

# COMMERCE

## Higher Secondary - First Year

Untouchability is a Sin

Untouchability is a Crime

Untouchability is Inhuman



**TAMILNADU TEXT BOOK AND  
EDUCATIONAL SERVICES CORPORATION**

College Road, Chennai-600 006.

© **Government of Tamilnadu**

First Edition - 2004

Reprint - 2017

**CHAIRPERSON**

**Prof.G.ELUMALAI**

Head, Post Graduate

Department of commerce

Government Arts College, Salem-636 007

**AUTHORS**

**Prof. C. DHANAPAL**

S.G. Lecturer in Commerce

Salem Sowdeswari College

Salem-636 010.

**Thiru. S. SIVANANTHAM**

P.G. Assistant in Commerce

Sivakasi Hindu Nadar's

Victoria Higher Secondary School,

Sivakasi-626 123

**Prof. M.P. MAHESH**

Lecturer in Commerce

Annamalai University

Annamalai Nagar-608 002.

**Mrs.M.PREMAKUMARI**

P.G.Assistant in Commerce

Jaigopal Garodia Govt.School,

Saidapet,Chennai-600 015.

**REVIEWERS**

**Dr.SM.CHOKKALINGAM**

Professor & Head

Department of Commerce

Directorate of Distance Education

Annamalai University.

Annamalai Nagar-608 002.

**Prof. A.BALAGANGADARAN**

S.G. Lecturer in Commerce

D.B.Jain College

Thorappakkam,

Chennai-600 090.

**Dr. V. MURTHI**

Reader in Commerce

Department of Commerce

Government Arts College

Salem-636 007.

**Price : Rs.**

This book has been prepared by The Directorate of School  
Education on behalf of the Government of Tamilnadu.

This book has been printed on 60 GSM Paper.

**Printed by Web Offset at :**

## **PREFACE**

This book on commerce meant for the XIth standard students has been written in accordance with the revised and upgraded syllabus. The dynamic changes that took place in science and technology and their impact on commerce have necessitated the inclusion of latest topics in this book. Chapters on Internal trade, International trade, Transport and Warehousing have been elaborately discussed to enable the teachers and the taught to acquire more knowledge in current developments

In order to enlighten the students in the innovative methods followed by Banks and Insurance companies, these chapters have been explained in detail with relevant examples to cope with the recent developments. Further, to create an awareness in the minds of consumers, chapters on Advertisement and Consumerism have been elucidated to protect themselves from the exploitation and unfair trade practices adopted by traders. The entry of foreign companies on account of the policy of liberalisation, a brief note on Multinationals, World Trade Organisation, E-Commerce, Web-advertising, ATM, Credit Card etc., have been mentioned in the book. In appropriate places, charts, diagrams and downloaded pictures have been included for a better understanding of the subject.

We do hope that some extra efforts are required from our teachers while teaching the new chapters. We solicit the teachers to offer their esteemed opinion and criticism about this book.

While preparing for the examination, students should not restrict themselves, only to the questions/problems given in the self evaluation. They must be prepared to answer the questions and problems from the entire text.

We believe that the book is rich in its content and quality, which will enhance the knowledge of the students.

**CHAIRMAN**

<b>S. No.</b>	<b>SYLLABUS</b>	<b>No of Periods</b>
1.	Introduction	10
2.	Internal trade - Small scale retail organisation	20
3.	Internal trade - Large scale retail organisation	20
4.	International Trade	20
5.	Transport	15
6.	Warehousing	10
7.	Banking	20
8.	Insurance	20
9.	Advertising	15
10.	Salesmanship and Consumerism	20
	Total	170

<b>CONTENTS</b>	<b>P.No</b>
<b>1. INTRODUCTION</b>	<b>1-12</b>
Meaning of barter system - definition of commerce business-industry-trade-hindrances of trade-branches of commerce.	
<b>2. INTERNAL TRADE-SMALL SCALE RETAIL ORGANISATION</b>	<b>13-32</b>
Home trade - wholesale and retail trade - middle men types of small retail organisation - street stalls - second hand goods dealers - speciality shops	
<b>3. INTERNAL TRADE - LARGE SCALE RETAIL ORGANISATION</b>	<b>33-54</b>
Types of large scale retail organisation - departmental stores - features - merits - demerits - multiple shops meaning - definition -features - consumer co-operative stores- mail order business - hire purchase and instalment system - recent developments - web marketing -E-commerce - Tele shopping	
<b>4. INTERNATIONAL TRADE</b>	<b>55-72</b>
International trade - meaning - need - merits and demerits - differences between home trade and foreign trade - types of foreign trade - import, export, entrepot trade with examples - import trade - procedure - intermediaries involed in import trade - indent house - clearing agents - export trade - procedure - intermediaries involved in export trade - commission agents - export and trading houses - globalisation - multinational company - WTO.	
<b>5. TRANSPORT</b>	<b>73-94</b>
Meaning of transport - importance of transport functions of transport - types of transport - land - water - air - merits - demerits - private and public carrier - containerisation - documents used in transport - bill of lading - charter party - way bill - railway receipt - air way bill	
<b>6. WAREHOUSING</b>	<b>95-109</b>
Need of warehousing - meaning of warehouse and warehousing - functions of warehousing - kinds of warehousing - private - public - co-operative - bonded - advantages - warehousing documents - warehouse warrant - dock warrant - dock receipt - delivery order - warehouse keepers receipt - warehousing in India and in Tamil Nadu.	

## **7. BANKING**

110-135

Need for banking - meaning of bank - kinds of banks - commercial banks - central bank - functions of commercial banks - co-operative banks - indigenous bankers - Reserve Bank of India - functions - internet banking and EFT ( electronic funds transfer ) cheque - definition - features - MICR cheques - crossing - kinds - endorsement - meaning - kinds of endorsement - dishonour of cheque - reasons - ATM card - credit card.

## **8. INSURANCE**

136-153

Necessity of insurance - meaning of insurance - insurance - assurance difference - principles of insurance - forms of insurance - life insurance - kinds of life policies - surrender value and nomination - fire insurance - marine insurance - burglary insurance - mediclaim policy - privatisation of insurance - meaning - need and benefits.

## **9. ADVERTISING**

154-170

Meaning of advertising - objectives of advertising - merits and demerits - media of advertising - press, indoor advertising , news paper, magazines, journals, radio & T.V- outdoor advertising - film, window display - web advertising or internet advertising.

