. The points to be noted in this advertisement are:

Product	:	OCM Fabric (Textiles)
Medium	:	Newspaper
Message	:	OCM Suitings the perfect fabric, A product of VXL India Ltd.
Sponsor	:	VXL India Ltd.
Payment	:	The sponsor of the message paid for printing and space used in the newspaper at the rates fixed by the publishers.

Check Your Progress A

Look at Figure 8.2 and examine it carefully. Write down the particulars relating to the media, product, message and sponsor. State whether you can call it an advertisement. While doing this exercise, you may refer to Figure 8.1

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Figure 8.1 Example of an Advertisement



Source : Produced from a newspaper

Fig. 8.2



Leadership comes in many forms.



Leadership—the result of constant endeavour towards excellence and quality, manifests itself in everything the leader performs. Televista is the leading name in Televisions for technology performance and class. It's one of the first and is still the foremost.

televista

ONLY THE BEST CARRY OUR NAME

8.3 DIFFERENCE BETWEEN ADVERTISEMENT AND PUBLICITY

Is advertisement different from publicity? Sometimes advertisement and publicity are wrongly interpreted to mean one and the same-thing. In fact, **advertisement is different** from publicity. Before we discuss how they are different, let us first **understand** what publicity is.

8.3.1 What is Publicity?

Publicity refers to the communication of any non-sponsored commercially significant **information** about a company or its product to the public through non-personal media without any financial charge to the company. In this explanation you can notice the following four expressions:

- i) Non-sponsored
- ii) Commercially significant information
- iii) Through non-personal media
- iv) Without a financial charge to the company

Let us now discuss these four expressions in more detail to understand the meaning of publicity very clearly.

- i) Non-sponsored: The information is not sponsored by the company. It is published or communicated **voluntarily** by the media. In other words, there is no sponsor of the publicity material.
- ii) Commercially significant **information**: Information about the company or its **product, are communicated in publicity**. The information should be commercially significant to the company.
- iii) **Disseminated** by non-personal **media**: The information may **be** presented by **non-personal** media like radio, television, newspaper or magazine, etc. The message may **be** conveyed through discussions or debates (as in radio or TV), or editorial or news items (as in newspapers or magazines).
- iv) **Without a financial** charge to the company: The publicity matter is presented voluntarily by the media. There is no payment made by the company to the media for disseminating that information.

Publicity may be favourable or unfavourable to the company. When the publicity favourably reports about a product, it can positively influence the demand, for that product. On the other hand, unfavourable publicity may lead to reduced sale of the product. Let us consider some simple examples of favourable and unfavourable publicity. You may have read film reviews in magazines or newspapers. These reviews are written by the magazine or newspaper staff. The producer of the film is in no way connected with it. In these reviews, there are comments on the story, music, **photography**, performance of main artists, etc. These reviews count as **publicity**. If the comments in the review are not good, the readers have a **negative** impression about the film and they are not eager to see the film. This is an example of unfavourable publicity. If the comments are good in the review, there is a positive impression about the film in **the** mind of **the** reader and many of them will see it. **It** is an example of favourable **publicity**.

In an attempt to obtain favourable publicity, companies engage in public relations. These public relations activities do not come under the purview of marketing department. It is, normally, managed by a special department called Public Relations Department.

Check Your Progress B

Look at the film review presented below. It is **an** example of publicity. Read it carefully and **state with reasons whether** it **would** have positive or negative influence on readers.

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Sunday TV films

“Aaina”

(Hindi/1974/5-45 p.m.)

A melodramatic tale of a family immersed in trouble. Its increasing problems are made more problematic by the quick multiplication of children with the priest father gradually being denuded of clients. The harassed mother is forever complaining — what with six children to support and a new one on the way.

Luckily, the eldest sister is a loving kind and keeps the younger ones happy by playing and telling them stories. Once she decided to play the role of an all-powerful Devi and asked the kids to name their wishes and they shall be fulfilled. Little did she realise then that the role would stick to her for ever.

Time comes when she had to take up the role of the mock drama in real life in order to feed the hungry mouths. Initially, she takes up a job but finally lands in the world's oldest profession as the family demands go up. The climax comes when the "goddess Didi" is disowned by all those whom she supports and brings up.

Her only solace in those days is themirror in which she keeps looking at her face and there is a sympathetic friend too. Dialogue is rather well worded and on the whole a well made film within the formula format.

K. Balachander, the multi-lingual South Indian movie maker, directs one of his early Hindi ventures. There is fine music by Naushad and the lead role is played by Mumtaz rather poignantly. Others include Rajesh Khanna, Nirupa Roy and Hangal.

8.3.2 How does Advertisement Differ from Publicity?

We have learnt what advertising is and what publicity is. Now we are in a position to analyse the difference between these two. Read Table 8.1 carefully. The characteristics of both advertising and publicity are presented. After reading this table, you should be able to make out the difference between these two terms.

Table 8.1

Features of Advertising and Publicity

Particulars	Advertising	Publicity
1 Media	Presented by non-personal media such as radio, TV, newspaper, magazine, etc.	Presented by non-personal medium such as radio, TV, newspaper, magazine, etc.
2 Sponsor	There is an identifiable sponsor. Normally a company sponsors it for its product or service.	There is no identifiable sponsor. Media present the information voluntarily.
3 Payment	The company has to pay money to the media for the space or time used.	Company does not make any payment to the media.
4 Purpose	It is intended to give a favourable impression about the company or its product.	It may have a favourable or unfavourable influence on the public about the company or its product.

Check Your Progress C

- 1 Read Table 8.1 carefully and point out the similarities and differences between advertising and publicity.
- 2 Three cases are presented below. Briefly explain whether they can be called advertisement or publicity or none of the two.

i) A sales representative from a drug manufacturing company visited a doctor, and explained to him the usefulness of various drugs manufactured by that company.

- ii) Mrs. Renu uses 'Vajradanti' tooth paste regularly. One day she told her neighbour Mrs. Kamala that Vajradanti is the best tooth paste available in India. After this, Mrs. Kamala also started using Vajradanti tooth paste.

- iii) One car manufacturing company advertised that their car gives 15 km per a litre of petrol consumed. After a few months, one leading newspaper published an article stating that the car gives only 10 km per a litre and that the manufacturers are misleading the public. After the publication of this article, there is a slight drop in the sales of the car.

- 3 Look at the two items presented below. Study them carefully and identify which is an advertisement and which is publicity. Give your reasons.

Item I

 **इन्दिरा गांधी राष्ट्रीय मुक्त विश्वविद्यालय**
INDIRA GANDHI NATIONAL OPEN UNIVERSITY

YMCA CULTURAL CENTRE I JAI SINGH ROAD NEW DELHI-1

TENDER NOTIFICATION NO: 1/ADMN/88-89
FOR RESIDENTIAL ACCOMMODATION.

University is in need of residential accommodation as follows:

- For providing hostel accommodation to some of its officers, 3 flats of 3 bedrooms each, preferably in one building or a compact building with 8-9 bedrooms, near Tughlakabad (preferably in Saket, Alaknanda, Yamuna/Kaveri Apartments, Kalkaji Extn., etc.) and
- Residential accommodation for housing its staff members — 25 to 30, 2 bedroom flats in a single block or contiguous blocks in areas like Maidan Garhi, Saket, Noida, Patparganj, etc.

Interested parties may send their offers in sealed covers superscribed "Tender for Residential/Hostel accommodation" indicating the terms and conditions, details of accommodation, location, owner's name and address on or before 25th May, 1988.

REGISTRAR

Item 11

IGNOU degree course

By A Staff Reporter

NEW DELHI, May 12: The Indira Gandhi National Open University here will admit 10+2 or the equivalent stream of candidates to its B.A. and B.Com courses commencing in August.

An IGNOU release said there would be no restriction of minimum or maximum age regarding these candidates.

Also, there would be no entrance examinations for these candidates and they would be admitted purely on merit, with reference to their marks at the 10 + 2 examination.

A candidate admitted to B.A./B.Com can complete it in three years or a maximum period of eight years.

8.4 OBJECTIVES OF ADVERTISEMENT

You have learnt what advertising is and how it is different from publicity. We will now discuss the objectives of advertising. Business firms advertise with one or more of the following objectives,

- 1 Introduction of new products
- 2 Inducing potential customers to buy
- 3 Reminding users
- 4 To create brand image
- 5 To intimate customers about new uses of a product
- 6 To highlight brand character
- 7 Dealer support
- 8 Trafficking the retail trade
- 9 Miscellaneous

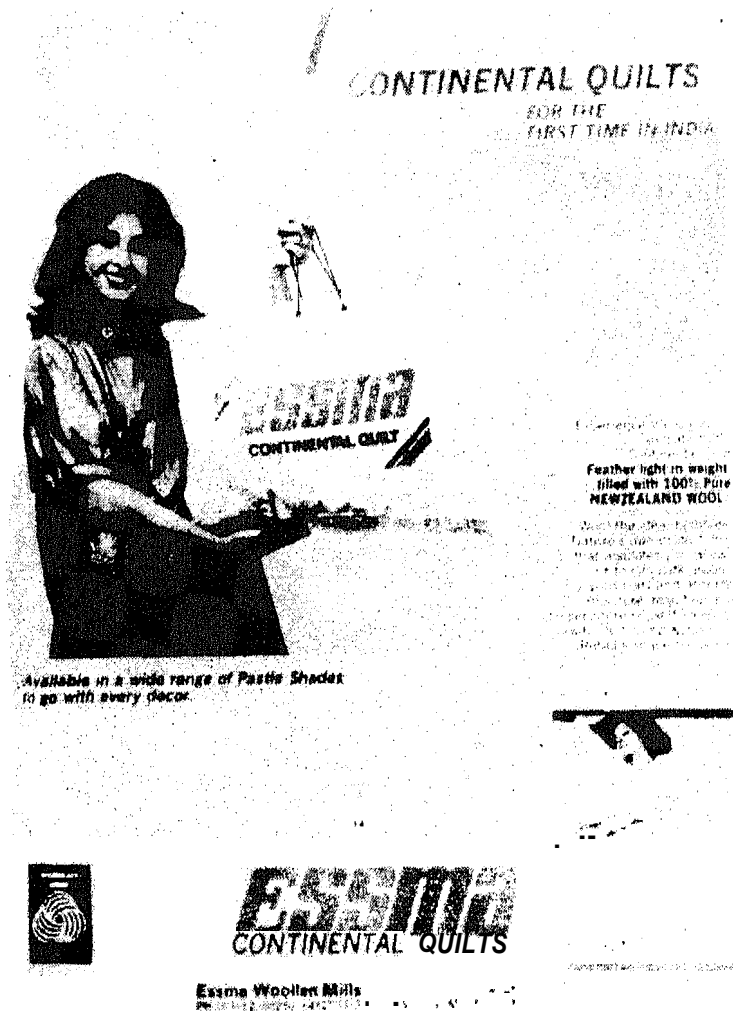
- 1 **Introduction of new products:** Manufacturers introduce new products from time to time so as to compete with other manufacturers who might have succeeded in winning over customers of the existing product. Advertising the new product is necessary so

that consumers know about the introduction of the product, its usefulness, where it may be available, how to get more information about the product, etc. Indeed, advertising is highly important to promote the sale of new products.

For example look at Figure 8.4. You can see how Essma Woollen Mills advertised when it introduced the Continental Quilts.

Figure 8.4

Advertisement introducing a new product. It explains the features of a new product and also gives address for trade enquiries.



- 2 **Inducing** potential customers to buy: Another important objective of advertising is to induce potential customers to buy the product. Advertising is one of the best means by which the sale of an existing product can be **increased**. For this purpose, the advertisement should emphasise the usefulness of the product, its quality, price advantage, etc., so as to win over potential buyers and make them actual buyers. If the product is so advertised, traders expect sales to increase and keep larger stocks for sale. Thus, advertising leads to immediate buying action among customers as well as traders.
- 3 **Reminding** users: In a competitive market new products are introduced quite frequently by different firms. All these products are advertised in the market. As a result, old brands are likely to be forgotten by the consumers. To offset this **possibility**, manufacturers continue to advertise their products to maintain the buyers' interest. Thus, **advertisements** are also designed to serve as a reminder to existing customers.
- 4 **To create brand image**: Business firms very often advertise for establishing an **image** for the product (brand) and create customer loyalty for that product. When customers **develop** brand loyalty, they are not inclined to shift to other brands easily. This objective of advertising has **great** significance in the case of well-known manufacturers of products.

Look at the advertisement for 'Thums Up' soft drink presented in Figure 8.5. The sentence at the top says, 'many great players are heavy drinkers' and shows two great cricket players enjoying the drink. It is mainly intended to create an image that Thums Up is a refreshing drink which is accepted by many great players. The brand name of the drink 'Thums Up' is impressed upon the public by associating it with two great players.

Figure 8.5
Advertisement Intended to Create Brand Image



- 5 **To intimate customers about new uses of a product:** Advertising is sometimes used to convey new uses of an existing product to the customers or to draw their attention to some new features of the product. The basic objective of advertising in this case is to convince the customers about the superiority of a product in comparison with other products in the same line.
- 6 **To highlight brand character:** For certain products, consumers feel that a particular characteristic is very important. Its existence determines the buyers' choice of a particular brand out of several brands. If the product has that feature, advertising is used to stress it and demonstrate its advantages. Similarly, if the product has a special feature which is linked with a desirable consumer benefit, advertising is used to emphasise it.

Look at the advertisement presented in Figure 8.6. It says how godrej 165 litre refrigerator is designed to establish its superiority over the other refrigerators.

Figure 8.6
Advertisement Highlighting the Brand Character

*You work so hard to take care of your family.
But who will take care of you?*

The New Godrej 165 litre Refrigerator

The New Godrej 165 litre Refrigerator is designed to take better care of you. Because it gives you space where you really need it: in the vegetable tray and door panel.

Largest Vegetable Tray and Egg Rack. Among 165 litre Refrigerators

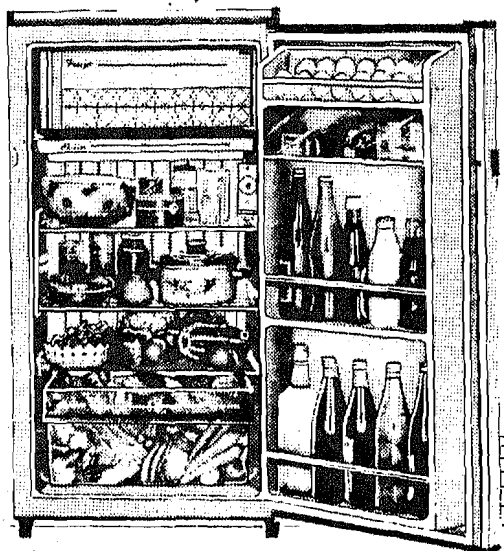
The Godrej vegetable tray holds more and keeps vegetables fresher for a longer time.



In the door panel you can store as many as 15 eggs; more than in any other refrigerator. The New Godrej helps to keep pace with your family's demands.

The Only 165 litre Refrigerator Which Holds 10 Large Bottles

So, say goodbye to the trouble of filling up your bottles again and again.



Godrej

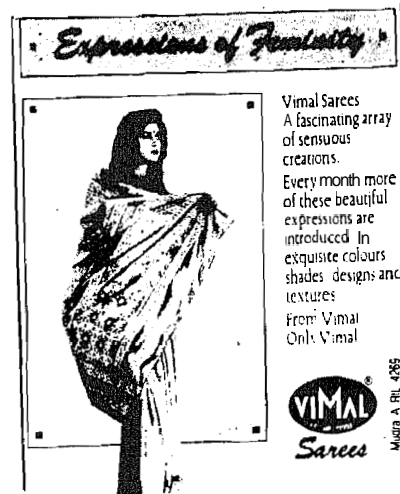
*The new refrigerator
every hard-working woman deserves.*

- 7 **Dealer support:** Sometimes the aim of advertisement is to provide support to dealers and distributors. Thus, there are **many** advertisements in newspapers, in which the list of dealers and distributors are mentioned along with the particulars of the product.

Look at the Figure 8.7. In this advertisement, apart from certain details about the product, a list of dealers is also presented at the bottom.

- 8 **Trafficking the retail trade (increasing retail sale):** On certain occasions, the objective of advertisement is to increase retail sale through off-season or special festival discounts, gift schemes, clearance sales, etc. The objective of such advertisements is to **draw** the attention of customers towards the special offers.

Figure 8.7
An Advertisement Giving the List of Dealers



VIMAL SHOWROOMS — THE LARGEST NATIONWIDE RETAIL NETWORK-67 IN DELHI AND 1200 ALL OVER INDIA.

Authorised showrooms in West Delhi: Jyoti Textiles, C-4, E Market, Janakpuri • Kumar Deep Nangal Raya, Jail Road • Gupta Textiles Al Shopping Centre, Shalimar Bagh • Krishna New Market, Tilak Nagar • Libas Main Market, Uttam Nagar • Vimal Deep Main Market, Rajouri Garden • Kataria Textorium Krishnapuri, Sangam Market, Near Vikas Puri Ean. • Nidhi Textiles B-2/35, Janakpuri. • Tikak Textiles 11370, Main Road, Nafagarh.

Study the advertisement presented in Figure 8.8. Carefully. Along with the information regarding product range, it gives information about 20-40% special festival rebate offered by Co-Optex Tamilnadu Handlooms.

Figure 8.8
Advertisement Intended for Trafficking the Retail Trade



- 9 Miscellaneous: In some cases the objective of the advertisement is to inform the customers in remote areas which are not accessible to salesmen. Similarly, it is also aimed at informing customers in far off places or outside the country about new products.

8.5 ROLE OF ADVERTISING IN THE SOCIETY

In the previous section you have learnt about the objectives of advertising and the usefulness of advertising for an individual firm. From the social point of view, it may be said that advertisement has a positive effect on economic development. But this point of view is not accepted by all. There are arguments both for and against the use of advertisement in society. Let us first examine the arguments against advertising from the social point of view.

8.5.1 Arguments Against Advertising

- 1 Advertising leads to higher prices: Many hold the view that advertising leads to higher prices of goods. Advertising involves considerable expenditure. If that expenditure is avoided, the cost of goods may be reduced and the consumer can get the product at a cheaper price. If the money spent on advertising is used for improving the quality of the product, consumers may get a better product for the same price.
- 2 Advertising leads to **monopoly**: It is well known that large business firms establish brand image through advertising. Consumers develop brand loyalty. Then it becomes difficult for new producers to enter the market. In other words, advertising enables the existing large producers to block new competitors from entering the market. Thus, advertising acts as a barrier to entry and thereby leads to monopoly. Moreover, increased advertising often results in increased sales. Due to this possibility, established firms spend more and more on advertising and increase their sales. In this process they earn larger profits which enable them to spend even more on advertising. Thus, new entrants who do not have large financial resources find it difficult to compete with such established firms.
- 3 Advertising results in inefficient resource allocation: Advertisements are intended not so much for the benefit of consumers. They are mainly directed to influence the consumer demand to fit whatever has been produced. In other words, advertisements are aimed mainly to change the tastes of people so that they will buy whatever is manufactured. This leads to distortion in consumption expenditure and increases the producers market power. Thus, advertising indirectly determines what people should consume. In this process productive resources i.e., land, labour and capital, may not be used in the best interest of the society.
- 4 Advertising causes undesirable social effects: There are certain other criticisms about the social effects and cultural impact of advertising.
 - a) Objectionable appeals like sex, horror, etc., are used in advertisements to attract the customers' attention.
 - b) Consumers are exposed to hundreds and thousands of product appeals which they may not be able to buy and enjoy. This may create frustration and disappointment in many cases.
 - c) Advertising is used for promoting objectionable and harmful goods like cigarettes, liquors, etc.
 - d) It influences the values and life styles of people in society. Often it is used to promote products that satisfy the materialistic requirements of consumers. Advertising is, thus, accused of promoting materialistic values in the society.
 - e) Advertisements occasionally portray certain things objectionable to some sections of the society creating tensions between different groups of people.
- 5 Advertising may act against the **freedom** of press: Mass media earn huge income from advertisements. If the media are dependent on income from advertisements sponsored by a few large business firms, it may be difficult to disseminate information in public interest when it is unfavourable to those big business firms. Big sponsoring firms can threaten the media owners by refusing their advertisements and dictate what media have to do. Thus, the financial dependence of media on advertisements may act against the freedom of press.

- 6 Advertising encourages unnecessary competition: There is a distinction between informative advertising and competitive advertising. Informative advertising is that which passes on the useful information about a product or service to the customers. Such advertising is desirable. On the other hand, the competitive advertising is primarily meant to shift demand from one brand to another brand. In this case the advertisement has not created any additional demand. Therefore, such advertising is undesirable. In some cases, even the product features mentioned in the advertisement do not compare with the product when inspected. This type of misleading advertising is all the more undesirable.

8.5.2 Arguments in Support of Advertising

We have noted above that advertising is **not** always beneficial to society. However, it offers certain advantages as well. The arguments in favour of advertising run as follows:

- 1 Advertising leads to reduction in the cost of goods: Some people hold the opinion that advertising may lead to a reduction in the cost of goods. When consumers come to know about any product through advertisements, the demand for that product increases **and** production is increased accordingly. Increase in production leads to economies of scale. The benefits resulting from the economies of scale offset the cost of **advertising**. On the whole, the cost of production need not necessarily increase due to advertising. Besides, advertising costs are much less than other forms of business communication like personal selling. In the absence of advertising, business firms may adopt other more expensive methods.
- 2 Advertising need not necessarily lead to monopoly: It is not always true that advertising results in monopoly. It cannot be said that the first advertiser always wins the consumers' patronage and the later entrants have a disadvantage due to late entry. There is no evidence to believe that increased advertising-always results in increased sales. The fact that the soap and cigarette manufacturers constantly introduce new brands shows that the consumers like some novelty. If the **new** entrant has a better product, there is always a better chance of its acceptance by consumers. There are many instances **of** new comers successfully competing with entrenched leaders.
- 3 Advertising directs allocation **of** resources **according** to demand: By creating demand for **goods**, advertising influences the allocation of resources. It informs people about **products** available in the market. Based on this **information**, **consumers** choose and buy those products which satisfy their needs more effectively. Thus, the goods which satisfy consumer needs better are more in demand, and manufacturers allocate their resources accordingly. Thus, advertising directs the allocation of resources in accordance with the demand for goods and contributes to economic development.
- 4 Advertising and social values: It is argued that the social values and customs are subjective. What is objectionable to one person may not be objectionable to another person. Similarly, what is good at one point of time may not be good at another point of time. It is accepted that advertising is misused occasionally by unscrupulous businessmen. But advertisement as such should not be blamed for its misuse. This misuse of advertisement may be controlled through statutory regulations.
- 5 Advertising encourages autonomy of mass media: Mass media such as newspapers and magazines **earn** huge income from advertisements which make the media **financially** self-supporting. Thus, the publishers of newspapers and magazines are able to sell them at a fairly lower price. Without advertisements the price of newspapers and **magazines** would be much higher. The earnings from advertisements make the media financially **self-supporting**. Because of this financial autonomy, media can publish matters of public interest freely and **frankly**. Thus, advertising may be said to increase freedom of the prices.
- 6 Advertising provides useful information: It is through advertisement that consumers get useful information relating to products, prices, quality, terms of sale, servicing, etc. It is the main sources of information, particularly for those who live in remote areas and cannot be approached by salesmen. **Thus**, advertising plays an informative role which is **beneficial** to consumers.
- 7 Advertising generates employment: **A** point in **favour** of advertising is that it generates employment. **A** large number of artists, designers, models, technicians, etc., work in advertising agencies and mass media, and earn their **livelihood**.

8.6 ESSENTIALS OF AN EFFECTIVE ADVERTISEMENT

As you know, the ultimate purpose of advertisement is to induce the customers and influence them to buy the goods and services. To be effective, the advertisement must have right type of message communicated through proper media so as to reach the right people at the right time and at the lowest cost possible. To achieve this, advertisement should be properly planned and designed. Otherwise, it will fail to achieve its purpose and the money spent on it will be a waste.

Designing an effective advertisement is a challenging task. There is no definite formula for that purpose. But certain guidelines may be kept in view while designing an advertisement. The essential characteristics of a good advertisement may be divided into two broad categories:

- 1) Features relating to the message
- 2) Features relating to consumer reach

Let us discuss each of these types of characteristics in detail.

8.6.1 Features Relating to the Message

The impact of an advertisement depends not only upon what is said about the product, but also how it is said. The message should be such as to win the attention and interest of the target audience. So, while designing the advertisement message, one should keep the following points in mind.

- 1 **Desirability:** The message should say something desirable and interesting about the product. Otherwise, the advertisement may fail to induce the customers to buy the product.
- 2 **Exclusive:** Customers should know how the product advertised is better than the other products. So, the advertisement message should point out the unique features of the product. In other words, it should say something exclusive or distinctive about the product which does not apply to any other brand in that product category. Then only people may realise why and how the product is better than others.
- 3 **Believable:** Whatever is stated in the message should be believable. For instance, if the message conveys imaginary qualities of any product, people will never take the advertisement seriously. The message should actually compare with the product which the customer may verify so as to be convinced. Therefore, the message should be believable and provable.
- 4 **Attractive:** If the message is attractive, it will draw the attention of the customers very easily. If the message is not catchy, it will not have any effect on the minds of people. Therefore, such words or pictures which may draw the attention of customers should be used in the advertisement.
- 5 **Memorable and easy to recall:** The message should be easy to remember, so that it may be easy to recall it. Whenever customers go for shopping, the advertisement message should come to their mind and remind them about the product. Therefore, the words used in the message should be easy to memorise and recall.

8.6.2 Features Relating to Consumer Reach

Apart from the message, the impact of an advertisement also depends on how well it reaches the target customers. For this purpose, the following points should be borne in mind while designing the advertisement.

- 1 **Appropriate media:** The advertisement message should be presented through the media to which the target customers have access. For example, if the majority of the target customers do not have television sets, the message presented by TV transmission will not reach them. Similarly, if the majority of customers are illiterate, the message presented in newspapers may not reach them. So, the use of appropriate media is highly important for the effectiveness of advertisements.
- 2 **Frequency:** Frequency refers to the number of times any advertisement is repeated within a specified period of time. It also refers to the time gap between two or more

advertisements. In other words, it refers to how many times and at what intervals the advertisement is repeated. The main purpose of repetition is to keep the message alive in the memory of the customers. If the frequency is less, people may not remember the message. If the frequency is more, people may get irritated and may stop giving attention to it. So, the frequency should be optimum.

- 3 **Timing:** The specific time of advertising the message is an equally important aspect of advertisement. For example, if the advertisement appears on the T.V. when most of the customers are not viewing it, the effect will be much less as compared with the effect when a majority of the customers are viewing the T.V. programme. Hence, the timing of the advertisement should be so detennined that it may reach the majority of customers.

Check Your Progress D

- 1 List out the purposes for which advertising is used by the business firms.
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- 2 Differentiate between informative advertising and competitive advertising.
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- 3 State the features of an effective advertisement.
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-
-
- 4 Which of the following statements are True and which are False?
- i) Advertising is not at all useful to the society.
 - ii) Advertising creates employment.
 - iii) Advertising always encourages monopoly.
 - iv) Advertisement need not be attractive to draw the attention of the customers.
 - v) Some advertisements have undesirable social and cultural impact.
 - vi) Advertising through newspaper is appropriate when the potential customers are mostly illiterate,

8.7 LET US SUM UP

Advertising is any paid form of non-personal presentation of ideas, goods or services by an identified sponsor. Publicity is non-sponsored commercially significant information about a company or its product disseminated to the public by non-personal media without a financial charge to the company.

Advertising is different from publicity, although both use non-personal media. Advertising is sponsored by some company and payment is made to the media for disseminating that message. On the other hand, publicity is not sponsored by any company and no payment is made to the media.

Business firms use advertising with one or more of the following objectives:

1) introduction of new products, 2) inducing potential customers to buy, 3) reminding users, 4) to create brand image, 5) to intimate customers about new uses of a product, 6) to highlight brand character, 7) dealer support, 8) trafficking the retail trade, and 9) other objectives like informing customers in remote areas if they are not accessible to salesmen.

While advertising serves many useful purposes and benefit individual firms, it may have both positive and negative effects from the social point of view. Advertising may

unnecessarily raise the prices of goods particularly,when expenses are incurred on competitive advertising simply to divert customers from other products without any real benefit to them. Large business firms establish brand image through advertising and are thus able to block the entry of new competitors in the market. This may lead to monopoly. However, if new comers can offer better products they may be able to compete with entrenched leaders.

Advertising indirectly determines what people should consume as it is directed to influence consumer demands to fit whatever has been produced. Therefore, productive resources may not be used in the best interest of society. Moreover, advertisements often have harmful effects on the social and cultural values of the people.

Society is also benefited in several ways as a result of advertisements sponsored by business firms. Advertising leads to the allocation of resources in accordance with the demand for goods and contributes to economic development. It provides useful information to consumers, generates employment, and helps mass media to publish matters of public interest freely and frankly.

To be effective, advertisements must have the right type of message communicated through proper media so as to reach the right people at the right time and at the lowest possible cost. The message should communicate something desirable and distinctive about the product advertised. The message should be believable, attractive, easy to remember and recall. It should be communicated through appropriate media and repeated as often as is necessary to keep the message alive. The timing of the advertising should be so determined that it may reach the majority of target customers.

8.8 KEYWORDS

Advertising: Any paid form of non-personal communication of ideas, goods or services by an identified sponsor.

Publicity: Commercially significant information about a company or its product disseminated by a non-personal media without a financial charge to the company.

Brand Loyalty: Buyers' inclination to stick to a particular brand of product while making purchases.

Brand Image: Favourable opinion that goes with a particular brand name.

Mass Media: Channels or vehicles of communication which may be used to convey messages to large numbers of people.

8.9 SOME USEFUL BOOKS

Bhushan, Y.K. 1987. *Fundamentals of Business Organisation & Management*, Sultan Chand & Sons: New Delhi. (Part Seven, Chapter 4).

Kotler, Philip, 1986. *Marketing Management — Analysis, Planning, and Control*, Prentice-Hall of India: New Delhi. (Chapter 20).

Ramesh, M.S. 1985. *Principles and Practice of Business Organisation & Management*, Kitab Mahal: Allahabad. (Section Six, Chapter 25).

Wright, John S., Willis L. Winter, Jr., and Sherilyn K. Zeigler, 1984. *Advertising*, Tata McGraw-Hill: New Delhi. (Chapters 1, 2, & 4).

8.10 ANSWERS TO CHECK YOUR PROGRESS

A	Product	'Televista' Television
	Media	Newspaper
	Message	Leadership comes in many forms. Leadership—the result of constant endeavour towards excellence and quality, manifests itself in everything the leader performs. Televista is the leading name in Televisions

UNIT 9 ADVERTISING MEDIA

Structure

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Meaning and Importance of Media
- 9.3 Types of Media and Their Characteristics
 - 9.3.1 Press Media
 - 9.3.2 Radio
 - 9.3.3 Television
 - 9.3.4 Outdoor Media
 - 9.3.5 Direct Mail
 - 9.3.6 Miscellaneous
- 9.4 Requisites of an Ideal Medium
- 9.5 Evaluation of Media
- 9.6 Choice of Media
- 9.7 Role of Advertising Agencies
- 9.8 Let Us Sum Up
- 9.9 Key Words
- 9.10 Some Useful Books
- 9.11 Answers to Check Your Progress
- 9.12 Terminal Questions

9.0 OBJECTIVES

After studying this unit, you should be able to:

- analyse the importance of media in advertising
- outline the characteristics of each medium of advertising
- state the features of an ideal medium
- describe the factors influencing choice of media
- explain the role of advertising agencies

9.1 INTRODUCTION

In Unit 8 you have learnt what is advertising, how it is different from publicity, the objectives of advertising, the role of advertising in the society and the features of an effective advertisement. As you know, for business firms advertising is a very important means of communicating with the consumers about products or services, their usefulness, quality, place where they are available, etc. The basic objective of all this is to promote sales. This objective is fulfilled only when the advertisement message reaches the intended customers. In this regard the media used i.e., the means which carry the message, is very important. In this unit we shall discuss the importance of media in advertising, characteristics of various advertising media, features of an ideal medium, and the factors influencing the choice of media.

9.2 MEANING AND IMPORTANCE OF MEDIA

The method or means adopted to communicate the message of an advertisement is known, as the medium of advertising. In other words, medium is the vehicle or carrier of advertising message to the target customers or prospects. Thus, newspaper is a medium of advertising because it carries messages in print about products and services. Similarly, radio is another medium of advertising to broadcast and communicate advertisements to the listeners. Advertisements through television carry the message about Products and services to viewers. Posters, handbills, cinema slides, outdoor display of goods, etc., are also used for advertising purposes. These are all media of advertising. The basic purpose of using the media is to bring products and services to the notice of potential customers.

Advertising consists of preparing visual or oral message and their communication for making people aware of and favourably inclined towards a product or service or a point of view. The underlying objective of all advertising is to promote sales. With the mass production of goods in modern times, sales promotion inevitably requires services of mass media which can carry the advertising message to the largest possible number of potential consumers. The media of advertising thus play a vital role in the sale of goods and services. Without the use of suitable media it is impossible to think of promoting sales in markets with hundreds and thousands of potential buyers. This is because salesmen can personally contact only a limited number of individuals or retail shops. Likewise, producers and traders cannot contact many people personally to pass on information relating to their products or services. Small producers and small traders may be able to sell their articles through personal approach. This method of sales promotion cannot be used in the case of mass production industries of to-day. Indeed growth of large scale industries and development of new methods of communication have added to the importance of advertising through different media of mass appeal like radio, television, film, etc.

The use of media not only facilitates communication of the sponsored message to the largest possible number of consumers but also enables repetition of the message as often as may be necessary. This helps to reinforce the effect of advertising as well as to remind and sustain the customers interest in a product or service.

Use of particular types of media makes it possible to convey information in as much detail as required by adjusting the size of the message to space or time. For example, press media (newspapers and magazines) may be used on payment of charges for as much space as needed, or radio and television may be used for advertising a product on the basis of time to be devoted. Of course, the cost of using larger space or longer time, is naturally more.

Mass media (which are used for reaching the public in distant parts of a country or abroad) may thus be regarded as one of the best means of creating demand and promoting sales. Even in the case of small business firms, use of certain types of media like handbills, posters and signboards, serves the purpose of reaching many more people than is possible through personal contacts. The media used for local purposes are relatively less expensive than personal selling.

Above all, media advertising provides useful support to personal selling. Salesmen and traders find it easier to impress potential customers about the usefulness or quality of products when the prospective buyers are already informed about the same through advertisements. Thus media advertising may be regarded as **complimentary** to personal selling.

9.3 TYPES OF MEDIA AND THEIR CHARACTERISTICS

A variety of media are used for advertising purpose. Different types of media, however, differ as regards geographical coverage, the type of customers that media can reach, nature of appeal to customers, cost involved, etc. On the basis of their distinguished features, the media may be divided into the following broad categories:

- i) Press (Newspapers and Magazines)
- ii) Radio
- iii) Television
- iv) Outdoor media
- v) Direct mail
- vi) Miscellaneous

Let us discuss the characteristic features of each of these media and their suitability for different purposes.

9.3.1 Press Media

Press medium is a print medium which comprises of newspapers and magazines. The main difference between newspapers and magazines is the periodicity of their publication. Newspapers are published daily, whereas magazines are published periodically i.e., weekly, fortnightly, monthly, quarterly or biannually. In both cases, however, the message is conveyed through words in print, sometimes along with pictures or **photographs**. Words in print can be made as attractive, appealing and **informative** as possible, so also the

accompanying picture. But newspapers and magazines have certain distinct features of **their own**, which are outlined below.

Newspapers : Published in different languages, newspapers are widely and regularly read by the educated public. Reading newspaper is the daily habit of many people in cities and towns and some literate people in the villages. Many have also become accustomed to advertisements in newspapers and look for them as sources of information. The circulation of some of the national dailies in India runs into several millions. Newspapers published in regional languages have also wide circulation, sometimes in more than one state. Thus, as a medium of advertising, newspapers reach a very large number of people. Secondly, newspaper advertising is relatively cheaper than other media like radio and television. The space to be used can be decided in accordance with the need and cost involved. Thirdly, newspapers provide the facility of repealing the message every day, if necessary. Besides, in case of urgency, there is scope for inserting an advertisement without much loss of time. Finally, it is possible to select a particular newspaper suitable for the audience in view. For national coverage, a newspaper which has nationwide circulation can be selected. For regional coverage, a newspaper **published** in that regional language can be selected. Since newspapers are read by the general public, they may be used as suitable media for goods of mass consumption. Many people read the newspapers in the morning and put them aside afterwards. So, the life of the advertisement in a newspaper is short.

Magazines : Magazines are also called periodicals as they are published at periodical intervals — weekly, fortnightly, monthly and so on. Different types of **magazines** are published for different categories of readers. For example, there are popular general magazines containing feature articles, news and stories e.g. India Today, Illustrated Weekly, Dharm Yug, etc.

There are magazines for children (e.g. Target, Chandamama, etc.) which include stories of **their** interest. There are magazines like Business India, Fortune, Commerce, etc., for businessmen and executives. Similarly, there are sports magazines (e.g. Sports Week, Sports Star, etc.), women's magazines (e.g. Femina, Women's Era), professional magazines (e.g. Indian Journal of Marketing, Indian Medical Journal, etc.), film magazines (e.g. Star & Style, Filmfare, etc.) and so on.

From the point of view of circulation, magazines are **not** as widely read as newspapers. On the other hand each magazine has a distinct category of readers. Since magazines are generally read over a period of **time**, **they** have longer life than newspapers. Thus, advertisers use magazines as media selectively according to the audience to be **reached**. For example, medical books, drugs, surgical equipment, medical instruments, etc., are generally advertised in medical journals. Manufacturers of office equipment, computers, etc., advertise their products in business magazines, trade journals, and so on. On the whole, the cost of advertising in magazines is relatively cheaper compared to other media like radio and T.V.

However, magazines have certain limitations. One relates to the timing of publication which is periodical. Although the published advertisement has a longer life, they are published periodically and not daily like newspapers. The other limitation is the lack of flexibility in the choice of size and design of the advertisement. The design cannot be changed as quickly as in the case of a newspaper. Moreover, the circulation of a magazine does not always indicate the number of readers or the time devoted by the readers in reading it. A magazine having limited circulation may be read more thoroughly or it may be read by many more persons than another magazine with a large circulation.

9.3.2 Radio

Broadcasting as a medium of advertising has become increasingly popular in India due to the availability of radio sets at prices which people of low income can also afford. In India radio **sets** are owned by a large number of population. Thus, advertisement appeals can reach the general public in different parts of the country very conveniently through radio broadcasts. In India advertisements are broadcast by the All India Radio (Vividh Bharati Programme) in specified channels. Radio Pakistan and Radio Ceylon also broadcast the advertisements for Indian population. As a mass medium, radio broadcasting is well suited for various consumer goods having a mass appeal such as movies, electric fans, refrigerators, sewing machines, leather goods, travelling bags, etc. The advantage of radio advertising is that, being an audio medium, it does not require education to receive the

message. The listeners need not be literates. Besides, the message which is orally communicated may be more impressive than the message in print. The limitations of radio advertising are: 1) it is more expensive than press advertising, 2) the life of the advertisement is very short, and 3) it is difficult to remember the message in detail.

9.3.3 Television

The importance of television as a medium of mass communication has significantly increased in India over the last 15 years. But its importance as a medium of advertising has grown with the use of satellite transmission and establishment of more relay stations to cover the remote parts of the country.

Individuals who cannot afford to buy TV sets are able to watch TV Programmes in community centres and public places. Use of television for advertising is increasing in recent times due to its extensive coverage and the impact of visual communication on the viewers. Its combination of sound, vision and movement permits the use of advertisement to demonstrate the product and its advantages. For this reason this medium is more effective than the press and radio. The major limitation of this medium is the heavy cost of advertising, particularly for advertisement before or after popular programme, known as prime time. Hence, only the large enterprises are in a position to make use of this medium. Another limitation is that the duration of a commercial advertisement is only for a few seconds. Also viewers often find it difficult to assimilate a large number of advertisements within a short span of time.

9.3.4 Outdoor Media

Outdoor media of advertising refer to the media used to reach people when they are out of doors or travelling rather than at home or in the office. Pamphlets, posters, hoardings (bill boards), neon signs, and electric displays come under this category of media. Pamphlets (printed handbills) are quite often used as a medium of advertising for sales promotion in a local area. Pamphlets are distributed among passers by at street crossings, railway stations or bus terminals, roadside market places, etc. Posters (message printed on Paper) are generally fixed on walls, roadside pillars lamp posts, etc. Posters are also fixed inside public transport vehicles like trams, buses and railway coaches. In these cases space is provided on payment.

Neon signs and electric displays are usually installed on roof tops or at busy street crossings so as to draw the attention of people. These are visible only in the night. Hoardings (bill boards) refer to large boards carrying the message, sometimes with life size pictures, and installed at public places. Hoardings are specially designed to draw the attention of the public. As the size of the hoardings is normally large, advertisement is visible from a distance.

Outdoor media like pamphlets, posters, neon signs, electric displays and hoardings have different degrees of attention value. Pamphlets have temporary impact on the people who receive them when they are passing by and often have other matters in their mind. Posters have the disadvantage that only those who look at them may notice their existence. Besides, posters in public places are likely to have a short existence either due to superimposition of other posters or their removal by other postening agents. Neon signs and electrical displays normally attract more public attention but these are effective only during the night time. Hoardings have the maximum attention value due to the big size and installation at prominent locations.

The cost of hoardings is quite high due to the heavy initial expenditure required for its preparation and installation. The rent to be paid for locating it at a public place is also quite high. Neon signs and electric displays involve fairly high initial costs for preparation and installation. It also involves considerable recurring expenditure for use of neon gas or electrical energy besides rent to be paid for location at public places. Posters fixed on walls or pillars may be initially less expensive. Posters fixed on the space provided in public transport (buses and railway coaches) involve payment of periodic charges. However all outdoor media are by and large less expensive than radio and television advertising.

9.3.5 Direct Mail

Sending personalised letters by post to the prospective customers is a method of advertising which often pays. These communications are mostly in the form of circulars

and sometimes **accompanied** by catalogues or price lists. The idea behind **mailing circular** letters is to approach the customers directly with the advertising message and to arouse his interest in the product or service with detailed explanation in a convincing manner. A mailing list is thus prepared and the **letter** is carefully **drafted** with personalised wordings.

The message having a personal touch is expected to be more effective. The **info** may be elaborated and hence likely to be more convincing. Addressed to individual, name, the message can draw the attention of the customer without distraction from competing advertisements.

Direct mail cannot be a suitable medium for advertising products meant for public use on a mass-scale. It is best suited for products where the people to be contacted can be easily identified. For example, a company manufacturing or distributing pharmaceutical products (medicines) may easily identify the doctors or chemists for direct communication of information relating to the products. Similarly, a book publishing company may conveniently identify university teachers and send circular letters to promote the sale of its publications. But, for promoting the sale of (say) toilet soap or wrist watches, or pen direct mail is not a suitable **means** of advertising. It would be expensive and time consuming to undertake direct **mailing** of circular letters to innumerable consumers of such products who are widely scattered. Booklets, pamphlets, catalogues, etc., sent by post to prospective customers also come under direct mail. These are also suitable only in the case of a selective group of customers.

9.3.6 Miscellaneous

Apart from **the** media discussed above, there are several other types of media used for advertising. Some such media are slide projection in cinema houses, films, exhibitions, display in show-cases, etc. Calendars, diaries, key-rings, purses, paper weights, etc., imprinted with a message along with the advertiser's name and address are also considered as advertising media. Projection of slides in the cinema theatre before and during the film show is one of the cheaper means of advertising. Projection of short-films before the commencement of feature film is a relatively more expensive medium of advertising. But it has the advantages similar to that of television advertising. Moreover these short films are usually of longer duration (about 5 minutes) than TV commercials. However, slides **or** films are viewed only by local people present in the theatre during the show time.

Exhibitions also provide opportunities for advertising goods. Consumer goods can be displayed and the use of industrial goods like machinery, can be demonstrated in the exhibition. The limitation of exhibitions is that **their** duration is restricted to a specified period.