## **10. SALESMANSHIP AND CONSUMERISM**

171-188

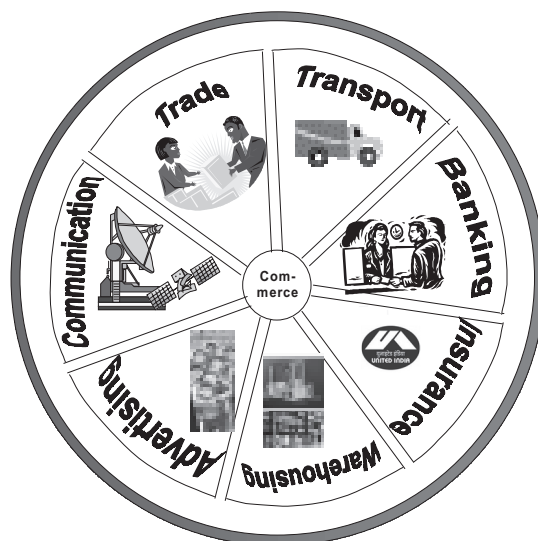
Meaning of salesmanship - definition - importance of salesmanship - consumerism - meaning - consumers exploitation with examples - rights and duties advocated by - a) Mahatma Gandhi - b) John F. Kennedy - consumer protection councils - national - state - district - procedure for making complaint - role of government in protecting the interest of consumer.

## **BIBLIOGRAPHY / REFERENCES**

189-190

## Chapter 1

### INTRODUCTION



**Wheel of Commerce**

In olden days, goods were exchanged for goods. Production was restricted to domestic consumption. As human wants are unlimited, mass production is carried out. Due to the growth of civilisation and standard of living of the people, business activities were developed. As a result of this, money as a medium of exchange, has come into existence. All business related activities have shown tremendous growth. Business activities are classified into industry and commerce. Here commerce includes trade and aids to trade such as transport, banking, insurance, warehousing, advertising, etc.,

### **BARTER SYSTEM**

Before the invention of money goods were exchanged for some other goods. For the working of barter system, the following three conditions must be satisfied.

- a) Each person must have a surplus stock so that he may have the exchange of surplus with another person willing to transfer his surplus stock.
- b) Personal meeting is essential for effecting the exchange of goods.
- c) The needs of both parties must coincide i.e. each party is willing to take what the other person is offering.

### **Difficulties of Barter System**

The barter system envisages mutual exchange of one's goods to other's goods without money as a medium of exchange. The barter system had many disadvantages.

### **1. Lack of double coincidence of wants**

The two persons desiring exchange must have the demand for the goods under the possession of each other. For instance, let us take the case of Murugan having surplus rice and Ganesh having surplus wheat. Now Murugan must be in need of wheat and at the same time Ganesh must also have the need for rice. Unless their wants coincide or meet with each other's possessions, they cannot have a direct exchange of their products. Such a coincidence of wants may not be always possible.

### **2. Absence of common measure of value or a medium of exchange**

Under barter system, we have a direct exchange of goods against goods. For each exchange we have separate valuation. There is no common denominator of values. It is difficult to compare the values of all articles in the absence of a pricing system.

### **3. Absence of direct contact between producer and consumer**

Seller and buyer may not always have direct contact. A seller and a buyer must have a face-to-face meeting for a barter system. Such meeting in a wider market may not be possible.

### **4. Lack of surplus stocks**

When there is no surplus stock of goods, no barter system is possible.

### **Commodity money**

The above four difficulties of barter system were the great obstacles for the development of commerce and trade. Besides, while exchanging or distributing the goods from the place of production to the place of consumption there are some difficulties such as person, place, time, risk, knowledge, finance etc. Introduction of money could remove all these difficulties of barter system.

### **WHEEL OF COMMERCE**

In modern world we are enjoying a very happy life and good standard of living because of the development of commerce. Commerce provides all the things we require to lead a happy life.

Commerce refers to all those activities, which are necessary to bring goods and services from the place of their origin to the place of their consumption. Commerce includes trade and aids to trade. The aids to trade consist of services such as transport, banking, insurance warehousing, advertising and communication. In ordinary language the term commerce means the exchange of goods and services for value. But commerce is a more comprehensive term. It includes not only exchange of goods and services for value but also the services rendered by various other agencies in the free flow of goods and services. Commerce relates to all economic activities resulting in production, exchange, distribution and consumption of commodities and services.



## **Definition of Commerce**

J. Stephenson defines Commerce as “the sum total of those processes which are engaged in the removal of hindrances of person, place and time in the exchange of commodities”.

Evelyn Thomas defines commercial activities as, “activities dealing with the buying and selling of the goods and the distribution of finished products from the producers to the customers”.

## **NATURE OF COMMERCE**

Commerce is considered to be a part of business. Some feel that commerce and business are synonymous but it is not so. The following characteristics will help in understanding the nature of commerce.

### **1) Economic Activities**

All economic activities are undertaken to earn a profit. Commerce deals with all economic activities undertaken for profit. Some activities may both be economic and non - economic. A trader buys goods to sell them again and earn a profit while a consumer buys goods for consumption. In the first case the motive is to make a profit. While in the second case the motive of profit is absent. So commerce is concerned with all economic activities directed towards earning profit.

### **2) Exchange of Goods and Services**

Commerce involves an exchange of goods and services for profit. Goods may be produced for the purpose of resale to the customers.

### **3) Earning motive**

Profit is an incentive for undertaking all commercial activities. Any activity, which does not have the incentive of profit, will not be a part of commerce. For example, if a trader gives some goods as charity then it will not be a part of commerce because profit motive is missing.

### **4) Creation of utility**

Commerce creates form, place and time utility in goods. By conversion of raw material into finished products the form utility is created. For e.g., when a carpenter makes furniture out of wood the goods may not be consumed at the place of production. This may be needed in different places. The goods are taken to those places where they are needed. Transportation facilities help in creating place utility of goods. The goods are also needed in different periods of time. It may not be possible to produce the goods whenever they are demanded. The producers go on producing goods as per their capacity. The goods are stored up to the time till they are demanded. The production is done at one time and the consumer gets them as per their need. The storage facilities create time utility of goods.

## **5) Regularity of transaction**

The transaction should be regular. No isolated transaction will be a part of commerce. The sale of old furniture for replacing it by a new one is not a part of commerce. At the same time the sale of furniture by a furniture dealer is commerce since the transaction is regular.

## **BUSINESS - INDUSTRY - TRADE**

### **Business**

Business may be defined as any activity in which a man is very much interested and these activities bring him profit, money, prestige and power. In economic sense, the term business means works, efforts and acts of people, which are connected with the production of wealth and activities, which are directed with the object of making profit. Production and distribution of goods to consumers for a profit constitute business. The term 'business' also includes services.

We may distinguish business from profession and employment. In the case of profession, specialised services have to be rendered by professional persons like Lawyers, Engineers, Doctors, etc., They must possess the qualification prescribed by law or by their association. In case of employment a person has to work under an agreement and perform the work assigned by the employer.

### **Important characteristics of business**

1. All business activities are mainly concerned with the transfer or exchange of goods and services for value to satisfy human needs.
2. Business deals with goods and services.
3. Exchange of goods and services should frequently take place.
4. The profit motive is an important distinguishing feature of business.
5. Business has to meet the various types of risks and this may result in heavy loss and uncertainty of profit.