Show cases displaying goods are located in public places like railway stations, **airports**, bus **terminals**, etc., to attract the attention of the public. Rent is payable for the space. Attractiveness of the products and the manner they are displayed are **the** main features of this advertising medium.

Check Your Progress A

1 What is an advertising medium?

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.....

.....

2 Which of the following statements are True and which are False?

- i) Newspaper advertising is relatively cheaper **than** television advertising."
- ii) As advertising media, specialised magazines are most **suitable** for consumer goods of daily use.
- iii) Radio advertising is not as effective as television advertising.
- iv) Many more consumers can be reached through newspapers than through radio broadcasts.
- v) Hoardings have greater attention value than posters.
- vi) Direct mail is most suitable for advertising consumer goods.

3 Match the items in Column A with the items in Column B.

Column A	Column B
i) Radio	a) Print medium
ii) Television	b) Visual medium
iii) Newspaper	c) Audio-visual medium
iv) Neonsign	d) Audio medium

9.4 REQUISITES OF AN IDEAL MEDIUM

You have learnt about the characteristic features of different media. Now let us learn what are the requisites of an ideal medium of advertising. Broadly speaking, the ideal medium should have the following characteristics:

- 1) **Reach:** The medium should be such as to reach the largest possible number of the target audience.
- 2) **Message:** It should be possible to convey the message adequately through the medium.
- 3) **Economy:** The medium must be economical from the point of view of cost.
- 4) **Flexible:** It should provide flexibility of size, design, layout, colour, etc.
- 5) **Scope of repetition:** The medium should provide adequate scope for repeating the message, if necessary, at frequent intervals.
- 6) **Effective:** The use of the medium should result in achieving the goal of sales promorion.

9.5 EVALUATION OF MEDIA

You have learnt about various media and the requisites of an ideal medium of advertising. Now the question is which **can** be regarded as the best medium. As a matter of **fact**, no single medium can be considered suitable in all situations. For this, let us **evaluate each** media in the light of the characteristics of an ideal medium. Look at Table 9.1 for comparative study of various media.

Table 9.1
Features of Advertising Media

	Newspaper	Magazine	Radio	Television	Outdoor	Direct Mail
Circulation or reach	Maximum circulation among educated people	Restricted circulation among educa- ted people	Reaches large number of people	Viewers are less than the listeners of radio	Mostly by local people	Limited to the members on the mailing list
Duration of attention	Very Short period of one or two hours	Extended over a week or more	For a few seconds	For a few seconds	Brief attention, uncertain	Brief ntention, certain
Cost	Variable according to space	Less expen- sive than newspaper	More expen- sive than newspapers & magazines	Most expen- sive	Less expen- sive than newspapers except for bill boards	Moderately expensive. Depend on the size of mailing list.
Flexibility of size, design, etc.	Highly flexible	Less flexible than news- papers	Restricted flexibility depending on available time	Restricted flexibility due to high cost & depen- ding on avail- able time	Moderately flexible depending on cost	Highly flexible
Suitability	Goods for mass consumption	Industrial and specia- lised goods	Goods for mass con- sumption	Mass consu- mption goods	Goods with brand names	Goods having well defined mnrkets

Degree of audience	Possible for regional and linguistic selectivity	Greater degree of selectivity	Limited. Possible for regional and linguistic selectivity	Limited. Possible for regional and linguistic selectivity	Regional selectivity	Greater degree of selectivity
Repetitive value	Possible to repeat every day	Restricted to frequency of publication	Quick repetition possible	Quick repetition possible	Seen every time the prospect passed by it	Depends on frequency of mailing

If you **analyse** the table carefully, you will **realise** that no single **medium** is **having** all the requisites of an ideal medium. Each medium is ideal in some aspects and not ideal in others. For instance, newspaper and **magazines** have wide circulation, flexibility, scope for audience selectivity, etc., but they are not suitable for communicating to illiterate people. Television is a visual media which is very effective, but it is the **most expensive** medium. Radio does not have visual impact. Outdoor media **suits** local advertising only.. Direct mail is not suitable when the prospective customers are very large. Thus, a particular medium may be suitable in one **situation** but not suitable in others. Hence, you have to be careful in the selection of the medium and make your **choice** according to **the** requirements of a given situation.

9.6 CHOICE OF MEDIA

You have learnt that these are different types of **media** available for **advertising** and each medium had certain **distinct** characteristics of its own. No single medium **has** all the ideal features. **A** particular medium which is suitable in one **situation** may not be suitable in other situations. So the manufacturer or distributor (trader) is required to select **one or** more media which will be most suitable for his purpose. The following factors influence the choice of media:

- 1) Character of the media
- 2) Nature of the product to be advertised
- 3) Type of audience
- 4) Coverage
- 5) Cost

1 Character of the medium: To judge the suitability of **any** medium, the characters of different types of media should be analysed on a factual basis. **The following** aspects of the media are to be considered before choosing any particular **medium**.

- a) The geographical coverage of the medium i.e. **national**, regional or local.
- b) **The frequency** and duration of exposure of the message to **the** audience.
- c) Method of **communication i.e.**, visual, oral, both visual and oral, etc.
- d) Power of the **medium** to reach special **categories** of audience **e.g.** children, ladies, business executives, etc. This is also called audience selectivity.
- e) Scheduling flexibility is another **factor**. **Producing** a **TV** advertisement takes **more** time than producing a newspaper advertisement. Similarly, withdrawal of advertisement with a short notice is not possible with **some media**.
- f) **Production** quality of the media.
- g) Degree of permanence or durability in the sense that how long **the** advertisement **can remain** before prospective customers' **eyes** or **within** their grasp. A TV advertisement disappears within a few seconds whereas an **hoarding** continues delivering the same message to the passing public for a year or more.

Thus for a large **manufacturer**, a medium with **the national coverage** will be more suitable. To build up brand image, frequency of exposure may be **more** important than duration of exposure. On the other **hand**, to provide very detailed information about the product, duration may be more important. Demonstrating the usefulness of Polaroid camera may require a medium to make oral and visual **presentation**. To advertise ladies garments it may be useful to select women's magazines like the Femina or **Women's Era**.

- 2 **Nature of the product:** Consumer goods need to be advertised with different types of appeal for effectiveness. Familiar goods of daily consumption do not require elaborate description, while **industrial** machinery may require technical details to be explained. The size of advertisement and the time of exposure required vary according to the nature of the products. Again, advertisement for consumer goods can reach the largest possible number of people through mass media like newspapers, radio and television. But industrial goods may be more effectively advertised through trade and technical magazines. Advertisement of **garments** is best done in multi-colour printing in magazines.
- 3 **Type of audience:** Media habits of the target audience to be reached is one of the important factors to be considered while selecting the medium. If the target audience are illiterate, press medium (newspapers and magazines) is ineffective. Similarly, if the target customers are in villages where there are no TV sets, advertising by **TV** is a waste. The most effective medium to reach housewives in the urban areas may be the radio or television, and for business executives it may be a professional magazine. Therefore, the characteristics of the target customers with respect to media are very important in selecting proper medium.
- 4 **Coverage:** How many and what percentage of the potential buyers can be approached through each possible medium are also determining factors in the choice of a medium. One medium may be able to reach more number of target customers than the other media. Therefore, a medium which can reach the maximum number of target customers should be **preferred**. For instance, if target audience are illiterate and do **not** have TV sets, short films in the cinema halls may be more effective. Similarly, the number of doctors who can be reached through direct mail is expected to be more than the number who can be reached through any other medium. To advertise sewing machines to the urban customers, women's magazines may be more appropriate as the appeal will reach many more ladies through this medium.
- 5 **Cost:** The most important factor determining the choice of a medium is the cost involved. Cost of a medium may be analysed in two ways: 1) absolute cost, and 2) cost related to audience size. Absolute cost is the actual charge for buying a certain amount of time or space in a medium. If the small firm had set aside a small amount for advertising, it cannot afford to use an expensive medium. For instance TV is a very expensive medium whereas newspaper advertising is relatively cheaper. However, what is important is not the absolute cost of using each medium but the size of the target, audience reached in relation to the cost. Relative cost **is** a comparative cost. It is the absolute cost related to the size of the audience served by the chosen medium. For instance, charges for a full page advertisement in two different magazines may be exactly the same. But if one magazine has a circulation of 3 lakh and the other has a circulation of 4 lakh, advertisers choose the second magazine as it reaches more number of customers for the same money.

9.7 ROLE OF ADVERTISING AGENCIES

In advertising, we find three major participants: 1) media owners, 2) sponsors, and 3) advertising agencies. The owners of different media may be regarded as the sellers of space or time for the respective media, while the buyers of the media space or time are the sponsors or advertisers. The advertisers and media owners in many cases directly deal with each other. The advertiser selects the medium and negotiates the **terms** and conditions with the media owners, who have prescribed rates depending on the size, design, duration, etc., of the advertisement. Large manufacturing companies often have expert staff of their own to design the advertisement and decide on the media according to budgetary allocation for advertising and sales promotion.

However, over the years, advertising agencies have developed to **undertake** the advertising function on behalf of the advertisers. The **skill** and expertise which **characterise** the advertising agencies enable large companies to take advantage of their services on payment of a 'fee' or 'commission' besides the cost of preparing the layout, design, etc., of the advertisement. Most of the agencies handle all aspects of advertising including media selection on behalf of their clients. These agencies perform an **important** role in providing **expert services** as media specialists which the **advertisers** would not be able to develop in their own organisation. Some of the agencies are also enlisted with the media owners as

recognised agencies for grant of discount on the contracts for space and time. A part of this discount is shared with the client advertisers of the agencies. Thus, the area of **contact** between the advertisers and media owners is reduced.

Check **Your** Progress B

1 List the features of an ideal medium of advertising?

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.....

.....

2 What is the main difference between TV medium and Radio medium?

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.....

3 Which of the following statements are True and which are False?

- i) The life of the advertisement message is shorter in newspaper medium compared to magazine medium.
- ii) An ideal medium is always least expensive.
- iii) Advertising agencies take up the responsibility of distributing the goods.
- iv) If the target customers are illiterate, press is not a suitable medium for advertising.
- v) Direct mail is the best medium when the target customers are very few.
- vi) Outdoor media is suitable for advertising at national level.
- vii) TV medium is the most effective but also the most expensive medium.
- viii) Professional magazine is suitable for advertising sophisticated electronics equipment.

4 Match the items in Column A with the items in Column B.

Column A	Column B
i) Toys	a) TV
ii) Demonstration	b) Hoardings
iii) Few customers	c) Children's magazines
iv) Customers in small area	d) Women's magazines
v) Sarees	e) Mail order

9.8 LET US SUM UP

The method or means adopted to communicate the message of an advertisement is known as the **medium** of advertising. The growth of large scale industries and development of modern methods of communication have added to the importance of advertising through different **media** of mass appeal. The media not only facilitate communication of the sponsored message but also enable repetition of the message as often as necessary. Use of a particular medium also makes it possible to convey information in as much detail as required. Above all, **media** advertising provides useful support to personal selling.

The various types of media which advertisers can use may be divided into the following categories: (i) press (**newspapers** and magazines), (ii) radio, (iii) television, (iv) outdoor media, (v) direct mail, and (vi) miscellaneous.

Press medium consists of newspapers and magazines. The main difference between these two types is that the newspapers are published daily while magazines are published periodically i.e., weekly, fortnightly, monthly, etc. As a medium of advertising, newspapers serve the purpose of reaching a very large number of literate people. It is

relatively cheaper than radio or television. It provides scope for repeating the message every day, if necessary. The advertiser can also select newspapers with national or regional or local coverage as needed. This medium is suitable for advertising the products of mass consumption. But, newspapers have a temporary impact on the readers. Magazines are published periodically and reach different categories of literate people. Magazines are not as widely read as newspapers. On the other hand, each magazine has a distinct category of readers. Thus, magazines may be used selectively according to the audience to be reached. However, there is a time gap between the publication of magazines. Besides, it does not provide adequate flexibility in the choice of design, size, etc., of the advertisement. The circulation of magazines does not always indicate the number of readers.

As a mass medium, radio broadcasting is very suitable for consumption goods and products having mass appeal. The listeners include all categories of people who may or may not be literates. Oral communication is relatively more impressive than printed messages. But the message needs repetition as it is difficult for the listeners to remember what they have heard. Moreover, it is a more expensive medium than press advertising.

For commercial advertising television has become increasingly popular. Its effectiveness as a medium is much greater than the radio due to the combination of sound, vision and movement. Consumer goods of all types are widely advertised through television. The limitations of this medium are: i) heavy cost involved, and ii) the duration of the message telecast is very short, hardly a couple of seconds. And it is difficult for viewers to assimilate a large number of advertisements within a short span of time.

Outdoor medium of advertising is the medium used to reach people when they are out of doors or travelling. Included in this category are: pamphlets, posters, hoardings, neon signs, and electric displays. These media have different degrees of attention value. There are differences in cost of using these outdoor media, the more expensive being the hoardings, neon signs, and electrical display. On the whole, however, outdoor medium is less expensive than radio and television advertising.

Direct mail includes sales letters, bulletins, booklets, catalogues, etc., mailed to individuals directly by the advertiser. Of these, the sales letters are expected to be more effective as they convey the message with a personal touch. Also it permits detailed explanation to be conveyed in a more convincing manner. Personalised communication can be more impressive. It can draw the customers attention without distraction from competing advertisements. The medium is more suitable for advertising products to a selected category of identifiable persons.

Several other types of media used by advertisers are: slide projections, films, exhibitions, display in show cases, and free distribution of calendars, diaries, key rings, purses, etc.. imprinted with a short message.

The ideal medium of advertising should have the following characteristics. Widest reach or coverage, adequate communication of message, economical, flexible, scope of repetition, frequency of exposure, and effective from the point of view of results. No single medium is having all these ideal features. Each medium is ideal in some aspects and not ideal in other aspects. The choice of a suitable medium is influenced by the following factors: (1) character of the media, (2) nature of the product, (3) type of audience, (4) coverage, and (5) cost.

Advertising agencies perform the useful functions of providing expert services as media specialists to the large advertisers on payment of a fee or commission. They handle all aspects of advertising including media selection on behalf of their clients.

9.9 KEY WORDS

Audio Media: Communicating messages through sound i.e. words spoken or musical notes produced as in the case of radio.

Audio-visual Media: Communicating messages by means of sound as well as visuals as in the case of TV.

Media: The means of communicating advertising message, the vehicles of communication.

Personal Selling: Selling through salesmen.

9.10 SOME USEFUL BOOKS

Bhushan, Y.K., **1987. *Fundamentals of Business Organisation & Management***, Sultan Chand & Sons: New Delhi. (Part Seven, Chapter 4).

Kotler, Philip, **1986. *Marketing Management-Analysis, Planning and Control***, Prentice-Hall of India: New Delhi. (Chapter 20).

Sing, B.P., and T.N. Chhabra, **1988. *Business Organisation and Management***, Kitab Mahal: Allahabad. (Part one, Chapter 25).

Ramesh, M.S., **1985. *Principles and Practice of Business Organisation & Management***, Kitab Mahal: Allahabad. (Section Six, Chapter 25).

Wright, John S., Willis L. Winter Jr., and Sherilyn K. Zeigler, 1984. ***Advertising***, Tata McGraw-Hill: New Delhi. (Chapters 1, 2 & 4).

9.11 ANSWERS TO CHECK YOUR PROGRESS

- | | | | | | | |
|---|---|-----------|-----------|------------|-----------|---------|
| A | 2 | i) True | ii) False | iii) True | iv) False | v) True |
| | | vi) False | | | | |
| | 3 | i) d | ii) c | iii) a | iv) b | |
| B | 3 | i) True | ii) False | iii) False | iv) True | v) True |
| | | vi) False | vii) True | viii) True | | |
| | 4 | i) c | ii) a | iii) e | iv) b | v) d |

9.12 TERMINAL QUESTIONS

- 1 What do you understand by advertising media? Discuss the importance of media for advertising.
- 2 Analyse the features of the following media of advertising :
 - i) Radio
 - ii) Newspaper
 - iii) Television
- 3 What is meant by outdoor media of advertising? Mention at least three outdoor media and explain their features.
- 4 Discuss briefly the features of an ideal advertising medium. What are the factors to be taken into consideration while choosing a suitable medium?
- 5 Write short notes on the following:
 - i) Direct mail as a medium of advertising
 - ii) Role of advertising agencies
 - iii) Advertising through magazines
 - iv) Cost of advertising as a determinant of suitable medium.

UNIT 10 HOME TRADE AND CHANNELS OF DISTRIBUTION

Structure

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Home Trade and Distribution System
- 10.3 What is a Channel of Distribution?
- 10.4 Functions of Channels of Distribution
- 10.5 Channels of Distribution Used
 - 10.5.1 Channels of Distribution used for Consumer Goods
 - 10.5.2 Channels of Distribution used for Industrial Goods
- 10.6 Factors Influencing the Choice of Channel
- 10.7 Types of Middlemen
 - 10.7.1 Functional Middlemen
 - 10.7.2 Merchant Middlemen
- 10.8 Role of Middlemen
- 10.9 Let Us Sum Up
- 10.10 Key Words
- 10.11 Some Useful Books
- 10.12 Answers to Check Your Progress
- 10.13 Terminal Questions

10.0 OBJECTIVES

After studying this unit, you should be able to:

- explain home trade and the nature of distribution system
- state the meaning and functions of channel of distribution
- describe the common distribution channels used
 - outline the factors influencing the choice of a distribution channel
- explain the role of middlemen in the distribution system
 - distinguish between different types of middlemen

10.1 INTRODUCTION

As you know, in the modern society the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at a few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country. Similarly Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Something is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country. Thus, in most of the cases goods are produced at one place while they are consumed at various other places. It is not possible for all the consumers to know the place where goods are produced and contact the producers directly. Similarly, it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste.

There is another barrier which arises due to time lag between production and consumption. The goods produced are not consumed at the same point of time. Some goods are produced throughout the year, but their consumption is seasonal. For example, umbrellas and raincoats are used only during rainy season, woollen garments are used only during winter season. In some other cases, goods are produced during a specific season while they are consumed continuously throughout the year. For example foodgrains are produced by farmers during a particular season and are consumed throughout the year. Thus, in many cases, there is time lag between production and consumption.

Producers and consumers are, thus, separated by place and time. Production has no value unless goods are supplied to the consumers at the right place and at the right time. Hence the distribution of goods assumes importance in the business operations. It is the distribution system which moves the goods from the place of production and make them available to the consumers at the right place and right time. In this unit you will learn how the distribution system facilitates the flow of goods from producer to consumer and what channels are generally used for the distribution of consumers' and producers' goods. You will also study the factors that affect the choice of a channel and the role of various types of middlemen involved in the distribution system.

10.2 HOME TRADE AND DISTRIBUTION SYSTEM

As you know that the goods produced in a country can be sold within the country or outside the country. When the exchange (sale and purchase) of goods takes place within the boundaries of a country, it is known as home trade. It is also called **domestic** trade. Similarly, if the exchange of goods takes place across the **boundaries** of a country, it is called foreign trade. You will learn in detail about the foreign trade in Unit 12. In this unit we will discuss about the home trade only.

You know a large variety of goods are traded within the **country** in markets located in cities, towns and villages. You can notice small shops such as provision stores, medical stores, cloth stores, etc. which display a variety of goods for customers to buy. You will observe that these shops are located in **places** where the customers can conveniently reach and make their purchases. All the goods sold in these shops must have been produced elsewhere either in the factories or in the agricultural farms. How the goods produced in the factories or **farms** reach these shops located in cities, towns and villages? Somebody must have taken that responsibility and performed various functions necessary to move the products from the place of production to the places where the consumers can buy. The system which is concerned with the movement of goods from the point of production to the point of consumption may be called distribution system. The distribution system performs a variety of functions to ensure the smooth and continuous flow of goods. We can list the functions of a distribution system as follows:

- 1) **Buying and Assembling:** For selling the goods, they have to be bought first. For buying the goods, it may be necessary to contact producers in different places. Purchases must be **made** in adequate quantities so that it becomes economical for handling. In this process, goods may have to be procured from different sources of supply and assembled in a warehouse or **godown** till the time they are sold.
- 2) **Standardisation and Grading:** To facilitate the sale and purchase of goods, different varieties must be sorted out so that goods of uniform quality may be offered for sale. Manufactured goods are generally graded according to size, shape, colour, quality etc., at the time of production itself. So there is no need for grading afterwards. But agricultural products have to be graded according to the differences in their quality because the **farmers** normally do not undertake grading before they sell them in the market.
- 3) **Branding:** The producers often select their own brand names for the goods they market. **These** brand names help easy identification of the goods offered for sale e.g., Postman oil, Hamam soap, Onida TV, Brooke Bond Coffee, etc. By using brand name the producer or seller tries to distinguish his products from other competing brands.
- 4) **Packing and Packaging:** Certain types of goods have to be put in proper containers or packed properly to prevent damage in course of transportation or storage or handling. On the other hand, presenting goods in convenient packages, boxes, tins, or bottles, is necessary for easy handling by buyers or for resale. Thus, packing as well as packaging of goods is necessary to facilitate the sale of goods.

Besides these major functions there are certain other functions like transportation, risk bearing, market information, financing, warehousing, etc. All these functions are to be performed by various agencies involved in the distribution system.

Check Your Progress A

- 1) Distinguish between home trade and foreign trade?

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2 Which of the following statements are True and which are False?

- i) Distribution means only buying and selling of goods.
- ii) Brand names help buyers to identify the products easily.
- iii) Grading and Packaging mean the same thing.
- iv) The distribution system means transportation of goods from factories to markets.
- v) Collection of goods from different sources of supply is known as assembling.

3 State whether the following transactions come under home trade or foreign trade.

- i) A wholesaler in Bombay sold goods to a retailer in Delhi.
- ii) Mr. Rajesh bought a colour TV for his personal use from a dealer in Delhi. Later Mr. Rajesh migrated to Nepal and carried the TV with him.
- iii) A wholesaler in Madras bought cameras from a manufacturer in Japan.
- iv) A Manufacturer in Hyderabad sold leather goods to a wholesaler in London.

10.3 WHAT IS A CHANNEL OF DISTRIBUTION?

You have learnt that the distribution system is concerned with the movement of goods from the point of production to the point of consumption which involves a variety of functions. You also learnt that such functions are performed by various agencies involved in the distribution system. The main participants in the distribution system are: (i) the manufacturers, (ii) the intermediaries, (iii) the facilitating agencies, and (iv) the consumer's. Let us study the role of each participant.

Manufacturers produce the goods. In the distribution system this is the starting point for the goods. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organisations other than intermediaries. They help the distribution of goods from originalors to users. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are advertising agencies, banking institutions, insurance companies, transportation agencies, and warehousing companies. You have learnt about these agencies as 'aids to trade' in Unit 1. The fourth category of participants in the distribution system, i.e. consumers, are the final destination for goods in the distribution system.

Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term 'Channel of Distribution' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channel of distribution is mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumer. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer are called the channel of distribution. Thus, the *channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.*

10.4 FUNCTIONS OF CHANNELS OF DISTRIBUTION

The functions performed by channel of distribution may be grouped into three categories as follows:

- 1 . Transactional Functions
- 2 Logistical Functions
- 3 Facilitating Functions

1 Transactional Functions: Functions necessary to a transaction of the goods are called transactional functions. Buying, and risk bearing functions come under this category. Participants in the channel of distribution undertake these three functions. Producers sell the goods and intermediaries buy them. Later intermediaries sell the goods and consumers buy them. Because of this buying and selling by the channel participants, title to goods change hands and goods flow from producer to consumer. If there is no willingness for buying and selling, there would be no **transaction**. When goods are bought, it involves risk also. For instance, an intermediary bought goods from the producer with the intention of selling at a profit. But he incurred loss due to fall in price. All the participants in the distribution channel assume such risk of loss.

2 Logistical functions: The functions involved in the physical exchange of goods are called logistical functions. Distribution channel performs some functions like assembling, storage, grading and transportation which are essential for physical exchange of goods.

Goods are assembled in sufficient quantity to constitute an efficient selling and shipping quantity. Sometimes, it is also necessary to assemble a variety of goods to provide an assortment of items desired by buyers. Grading and packing of goods facilitate handling and sale of goods promptly. Proper storage of goods prevents loss or damage as well as helps regular supply of goods to consumers whenever they want. Transportation **makes** goods available at the place at which the buyers are located. In the channel of distribution all these functions are performed so that various types of goods may reach the market place at proper time and may be conveniently sold to the ultimate consumers.

3 Facilitating functions: These functions facilitate both the transaction as well as physical exchange of goods. These facilitating functions of the channel include postpurchase service and maintenance, financing, market information, etc. Sellers provide necessary information to buyers in addition to after-sales services and financial assistance in the form of sale on credit. **Similarly**, traders are often guided by producers to help them in selling goods, while the traders also inform producers about the customers opinion about the products.

Thus, the channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post purchase service and maintenance, financing, market information, etc. But the relative importance of these functions **may** vary according to the nature of the goods. For example, transportation and storage are more important for perishable goods and bulky materials, such as coal, petroleum products, iron ore, etc. **In** the case of automobiles and sophisticated **electronic** goods like computers, after sales service is very important.

10.5 CHANNELS OF DISTRIBUTION USED

You have learnt about the nature and functions of channels of distribution. We shall now discuss the channels of distribution **commonly used** by the producers.

We can classify the distribution channels into two broad categories: (1) direct channels, and (2) indirect channels (use of middlemen).

1 Direct Channels: When **the** producers sell their goods directly to the consumers it is called a direct channel. No middlemen is present between the producer and the consumer.

They establish direct link with the consumers through travelling salesmen or through their own retail shops or show-rooms. The producer or manufacturer may employ salesmen to book orders by contacting **the potential** users, and supply may be arranged from the stock held by the producer himself. Alternatively, the producer may set up retail **shops/show** rooms in different localities and **sell goods** directly to the customers as shown below.

- 1 **Producer** → Travelling Salesman → Consumer
- 2 **Producer** → Retail shop/showroom → Consumer

2 Indirect channels: In the case of all the products it is not possible for the manufacturer to supply goods directly to the consumers. So may be middlemen like wholesaler, retailer and mercantile agents may be engaged in the **channel** of distribution. When the middlemen are engaged, it is called an indirect channel. As shown below, there could be four indirect channels.

1 Producer → Retailer → Consumer

2 Producer → Wholesaler → Consumer

3 Producer → Wholesaler → Retailer → Consumer

4 Producer → Agent → Wholesaler → Retailer → Consumer

The manufacturer may supply goods directly to retail traders. In this case the producer ascertains the requirements of retailers at periodical intervals and goods supplied accordingly. As and when required, the retailer may also procure goods from the producer's **godown** located in that region. In the same way, the producer can supply goods to the consumers by using the services of the wholesale trader. Alternatively, the producer can use the services of the wholesaler as well as the retailer. In this case the manufacturer may supply his products in bulk to wholesalers. The retailer may buy periodically from the wholesaler and sell the same to the consumers located in his locality. Another alternative channel of distribution consists of mercantile agent, wholesaler and retailer. In this case, the manufacturer deals with a mercantile agent. Then the wholesalers buy the goods from the agents and sell the same to retailers. In turn the retailer sells it to the ultimate consumers.

We have understood that there are a number of channels of distribution prevalent. Let us now examine how these channels of distribution are varying from one type of product to another type. Basically we can classify the goods into two categories: 1) consumer goods, and 2) industrial goods. Let us now discuss briefly about the channels of distribution for these two categories of products.

10.5.1 Channels of Distribution Used for Consumer Goods

As you know, the goods which are consumed by the household consumers are called consumer goods. Under this category you can find a very wide range of items such as food items, stationery, cars, clothing, shoes, household electrical appliances, TV sets, transistors, etc. The channel of distribution used for different products is not the same. Channels are different from one type of product to the other. Look at Figure 10.1 carefully. It gives the idea about the channels of distribution for some of the consumer goods.

As shown in the figure, sometimes consumers go directly to the factory and buy the goods or order the goods from the catalogue. Durable consumer goods like cars, clothing, furniture, textbooks, shoes, etc., are generally distributed through retailer. In many cases showrooms are established by the manufacturer himself which undertake the retail trade. For example, Bata Shoe Company sells shoes through its showrooms. Consumer goods like auto spare parts, stereos, video recorder, etc., are distributed through wholesalers and retailers. Consumer goods of daily need like foodgrains, sugar, salt, edible oil, soap, paper, pencils, etc., are generally distributed through agent or broker, wholesaler and retailer.

10.5.2 Channels of Distribution Used for Industrial Goods

As you know, the goods which are consumed by industry for further production of goods are called industrial goods. Under this category there are a variety of products such as machinery, equipment, industrial raw-materials (e.g. sugarcane, cotton, coffee, oilseeds, iron ore, etc.), electrical and electronic components, etc. The channels of distribution are not similar for all the products under this category. Look at Figure 10.2 carefully. It presents the channels of distribution for some of the industrial goods.

High value industrial goods like mainframe computers, aircraft, heavy machinery, etc., are supplied directly to the buyers. In these cases manufacturers procure orders by mail on the basis of catalogues and price lists. Sometimes salesmen are also used to contact the buyers. Relatively less expensive items like trucks, conveyor systems, etc., are supplied through distributors. You know industries consume many agricultural products. For instance, tea leaves are processed to prepare tea powder which we use for preparing tea. Agricultural products like corn, coffee, soyabeans, etc., are procured by the industrial buyers through agent middlemen. When electrical components are imported from foreign markets, they are procured through an agent and industrial distributor.

Figure 10.1
Channels of Distribution for Consumer Goods

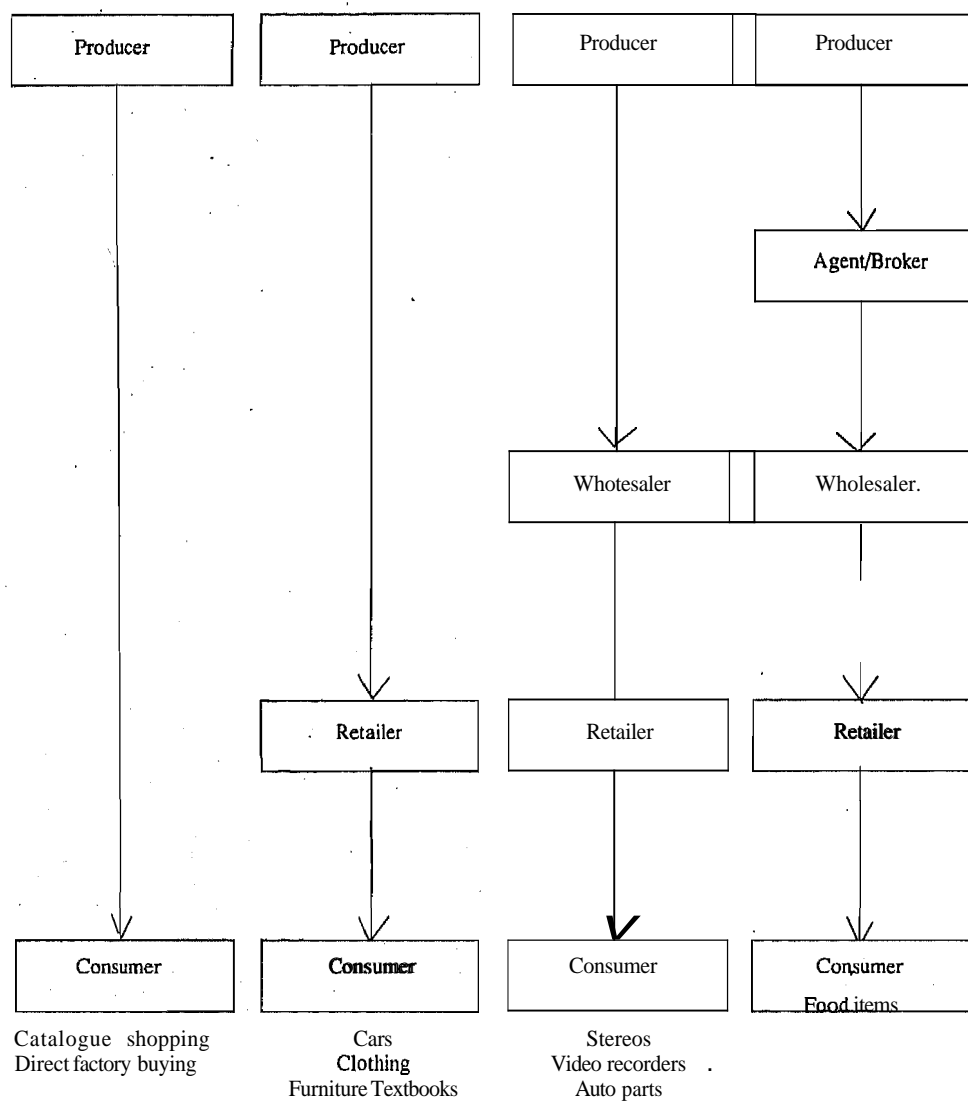
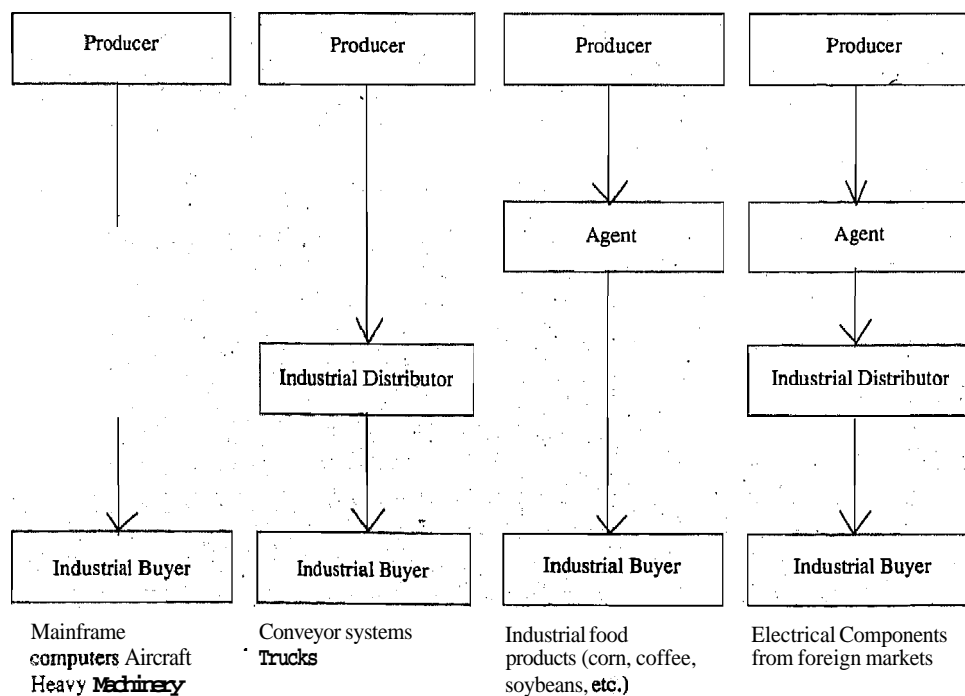


Figure 10.2
Channels of Distribution for Industrial Goods



10.6 FACTORS INFLUENCING THE CHOICE OF CHANNEL

We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channels as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternatives available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of channel for distribution of any product should be such that it effectively meets the need of customers in different markets at reasonable cost. The following factors generally influence the choice of the channel of distribution :

- 1 Distribution policy
- 2 Characteristics of the product
- 3 The target customers in view
- 4 Supply characteristics
- 5 Types of middlemen in the field
- 6 Channel competition
- 7 Potential volume of sales
- 8 Costs of distribution
- 9 Profits expected in the long-run

1 **Distribution policy** : Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one channel to reach the target customers. This is known as intensive distribution policy. The purpose in this case is to make the product available as near to the consumers as possible. Consumer goods of frequent use like pens, pencils, paper, soap, hair oil, etc., are distributed through a large number of wholesalers and retail traders.

If goods are meant for customers who are very particular about their quality and usefulness, manufacturers adopt a selective distribution policy. In that case, few selective channels which can be relied upon for their efficiency of operation are used. For examples, goods like computers and TV sets, which require special services, are distributed through selected outlets like dealers with established reputation of dealing in those products and having a sound financial position.

Sometimes, companies, manufacturing complex machinery, scientific instrument, etc., appoint particular agents for distribution of the products. In other words, the manufacturers prefer a single outlet. The agents or distributors become exclusive dealers of the items because of their technical knowledge and experience of dealing in that particular product line. This is known as exclusive distribution policy. Thus, the choice of the distribution channel is dependent on the distribution policy adopted by the producer of goods.

- 2 **Characteristics of the product** : The nature of the product influence the choice of channel. For example, perishable products like eggs, milk, etc., are supplied either directly or through the short channels. In the case of heavy and bulky products (e.g. cement, steel) where distribution and handling costs are more, short channels are preferred. Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc. Similarly, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.
- 3 **Characteristics of target customers** : If the number of customers is large and geographical area is extensive, long and multiple channels are necessary for intensive distribution of goods. This is also suitable where the consumers are in the habit of making frequent purchases of small quantities at irregular intervals. Short channels and direct selling are possible in the case of few customers who purchase large quantities at regular intervals and they are concentrated in a small area.
- 4 **Supply characteristics** : Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Particularly this is more so if each producer controls a fairly large share of the market. Long channels are suitable if a large number of producers in different regions produce and supply the goods.
- 5 **Types of middlemen** : Availability of suitable middlemen in the channel of distribution

is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient that channel may be preferred by producers.

- 6 **Channel competition** : There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.
- 7 **Potential volume of sales** : The choice of the channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. One outlet may not be adequate for achieving the target in which case more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels:
- 8 **Cost of distribution** : The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.
- 9 **Long-run effect on profit** : Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications as well.

Check Your Progress B

- 1 What is a channel of distribution?

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- 2 Distinguish between intensive distribution and exclusive distribution.

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- 3 What is a direct channel of distribution ?

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- 4 Which of the following statements are True and which are False?

- i) Buying and selling of goods take place only once or twice in any channel of distribution.
- ii) Industrial distributor or dealer is an essential link in the channel of distribution of industrial goods.
- iii) Consumer goods of daily use are distributed by manufacturers only through the

retail shops under their control.

- iv) Traders not **only** undertake storage and transportation of goods but also bear the risks of loss or damage.
- v) Larger the number of middlemen, longer is the channel of distribution.
- vi) The purpose of **intensive distribution** policy is to make **the products available in** markets nearest to the consumers.
- vii) **Long** channels are suitable for the **distribution of** light weight and **small** size articles.
- viii) Efficiency of distribution depends upon the size and location of middlemen in the channel of distribution.

10.7 TYPES OF MIDDLEMEN

Middlemen act as links between the producers or dealers of goods and the consumers. Broadly speaking, they may be divided into two categories:

- i) Functional middlemen or mercantile agents
- ii) **Merchant** middlemen

10.7.1 Functional Middlemen

Those who undertake various marketing functions in the process of distribution of goods without having ownership rights are called **functional** middlemen. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are also called 'mercantile agents'. Depending on the functions performed, the functional middlemen may be classified into five categories. Let us discuss about them briefly.

- 1 **Factors:** A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his **control**. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession, or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.
- 2 **Brokers:** Middlemen who bring together the buyers and sellers and negotiate the terms and conditions of sale on behalf of either the buyer or seller are known as **brokers**. When a broker acts on behalf of the buyer, he is known as buying agent. If the owner of goods employs a broker for sale of the goods, the broker is known as a selling agent. For his services, the broker receives a fixed percentage of the value of transaction as brokerage from the employer i.e., either buyer or seller.
- 3 **Commission Agent:** The commission agent is a middleman who sells goods as an agent of the owner. He takes **the possession** of the goods, negotiates the terms of sale with the intending buyers, and arranges transfer of title of the goods to the buyer. If necessary, the commission agent also performs various other functions like storage, grading, packaging, etc. For his services, the commission agent receives remuneration from **his principal** as a percentage of the value of goods sold.
- 4 **Del Credere Agents:** Generally if any **mercantile** agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to non-payment by the buyer. **The owner** or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the **risk** of bad debts, he is known as a **del credere** agent. For **bearing such** risk of bad debts, additional commission as a fixed percentage of the amount of credit sales is given to him. This additional commission is called del credere commission. In other words, the **del credere agent** bears the loss which **may** arise on account of bad debt and the owner is protected **against** the loss.
- 5 **Auctioneers:** **Middlemen** appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers, Bids are then invited by the auctioneer

from those present at the time of auction. Sometimes a minimum price is fixed **for** specific items known as reserve price and bids are not accepted below that reserve price. The goods are **sold** to the highest bidder. The auctioneer **gets** commission **from the** principal (seller) as a percentage on the sale price.

10.7.2 Merchant Middlemen

Middlemen who act on their own right buying and selling goods at a profit, **are called** merchant middlemen or merchants. They acquire title to the goods and bear the **risks** of trade besides performing various functions like storing, grading, packing and packaging, **etc.** Merchant middlemen may be divided into two categories.

- i) Wholesale traders
- ii) Retail traders

Merchants who buy goods from producers **or** manufacturers **or** their agents and sell the same to industrial consumers or retail traders are known as wholesale traders. The middlemen who buy goods **from** producers or **wholesalers** and sell the same to ultimate consumers are known as retail traders. Thus, retailers act as the final link in the channel of distribution. You will study in **more** detail about wholesalers and retailers in Unit 11.

Check Your Progress C

- 1 Differentiate Between mercantile agents and merchant middlemen.

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- 2 Distinguish between a commission agent and a del credere agent.

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- 3 Differentiate between a wholesaler and a retailer.

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- 4 Fill in the blanks.

- i) Manufacturers can use capital more profitably through activities.
- ii) Middlemen are **specialised** in performing functions.
- iii) Middlemen who undertake marketing **functions** without having title to goods are called
- iv) Merchant **middlemen** include and

- 5 Which of the following statements are True and which **are** False?

- i) Mercantile agents as well as merchant middlemen earn commission when they sell goods.
- ii) Brokers negotiate the **terms** of sale and purchase on behalf of either the buyer **or** the seller.
- iii) **Retailers** buy goods for resale to other traders.
- iv) The commission agent generally has the possession of goods **which** he sells.
- v) Auctioneers act as agents of sellers.

10.8 ROLE OF MIDDLEMEN

You have learnt that the producers use a host of middlemen bearing a variety of names.

Some people often question the wide use of middlemen and feel that it may not only delay the availability of goods but also add to the cost of distribution and hence, the price charged from customers may be higher. But it is not the case in practice. In fact, the middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions such as assembling, grading, packaging, storing, financing, risk-bearing, etc. We may however put them more specifically as follows:

- 1 Provide local convenience to consumers : Merchant middlemen like retailers are located at convenient shopping centres. They provide ready delivery of goods to the consumers at convenient points.
- 2 Provide field stocks : The agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not provide stock of their goods in different cities which would be quite a cumbersome activity involving huge investment and management problems.
- 3 Financing : The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.
- 4 Servicing : They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.
- 5 Acting as channels of communication : The middlemen are in constant touch with different producers and the market. They can provide feed back about the market to the producers on the one hand and pass on information about the products to the consumers on the other.
- 6 Help in promotion : They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity through any other means. Even otherwise, the middlemen being local people are more effective.

Apart from the variety of services provided by the middlemen, what makes their role more important is the fact that they handle them more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts. The manufacturers would find it very difficult to organise the distribution network and provide the necessary funds. You should remember that the distribution of goods and provision of essential services is a gigantic task which involve huge funds and management problems. By making use of middlemen the manufacturers are freed from the botheration of distribution. They can concentrate on production activity which may be more profitable. Not only that, in case of mass consumption items it is almost impossible to the producers to organise direct sale in every nook and corner of the country.

10.9 LET US SUM UP,

Home trade consists of buying and selling or exchange of goods within the boundaries of a country. Producers and consumers are separated by place and time. Distribution system eliminates these barriers and move the goods from producers to the consumers. Channel of distribution refers to a network of institutions that perform a variety of interrelated and coordinated functions in the movement of products from producer to consumers. The functions performed in the channels of distribution are of three kinds: (i) transactional functions which are necessary for purchase and sale, (ii) logistical functions which are required for physical exchange of goods, and (iii) facilitating functions which facilitate the transactions as well as physical exchange.