Business activities may be classified into two broad categories namely,

- a. Industry and
- b. Commerce

### **Industry**

Industry involves the production of goods and materials. The term industry refers to that part of business activity, which concern itself with the increase in production. When the goods of an industry is used for final consumption it is called "consumer goods" e.g. tooth paste, soap, television etc.,

But if another industrial undertaking for further production uses the goods of an industry, is called “capital goods”. E.g. Machine tools, spare parts etc.,

**Industries may be classified into four types:**

1. Extractive Industries
2. Genetic Industries
3. Construction Industries
4. Manufacturing Industries
5. Assembling Industries

**Extractive Industries**

Industries, which are engaged in the supply of commodities extracted from the earth, are called extractive industries.

Examples: Hunting, fishing, mining etc.,

**Genetic Industries**

Activities, which are concerned with reproducing and growing certain species of plants and animals with the object of earning Profit from sale.

Examples: Fishery, poultry and piggery.

**Construction Industries**

Industries, which are engaged in the construction of buildings, dams and bridges, are called construction industries. It uses the products of manufacturing industries especially cement, and iron and steel.

**Manufacturing Industries**

Industries, which are engaged in the conversion of raw materials or semi-finished products into finished products, are known as manufacturing industries. Cotton textile mill is an example, which converts raw cotton into yarn and yarn into fine cloth. Manufacturing industries may be classified into continuous and assembling industries.

**Continuous industries**

In this type of industry, raw materials are fed from one end of the factory and they emerge as finished products from the other end after passing through various processes.

Examples: Textile, paper, and sugar industries

## **Assembling Industries**

In this type of industry the components are produced by different industries and assembled to turn out new useful products in the form of car, scooter, bicycle, computer, etc.,

## **Trade**

Trade means buying and selling of goods for money. There are two persons involved in trade namely, buyer and seller.

## **Hindrances of Trade**

### **1. Hindrance of persons**

Producers are few in numbers and are separated from millions of consumers. Producers cannot deal directly with each and every consumer. So the producer and the consumer do not know each other. This difficulty is known as 'personal hindrance'. But in actual practice we do not even feel that such a hurdle is present. Specialist or professional middlemen operate in the process of buying and selling the goods. They provide a link between producers and consumers. Wholesalers, retailers and the intermediaries purchase and hold the goods and arrange for their sale or distribution to the consumers in different localities.

### **2. Hindrance of place**

Goods are produced at a few places but are required for use at different places. Geographical distance separate producers and consumers. This difficulty of distance is removed by transport. For example knitwear products of Tirupur are sold throughout the world. Nellore rice is widely consumed in Chennai and other places with the help of various means of transport. If goods are not made available at a place where they are needed, their production has no utility. Transport ensures quick supply of goods at different places where demand exists. It has linked up all the areas of the world and enabled the people of all countries to benefit through exchange of goods.

### **3. Hindrance of time**

It is a common knowledge that certain goods are produced during particular season but are demanded throughout the year. Examples are food grain, cotton etc., Similarly a few goods are demanded only during particular season but they have to be manufactured and stored much before. For example, woollen goods are needed in winter and umbrellas and raincoats in the rainy seasons, but they have to be produced and stored much ahead of season. Products must be made available at a time when consumers desire or decide to buy. Warehousing removes this difficulty by storing the goods in ready stock to meet any essential or usual demand.

#### 4. Hindrance of risk

During the movement of goods from place to place or during storage, there are the possibilities of damage to goods and loss to be sustained. Damage by fire, loss due to cyclone, deterioration due to natural causes are the few examples of risks. The Insurance companies cover the various kinds of risks by accepting premia.

#### 5. Hindrance of knowledge

The consumers may not buy the best products available in the market because they may not possess the knowledge of the market conditions. Hence it is known as hindrance of knowledge. The absence of information about products is a great hindrance in the way of buying them. It is overcome by means of advertisement and salesmanship.

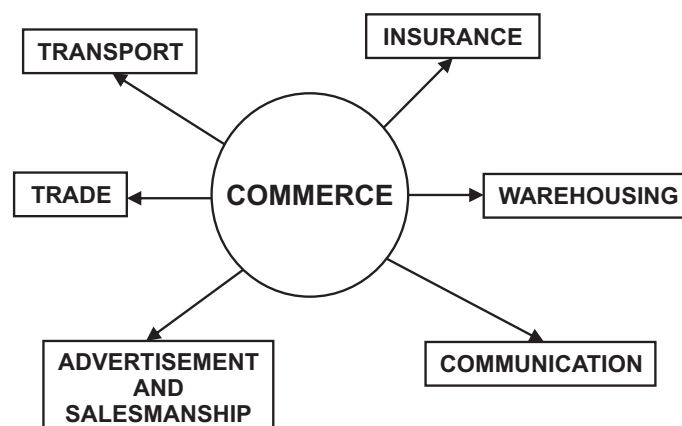
#### 6. Hindrance of finance

The problem of finance affects the producer, trader and the consumer. If the manufacturer is to continue production without any disruption, if the trader is to run his business without shortage of stock and if the consumers are to satisfy their varied requirements, adequate finance is essential for the producer, the trader, the consumer and all others connected with trade. There is always a time gap between production and consumption and between purchase and sale. Banks and other financial institutions make available the required funds on certain principles and proper securities.

### BRANCHES OF COMMERCE

All those activities which are connected with transferring of goods and services from producers to users come under commerce. In between these two ends a number of obstacles have to be crossed. The goal of commerce is to ensure a proper flow of goods and services for the benefit of producers and consumers. There may be difficulties with regard to trade, transport, distribution, finance, storage, insurance, publicity etc., These aspects are dealt with and the branches of commerce remove various difficulties.

**Commerce is integrated by its branches as shown below:-**



## **1. Trade**

Trade removes hindrance of person through wholesalers, retailers and mercantile agents. Goods are owned and possessed by those who produce them. Unless these goods go into the hands of the consumers they will have no meaning for the society. Ownership and possession of goods must pass on from the producers to the ultimate consumers. Then only consumers can enjoy these goods. This is made possible by the organization of trade. Wholesale traders take goods from the producers and from the wholesale traders, retail traders take the goods to the consumers. Thus trade, through traders removes hindrance of person.

## **2. Transport**

Transport removes place hindrance. Goods may be produced at places where they are in less demand. These goods are to be taken to the place of consumption with the help of transport facilities we can create 'place utility' in goods. The goods are taken from a place where there is less demand, to the places where they are in more demand. The place utility helps the producer to increase the production and earns a remunerative price. The consumer is also helped by supplying him with the goods which otherwise might not have reached him. The various modes of transport i.e., road, rail, sea, air have helped the growth of commerce and industry. A producer can produce goods on any scale, according to the demand.

## **3. Warehousing**

Warehousing removes hindrance of time. Many goods, such as cotton, jute, food grains, sugar, etc., are produced during particular seasons of the year. But they are needed throughout the year. To make these goods available throughout the year arrangement must be made for their proper storage. Similarly certain goods are needed in particular seasons, e.g.. woollen cloth is required during winter. Raincoats and umbrellas are essential during rainy season. These goods must be in stock in sufficient quantity before the commencement of the season. This is done with the help of warehousing.

## **4. Banking**

There is also difficulty of finance. There is always a time-gap between the time of production and consumption. During this period of time-gap, traders need funds to carry on their trade. These funds are made available by commercial banks and other financial institutions.

## **5. Advertisement and salesmanship**

The consumers may not be aware of the availability of various goods in the market. The absence of information about goods is a great hindrance for buying them. The producer will also like to have more consumers. Advertisement and salesmanship help in informing the consumers about the availability and usefulness of various

products in the market. With the advent of TV, FM Radio, Internet, etc., Consumer awareness on various goods is increasing.

## **6. Insurance**

There is a risk involved in transporting goods from one place to another. This can be a risk of fire or theft. The fear of loss of goods due to any cause is an obstacle in the development of trade. The insurance companies provide the coverage for all types of losses of goods. The insurance coverage has given a fillip not only to the national trade but also to the international trade.

## **7. Communication**

The buyers and sellers need the services of various agencies for communicating their messages among themselves. The producers inform their customers about the production of goods. The intending buyers send orders to producers for the supply of goods. The services of post offices, private courier services, fax, telephones, cell phones etc., are utilised for communication purpose.

## **COMMERCE AND TRADE**

The two terms “Commerce” and “Trade” are interrelated. They do not mean the same thing. “Commerce” has a much wider connotation and significance than “Trade”. While trade refers to buying and selling alone, commerce is concerned with not merely buying and selling but also facilitates a smooth flow of goods and services from the producer to the consumer with the help of aids to trade.

Trade means buying and selling of goods. A trader purchases goods not for his own use but for the purpose of sales to other traders and consumers at a profit. Traders act as an intermediary between producers and consumers and earn profit from buying and selling operations in the course of exchange.

## **DISTINCTION BETWEEN**

### **TRADE, BUSINESS AND INDUSTRY**

<b>Basis of difference</b>	<b>Trade</b>	<b>Business</b>	<b>Industry</b>
1. Meaning	It is related to the purchase and sale of goods	It is any activity concerned with earning money through production and exchange of goods and services	The activities, which deal with the conversion of raw materials into finished goods, are known as industry.

2. Capital	The requirement of capital is less in trade as compared to business	The capital requirements and other resources depend upon the nature and operations of business	Capital requirements in an industry is greater. Because it requires heavy investments in plant and machinery and other assets.
3.Scope	Trade deals only with purchases and sale of goods	It deals with the production and distribution of goods and services in order to earn profit and acquire wealth	Industry deals with those goods which relate to primary manufacturing, processing etc.,
4. Risk	It involves a grater risk of decreasing prices or change in demand	Risk element is always present so profit is uncertain.	Industry involves greater amount of risk as compared to any other activity.

### **Importance of Commerce**

Every person wants to lead a happy and comfortable life. Every nation wants to attain high standard of living. This is possible when goods are produced in plenty at a cheaper cost. It enables the smooth flow of goods from production centres to consumption centres. Continuous flow of goods from one country to another country has lead to equalization of prices for many commodities in the international market. By frequent trade contacts, people of different countries have come to know of the culture and civilisation of other countries. As a result, cultural integration takes place at international level.

### **E-COMMERCE**

The term e-commerce is known as 'Electronic Commerce' used by the media to do business with consumers through internet. Electronic commerce promises new ways of working for companies allowing them to react in realtime changes in the market by:

- a) Gaining more knowledge about their customers and
- b) Increasing the visibility of demand across their supply chains.



## QUESTIONS

### I. Multiple choice:

1. Commerce is related to

- a) Production of goods                      b) Exchange of goods
- c) Providing occupation                      d) Providing services

Answer (b)

2. Commerce is the branch of

- a) Trade    b) Banking
- c) Industries    d) Economics

Answer (d)

3. The primary object of business is

- a) To earn profit    b) To help its employees
- c) To help society    d) To help Traders

Answer (a)

4. Industries which are engaged in the conversion of raw materials into finished products.

- a) Construction Industries                      b) Genetic Industries
- c) Manufacturing Industries                      d) Extractive Industries

Answer (c)

5. Goods are to be taken from the place of production to the place of consumption

- a) Time utility    b) Place Utility
- c) Form Utility    d) Service Utility

Answer (b)

### II. Fill in the blanks

- 1. The barter envisages mutual exchange of goods without \_\_\_\_\_ as a medium of exchange (money).
- 2. Hindrance of place is to overcome with the help of \_\_\_\_\_ (transport)
- 3. Warehouse facilities create \_\_\_\_\_ utility (time)
- 4. Business activities can be classified into \_\_\_\_\_ and \_\_\_\_\_ (Industry, Commerce).

5. Traders act as an \_\_\_\_\_ between the producers and consumers (intermediary)
6. The term E-Commerce is known as \_\_\_\_\_ (Electronic Commerce)

### III. Match the following.

- |                           |                        |
|---------------------------|------------------------|
| 1. Barter System          | a. Insurance           |
| 2. Hindrance of Risk      | b. Electronic Commerce |
| 3. E-Commerce             | c. Advertisement       |
| 4. Profession             | d. Goods against goods |
| 5. Hindrance of knowledge | e. Service             |

ANSWERS : 1. (d) 2. (a) 3. (b) 4. (e) 5. (c)

### IV. Short Questions

1. Define commerce
2. What is barter system?
3. List the auxiliaries of trade
4. What is meant by hindrance of finance?
5. How is communication helpful in trade activities?
6. Explain the term 'business'
7. Discuss how the terms commerce and trade are related to each other?
8. What are the importances of commerce in modern life?
9. What is E-commerce?

### V. Paragraph Questions

1. What are the difficulties of barter system?
2. What are the broad categories of industrial activities?
3. Define the term "business" and indicate its main characteristics.
4. How the business activities are classified?
5. Distinguish between business, trade and industry.

### VI. Essay type Questions

1. What are the branches of commerce?
2. What are the hindrances of commerce? How are they overcome?
3. Explain the characteristics of commerce?

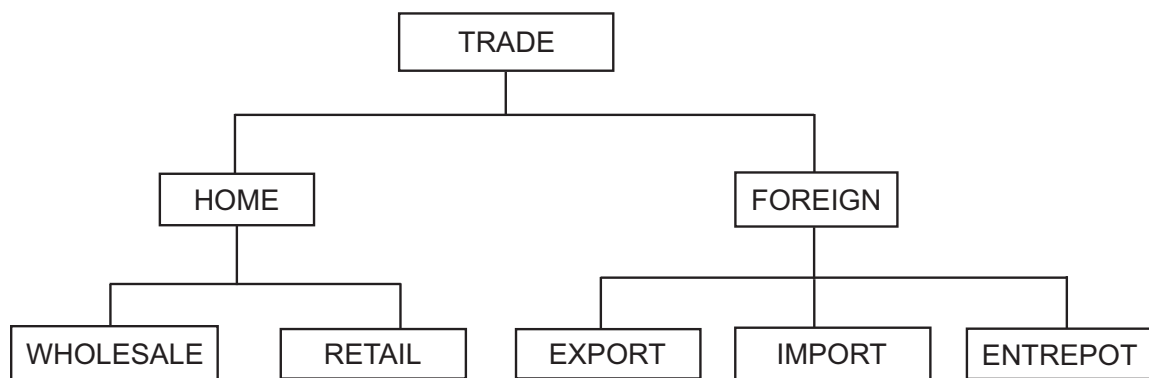
## CHAPTER 2

### INTERNAL TRADE – SMALL SCALE RETAIL ORGANISATION

Trade may be defined as the means by which the hindrance due to person is removed. It is that branch of commerce, which is concerned, with the removal of personal hindrance. The hindrance arises because the producer and the consumer are different persons and there is no direct contact between them. Trade acts as a connecting link between them. The functions of trade are to act as an intermediary in exchange of commodities between the producer and the consumer.