Channels of distribution can be grouped into two categories: (1) direct selling by manufacturers, and (2) use of middlemen such as agents, wholesalers and retailers (indirect channel). Channel of distribution for consumer goods of daily use consists of agents or brokers, wholesalers and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers, Sometimes distributors, dealers or agents are employed for supply of such goods.

channel). Channel of distribution for consumer goods of daily use consists of agents or brokers, wholesalers and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers. Sometimes distributors, dealers or agents are employed for supply of such goods.

The channel suitable for distribution of a specific product depends on a number of factors such as : (i) distribution policy, (ii) characteristics of the product, (iii) characteristics of target customers, (iv) supply characteristics, (v) types of middlemen in the channel, (vi) potential volume of sales, (vii) cost of distribution, (viii) profits expected in the long-run, and (ix) channel competition.

Middlemen may be divided into two categories (1) functional middlemen, and (2) merchant middlemen. The functional middlemen perform various marketing functions without having ownership rights. Included in this category are : Factors, Brokers, Commission Agents, Del Credere Agents, and Auctioneers. Merchant Middlemen or merchants buy and sell goods for a profit on their own right and having title to the goods. There are two categories of merchant middlemen : (1) Wholesalers, and (2) Retailers.

The role of middlemen in the distribution of goods lies in the marketing functions which they perform. They are important because their specialisation enables them to perform the functions more efficiently and at a lower cost.

10.10, KEY WORDS

Assembling : Procurement and collection of goods from different sources of supply.

Auctioneer : A middleman appointed as an agent to sell goods by auction.

Branding : Selecting brand names for various products for differentiation.

Broker : A middleman who brings together the buyer and seller, and negotiate the terms and conditions of sale on behalf of either buyer or seller.

Channel of Distribution : A network of institutions involved in distribution of goods from producers to consumers.

Commission Agent : A middleman who sells goods on commission basis on behalf of the owner.

Del Credere Agent : An agent middleman authorised to sell goods on credit and who assumes the risk of bad debts.

Factor : A mercantile agent who keeps the goods of others for sale. He can sell the goods in his own name, pledge and do all acts necessary for sale.

Grading : Sorting out goods of uniform size, quality, or other specifications.

Mercantile Agent : A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right.

Merchant Middleman : A middleman such as wholesaler or retailer who buys and sells goods in his own name and performs necessary functions in that connection.

Middleman : An intermediary between the producer and the consumer to help distribution of goods.

Packing : Making packs or putting goods in containers to prevent spoilage, breakage, etc., during their transportation.

10.11 SOME USEFUL BOOKS

Amarchand D., and B. Varada Rajan, 1983. *An Introduction to Marketing*, Vikas Publishing House: New Delhi. (Chapter 2).

Bhushan, Y.K. 1987. *Fundamentals of Business Organisation & Management*, Sultan Chand & Sons: New Delhi, (Part Seven, Chapter.3).

Musselman, Vernon A., and John H. Jackson, 1985. *Inti-oduction to Modern Business*, Prentice-Hall of India: New Delhi. (Pan Four, Chapter 13).

Ramesh, M.S. 1985. *Principles and Practice of Modern Business Organisation, Administration & Management*, Kalyani Publishers: New Delhi. (Volume III, Chapter 6).

Singh, B.P. and T.N. Chhabra, 1988. *Business Organisation and Management*, Kitab Mahal : Allahabad. (Section Six, Chapter 26).

10.12 ANSWERS TO CHECK YOUR PROGRESS

- A 2 i) False ii) True iii) False iv) False v) True
 3 i) Home trade ii) Home trade iii) Foreign trade iv) Foreign trade
- B 4 i) False ii) False iii) False iv) True v) True
 vi) True vii) True viii) True
- C 4 i) Production ii) marketing iii) functional middlemen
 iv) wholesalers, retailers
- 5 i) False ii) True iii) False iv) True v) True

10.13 TERMINAL QUESTIONS

- 1 What is a channel of distribution? Explain briefly the channels of distribution used for consumer goods and industrial goods.
- 2 Outline the factors which influence the choice of distribution channel.
- 3 Who is a middleman? Explain briefly the role and importance of middlemen in the distribution system.
- 4 Explain briefly about various types of middlemen.
- 5 Write explanatory notes on:
 - a) Direct channel
 - b) Short channel and long channel
 - c) Functions carried out by the Channel of distribution
 - d) Merchant middlemen

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not send your answers to the university. These are for your practice.

UNIT 11 WHOLESALE AND RETAILERS

Structure

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Who is a Wholesaler?
- 11.3 Importance of Wholesalers
- 11.4 Types of Wholesalers
- 11.5 Functions of Wholesalers
- 11.6 Services of Wholesalers
 - 11.6.1 Services to Manufacturers
 - 11.6.2 Services to Retailers
 - 11.6.3 Elimination of Wholesalers
- 11.7 Meaning and Importance of Retailing
- 11.8 Functions of Retailers
- 11.9 Services of Retailers
- 11.10 Itinerant Retailers
- 11.11 Fixed Shop Retailers
 - 11.11.1 Small Scale Retail Shops
 - 11.11.2 Large Scale Retail Shops
- 11.12 Let Us Sum Up
- 11.13 Keywords
- 11.14 Some Useful Books
- 11.15 Answers to Check Your Progress
- 11.16 Terminal Questions

11.0 OBJECTIVES

After studying this unit you should be able to:

- explain the nature and importance of wholesale trade
- distinguish between different types of wholesalers
- describe the services of wholesalers
- state the meaning of retailing
- explain the functions of retailers
- distinguish between different types of retailers
- narrate the features of different types of retail stores.

11.1 INTRODUCTION

The main objective of every manufacturer is to make his goods available to the users. He wants to ensure that the consumers should be able to buy the goods at convenient places. As you know, even if manufacturers wish, it may not be possible for them to reach every consumer directly. This is because production takes place in a limited number of factories or workshops whereas the consumers are spread over large territories. So, most of the large-scale producers take the help of middlemen for supply of goods to the ultimate consumers. In the previous unit it was mentioned that wholesalers and retailers are two categories of middlemen who can be engaged by manufacturers for supplying their products to the target consumers. In this unit we discuss the role of wholesalers and retailers in the market.

11.2 WHO IS A WHOLESALER?

Simply stated, wholesalers are those who happen to be engaged in wholesaling or wholesale trade. In a broad sense, any individual or business firm selling goods in relatively large quantities to buyers other than the ultimate consumers may be called a wholesaler. Thus manufacturers who sell their products directly to retailers may be regarded as wholesalers. However, in a more specific sense the term wholesaler may be defined as a merchant middleman engaged in buying and reselling of goods to retailers and other merchants, or to

industrial or commercial users. Wholesalers do not sell the products to ultimate consumers. The wholesalers belong to the category of merchant middlemen who acquire title to the goods they handle. Agents or brokers may also act as wholesale middlemen but they do not acquire the title to goods. Wholesalers act as middlemen between producers or importers of goods on the one hand, and retailers or industrial users on the other. The goods traded by wholesalers may include agricultural commodities, forest products, minerals as well as manufactured goods.

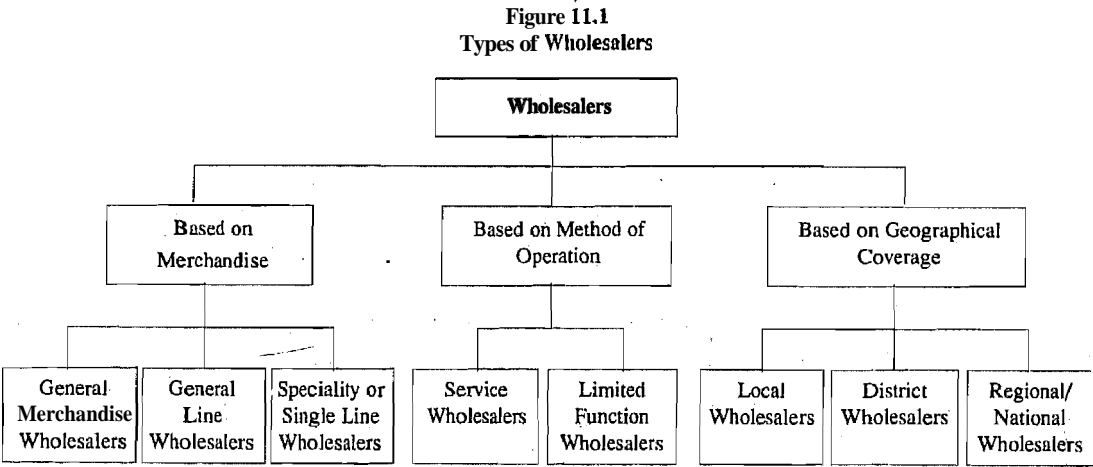
11.3 IMPORTANCE OF WHOLESALERS

Manufacturing companies often do not have adequate capital to employ salesmen to contact the large number of retailers. Many small retailers run their business in remote areas and to contact them may be too expensive. Moreover, small retailers generally prefer to buy products in small quantities due to their limited capital, lack of market information and sources of supply. The wholesalers solve the problems of manufacturers as well as small retailers. A wholesaler can place sufficiently large order with the manufacturer keeping in view the requirements of a number of small retailers in his area. In that process, the wholesaler is in a position to meet the small orders of retailers.

From the society point of view, distribution of goods may be efficient because of the specialised knowledge and skill of wholesalers. On the other hand, manufacturers can concentrate on efficient production of goods. Naturally, they do not undertake the distribution of their products because their efficiency in manufacturing would suffer on account of divided attention.

11.4 TYPES OF WHOLESALERS

Wholesalers, may deal in a large or limited variety of products, restrict their activities mainly to wholesaling or perform various functions incidental to their trade, and may operate in small or large geographical territories. Accordingly, wholesalers may be classified on three different bases: (1) merchandise dealt with, (2) method of operation, and (3) coverage of geographical area. Look at Figure 11.1 for classification of wholesalers.



Merchandise Basis

- On the basis of goods dealt with by the wholesalers we may distinguish three types of wholesalers:
- i) **General** merchandise wholesalers — those who deal in two or more unrelated types of products. For instance, a wholesaler may deal in a number of consumer durables like, electrical goods, sports goods, cosmetics, hosiery, etc.
 - ii) **General-line wholesalers** — those who carry a number of goods in the same product line. For instance, a wholesaler may carry convenience goods of daily household necessity like soaps, detergents, toothpaste, razor blades, etc., or may stock cereals and provisions like wheat, rice, dal, etc.
 - iii) **Single-line or speciality wholesalers** — those who restrict their operation to a narrow

range of products or specific products. Wholesalers dealing in a few varieties of textiles (cloth), or carrying varieties of printing paper only may be called speciality wholesalers, or single-line wholesalers.

Method of Operation

On the basis of the method of operations, wholesalers may be divided into two categories:

- i) Service wholesalers—those who perform a variety of functions like advertising, grading, branding, packaging, etc., on behalf of manufacturers and retailers.
- ii) **Limited** function wholesalers—those who undertake to carry out a few limited functions, like packaging or grading.

Territory Covered

On the basis of the geographical coverage of dealings, wholesalers may be grouped into three types:

- i) Local wholesalers—those who restrict their operation to a particular city or town and supply products to retailers in that area.
- ii) District **wholesalers**—those who have dealings with retailers located in a district.
- iii) Regional **or** national wholesalers—those who specialise in products having a national market and are nationally advertised. They have dealings with retailers located in a region or a country.

Check Your Progress A

- 1 Who is a wholesaler?

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- 2 State which of the following statements are True and which are False.

- i) Any businessman buying and selling goods on a large scale may be called a wholesaler.
- ii) Distribution of goods take place with greater efficiency due to the existence of wholesalers.
- iii) A local wholesaler is one who meets the needs of only one or two retailers.
- iv) Service wholesalers are those middlemen who arrange supply of **services** like transport,

- 3 Fill in the blanks with appropriate words.

- i) Wholesalers are in a position to meet the _____ orders of retailers.
- ii) Wholesalers generally supply goods to buyers other than the ultimate _____
- iii) Wholesalers serve retailers as well as _____.
- iv) Single line wholesalers deal in different _____ of a single product line.

10.5 FUNCTIONS OF WHOLESALERS

In the preceding section we have learnt that wholesalers perform limited functions or undertake a variety of functions. Actually, the functions of a wholesaler depend upon the nature of the products dealt with and the business policy of that particular wholesaler. Of course every wholesaler must carry out the minimum functions of buying, storing and supplying one or more products. Besides these primary activities, several other functions may also be performed by **wholesalers**. Broadly, the functions of wholesalers may be grouped as follows:

- 1 Assembling products : The basic function of every wholesaler is that of procuring goods from manufacturers and holding large enough stocks for sale to the retailers:
- 2 Arranging storage : The wholesaler has to make arrangements for holding stocks to meet the needs of retailers from time to time. He must see that goods in stock are not spoiled or damaged. For proper storage he may have his own warehouse or hire one.
- 3 Grading and **packaging** : Wholesalers who usually purchase in bulk may have to do the grading of products, i.e., sort out the products according to quality or size or other factors. For the convenience, it may also be necessary for wholesalers to undertake packaging of goods.
- 4 Transporting **goods** : The wholesaler is generally required to arrange transportation of the goods procured from the place of manufacture to his godown. Often he is also to arrange delivery of the goods to retailers according to their needs.
- 5 Distribution of goods : Goods assembled and held in stock must be made available to the retailers who may be scattered in different parts of a city or region. For this purpose, advertisement and employment of salesmen must be undertaken by the wholesaler.
- 6 Financial : As a general practice wholesalers provide credit facility to retailers. Thus, payment can be made by retailers after goods have been sold by them or when their clients have cleared their accounts.

Financing of retail trade is a very common function of wholesalers. Sometimes, wholesalers also advance money to manufacturer against orders placed for purchase of goods. This is another type of financing done by wholesalers.
- 7 Risk-bearing : Procurement and holding large stocks of goods in anticipation of demand from retailers involves considerable risk of loss for the wholesalers. If market conditions change due to reduced demand or entry of competitors, the wholesalers end up with huge unsold stock.
- 8 Price fixation : The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function to be performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

11.6 ,SERVICES OF WHOLESALERS

We have already learnt how wholesalers serve manufacturers and retailers by buying goods in large quantities, holding stocks and supplying smaller quantities to the retailers. In that way the wholesalers act as a bridge between producers and retailers. Let us now examine closely the services rendered by wholesalers to the manufacturers and retailers.

11.6.1 Services to Manufacturers

The wholesalers perform several important functions for the manufacturers which may be stated as follows:

- 1 The wholesalers place large orders with the manufacturers or procure large quantities of goods from manufacturers. Thereby manufacturers are relieved of the task of marketing their goods, and they can concentrate on production only. Manufacturers need not necessarily hold large stock in their godown. Hence there is saving of expenses on storage and warehousing.
- 2 Wholesalers remain in close touch with the retailers. They get regular information from the retailers about changes in the consumer's demand for particular products as also about competing products. On the basis of such information, wholesalers place orders with manufacturers. Thus, wholesaler's purchase orders reflect the changing market conditions. Hence the volume of production can be regulated by the manufacturers in accordance with the changing market conditions as reflected by the wholesaler's purchase orders.
- 3 Often the wholesalers place orders in advance on the basis of their expectations regarding future demand of products even though the current demand is low. This helps manufacturers to continue their production on an even pace.

- 4 Wholesalers may also participate in the advertising of products jointly with the producers, which is of great advantage to both the parties.

11.6.2 Service to Retailers

Retail traders are benefited by the services of wholesalers to a greater extent than the manufacturers. The more important of the services to retailers are as follows:

- 1 A variety of goods can be procured by retailers in small quantities from the wholesalers. Most retailers serve a large number of customers. Thus different types of products have to be stored by a retailer to meet the needs of individual consumers. It is difficult for him to buy the products from different manufacturers in small quantities. He can easily do so by contacting a few wholesalers.
- 2 Small retailers can get repeated supplies of products from wholesalers. Thus they are able to run their business with a relatively small amount of capital. Large stocks are not to be held by them, so there is saving of storage space as well.
- 3 Wholesalers have expert knowledge of the lines of products they deal with. They procure the items from the best sources, that is from producers who supply the best quality at competitive prices. Retailers also get advantage of the wholesalers' specialised knowledge of the products.
- 4 Retailers are protected from the risk of loss which would arise if they were to hold large stocks of any product. It is the wholesalers who bear the maximum business risks arising out of falling demand for products.
- 5 Most wholesalers supply goods on credit to the retailers. This enables small retailers to pay for the goods after sale or customer payment on account. The working capital required for retail trading is thus relatively small.
- 6 Generally retailers come to know about new products or items of trade only through the wholesalers who deal with manufacturers. Whenever any new product is introduced, wholesalers bring it to the notice of retailers either through salesmen or display in showrooms.

11.6.3 Elimination of Wholesalers

We have learnt about the functions performed by wholesalers and the services rendered by them to the manufacturers and the retailers. What about the consumer? Does the existence of wholesalers in the distribution channel serve any useful purpose for the consumers as well? Apparently, the wholesalers do not directly serve consumers who need adequate supply of goods at reasonable prices. In fact some people who argue that there is no need for the presence of wholesalers in the distribution channel and that they should be eliminated. These arguments are as follows:

- 1 There are a number of wholesalers who interpose between the producer and the consumer, and the price paid by the consumers included the profit margin of these wholesalers. This leads to a higher price of the product for the consumers.
- 2 The wholesalers merely act as transfer agents. They do not render any corresponding service for the profits they earn.
- 3 The wholesalers hold large stocks. They often manipulate the supply to push up the prices specially during periods of scarcity.

Those who feel that the presence of the wholesaler in the distribution channel is of vital importance argue as follows:

- 1 Wholesalers relieve the manufacturers from the distribution function and this enables the manufacturers to concentrate on production activity.
- 2 They are closer to the market. They can concentrate on the localised marketing strategies without the distractions of manufacturing problems.
- 3 They have good understanding of holding and handling the inventories which involve heavy investment.

Thus, they believe that it is not possible to eliminate the wholesalers completely in each and every area of business activity. However, they do not rule out the possibility of reducing the multiplicity of wholesalers in the channel, particularly the functional wholesalers. Some

people suggest the cooperative societies as an alternative to the wholesalers. But, in the light of the inherent weaknesses of the cooperative societies in India, one does not feel optimistic about the success of cooperatives in eliminating the wholesalers. Possibly the advent of large scale retailing could solve the problem because the producers prefer to deal directly with them. On account of the valuable services provided by the wholesalers in the distribution of mass consumption items, their elimination can cause hardship to the consumers.

Check Your Progress B

- 1 Fill in the blanks selecting the most appropriate word from those given in brackets.
 - i) Wholesalers save the manufacturers of the necessity of holding , stocks of their products. (large/year-end)
 - ii) of goods is done by wholesalers for the convenience of retailers. (pricing /packaging)
 - iii) Assembling function of wholesalers is closely related with the function. (storage/pricing)
 - iv) Most wholesalers supply goods on. to retailers. (credit/lease)
- 2 Which of the following statements are True and which are False?
 - i) Wholesalers finance retail traders by lending money without interest.
 - ii) Manufacturers can concentrate on production because wholesalers take over the responsibility of marketing.
 - iii) It is only the wholesalers, not the manufacturers, who are concerned with changes in the product market conditions.
 - iv) Retail price of goods is determined on the basis of price charged by the wholesalers.
 - v) Advertising a product is only the manufacturers' responsibility, not the wholesalers'.

11.7 MEANING AND IMPORTANCE OF RETAILING

In simple words retailing refers to all transactions which involve sale of goods to the ultimate consumers for personal consumption. If the buyer uses the goods for reselling purposes it will not be treated as a retailing transaction. Any individual or business unit or shop primarily engaged in retail selling is known as a retailer or retail **store**. In a general sense, even a manufacturer or wholesaler may sometimes engage in sale of goods to the ultimate consumers. But they are not called retailers as retailing is not the major activity of a manufacturer or wholesaler. Thus a retailer or retail store is one whose business consists primarily of sale of goods to consumers for their own use, but not for resale in business. Retail business may include other types of transactions also. It will be treated as a retailing business if more than half of its total sales revenue is from retail trading.

A retailer is a **middleman** because retailing involves procuring goods from suppliers (generally wholesalers) and selling them to consumers for their personal use. Retailers perform the very important task of making goods available to consumers, which after all is the objective that underlies the production of goods. Retailers thus form a vital link in the **channel** of distribution of products.

Since the retailers deal with a large number of consumers of many different categories, the role of retailers in the physical distribution of goods is clearly of vital importance. The retailers act as a link between the producers or wholesalers on the one hand and the consumers on the other. Without retailers, neither the products would sell in distant places, nor would it be possible for consumers to buy goods of their choice in shops located nearby. Due to large-scale manufacture of a wide variety of consumer goods and the necessity of making them available to individuals living in distant villages, cities and towns, retailers are now regarded as the most important middlemen in the chain of **distribution** of goods.

11.8 FUNCTIONS OF RETAILERS

Like the wholesalers, retailers also perform a variety of functions connected with the buying and selling of goods. Briefly stated, they perform the following functions.

- 1 **Estimating the demand** : All retailers—big or small—have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be supplied.
- 2 **Procurement of goods** : Most retailers deal in a variety of products. So they may have to procure goods from different wholesalers. Besides, they must decide to buy from those wholesalers who supply goods suited to the requirements of consumers as to quality and price.
- 3 **Transportation** : Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.
- 4 **Storing goods** : Small-scale retailers have limited space for the goods to be kept in stock. Large retail stores often have **godowns** to store different varieties of goods in adequate quantities. But in all cases, goods have to be held in stock so as to meet the customers' needs. For this purpose storage of goods must be so arranged that customers may be served without delay. They must be given an opportunity to select goods of their choice. This is often done by display of goods on shelves and in show-cases.
- 5 **Grading and packaging** : Large-scale retailers often have to sort out goods according to the quality and price to be charged. They also make convenient packages of goods for the benefit of consumers. For instance, fruit vendors purchase apples in containers (boxes), sort out on the basis of size and charge different rates for different sizes. Spices which are procured in bags, may be divided into small packets of 100 or 200 grams each.
- 6 **Risk-bearing** : Since goods are held in stock, the retailers are to bear the risk of loss on account of deterioration of quality, fire, theft, etc. Large retail stores are **insured** to cover the risks of theft or fire. But losses due to **damage or deterioration** of quality caused by improper storage cannot be insured.
- 7 **Selling** : The main function of retailers is selling the goods to ultimate consumers. They have to satisfy the needs and preferences of different types of **customers** and deal with them tactfully and politely so as to make them regular buyers.