Trade may be classified into two.

- (i) Internal / Home / Domestic Trade
- (ii) Foreign / External Trade/ International Trade



#### Home Trade

Home trade is one, which is carried on within the boundaries of a particular country. It consists of buying and selling of goods within the country. In this case, both the buyer and the seller belong to the same country.

Eg: Mangoes grown in Andhra Pradesh are sold in Tamil Nadu. Wheat grown in Punjab is sold in Tamil Nadu.

Home trade consists of two main subdivisions namely wholesale trade and retail trade.

Wholesale trade is known as 'purchase of goods in bulk from the manufacturers and sell them in lesser quantities to others (Retailers)'. Retail trade on the other hand, deals with the distribution of goods in 'small' quantities to the consumers.

## Foreign Trade

Foreign trade is a trade between one country with another country. It involves the exchange of goods of one country with other countries. It is generally, carried out by large business houses. Eg: Petroleum products of Gulf countries are sold in India.

### Types of foreign trade

#### Import Trade

Import trade means buying goods from a foreign country for domestic use. Eg: India imports Petroleum from Saudi Arabia.

#### Export Trade

Export trade means sale of domestic goods to foreign countries. Eg: Export of Iron ore from India to Japan.

#### Entrepot Trade

Entrepot trade means importing of goods from one country and exporting the same to other foreign countries. The country which carries on this trade is acting as collecting and distributing centre for certain special facilities like large bonded ware houses, assembling and value addition facilities. Eg: Singapore.

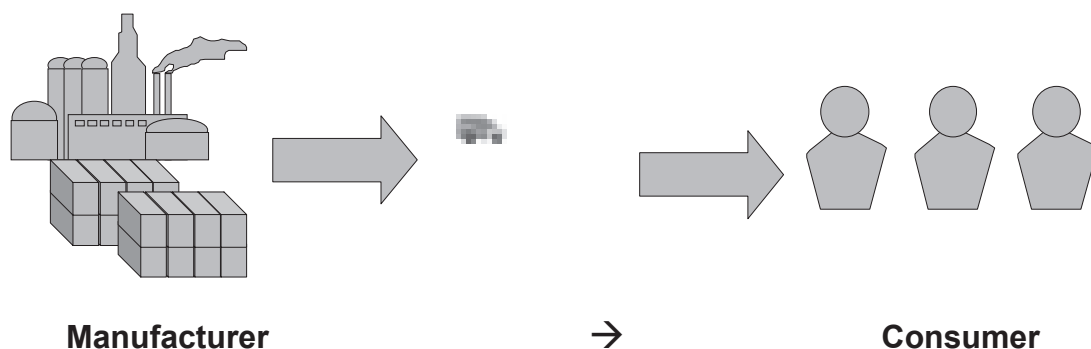
## CHANNEL OF DISTRIBUTION IN HOME TRADE

The word 'channel' has its origin in the French word for canal. The word channel of distribution means the chain of middleman engaged in the distribution of goods. According to Cundiff E.W and Still, a channel of distribution may be defined as "a path traced in the direct or indirect transfer of title to a product as it moves from the producer to ultimate consumers".

According to American Marketing Association. "A channel of distribution is the structure of intra company organization units and extra company agents and deals wholesale and retail through which a commodity or product or service is marketed".

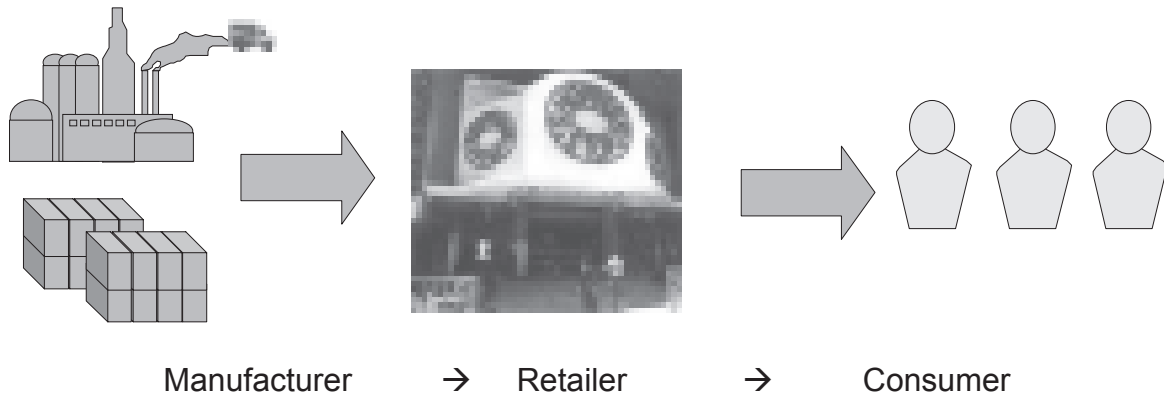
The distribution of consumer goods may be through the following channels

### a) Manufacturer - Consumer



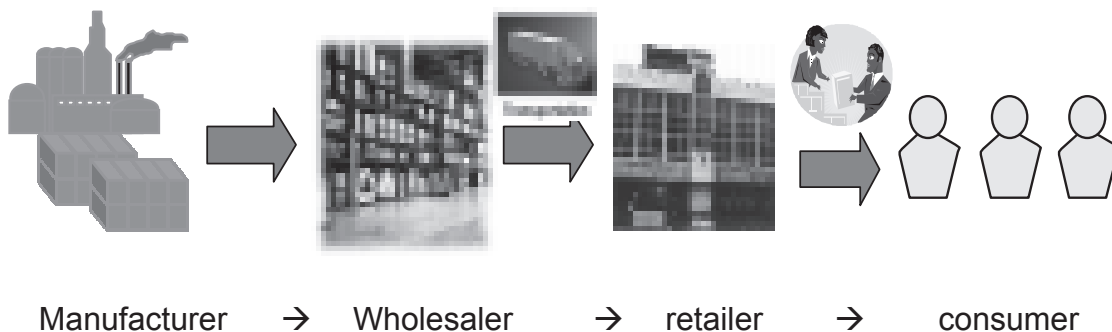
Where the goods are directly sold by the manufacturer to the consumers and no middleman is involved. Eg: Milk vending, Curd vending.

**b) Manufacturer – retailer - consumer**



Here middlemen are involved to pass goods from manufacturer to the consumers through retailers. The retailers are the connecting link between the producer and the consumer. E.g. Durable articles like Television, Computer etc.

**c) Manufacturer – wholesaler – retailer – consumer.**



The wholesaler procures goods from the original manufacturer, and sells them to retailers. It is from the retailers that the consumers get their requirements. E.g. Consumable articles like toothpaste, soap etc.

**FACTORS OF CHANNEL OF DISTRIBUTION**

The various factors determine the proper channel of distribution shall be based as: Product factor, Market factor, Consumer factor, Middlemen factor, Manufacture's factor.

**Product factor**

The nature and type of product helps in determining a decision about channel of distribution. A high priced product will have less middlemen because the number of buyers will be limited. Example Automobiles product. The perishable product cannot have more middlemen because it will have to reach the consumer at the earliest. Eg. Vegetables and fruits. A product, which may require after-sale service, cannot require more middlemen. Eg: Refrigerators, Washing machine.

## **Market factor**

The nature and type of market helps in determining a decision about channel of distribution. A product may be marketed in a large area will require a long channel of distribution. A product marketed in a limited area will not require more middlemen.

## **Consumer factor**

The number of customers also influences the channel of distribution. When the number of customers is small and they are located at central places then direct selling will be easy and economical. If the number of customers is large and they are scattered over different areas then middlemen will be helpful in marketing. When customers purchase large quantity of goods then they prefer to deal with manufacturer. On the other hand, if customers purchase small quantities, then sale through middlemen is the only feasibility

## **Middlemen factor**

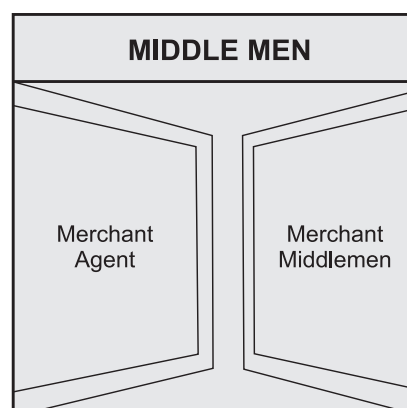
The effect of middlemens' commission in selling price will have to be taken into account before deciding about the number of middlemen. If their commission goes up, then the price of product substantially increases. The number of middlemen should be kept at minimum. Otherwise it will adversely affect the competitiveness of the sale of product.

## **Manufacturer's factor**

The financial position of the manufacturer helps him in selecting the channel of distribution. A manufacturer with large volume of production may prefer to open his own retail outlets for sales. A small manufacturer on the other hand will have to depend on middleman for selling his products.

## **MIDDLEMEN**

The term 'Middlemen' refers to all those who intervene from the primary producer to the ultimate consumer in the exchange of goods. The various intermediaries who assist in the transfer of goods from the producer to the consumer can be broadly classified into two main categories.



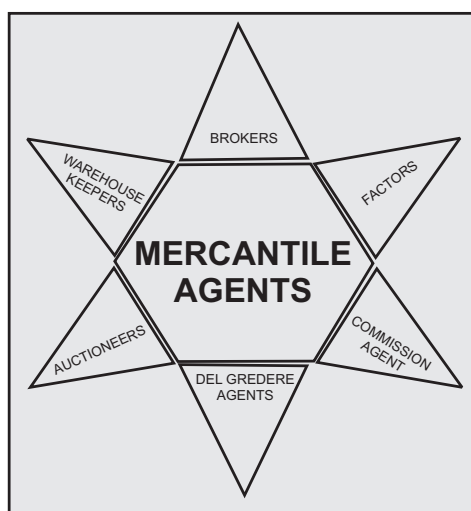
- a) Mercantile Agents
- b) Merchant Middlemen

### a) Mercantile Agents

Mercantile Agents are also called functional middlemen. A mercantile agent is one who is appointed by a businessman to act on his behalf in business matters. In the usual course of business, a mercantile agent has authority to buy or sell goods on behalf of his principal. He has also the right to borrow money on the security of goods. He does not get ownership of the goods; even though they are under his custody. He is remunerated in the form of commission on sales.

#### Kinds of Mercantile Agents

- |                         |                         |
|-------------------------|-------------------------|
| (i) Brokers             | (ii) Factors            |
| (iii) Commission Agents | (iv) Del credere Agents |
| (v) Auctioneers         | (vi) Warehouse keepers. |



#### (i) Brokers

A Broker is one who bargains for another and receives commission for doing so. It is called 'brokerage'. His usual business is to negotiate and arrange for finalising contracts between two parties for the purchase or sale of goods. He brings buyer and the seller together. He does not take possession of the goods nor does he become its owner. He is not personally liable for the contracts concluded.

#### (ii) Factors

A factor is a mercantile agent to whom goods are entrusted for sale by a principal. He takes physical possession of the goods, though he does not obtain ownership of the goods. A factor sells goods in his own name without revealing the name of his principal. He may even sell them on credit and other usual terms. He is entitled

to receive payment for the goods sold and give valid receipts. He is liable for his action. He can sue or be sued for his contracts. He has a right of lien on goods in his possession for his unpaid charges.

#### **Differences between factors and brokers**

<b>S.No</b>	<b>Factors</b>	<b>Brokers</b>
1.	Take possession of goods	Does not take the possession of goods
2.	Deals in his own name	Deals on behalf of the owner of goods(principal)
3.	Right to receive payments	Cannot receive payments
4.	Personally liable for his actions	Principal is liable for his actions
5.	Remuneration is called commission	Remuneration is called brokerage
6.	He has a right of lien on goods in his possession for his unpaid charges	He cannot have the right of lien on goods in his possession for his unpaid charges.
7.	He is a general mercantile agent	He is a special mercantile agent

#### **(iii) Commission agent**

A commission agent buys and sells goods in return for a commission. He will serve as a middleman between his principal (Employer) and the product owners or consumers. He gets a fixed commission for all his transactions. He does not take the risk of the trade and all the risks involved in his transactions are borne by his employer.

A commission agent possesses expert knowledge of the goods and trends of the market. The commission agent's services are broader than the brokers as the commission agent usually take possession of the goods and does business in his own name. Further he takes decision over the prices and terms of the sale. However he cannot be a wholesaler, as he is not having the title to goods he deals in.

#### **(iv) Del credere agents**

A del credere agent is a mercantile agent who guarantees his principal for the collection of dues from the customer to whom credit sales are made. If they do not pay, the agent would bear the loss himself. In return for his guarantee, he is given an extra commission known as 'Del Credere commission. It is paid to the agent in addition to the usual commission. A Del credere agent shall be very cautious in extending credit. He will extend credit sales only to a person of probity and reliability.



#### **(v) Auctioneers**

Auctioneers are agents who sell goods by auction on behalf of their principals. Auction sale is a notification to the public. It clearly mentions the date, time, place and details of goods will be widely published through newspapers, posters, leaflets and announcements etc.,

Auction sale may be “WITH RESERVE” and “WITHOUT RESERVE”. In case of auction “WITH RESERVE” no sale can take place below the minimum price fixed by the seller, which is known as “Reserve Price”.