1.9 SERVICES OF RETAILERS

As middlemen engaged in the distribution of goods, retailers deal with wholesalers and consumers. **Manufacturers** as well as wholesalers depend a great deal on **retailers** for reaching the ultimate consumers to supply various products. Retailers provide the necessary outlet for goods and thus render very useful service to the wholesalers and also to the producers indirectly. The services of **retailers** to the consumers are significant in several ways:

- 1 **Holding ready stocks** : By holding stocks, retailers supply varieties of goods of daily use to consumers. Besides, consumers are also given opportunity to make their choice from **several** varieties produced by different firms.
- 2 **Display of goods** : By displaying goods on shelves or in show-cases, retailers bring new products to the notice of customers. **They** also keep the customers informed about the latest varieties of goods available for sale by explaining their qualities and prices. Customers are also given demonstration of new products on the sales counter.
- 3 **Advice to consumers** : Very often retailers **help** the customers to make their decision to buy certain goods by advising them on the **merits** and use of particular varieties of products.
- 4 **Personal services** : Apart from meeting the needs of different types of customers, retailers also offer a variety of services like home delivery, sale on credit, etc.

Check **Your Progress C**

1 Which of following statements are True and which are False?

- i) Retailers always buy goods from manufacturers.
- ii) Manufacturers selling goods to consumers cannot be called retailers.
- iii) Retail trade includes sale of goods by one retailer to another retailer.
- iv) Display of goods in show cases is one of the functions of retailers.
- v) Goods are always delivered by wholesalers to the retailers.
- vi) Retailers never advise customers about the quality of goods to avoid responsibility.

2 Fill in the blanks.

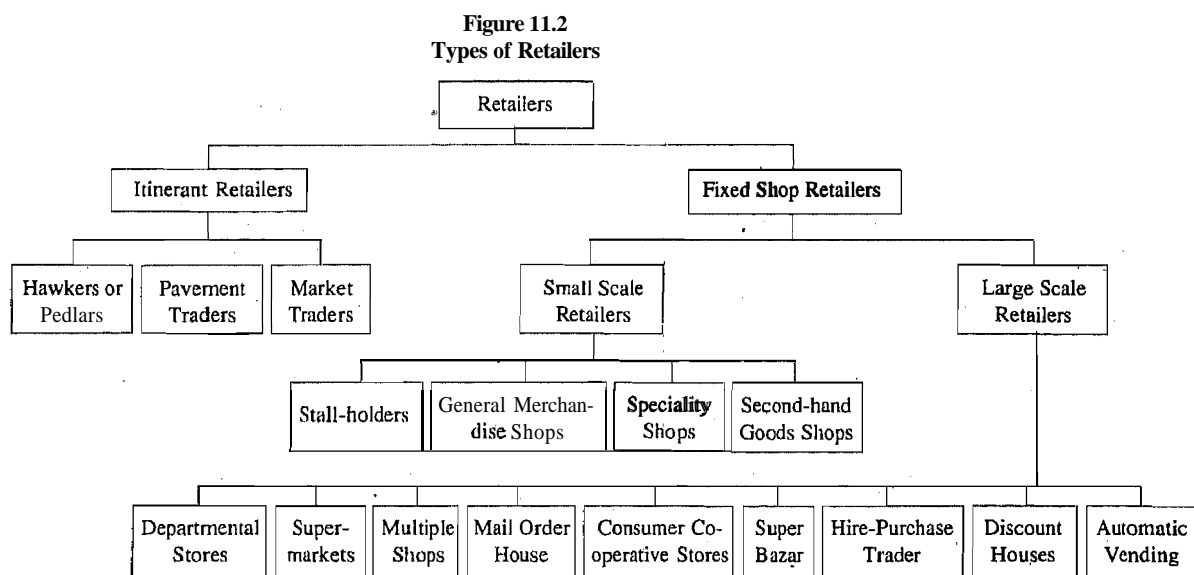
- i) Retailing means sale of goods to consumers for..... use.
- ii) Retailers generally procure goods from
- iii) Goods areby the retailer to bring new products to the notice of customers.

11.10 ITINERANT RETAILERS

Retail trade can be undertaken by individuals, partnership firms, companies as well as cooperative societies. Retailers may carry on their activities at various locations on a small scale or large scale. In fact there are innumerable ways that retail trade can take place. Broadly speaking, we may divide the retailers into two categories :

- 1 Itinerant retailers
- 2 Fixed shop retailers

Look at Figure 11.2 for different types of retailers.



Retail traders who carry on business **moving** about from place to place to sell their goods are known as itinerant retailers. They do not have any fixed place of business. They either move from house to house with their goods, or change their place of business frequently according to convenience and sales prospects. Thus these itinerant retailers move about and **try** to reach as nearer to the buyers as possible.

Types of Itinerant Retailers : There are three types of itinerant traders :

- 1) Hawkers or pedlars
- 2) Pavement traders
- 3) Market traders. ,

1 Hawkers or Pedlars : These retailers move from door to door in **residential localities** and sell their wares which may consist of **vegetables, fruits, utensils, toys, icecream, snacks, etc.** They carry their articles in bags **or** trays hanging **from shoulders**, on bicycles, in push carts, small motor vans, or horse-drawn **carriages**.

- 2 Pavement Traders :** Pavement traders are found in busy market areas, street crossings, in front of railway stations and bus terminals. The goods traded by them include items like hand bags, cut-pieces of cloth, readymade garments, footwear, household utensils, toys, books and journal, pens and pencils, fruits, vegetables, etc. These traders sometimes put up temporary sheds or make-shift **platforms** for display of goods. More often they spread their wares on pavements at different places depending on the prospects of sale.
- 3 Market Traders :** This type of itinerant retailers generally sell their goods in weekly markets held in small towns or villages. They move from one market to another in the neighbouring places on the particular days fixed for the market.

Services of Itinerant Retailers : These retailers serve consumers at the nearest and the most convenient **places**. They serve either at the consumers' door-step or on busy **places** through which consumers pass through. Thus, housewives and working people find it very convenient to buy goods from itinerant traders like **hawkers** and pavement traders. Market traders in small towns and villages are also very useful to the consumers as they do not have fixed shops **within** easy reach. All itinerant retailers save time and effort of customers in buying articles of ordinary use. Housewives have the satisfaction of shopping leisurely at their doorstep.

11.11 FIXED SHOP RETAILERS

Fixed shop retailers carry on their business in a certain premises. They locate their stores at fixed places where customers can easily reach and make their purchases. The **main** difference between **the** itinerant retailers and fixed shop retailers is that **the** itinerant retailers do not have a fixed place of business whereas the fixed shop retailers **carry** on their business in a certain premises.

Fixed shop retailers may be divided into two broad types according to the volume of business and **methods** of operation :

- 1 Small-scale retailers
- 2 Large-scale retailers

Small scale retailers generally deal in a limited range of products like stationery, provisions (grocery), confectionery, vegetables, fruits, etc. **General** stores selling a limited number of varieties of different goods of daily household **consumption** also come in the category of small-scale retailers. Large scale retailers include retail stores like **departmental** stores and **super** markets which deal in and stock a wide range of products and cater to the needs of fairly large numbers of customers. Now let us discuss in detail these categories.

11.11.1 Small-scale Retail Shops

Small-scale retail shops include those small shops dealing with iniscellaneous products of regular use, and shops selling particular products of different varieties. They hold small stocks and do their business in fixed shops located in residential areas or market places. According to the nature of goods sold the small relail shops may be divided into four categories as follows :

- 1 Stalls on streets
- 2 General merchandise shops
- 3 Speciality shops
- 4 Second-hand goods sellers

1 Stalls on streets : Small shops on **the** road side are very common in cities and towns. These are set up as stalls in front of **large** stores or in residential areas selling a limited variety of products of regular use like **stationery**, grocery, toilet products, biscuits, etc. The shops are located within easy reach of consumers' residence or nearby roads or street-crossings, or bus stops. These retailers meet the needs of customers at **convenient** locations. They supply goods of regular use for which customers are not prepared to go to central markets.

2 General merchandise shops : These are small retail stores which deal in all types of general consumer goods of regular use including provisions, bread, butter, stationery

and toiletry, paper and pencils, cigarettes, matches, etc. These shops are located in thickly inhabited residential areas and busy markets. Consumers find it convenient to buy all their requirements in one shop. Regular buyers are also offered home delivery services and credit facility.

- 3 **Speciality Shops** : Small retail shops which deal in only one or two special types of goods are known as speciality shops. The goods dealt with may be only electrical fittings of different kinds, or medicines, or motor parts, or books and stationery, or bread and confectionary items, or ready-made garments, or toys, etc. People often find it convenient to buy their requirements from these shops due to the availability of different grades and sizes in the same product line.

11.11.2 Large-scale Retail Shops

Large-scale retail shops are so called because they deal in a large variety of goods, and have large volume of business. The types of fixed shops in this category include the following:

- 1 Departmental stores
- 2 Super-market
- 3 Multiple shops or chain stores
- 4 Mail order house
- 5 Consumer cooperative stores
- 6 Hire purchase traders
- 7 Discount houses
- 8 Super bazars
- 9 Automatic vending machines

We shall now discuss briefly the characteristics of each of these types of retail shops.

Departmental Store : A departmental store is a large-scale retail store in which there are several departments each selling a particular type of product. The departments are like separate retail shops operating in the same building. The idea behind a departmental store is to offer as many different products as possible to each customer. Thus, a wide range of products is sold under the same roof, and in each department there are varieties of a particular product available for sale. This type of stores can be regarded as a retail market in which the shops are owned and controlled by a single business firm. The departmental stores are generally established in central locations in cities so that they are within short distance of residential localities.

All kinds of consumer goods are sold in departmental stores. But perishable goods, like vegetables, fruits, bread, butter, milk, etc., are not sold in these stores. To attract customers, the departmental store also provides a number of services and facilities like hair-cutting saloon, beauty parlour, restaurant, reading room, telephone, toilets, and even recreation facilities. These stores are very popular in USA and European countries. In India departmental stores have been established in cities like Bombay, Calcutta, Madras, Delhi.

Super-market: A Super-market is a large-scale retail store which offers for sale a wide variety of consumer good of regular use. The articles may include stationery, toiletry, dress materials, ready-made garments, toys, grocery items, crockery, kitchen utensils, medicines, as well as bread, butter, meat, eggs, fruits, vegetables, etc. The items are placed in separate stalls in the same building, or kept on shelves or tables in a hall, The customers are to pick-up the items they need and then pay for the articles at the cash counter. It works on a self-service basis though one or two salesmen are there to help the customers.

The super-market, like the departmental store, deals in a large variety of goods, But there are certain differences between the two types of stores:

- i) In a super-market the products sold are generally low priced, fast-moving items of daily need. Durable goods like refrigerators, electric fans, radio, television, etc., are not available in super-markets. A departmental store mostly concentrates on consumer durables and fashion goods.
- ii) In a departmental store there are separate counters served by salesmen, whereas super-market operates on a self-service basis.
- iii) Customers are not provided with services and facilities like hair-dressing recreation, etc., in a super-market. These may be available in large departmental stores, although not in every such store.

Now-a-days the departmental stores and the super-markets have started dealing in similar products and the difference between the two is fast fading.

Multiple Shops or Chain Stores: Multiple shops are retail stores located at different places under the same ownership and management, and deal in similar products. It is a system of large-scale retailing through stores located as near as possible to the residential areas. Since the stores are owned and managed by the same organisation, they are also known as **chain stores**. These stores may be established by manufacturers or trading companies. The more important features of the multiple shop system are as follows:

- i) A limited range of products are sold through the shops.
- ii) The same **type** of products are sold by every shop.
- iii) Goods are centrally purchased or produced and supplied to each store which is run by a manager.
- iv) There is uniformity in the setting and outward appearance of the stores and interior display of goods.
- v) Prices are fixed by the central office and the same price is charged in every store.

In India, chain stores have been established by a number of **manufacturing** companies like Delhi Cloth Mills, National Textile Corporation, **Mafatlal**, Bata Shoes, Jay Engineering Works (Usha Brand products).

Mail-order House: Retail trading which consists of receiving orders by mail and delivery of goods by parcel post is **known** as mail order business. The mail-order house is thus a retail trading organisation which uses the post office as its channel of distribution. Standard consumer goods with trade marks or brand names are generally dealt with by mail order houses. This is because customers are to place orders without physically checking the items. Bulky goods which **cannot** be delivered by post, and those for which delivery costs are relatively higher, are not included in the items traded. Orders from customers may be secured by advertising in newspapers or journals. Sometimes circular letters are issued by mail to certain categories of customers. For this purpose, a mailing list may be prepared from the telephone directory, or from the list of members of a club, or **traders'** association. The mailing list contains the names and addresses of persons likely to be interested in the particular goods. Customers are invited to send their orders by post to the address of the mail order house. Delivery is made by **V.P.P** (Value Payable Post). Goods are thus available to the customers on payment of the price which is remitted by the post office to the sender of goods.

Mail-order business **helps** customer; to get their requirements at their own place and save the time and expense of shopping. The mail-order house, on the other hand, is also benefited in a number of ways. Goods can be procured according to the orders received. The business can thus be started with a small amount of capital. Payment for goods is assured through the post office. A wide market can be covered by means of postal communication. However, mail order business has not developed in India mainly due to the existence of retail trading shops in every locality. Besides, illiterate people cannot be approached through the mailing list.

Consumer's Cooperative Stores : Retail stores run by Cooperative societies formed by consumers are known as consumers' cooperative stores. The society enlists members from among the public or a particular **group** such as employees of an organisation. These stores offer goods on sale which are **procured** from wholesalers or manufacturers. Consumers can buy goods at a relatively lower price because middlemen's margin of profit is not added to the price. The margin of profit earned by the cooperative store is distributed among its members as dividend after meeting the expenses of running the store. They may deal with all types of **consumer** goods of day-to-day use such as stationery, grocery, dress materials, utensils, medicines, paper, **etc.** Since the store is under the control of its members, articles needed by a majority of them are always available in the store.

Hire-purchase Trading: Hire-purchase trading consists of supplying durable goods for use by customers who agree to pay the price by instalment at regular intervals. The buyer acquires ownership of the goods only after the total price has been paid. In other words, in hire-purchase trading, the buyer takes possession of the goods, but does not get the ownership until the **last instalment** has been paid. The **instalments** are regarded as hire charges. If there is default in paying an instalment, the seller has the right to recover the

goods or sue the buyer for the balance amount due. Durable goods like refrigerators, television sets, radio, sewing machines, electric fans, automobiles, industrial machinery, air-conditioners etc. can be sold by hire-purchase trading houses. The instalments payable by the buyer includes interest on unpaid balance. Hence, the total price paid is relatively higher than in the case of outright cash purchase. But the customers get the advantage of deferred payment, as in the case of purchase on credit, and is also able to use the goods meanwhile. Hence, hire-purchase becomes attractive as a means of saving large initial payment required for outright purchase of goods.

Discount Houses : Large scale retail establishments which offer discounts on the prices are known as 'Discount Houses'. Durable goods like household appliances (cooking ovens, electrical gadgets, etc.) camera, binoculars, etc., are generally available through discount houses at a relatively lower price as compared with the price charged by other retail stores. This is possible as the discount houses directly purchase from manufacturers and operate the business on a low margin of profits. They expect to cover expenses and make substantial profits through larger volume of sales.

Super-bazars : These are large retail stores organised by cooperative societies which sell a variety of products under a single roof. The goods traded by super-bazars include consumer goods which are procured at wholesale rates from manufacturers or wholesalers. The stores are operated either on the principle of self-service or with separate counters served by salesmen. The difference between a super-bazar and super-market is that the former is organised by cooperative society whereas the latter is generally established as a private sector organisation. Similarly, the difference between a consumer cooperative store and super-bazar is that a consumer cooperative store is usually run on small scale, while the super-bazar may be a large-scale establishment.

Automatic vending machines: Retail sale of articles with the help of coin-operated automatic machines is known as automatic vending. Retailing on a large scale is possible in this way by placing machines at convenient locations like bus terminals, railway stations, airports, shopping centres, etc. This method of retail selling is very popular in western countries. Cigarettes, razor blades, postage stamps, milk, ice-cream, soft drinks, soup, paper-back books, newspapers, etc., are sold in cities through vending machines. Customers are required to insert necessary coins in a slot and press a button whereby the article is released automatically. The coins are collected from the machine periodically, and articles are put in as needed. Automatic vending facilitates buying of small items round the clock. There is no necessity of salesmen's services. However, the stocking capacity of machine is limited and there are risks of mechanical failures irritating the customers. Moreover, paper currency may not be used and coins of exact value are required to operate the machine.

In India, automatic vending has been used for limited purpose like selling postage stamps, flight insurance, milk, etc. It is not a popular retailing device in India due to the existence of a large number of small retail shops.

Check Your Progress D

1 Fill in the blanks.

- i) A departmental store is like a retail market in which shops are owned by a single _____.
- ii) Small-scale retailers generally deal in a _____ range of products.
- iii) Retail traders who move from place to place are known as _____ retailers.
- iv) Retail shops selling one or two special types of goods are known as _____ shops.
- v) Super-markets do not have _____ to serve each and every customer.
- vi) All branches of a chain store offer _____ products for sale.
- vii) Mail order houses generally sell _____ goods.
- viii) The profits earned by consumer cooperative stores are distributed among _____.
- ix) In hire-purchase trading price is paid in _____.
- x) Super-bazars procure goods at _____ rates.

2 Which of the following statements are True and which are False?

- i) Small scale fixed shop retailers sell many different products.

- ii) Departmental stores are established in central locations of cities.
- iii) Super-markets are exactly like departmental stores.
- iv) Mail-order houses secure orders from customers only through post office.
- v) Consumers' cooperative stores are run on no-profit no-loss basis.
- vi) In hire-purchase trade, customers have ownership rights after all the instalments are paid.
- vii) There is no difference between super-bazars and super-markets.

11.12 LET US SUM UP

In a broad sense business firms which sell goods in large quantities may be called wholesalers. In a more specific sense, wholesalers are defined as merchant middlemen who are engaged in buying and reselling goods to retailers, other merchants, industrial and commercial users, but not to ultimate consumers. Wholesalers facilitate distribution of goods to small retailers.

Wholesalers may be classified on the basis of merchandise dealt with, as general merchandise wholesalers, general line wholesalers, and single line or speciality wholesalers. On the basis of methods of operation, they may be classified into service wholesalers and limited function wholesalers. Based on the geographical coverage of their dealings, wholesalers may be classified as local wholesalers, district wholesalers, and regional or national wholesalers.

The Functions performed by wholesalers include: assembling goods, arranging the storage of goods, grading and packaging, transportation and distribution of the goods, financing retail traders, and making advances to manufacturers. The wholesalers also undertake the task of price-fixing and bear the risks associated with holding large stocks of goods. Wholesalers render valuable services to manufacturers as well as retail traders.

Retailing refers to sale of goods to the ultimate users. A retailer is one whose business consists primarily of selling goods to customers for their own use, not for use in their business. If manufacturers sell goods to consumers, they are not treated as retailers as retailing is not the major activity of a manufacturer. Retailers form a vital link in the channel of distribution of goods. They act as a link between the producers or wholesalers on the one hand and consumers on the other.

The retailers perform several functions such as estimating demand, procuring goods, arranging transport, holding stocks, grading and packaging of the goods dealt with, and selling goods in stock so as to satisfy consumer needs. They render valuable services to consumers, wholesalers and indirectly also to the producers of goods.

Retailers may be divided into two broad categories: itinerant retailers and fixed-shop retailers. Itinerant retailers either move from house to house or change their place of business according to convenience. Hawkers, pedlars, pavement traders, and market traders are included in this category.

Fixed-shop retailers locate their stores at fixed places where customers can easily come and make their purchases. Fixed shop retail trading may consist of small-scale retailing or large-scale retailing. Small scale retailers deal in a limited range of products. Stall-holders, general merchandise shops, speciality shops, and second-hand goods sellers belong to this category. Large-scale retailers establish stores which deal in and stock a wide range of products and cater to the needs of a large number of customers. Large-scale retailing may be of the following types: departmental stores, super markets, multiple shops, mail-order house, consumer cooperative stores, super-bazars, hire-purchase trading, discount-houses, and automatic vending.

11.13 KEY WORDS

Automatic Vending : Sale of small articles of regular use by installing coin-operated automatic machines at different places.

Consumer Cooperative Stores : Retail stores run by cooperative societies organised in the interest of consumer groups.

Departmental Stores : Large retail stores consisting of separate departments selling different types of products.

Discount **Houses** : Retail stores engaged in selling durable consumer goods at a discount.

Hire-Purchase Trading : Supply of durable goods on hire against the payment of periodical instalments with ownership transferred to the buyer, after all instalments have been paid.

Itinerant Retailers : Retail traders who sell goods moving from house to house or change their plate of business frequently.

Mail-Order House : Receiving orders by mail and delivering goods through the post office.

Multiple Shops I Chain Stores : Retail stores under the ownership and management of a single firm dealing in similar products at uniform prices and located at different places,

Retailer : One who is engaged in wholesale trading.

Retailing : Purchasing goods from wholesalers or manufacturers and selling them to consumers for their personal non-business use.

Speciality Shops : Small retail shops dealing in one or two special types of goods.

Super-Markets : Retail stores selling consumer goods of regular use and operating on self-service basis.

Wholesaler : One who is engaged in wholesale trading:

Wholesaling : Purchasing and reselling of goods to retailers and merchants.