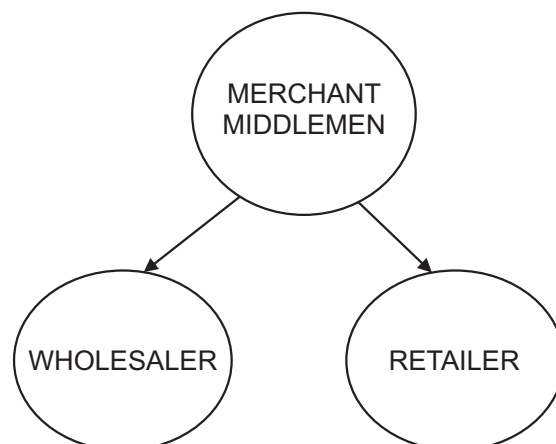
In case of auction “WITHOUT RESERVE” the auctioneer is bound to sell the product to the highest bidder. The price for which the bid is accepted is called “knocked down price”. Striking a hammer on the desk indicates the acceptance of a bid by auctioneer. After the highest bid is accepted, the auctioneer becomes the agent for both the seller and the buyer. For his services, the auctioneer is entitled to receive a commission, which is a certain percentage of the sale proceeds, usually fixed between him and the seller, prior to the auction.

#### **(iv) Warehouse-keeper**

A Warehouse keeper accepts goods for the purpose of storage in his warehouses. He must exercise reasonable care and diligence in the storage of goods. He is entitled for payment for his services. He will have lien on the goods incase the payment for his services are unpaid. The warehouse keeper gives to the owner of the goods a receipt known as warehouse keeper’s receipt or certificate. It is an acknowledgement meant for the receipt of goods by him for the purpose of storage. It is not a document of title to goods. He may issue a ‘Warehouse warrant’, which is a document of title to goods.

#### **b) Merchant Middlemen**

Merchant Middlemen are the intermediaries who buy and sell the goods in their own name, and in return earn a profit out of it. They take ownership as well as possession of the goods they sell. They operate in their own name and bear all the risks. Merchant middleman can be sub- divided into:



## **1. Wholesalers**

The word 'Wholesaler' has been derived from word 'Wholesale', which means to sell goods in relatively large quantities or in bulk. The wholesaler is the first link in the chain of intermediaries between the producer and the consumer.

According to Evelyn Thomas: "a true wholesaler is himself neither a manufacturer nor a retailer but acts as a link between the two". According to Cundiff & Still: "wholesalers buy from the producer and sell merchandise to the retailers and other merchants and not to the consumers".

### **Characteristics of Wholesaler**

#### **(i) Procurement in bulk quantity**

He buys in bulk quantities from producers and sells in small lots. It is the important characteristics of the wholesaler.

#### **(ii) Sale to other dealers**

The wholesaler sells goods to retailers. He does not come into direct contract with the ultimate consumers.

#### **(iii) Buying directly from manufacturer**

Usually the wholesaler buys directly from the manufacturers or producers.

#### **(iv) Restriction to one or few goods**

He usually deals in a few types of products or a particular line of products.

#### **(v) Personal service**

He operates in a specific area determined by producers. He is a vital link between the producer and the retailer.

### **Functions of wholesalers**

Wholesalers perform a number of functions in the marketing of goods. The important functions are

- i. Assembling and buying
- ii. Storing or warehousing
- iii. Transporting
- iv. Financing
- v. Risk – bearing
- vi. Grading, packing and packaging.

- vii. Providing market information
- viii. Dispersing and selling.

#### **(i) Assembling and buying**

The Assembling function performed by wholesalers dealing in variety of products from many manufacturers and keeps them in stock for sale to retailers. Buying includes the selection of manufacturers whose goods are to be bought regularly, making of special purchases of goods of seasonal nature i.e., goods whose supply or demand or both are seasonal and placing of orders with regular suppliers. They have to anticipate the needs of retailers to buy new products whose demand develops and discontinue buying products, which are in lesser demand.

#### **(ii) Storing or warehousing**

After arranging and assembling the products from producers, a wholesaler stores them in his warehouse and release them in proper and required quantities as and when retailers require them. It has been seen that there is a time gap between the production and the consumption of goods. The manufactured goods are to be stored carefully till retailers demand them. Thus a wholesaler performs the storage function in order to save the goods from deterioration and also to make these goods available when they are demanded.

#### **(iii) Transportation**

Wholesalers purchase in bulk from manufacturer and transport these goods to their own warehouses. Also, they provide transportation facility to retailers for transporting the goods from their warehouses to the retailer's shops. Since wholesalers purchase in bulk, they can enjoy the economies of freight on bulk purchases.

#### **(iv) Financing**

The wholesaler makes a significant contribution to the marketing process by the way of finance. A wholesaler provides credit facility to retailers who are in need of financial assistance. Producers generally desire to avoid getting his capital locked-up on finished goods. Wholesalers take delivery of goods and ask for a relatively short period of credit from the producers. Further, the wholesaler carries a great deal of financial burden of holding stocks. Thus, producers are relieved of the financial burden of carrying stock. The important factor being that retailers are financed by wholesalers in the form of supply of goods on credit, which relieve the financial burden of producers.

#### **(v) Risk bearing**

A Wholesaler bears all the trade risk arising out of a sudden fall in prices of goods or by way of damage / spoilage or destruction of goods in his warehouse. The risk of bad debts as a result of non-payment by retailers, who have purchased on credit, also falls on the wholesalers. So, the wholesaler bears all the trade and financial risks of the business.

#### **(vi) Grading, Packing and Packaging**

Wholesalers sort out products of different grades according to the quality, size, shape, moisture content etc., They also break open the packed case, break them into smaller lots and repack them for delivery to retailers. Thus marketing functions of grading, packing and packaging are also performed by the wholesalers.

#### **(vii) Providing market information**

Wholesalers provide valuable market information to retailers and producers. The retailers are informed about the quality and type of products available in the market for sale, whereas the producers are informed about the changes in taste and fashions of consumers so that they may produce the goods of the desired level of taste and fashion.

#### **(viii) Dispersing and selling**

Wholesalers sell their goods to retailers who are scattered far and wide. Retailers approach them when their stocks are exhausted for further replenishment. Thus wholesalers help in the dispersion process of marketing.

### **SERVICES OF WHOLE SALERS**

#### **1. SERVICES TO PRODUCERS**

##### **a). Bulk order**

The wholesalers buy in large quantities from the producers. So, the producers get the benefit of large orders and he can also produce on large scale.

##### **b). Concentration on Production**

Producers can concentrate on the production process by relieving them from the trouble of supplying goods in small quantities to the retailers. If he concentrates on production the producer is sure to benefit immensely by eliminating wastages.

##### **c). Economy**

Since the wholesaler undertakes to keep stocks, the producer need not carry large stock of finished goods. On account of this shifting of warehousing function to wholesaler, the cost of carrying goods is considerably reduced. His capital is not locked up in stock for a long period. He can afford to carry on his business with less capital.