11.14 SOME USEFUL BOOKS

Amarchand D. and B. Varadarajan, 1983, *An Introduction to Marketing*, Vikas Publishing House : New Delhi. (Chapter 2)

Bhushan Y.K. 1987. *Fundamentals of Business Organisation and Management*, Sultan Chand; New Delhi. (Part 7, Chapter 3)

Kotler, Philips 1986. *Marketing Management*, Prentice-Hall of India: New Delhi. (Chapter 18)

11.15 ANSWERS TO CHECK YOUR PROGRESS

- A 2 (i) False (ii) True (iii) False (iv) False
3 (i) small (ii) consumers (iii) manufacturers (iv) varieties
- B 1 (i) large (ii) packaging (iii) storage (iv) credit
2 (i) False (ii) True (iii) False (iv) True (v) False
- C 1 (i) False (ii) True (iii) False (iv) True (v) False (vi) False
2 (i) personal (ii) wholesalers (iii) displayed
- D 1 (i) firm (ii) limited (iii) itinerant (iv) speciality (v) salesmen (vi) similar (vii) standard (viii) members (ix) instalments (x) wholesale
2 (i) False (ii) True (iii) False (iv) True (v) True (vi) False (vii) True (viii) False

11.16 TERMINAL QUESTIONS

- 1 What do you understand by wholesaling? How does it differ from retailing?
- 2 Discuss the importance of wholesalers in marketing manufactured goods.
- 3 What are the functions performed by wholesalers? Explain briefly,
- 4 Enumerate the services of wholesalers to manufacturers and retailers.

- 5 What are the services rendered by retailers to consumers?
- 6 Distinguish between different types of small-scale retailers.
- 7 Explain briefly the important characteristics of the following:
 - i) Departmental Stores
 - ii) Mail-Order House
 - iii) Super-Markets
- 8 What are the characteristics of consumer cooperative stores and the super bazars? Bring out the difference between these two types.
- 9 Write explanatory notes on:
 - i) Hire-purchase Trading
 - ii) Discount Houses
 - iii) Automatic Vending

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university. These are for your practice only.

UNIT 12 PROCEDURE FOR IMPORT AND EXPORT TRADE

Structure

- 12.0 Objectives
- 12.1 Introduction
- 12.2 What is Foreign Trade?
 - 12.2.1 Types of Foreign Trade
 - 12.2.2 Importance of Foreign Trade
 - 12.2.3 Problems in Foreign Trade
- 12.3 India's Foreign Trade Performance
- 12.4 Regulations Governing Foreign Trade
- 12.5 Export Trade Procedure
- 12.6 Import Trade Procedure
- 12.7 Let Us Sum Up
- 12.8 Key Words
- 12.9 Some Useful Books
- 12.10 Answers to Check Your Progress
- 12.11 Terminal Questions

12.0 OBJECTIVES

After studying this unit, you should be able to:

- describe what foreign trade is
- identify the types of foreign trade
- explain the **importance** and problems of foreign trade
- describe the growth of India's foreign trade
- explain the regulations governing foreign trade
- identify the documents used in foreign trade
- describe export trade procedure
- explain import trade procedure

12.1 INTRODUCTION

In the previous two units you have learnt what home trade is and how goods reach the consumers from producers through various intermediaries or channels of distribution. In this unit, we shall discuss the nature of foreign trade, how it is different from home trade, the importance of foreign trade, documents used in foreign trade, and the procedure to be followed by importers and exporters while importing or exporting goods.

12.2 WHAT IS FOREIGN TRADE?

Nations, like individuals, do not possess everything they need to fulfil their requirements. Even countries like the USA, USSR and China, which are rich in natural and human resources have to look to other countries for supply of some of their requirements. For instance, consumers in USA obtain their supply of sugar and coffee from other countries. Moreover, different countries possess different types of resources. Those which have a surplus of certain resources find it beneficial to sell the surplus items to some other countries, and buy other items which they need. Such exchange of goods and services between people across national boundaries is called 'foreign trade' or 'international trade'. Foreign trade can be bilateral or multilateral. When there is trade between people of any two nations, it is **bilateral**; foreign trade is **multilateral** when people of any country buy from and sell to people of more than one country.

You will notice that the main difference between home trade and foreign trade is that while home trade takes place within a country among people who are citizens of that country, the foreign trade takes place beyond the national boundaries of two or more countries. Besides this, there are other differences which may be stated as follows:

- i) There is little restriction on trade between people within a country. But in case of foreign trade the restrictions are numerous. A firm requires **permission** from **Government** authorities before goods can be imported or exported.
- ii) In domestic trade payment made by the buyer and received by the seller of **goods** is in the same units of money. In foreign trade, what the importer pays in his national currency has to be converted into foreign currency acceptable to the exporter.
- iii) Payment can be made either in cash or by cheque on a national bank in the case of **home** trade. Payment can be made only through bank in the case of foreign trade.

12.2.1 Types of Foreign Trade

Foreign trade can be divided into three categories. They are:

- i) Import Trade
- ii) Export Trade, and
- iii) Entrepot Trade

When goods are sold to a trader in any foreign country, they are said to be exported to that country and it is known as 'export trade'. When purchases are made from a foreign country, goods are said to be imported into the country and it is called import trade. Many a time goods are imported from one country with the objective of exporting them to some other country or countries; This is known as entrepot trade. City states like Singapore and Hongkong are important entrepot trade centres.

12.2.2 Importance of Foreign Trade

Production of goods and services requires different resources like **men**, materials, money, machines and management. If we compare the resources possessed by nations it will be **found** that no country is self-sufficient and there are differences in the quality and quantity of domestic resources available in different countries. Indeed, it is this difference in the relative abundance or shortage of resources in different countries that has given rise to foreign trade involving exchange of goods and services between countries. Through international trade, it is possible for a country to avail of goods which it cannot produce or cannot produce as economically as other countries. Hence, a country's well-being is determined to a great extent by the nature and extent of its foreign trade. Let us discuss the importance of foreign trade to people in different countries.

- 1 **Specialisation and efficiency of production:** Foreign trade leads to specialisation in productive activities undertaken by different countries. Depending on available natural resources, and development of science and technology, every country can produce only those goods and services for which it has the greatest relative advantage and efficiency. No country has facility and resources within its own boundaries for economical production of all its requirements: Some countries are more suitably placed to produce certain **goods/services** economically and sufficiently than other countries. Therefore, they can specialise in the production of such goods and get the goods they need in exchange for those goods. For example, India has comparatively greater advantages for the production of agrobased products such as coffee, tea, sugar, textiles, etc. Similarly some developed countries such as USA, Japan, Britain, etc. have greater advantages for the production of industrial machinery, automobiles etc. Some gulf countries such as Iran, Libya, Iraq, Saudi Arabia, etc. produce crude oil, petroleum, **etc.** in abundance.
- 2 **Utilisation of resources:** Every country possesses some natural resources. The **economic** development of a country **heavily depends** upon exploitation of these resources. For example, India has adequate off-shore oil resources. But, it requires exploitation through sophisticated machines, technology, etc. which we do not **have**. Machinery and technology can be imported from the developed countries like USSR, USA, Japan, etc. This leads to best possible use of natural resources.
- 3 **Facilitates economic development:** Rapid **economic** development and growth of national income can be facilitated on the basis of exports and imports. Indeed, it is on the basis of imports of raw materials and export of manufactured goods that countries like **U.K.**, Japan etc, have achieved a high rate of economic growth.
- 4 **Equalisation of prices:** International **trade** equalises prices of goods throughout **the** world. Whenever the prices of commodities tend to rise in a country, it can increase the

level of its imports to check the rise in prices. Similarly, whenever prices of products decline, the trend may be **counteracted** by exporting the same.

- 5 Employment opportunities: Foreign trade facilitates the growth of agricultural as well as industrial activities which in turn generates more employment in the country.
- 6 Harmonious relationship between countries: Because of foreign trade every **country** may have access to goods that it does not produce at home. Similarly, a country with a surplus of certain goods can make them available to other countries experiencing shortage of those goods. This promotes **harmonious** and cordial relationship among various countries.

12.2.3 Problems in Foreign Trade

Because of cultural and other environmental differences between various countries and the distance involved, foreign trade involves certain problems which do not arise in connection with home trade. Let us examine **these** problems in detail.

- 1 Suitability of the product for the market: Securing information **about** the **suitability** of products in the foreign market is a challenging task for every international **marketer**. This involves heavy **expenditure** and requires special skill and knowledge. Besides, the quality and price of goods must be more attractive as compared with similar products manufactured abroad. This requires intensive market research on the potential sale of goods to be exported.
- 2 Changes in supply and demand conditions: International markets are often subject to changes in the supply and demand for particular products due to the entry of new competitors, or increased competition of local producers, or because of changes in buyers' preferences. These changes cannot be easily anticipated by the exporters.
- 3 Frequent price changes : The price of products in **the** international market may be affected by different factors. The changes may be due to changes in exchange rates of the currencies of importing and exporting countries, higher import duties, or freight rates. These factors increase the risks of foreign trade a great deal.
- 4 Credit risk: International trade which is generally on a large scale involves heavy amounts to be paid by the importer. The exporters often sell their products on credit and therefore have to bear the credit risk arising from the buyer's default, bankruptcy, etc.
- 5 Changes in exchange rate: An additional risk of foreign trade is the risk of changes in exchange rates. The rate at which the currency of importing countries can be converted into the currency of exporter may cause losses to the exporter or the importer.
- 6 Rules, regulations and procedures: Every country imposes certain restrictions in the export and import of goods to protect its economic and political interests, Besides, the rules and regulations differ from **country to country** and are changed from time to time. For example, the provisions of Imports and Exports Control Act, 1947 changes in export import policy and the restrictions on trade often create complications and problems for importers and exporters.
- 7 'Credit worthiness of importer and reliability of exporters: The value of goods involved in external trade is fairly high and the exporter has to grant credit facilities to the importer. Since there is no direct contact between exporter and **importer**, it is necessary that the exporter must take steps to verify the credit worthiness of the importer and importer should check the reliability of the exporter for supply of goods. This may take a long time and cause delay in the **availability** of **goods**.
- 8 Transportation and cargo risks: International trade takes place either by land, air or water transport, and goods have to be transported over long distances. Water transport occupies a predominant place in transporting **goods** across the national boundaries because ships can carry large volumes of cargo at low cost. In spite of **all** developments in transportation, the risks of loss or damage to cargo by fire, storm, collision, leakage, explosion, spoilage, etc. exist.
- 9 Time gap: The distance involved is usually greater in transporting goods **from** one country to another country, and hence the transit time is longer. This time gap involves exporter's capital being locked up over a long period.

10 Political and legal problems: Political risks may arise as a result of changes in governments or capture of cargo by enemies, etc. Commercial laws may be different between the trading countries. Moreover, conducting legal proceedings in a foreign country is complicated and expensive.

12.3 INDIA'S FOREIGN TRADE PERFORMANCE

The pre-independence scene of India's foreign trade was characterised by heavy dependence of exports of traditional items. Nearly 85% of exports before independence were made up of raw materials and semi-manufactured products like foodstuffs, raw cotton, tea, spices, tobacco, Rides and skins and jute nianufactures. The import consisted of consumer goods and manufactured products. The major parts of India's trade was confined to Britain and its colony. Since the post independence period, the foreign trade has undergone a radical change in the composition and market. The exportable items are shifted from traditional commodities to new commodities. The major items of exports are gems and jewellery, readymade garments and cotton fabrics, agro-based products, machinery and metal manufactures, chemicals , etc. On the import front the major items are petroleum oil, capital goods, chemical elements, etc. which are essential for country's economic development. The markets for India's export include USA. Japan, Germany, UK, Belgium and other developed, developing and least developed countries. Look at Table 12.1 which shows the growth of India's foreign trade.

Table 12.1
The Growth of India's Foreign Trade
(Rs. in Crores)

Year	Exports	Imports	Balance of Trade
1950-51	606	608	-2
1960-61	642	1122	4 8 0
1970-71	1535	1634	-99
1980-81	6711	12549	-5838
1990-91	32553	43198	-10645
1991-92	44041	47851	-3810
1992-93	53688	63375	-9687
1993-94	69751	73101	-3350
1994-95	82674	89971	-7297
(Provisional)			
1995-96	74493	86064	- 11571
(April-Dec)			
(Provisional)			

Source: Economic Survey (1995-96), Government of India, New Delhi.

Note: The difference between the total value of goods exported and imported is called balance of trade.

Check Your Progress A

- 1 State whether the following statements are True or False.
- i) 'selling goods within the national boundaries is called home trade
 - ii) Exchange of goods between two countries is called internal trade.
 - iii) Exchange of goods and services across national boundaries is called foreign trade.
 - iv) Foreign trade generates resources and employment
 - v) External trade is an 'engine' for the development of economy of a nation
 - vi) The element of risk involved in foreign trade is much less than that of home trade.
 - vii) India imports goods from USSR and pays its own currency to settle trade balances
 - viii) Exporters export goods without knowing the credit worthiness of the importers.

- ix) International trade locks up huge amount of capital in products for a long period
 - x) Before Independence the major part of India's foreign trade was with Britain and its colonies.
- 2 India purchased Rs. 100 crores of machinery and equipment from the USSR. Equipment worth Rs. 20 crores was exported to Bangladesh.
- a) Tick the correct alternatives from the following after going through the above statement.
 - i) Which one is the exporting country?
 - 1 India
 - 2 Bangladesh
 - 3 USSR
 - ii) Which one is the importing country?
 - 1 USSR
 - 2 Bangladesh
 - 3 India
 - iii) Which one is the re-exporting country?
 - 1 Bangladesh
 - 2 USSR
 - 3 India
 - b) Fill in the blanks after identifying the form of trade:
 - i) From USSR to India is called for India.
 - ii) From India to USSR is called for India.
 - iii) From India to Bangladesh is called for India.
 - iv) Trade among the above nations is called

12.4 REGULATIONS GOVERNING FOREIGN TRADE

In India, Foreign Trade is mainly governed by Foreign Trade (Development and Regulation) Act 1992, Foreign Exchange Regulations Act 1973, and the Quality Control and pre-shipment Inspection Act 1963. To export goods from India and to avail of the export benefits, exporters have to comply with certain formalities. First of all, let us discuss some of the important steps required to be taken by businessmen to undertake export-import business. They should (i) obtain the Reserve Bank Code Number, (ii) Register with Export Promotion Council. etc. and (iii) Obtain the Import-Export Code Number.

- i) Reserve **Bank** Code Number: Commercial exports can be undertaken by a firm in India only after it has obtained the Reserve Bank Code Number. This is a requirement under the Foreign Exchange Regulation Act (FERA). For obtaining the code number, the firm has to apply to the Divisional Office of the Reserve Bank having jurisdiction over the area where the firm is located. There is a prescribed form of application for this purpose which is to be submitted in duplicate along with the report from the bank where the firm has opened a current account. The firm is to furnish details about the nature of the organisation and products intended to be exported. Besides, it requires the permanent income-tax account number to be given. In case the firm does not have an income-tax account number, it will be required to apply for the ~~same~~. The Reserve Bank is to be intimated within 15 days of the allotment of the income tax account number. On completion of these **formalities**, the Reserve Bank will allot the code number to the firm, if the application is in order. The code number is **permanent** and there is no need to renew it. The number is to be cited invariably on export **forms** used for declaration of exports.
- ii) Registration with Export Promotion Council **etc.**: The Export-Import Policy, 1992-97 makes it compulsory for exporters to get registered with any Export Promotion Council (EPC) or specified Commodity Boards, APEDA, MPEDA or FIEO etc. This registration is required for any person wishing to apply for a licence to export or for any other benefit or concessions available under the policy. An application for membership is made to concerned authority in the prescribed form.

Once an exporter **has been** registered, the registration remains valid for five years. Export of the registered exporters having valid RCMC will only qualify for the benefits provided in the EXIM policy. Registered exporters have to submit monthly reports about exports made by them.

- iii) **Import Export Code'Number** : Every **person** importing goods for commercial purposes is required to obtain an Import-Export code number from the Regional Import-Export Licensing Authority. Customs authority do not allow clearance of goods to an importer, unless he possesses a valid import-export code number. Application for **allotment** of the code number has to be made in duplicate, in the prescribed **form** to the Regional Import-Export Licensing Authority. The Code number allotted to a person is valid for import of any **commodity** by the person subject to restrictions announced from time to time.

12.5 EXPORT TRADE PROCEDURE

When goods are exported to a foreign country, the exporter has to follow the procedure prescribed by the government. The procedure involved in exporting goods differs **from** country to country and depends on the existing policy of that country. The general procedure for exports from India involves the following stages:

- 1 Receives enquiry
- 2 Receives and **scrutinises** the order from importer
- 3 Obtains export licence
- 4 **Manufactures/procures** goods
- 5 Fulfils exchange regulations
- 6 Books shipping space
- 7 Gets excise clearance and pre-shipment inspection
- 8 Backing and marking
- 9 Appoints clearing and forwarding agents
- 10 Customs formalities
- 11 Insurance of goods and ECGC cover
- 12 Places the goods on board the ship
- 13 Obtains bill of lading
- 14 Collects necessary documents and despatches shipment advice to the importer
- 15 Secures payment
- 16 Claims the incentives

Receives an Enquiry

The first stage in the export trade is the receipt of an enquiry by the exporter from an importer or his agent. An enquiry is a request by a foreign buyer for **information** regarding the specifications and the price of the **goods** he intends to purchase. The reply to an enquiry is in the form of a quotation or **proforma** invoice which contains particulars like name and address of the buyer, full description of the goods offered, price, and terms of sale, and other details such as validity period of the offer, delivery schedule, payment terms, etc.

Receives and Scrutinises the Order from the Importer

When the importer accepts the quotation, he places an order (also called indent) with the exporter. The exporter should take care to **scrutinise** the terms and conditions of sale as they determine all subsequent actions with regard to the export transaction. It should be ensured that the contract has been entered into in accordance with the prevailing export policy and foreign exchange regulations of India. Particular attention has to be paid to the terms of payment. If the terms and conditions of the order are acceptable, a confirmation in writing giving the details of the order, terms and conditions, etc., should be forwarded to the buyer at the earliest.

Obtains an Export Licence

The development and regulation of **foreign** trade in India is governed by the Foreign Trade (Development and Regulation) Act, 1992. This act helps in facilitating imports

into and augmenting exports from India. Goods subject to control can not be exported without a valid export licence. In order to obtain an export licence, the exporter has to **apply** to the Director General of Foreign Trade (DGFT) or Regional Licensing Authority **on** the prescribed form. After the Licensing Authority is satisfied; the exporter will be **issued** an export licence.

Manufactures/Procures Goods

As soon as the export order is confirmed, preparations for the **production/procurement** of the goods are started. In the case of manufacturer-exporter, a delivery note (in duplicate) is sent **to** the works manager or the factory manager. **The** note should **contain** the description of the goods as has been given in the export order, and a copy of the instructions given by the importer. **The** dates by which the goods must be manufactured, the date by which necessary formalities are to be completed, and the date of shipment must be clearly intimated to the works manager. A merchant exporter has **either** to obtain the required goods from the market **or** has to get them from other manufacturers. **The** specifications and instructions to be intimated to the supplier of goods must be in accordance with those given in the export order.

Fulfils Exchange Regulations

Every exporter precedent to export of any goods **directly** or indirectly to any place outside India other than Nepal and Bhutan **has to** furnish a declaration on the prescribed form to the Reserve **Bank** of India. The declaration is made about the full value of exportable goods or the prevailing market value of the goods. The full value of exports should be realised on due date for payment or within 180 days from the date of shipment, whichever is earlier. The documents for foreign exchange formalities include, GR form in all shipments other than by Post, **VP/COD** form used for postal channel and **SOFTEX** form for Computer Software.

Books Shipping Space

It is the responsibility of the **exporter** to arrange transport by entering into an agreement with a shipping company for transporting the goods to the importer. Usually this responsibility is given to a freight broker or agent who specialises in this job. He possesses full knowledge of the various shipping lines operating on the specific route and is in a position to obtain the lowest possible freight rates. The shipping agent on behalf of the exporter gets shipping order from the Shipping Company. **The** shipping order contains instructions to the captain of the ship to receive the specific quantity of goods from the exporter mentioned therein. If the consignment is very big, the exporter may charter a whole ship or a major part of the ship. **The agreement** with the shipping company is then known as Charter Party. If it is the buyer's responsibility to arrange transport, he should be advised of the dates the goods would be ready for movement.

Gets Excise Clearance and Pre-shipment Inspection

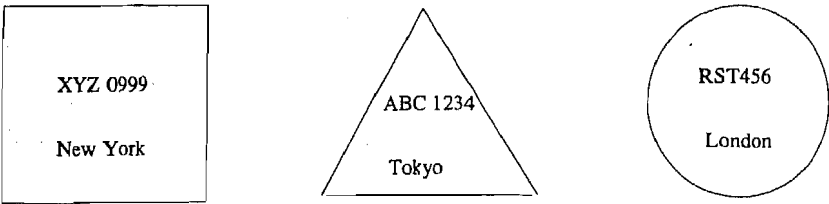
As soon as the goods have been manufactured or procured, steps should be taken by the exporter to obtain clearance from the excise authorities. This can be done in two ways: (i) he can pay the excise duty at the time of removing the export consignment from the factory and then file a claim for refund of the duty after the goods have been exported; (ii) he can secure clearance by executing a bond on such terms and conditions as the collector of excise may decide.

At this stage the exporter has to arrange for pre-shipment inspection to ensure conformity with the prescribed specifications. An Inspector is deputed by **the** Inspection Agency to inspect the export consignment. If the goods conform to the **prescribed** specifications, **an** inspection certificate is issued.

Packing and Marking

Packing for exports is a highly **specialised** job. It **provides** adequate protection for **the goods**.

Packed goods must be in accordance with requirements of the buyer, shipping company and the customs authorities. Packed goods should be marked as per the instructions of the importer. Each package should have distinct shipping marks to identify the consignment easily. In addition, the gross weight, the tare (the weight of the package itself) and the net weight along with the measurements should be marked on the package. The marking may be done in the form of a rectangle, a square, a triangle or a circle as given below:



The package should also have suitable labels for different classes of goods to facilitate the handling of goods. For fragile goods, handling instructions like handle with care or this side up could also be marked on the package.

Appoints Clearing and Forwarding Agents

Sometimes, exporters appoint clearing and forwarding agents to look after all shipping and customs formalities and actual loading of the goods on board the ship. The forwarding agents are experts in their line of business and offer valuable services to the exporter on payment of reasonable charges. In particular, they perform the following functions: (i) negotiation of shipping contract, (ii) customs formalities, and (iii) loading of goods in the ship and securing the Bill of Lading. They may also undertake packing and marking of goods and help in getting the goods insured.

Customs Formalities

The clearing and the forwarding agent takes delivery of the consignment from the railways and arranges for its storage in the warehouse. Thereafter, he takes necessary action to comply with the customs formalities. He has to prepare the shipping bill which is the main document required by the customs authorities for the purpose of granting permission for exports. The shipping bill is a document showing the exporter's name and address, description of goods such as marks, numbers, quantity and value, etc., the country from which they are exported, the name of the vessel and the port where goods are to be discharged. There are three types of shipping bills: (i) for duty free goods a white shipping bill, (ii) for dutiable goods, a yellow shipping bill and (iii) When duty drawback is allowed, a green shipping bill.

Besides the shipping bill, the following other documents are also required to be submitted for customs clearance: AR-4 form (regarding excise duty payment), G.R. form (declaring value of goods), original order or letter of credit, commercial invoice, packing list (needed for inspection of goods), and declaration form (a formal announcement by the exporter that the particulars entered in the shipping bill are in conformity with the export order).

The exporter or the clearing and forwarding agent in his behalf is required to present the required documents. The exporter will be asked to pay the export duty, if any. The customs house will then direct the examining office or the appraiser to carry out the physical examination of the goods at the dock. After the exporter has gone through all formalities to the satisfaction of the customs authorities, a customs export pass or an endorsement 'let ship' is issued to the exporter on the duplicate copy of the shipping bill. Then the loading of goods will take place on the board.

Insurance of Goods and ECGC cover

Generally, the shipping companies refuse to carry the goods unless they are insured for loss or damage in course of transit. Similarly, the commercial banks refuse to finance or discount the bills of exchange, unless they are accompanied by the insurance policy. Hence, before the goods are despatched, they must be insured for the various types of risks involved in transit by the exporter. Usually goods are insured for an amount which covers not only the value of the goods but also a reasonable profit. The commercial and political risks, like insolvency of the buyer, rebellion or civil war in the importing country can be covered by insuring the shipment with the Export Credit Guarantee Corporation (ECGC). This will help the exporter in securing export finance from banks.

Places the Goods on Board the Ship

Once the customs export pass is secured, the exporter may deliver his goods directly to the dock or the ship. If the exporter delivers goods to the dock, a dock receipt is given for the goods. When goods are loaded directly in the ship, the Mate (captain's assistant) of the ship issues a receipt in acknowledgement of the goods after examining the packing and counting of the packages. This receipt is called the 'mate's receipt'. The mate issues a clean receipt if he is satisfied with the packing of the goods. If he is not satisfied he will make a remark to the effect of the mate's receipt. A mate's receipt with such a remark is considered a 'foul' or 'claused receipt'. This remark is transferred to the bill of lading when the exporter gets it in exchange for the mate's receipt. The exporter should, therefore, take proper care in packing the goods so as to avoid any remarks on the mate's receipt.

Obtains Bill of Lading

A bill of lading is a document by which the shipping company acknowledges the receipt of goods on board the ship. It contains the terms and conditions on which goods are to be delivered to the port of destination. It serves as an evidence of the terms of the contract of afreightment between the exporter and the shipping company. The bill of lading is the document of title to the goods, without which goods cannot be claimed. Thus, when the goods arrive at the foreign port, the bill must be produced before they can be claimed. The bill can be made out to a certain person only, ~~or~~ to order, when it can be endorsed and passed on, to transfer ownership of the goods to another. However, it is not negotiable, because the bearer's claim to the goods can never be better than the claim of the person who passed on the bill to him. If a bill were stolen before being passed on, it would not confer a legal right to the goods.

The bill of lading mentions whether the freight has been paid or yet to be paid. When the freight is paid by the exporter, the bill of lading is marked freight paid. When the freight is payable by the importer of the goods, the bill of lading is marked **freight forward**.

Collects Necessary Documents and Despatches Shipment Advice to the Importer

After the goods are placed on board, the forwarding agent returns the following documents to the exporter: (i) A set of 'clean on board' bill of lading, (ii) a copy of invoice duly attested by the customs authorities, (iii) copies of the shipping bill, (iv) export order in original (v) letter of credit in original (vi) duplicate copy of the AR-form and (vii) duplicate copy of GR form,

As soon as the exporter receives the above documents, he sends a shipment advice to the importer, along with the following documents: (i) commercial invoice (ii) insurance policy, (iii) copies of the bill of lading which are not negotiable, and (iv) the packing list.

Taking the possession of these documents, the importer or his clearing agent **arranges** for the clearance of goods from the customs office in whose custody the goods lie after being unloaded from the ship. The importer or his clearing agent approaches the shipping company, pays the dues, if any, and gets the possession of goods after submitting the bill of lading and other documents needed by the shipping company. The commercial invoice is the bill stating what goods have been sent, their weights, markings, prices and values. The importer needs the invoice to see what he owes and to check it with his copy of the indent. He must have the bill of lading to claim the goods and insurance policy to enable him to claim from the insurance company the value of damage, if any, suffered by the goods during the voyage.

Secures Payment

There are a number of alternative methods of securing payment of export dues from the importer. The method of payment is however, determined by the contract between the exporter and the importer. The two most common methods are described below:

- i) Documentary bills of exchange: By drawing a 'bill of exchange' on the importer, the exporter gets a promise of payment. The exporter **sends** the necessary documents to the importer along with a bill of exchange **drawn** on him with specific instructions that the documents would be released to the importer only when he accepts the bill of **exchange** or pays it. If the documents are released against **payment**, the arrangement is known as documents against payment (DIP). If the documents are to be released against acceptance of the bill, the **arrangement** is known as documents against

acceptance (**D/A**). Normally, under the **D/A** bills the exporter waits for payment **till** the bill is finally paid for. This may take time. But the negotiating banks are very often willing to discount the bills. This enables the exporter to receive payment **immediately** after shipment of goods.

If the exporter wants to get the amount immediately, he can discount the **documentary bills** with the local branch of his bank. For this purpose, he has to issue a letter of hypothecation to the bank. A letter of hypothecation is a letter addressed to a bank along with the bill **drawn** on the importer, by an exporter for the **goods** shipped by him. The exporter authorises the bank to sell the goods in case of dishonour of the bill by the importer.

- ii) **Documentary credit** under letter of credit: A safer and quicker method of **obtaining payment** is that of documentary credit whereby the importer arranges for a bank to open a letter of credit in favour of the exporter. In a letter of credit, the importer's bank **branch** gives a written undertaking to the exporter that if the exporter presents certain documents relating to the shipment of the goods within a fixed period, the bank will honour the bill of **exchange** drawn under the credit **upto** the amount specified in the letter of credit. In both the cases, the necessary documents along with the bill of exchange drawn on the importer are sent to the importer through the exporter's bank. The negotiating bank **scrutinises** the documents and thereafter sends the bill of exchange, bill of lading, insurance policy and other documents to the importer's bank for discharge of payment. If the bill is payable at sight, the exporter receives his money **immediately**. If it is payable certain number of days after sight or date, the bank accepts it **and** the exporter discounts it.

Claims the Incentives

An exporter is entitled to claim certain benefits like duty drawbacks, excise rebate; special import licences; tax concessions etc. These incentives are offered by the government to promote exports. The last step in export procedure is to claim these incentives from **the** government.

Check Your Progress B

Fill in the blanks.

- i) Export of goods from India is subject to control under the
- ii) Taking the whole ship or major part of the ship from the shipping company to export the goods is called
- iii) The Mate issues, when he is satisfied with packing, etc. of the goods to be exported.
- iv) is given when an exporter delivers goods directly at the dock.
- v) Preshipment inspection and quality control of the goods are done by
- vi) When the freight is paid by the exporter the bill of lading is marked

12.6 IMPORT TRADE PROCEDURE

Import trade procedure differs from country to country depending upon the satisfactory requirements and trade practices in force. The general procedure of import trade in India involves the following stages:

- 1 Trade Enquiry
- 2 Obtains an Import Licence
- 3 Obtains Foreign Exchange
- 4 Places the Order/Indent
- 5 Arranges Letter of Credit

- 6 Gets Shipping Documents
- 7 Clears the Goods
- 8 Makes Payments

Trade Enquiry

The intending importer makes trade enquiry from the possible exporters. His enquiry is based on the details of the goods required by him viz., quality, design, size, etc. and seeks information regarding the availability of goods, the price at which they would be available and the **terms** and conditions regarding delivery **and** payment. In response to his enquiry, the importer may receive a number of quotations which will contain particulars as of the goods available in ready stock, their quality, size, design, etc. The different quotations will also specify the price at which the goods should be available and the **terms** and conditions of sale. Once quotations from different suppliers have been received, a thorough comparison should be made of the various quotations before taking the decision to import.

Obtain an Import Licence

In order to obtain an import licence, the intending importer makes an application in the prescribed form, to the Licencing Authority. When the licensing authority is satisfied with the claims, he issues the licence. The import licence is issued in duplicate. The first copy is presented by the importer to the **customs** authority at the time of clearance of goods and the second copy is used for obtaining foreign exchange from Reserve **Bank** of India. Although raw materials, intermediates, capital goods and other items announced by the **central** government may be imported freely under Open General Licence (OGL) scheme.

Obtains Foreign Exchange

After obtaining the import licence, the importer makes arrangements for obtaining the necessary amount of foreign currency. In India, the Reserve Bank of India (RBI) is authorised by the Government to regulate the use of exchange. Every importer has to produce import licence along with the prescribed application **form** under the Exchange Control Act. The exchange bank of the importer endorses and forwards the application to the Exchange Control Department of RBI. The RBI sanctions the release of the amount of foreign exchange to the importer **after scrutinising** the application on the basis of the existing Government policy.

Places the Order/Indent

After obtaining the import licence and requisite amount of foreign exchange, the next step is to place the order or indent for import of the goods. An indent is a form of order sent abroad for goods to be imported. The indent contains Full details regarding the goods to be imported and the terms and conditions regarding price, shipment, delivery, the **method** of payment, etc. An indent may **be** 'open', 'closed' or 'confirmatory'. When the selection of goods and other details are left to the agent's discretion in the foreign country, it is called an 'open indent'. A **closed indent** contains full particulars of the exact **goods** required. When an order is placed subject to the confirmation by the importer's agent, it is **called** confirmatory **indent**. Every importer is free to place the order directly or through the intermediaries, **specialised in such trade**. These specialised agencies are called **indent** houses. An indent house refers to an import agent or import **firm**, which imposes goods on orders received from importers. The indent house serves as middlemen between the importers and exporters. They charge certain percentage of commission for their services from the importer. If the importer wants to make use of services of an indent house, he has to enter into an agreement with the indent house for the supply of specified goods. For this purpose there are certain special forms which the indent house fills up and the importer signs, In India many of the big indent houses have their offices in port towns like Bombay, Madras, Calcutta, etc.

Arranges Letter of Credit

Depending upon the terms of payment, the importer may have to arrange a letter of credit to be issued by his bank in favour of the exporter. All the terms and conditions agreed upon between the importer and exporter are generally spelt out in the letter of credit. The importer's bank issues the letter of credit authorising the correspondent bank in the exporter's country to buy the bill drawn by the exporter on the importer, or to accept the bill drawn on the bank itself. The importer's bank may require adequate amount to be deposited by the importer so as to cover the amount for which the letter of credit is issued. But such a deposit may not be insisted upon if the importer is an established person or a firm well known to the bank or it maintains a satisfactory deposit account with the bank.

A bank may issue any of the following types of letter of credit.

- i) **Revocable letter of credit:** It can be withdrawn or altered or revoked at the discretion of the issuing bank without the prior consent of the exporter.
- ii) **Unconfirmed irrevocable letters of credit:** It cannot be cancelled or altered or withdrawn by the issuing bank prior to the date of expiry, without the consent of the exporter and is thus much safer.
- iii) **Confirmed irrevocable letters of credit :** The irrevocable letter of credit shall be more safe if it is confirmed or **guaranteed** by a bank. With a confirmed irrevocable credit, the bank must pay the exporter, whatever happens to the importer or the foreign bank.

Gets Shipping Documents

After receiving order and the letter of credit, the exporter ships the goods and intimates the importer that the goods have been despatched. The exporter draws a bill of exchange on the importer's bank for the full value of goods payable to him. The bill of exchange, accompanied by all the shipping documents viz. commercial invoice, bill of lading, insurance policy, and the certificate of origin (if needed), are forwarded to the importer's bank by the exporter's bank. Under the letter of credit arrangement, the importer's bank will **handover** the documents to the importer who would take steps for getting the goods cleared from the customs authorities. In the absence of a letter of credit, the bank will follow the instructions of the exporter in the matter of delivering the documents to the importer. If the bill of exchange is marked **D/A** (documents against acceptance), the documents will be delivered to the importer on the acceptance of the bill. If the bill is marked **D/P** (documents against payment), the documents will be delivered to the importer only on payment of the amount of the bill.

Clear the Goods

After taking possession of the documents of title to the goods, the importer waits for the arrival of the ship. When the ship arrives at the port of destination, the importer arranges clearance of the goods from the customs office in whose custody the goods lie after being unloaded from the ship. This requires a number of formalities to be completed. The importer may appoint a clearing agent for that purpose. Clearance of goods requires the following steps to be taken: (i) get the bill of lading endorsed by the shipping company for delivery of the goods or a delivery order issued by the shipping company (ii) pay the necessary amount of port trust dues representing the cost of services rendered by the dock authorities in connection with the loading of goods (iii) **fill** up a 'bill of entry' containing all particulars relating to the imported goods and the customs duty to be paid. After import duty has been paid, the importer has to submit the 'bill of lading', 'port trust dues receipt' and 'bill of entry' to the shipping company for release of the goods. In case the importer is not in a position to pay the customs duty in full immediately, he may apply to the customs authorities to get them placed in the **bonded** warehouse. The importer can pay duty for part of the goods as and when he wants to get delivery.

Makes Payments

The mode of payment for import depends upon the agreement between the **importer** and the exporter. If the documents have been received against acceptance (**D/A** bills), the importer has to honour the bill of exchange on the due date. After the bill is paid, the importer transaction comes to a close. In case of documents against payment (**D/P** bills), the importer pays immediately or within a short period after presentation, because the importer gets possession of the **documents** of title to the goods only on payment of the bill.

- 1 State whether the following statements are True or False.
- Import, trade procedure does not differ from country to country.
 - RBI issues foreign exchange in our country.
 - An indent is an order to import goods.
 - An indent house serves as middleman between the importer and exporter.
 - Letter of credit is issued by the bank only when bill of exchange is produced.
 - In the absence of letter of credit, the bank follows the instructions of the exporter to deliver the documents.
 - On dutiable goods, the duty is paid immediately and on bonded goods the duty is not paid in instalments.
 - Certificate of origin is sent to the importer to take the possession of goods imported.
 - Revocable letter of credit cannot be altered or cancelled without the consent of the exporter.
 - Clearing agents and indent houses perform similar functions.

12.7 LET US SUM UP

Exchange of goods and services across national boundaries is called 'foreign trade' or 'international trade'. The main difference between home trade and foreign trade is that the people involved in the former are citizens of the same country, whereas those involved in the latter are of different nationality. Besides, there is little restriction on trade between people within a country. But there are numerous restrictions on foreign trade. In domestic trade, payment is made and received in the same units of money. In foreign trade, what the importer pays in his national currency has to be **converted** into the currency acceptable to the exporter. Moreover, payment can be made in home trade either in cash or by cheque or a national bank. In foreign trade payment can be made only through a bank,

Foreign trade can be divided into three categories: Import trade (purchase made from a foreign country), Export trade (goods sold to a foreign country), and Entrepot trade (goods imported from one country for export to other countries).

The importance of foreign trade to people in different countries may be attributed to (i) specialisation and efficiency of productive activities of different countries (ii) utilisation of natural resources in different countries, (iii) economic development on the basis of exports and imports (iv) equalising the prices of goods all over the world (v) creating employment opportunities and **harmonising** relationship between different countries.

The problems of foreign trade are (i) difficulty of securing information about the suitability of products in the foreign market, (ii) difficulty of anticipating changes in supply and demand conditions abroad, (iii) risks of frequent changes in prices in international markets, (iv) credit risk to be borne by the exporter, (v) risk of fluctuation in exchange rates (vi) differences in the **rules**, regulation and **procedures** in different countries, (vii) ensuring the credit worthiness of importer **and** reliability of exporter, (viii) **risks** of loss or **damage** to cargo in course of **transportation**, (ix) time gap between export and receipt of payment, and (x) **political** and legal problems.

Before Independence, India was largely an importer of manufactured goods and exporter of raw materials. With industrial development since Independence India's **foreign** trade has undergone a radical change in its composition and is no longer confined in Britain and its colonies.

To export goods **from** India and to avail of the export benefits, exporters were to comply with certain formalities like: obtaining the Reserve **Bank** Code Number, registration with Export Promotion Council, and obtaining the Export-Import Code Number.

The general procedure involved in connection with exports **from** India are: receiving enquiry; receipt and scrutiny of the order **from** the importer; obtaining export licence; manufacturing or procuring goods; **fulfilling** exchange regulation; booking of shipping space; getting excise clearance and pre-shipment clearance; packing and marking;

appointing clearing and forwarding agents; completing customs formalities; insurance of goods and ECGC cover; **placing** goods on board the ship; obtaining the bill of lading; collection of necessary documents and despatch of shipment advice to the importer; securing payment either by means of documentary bills of exchange or documentary credit under letter of credit; and claiming the incentives for export from government authorities.

The procedure for import trade in India consists of: making trade enquiry from exporters; obtaining **import** licence; securing sanction and release of foreign exchange; placing the **order** or indent; arranging letter of credit; receipt of shipping documents; clearing the goods **after** getting the bill of lading endorsed by the shipping company and delivery order issued, payment of port **trust** dues etc. filling up the **bill** of entry; and making payment against the exporters bill and accepting the bill to obtain the documents of title to the goods.

12.8 KEY WORDS

Bill of Entry: A document showing the details of goods imported. The custom authorities determine the amount of import duty on this basis.

Bill of Lading: A document issued by the shipping company acknowledging the receipt of goods on board the ship and containing the terms and conditions on which goods **are to be** taken to the port of destination.

bonded Warehouse: An agreement between shipping company and the exporter for **transportation** of goods to another port.

Certificate of Origin: A document showing place of origin sent to the importer in order to enable him to take advantage of preferential treatment as regards customs duties.

Commercial Invoice: The bill prepared by the exporter showing details of their weights, markings, prices and values, despatched **viz.**, together with any other charges that may be due to the exporter such as freight and insurance premiums paid by him.

Charter Party: **A** contract of affreightment for chartering a whole ship or a major part of it.

Contract of Affreightment: **An** agreement between shipping company and the exporter for the **transportation** of goods to another port.

D/A: A method of receiving payment from the importer whereby the documents are released to the importer on acceptance of a bill of exchange.

Documentary Credit: A method of receiving payment from the importer whereby the importer arranges for a bank to issue a letter of credit in favour of the exporter.

D/P: A method of receiving payment from the **importer** whereby the documents are to be released by the bank to the importer on payment of the account due.

Dock Receipts: A document issued by the dock authorities when the exporter delivers goods directly to the dock.

Drawback: **Getting** refund of import duty.

Entrepot Trade: Import of goods by one country for exporting **to** another country.

G.R. Form: **A** form prescribed by Reserve **Bank** of India to ensure that the foreign exchange receipts in respect of exports are received in India within 180 days of the shipment.

Indent: An order sent abroad for the import of goods.

Indent House: A firm which arranges the import of goods on behalf of various **importers**.

Letter of Credit: **A** document or order issued by a banker **authorising** some other banker to **pay upto the** amount stated in the letter to a party named therein or his order.

Letter of Hypothecation: A letter signed by the exporter authorising the bank to deal with the goods in case the importer fails to accept or honour the bill.

Mate's Receipt: A document issued by the **captain/mate** (captain's assistant) when an exporter loads goods directly in the ship.

Shipping Bill: A **document** showing the description of goods, the country from which they are exported, the name of the vessel and the port **where** goods are to be discharged.

Shipping Order: A document **issued** by the shipping company containing instructions to the captain of the ship to accept goods mentioned therein for shipping from the exporter.

12.9 SOME USEFUL BOOKS

Mathew, M.J. 1985. *International Trade, Policies and Prospective in Developing Economy*, Sri Ram Book Company: Jaipur.

Verma, M.L. 1988. *Foreign Trade Management in India*, Vikas Publishing House Private Limited: New Delhi.

Varshney, R.L. and B. Bhattacharya. 1984. *International Marketing Management: An Indian Perspective*, Sultah Chand & Sons: New Delhi.

Trerarne, Williams D. 1985. *Commerce*. Longman: New Delhi.

12.10 ANSWERS TO CHECK YOUR PROGRESS

- A 1 (i) True (ii) **False** (iii) True (iv) False (v) True
(vi) False (vii) False (viii) False (ix) True **(x) True**
- 2 (a) (i) 3 (ii) 3 (iii) 3
(b) (i) export trade (ii) import trade (iii) re-export trade
(iv) foreign trade
- B (i) Import Export Controls Act (ii) Charter Party
(iii) clean receipt (iv) dock receipt (v) inspector from the inspection agency
(vi) freight paid
- C (i) False (ii) True (iii) True (iv) True **(v) True**
(vi) True (vii) True (viii) False **(ix) False** (x) False

2 1 TERMINAL QUESTIONS

- 1 Define foreign trade. How does it differ from home trade?
- 2 "Foreign trade is an engine of economic growth in a country." Discuss this statement keeping in view the Indian context **and** state other advantages of the foreign trade.
- 3 India's foreign trade has undergone a radical transformation since Independence. Do you agree with this view? Substantiate your view with facts.
- 4 What is a Letter of Credit? How does it help in financing foreign trade? **Name** the shipping documents required to be submitted along with a documentary letter of credit?
- 5 What documents must accompany an export shipment? Describe them briefly.
- 6 Distinguish between
 - a) Bill of Lading and Shipping Bill
 - b) Bill of Lading and Charter Party
 - c) Mate's Receipt and Shipping Order
- 7 Explain the stages through which an export transaction has to pass and describe the **various** documents involved.
- 8 Describe the procedure for import of goods.

- 9 State the functions performed by clearing and forwarding agents in relation to import and export of goods.
- 10 Write **short** notes on:
- a) Bill of Entry
 - b) Documents against Payment .
 - c) Documents against Acceptance
 - d) Certificate of Origin

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university. These are for your practice only.

NOTES