##### **d). Price stabilisation**

Wholesalers stock goods during the harvest season and sell them during the period of peak demand. In this way he contributes a good deal to the stabilisation of prices and violent fluctuations in prices are prevented.

### **e). Providing market information**

The wholesaler helps the producer to regulate his production in accordance with the changing requirements of the market. Firstly the orders received from the wholesalers bring to the notice of producer any change in demand or the taste of the consumers. Secondly, the wholesaler forecasts changes in fashion and makes suggestions about the type and quality of goods likely to be required.

### **f). Risk – bearing**

A wholesaler bears all the trade risk arising out of sudden fall in prices of goods or by way of damage during storage etc., Similarly loss on account of bad debts due to credit sales is also borne by a wholesaler.

## **2. SERVICES TO RETAILERS**

### **a). Meeting the Requirements**

The retailer has to carry a stock of large variety of products to meet the demand of his customers. Because of lack of space and small capital amount he cannot hold large quantities of each variety of products. The wholesaler removes this difficulty. Retailer can replenish his stock by buying in small quantities as and when the stock of any particular variety is nearly sold out.

### **b). Passing of Specialised knowledge**

Wholesaler specialises in a particular line of products. He has expert knowledge of the market conditions relating to such products. He passes on this knowledge to the retailer who does not possess such knowledge as he deals in a large number of products of different varieties.

### **c). Marketing risk reduced**

By enabling retailers to keep their stocks in smaller quantities, wholesalers enable them to operate their business with lesser amount of capital. Further, retailers are relieved of the risks of fluctuation in prices, changes in demand, style, taste, etc., the risk of a retailer is reduced to the small stock held by him.

### **d). Introduction of new products**

Wholesalers bring to the knowledge of retailers the new type of goods through their traveling salesman, or by displaying in their showrooms and through price lists etc.,

### **e). Financial Assistance**

Wholesalers provide financial assistance to the retailers. This is done by allowing credit to the retailers purchasing goods from them. Retailers purchase goods from wholesalers on credit and make payment to them after receiving money from

their customers. This helps the retailer to manage his business with small amount of working capital.

## **2. RETAIL TRADERS**

A retail trader is the last link in the chain of distribution between a producer and a consumer. A retailer has been defined as a trading intermediary engaged in the distribution of goods to the ultimate consumer.

According to S.Evelyn Thomas “ the retailer is the last of the many links in the economic chain whereby the consumer’s wants are satisfied smoothly and efficiently by retailers.”

According to Cundiff & Still “A retailer is a merchant or occasionally an agent whose main business is selling directly to the ultimate consumers.”

### **Functions of a Retailer**

#### **(i) Convenience**

By opening shops within easy reach of consumers, he satisfies the consumer needs with greater convenience.

#### **(ii) Choice**

The retailer gives his customers a wider choice of goods. He knows the requirements very well .So he can supply goods according to their choice.

#### **(iii) Information**

Retailers collect valuable information regarding the preferences and changes in the taste of consumers. They pass on this information to the producers through the wholesalers. The producers can produce necessary changes in their goods by altering the size, quality, quantity, design etc.,

#### **(iv) Risk bearing**

The retailer bears the risk of physical damage of goods and also the price fluctuations. Risk of fire, theft, deterioration and spoilage of goods has also to be borne by him. He bears all these trade risks, which come in his way during the normal course of business.

#### **(v) Storage & packing**

On receipt of goods from the whole salers, the retailer store them in his godown so that he can keep as reserve, stocks for the future, and also packs his goods in small packets and containers for his customers. Some times he may be required to grade the goods also.

## **I - SERVICES TO WHOLESALERS**

### **1. Organised Link**

The retailer is an important agency linking up the wholesaler on one side and the consumer on the other side. The function of wholesaling is facilitated by the existence of retailers. He can take delivery of the goods assembled by the wholesalers at any point of place and time.

### **2. Consumer's preferences**

The retailer is in close touch with the consumers and he can be aware of the consumer preferences. He is in a position to anticipate the consumer requirements. So he can inform the consumers' preferences to the wholesalers.

### **3. Personal attention**

The retailer is able to provide more personal attention to his customers than the wholesaler is. He gives special services on the spot when the articles require minor repairs.

### **4. Widening of market**

The retailer makes it possible to widen the size of the market, as he relieves the wholesaler from the burden of organising sales outlets to sell the goods in small quantities.

## **SERVICES TO THE CUSTOMERS**

A retailer, in addition to the services to manufacturers and wholesalers, also serves the consumers. He has direct and personal contacts with them. The main aim of the retailer is to serve the customer better.

### **1. Holding stocks**

The retailer holds stocks of goods, which the consumers require from time to time. They can buy these goods at any time. Consumer is not in a position to keep large stocks of goods, and therefore buys them as and when they are needed. The retailers relieve the consumers of the inconvenience of holding stocks.

### **2. Supplying Information**

Consumer's goods are produced in wide variety. By suitably displaying these innumerable goods, the retailer creates the attention of his customers to these new arrivals. This service is evident from the changing demand for products such as textiles, fabrics and furniture.

### 3. Expert Advice

The retailer is undoubtedly an expert in the line of goods he deals. He provides expert advice about the comparative benefit of goods of same kind manufactured by different manufacturers.

### 4. Credit facilities

Retailers sell goods on credit to their permanent customers. Especially the fixed income- earners find it convenient to purchase their requirements and credit throughout the month and settle their accounts on the salary day.

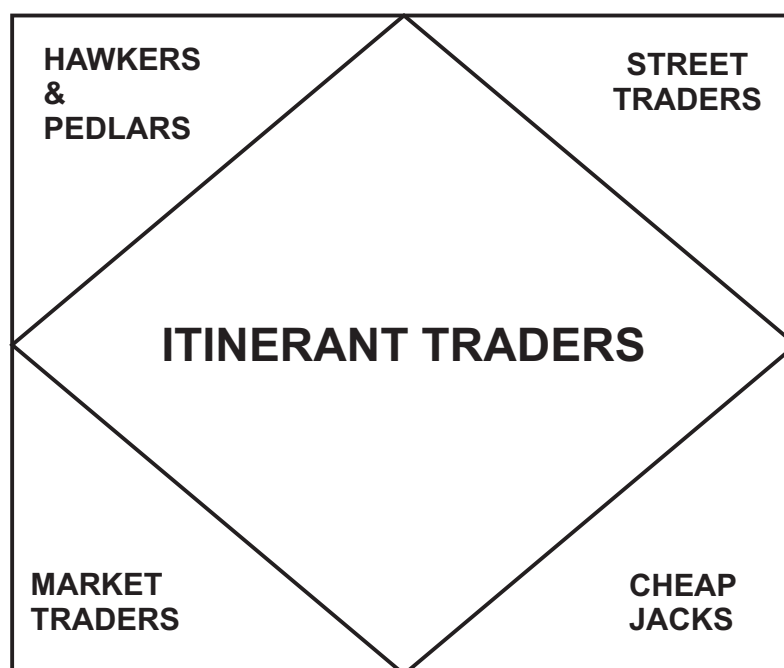
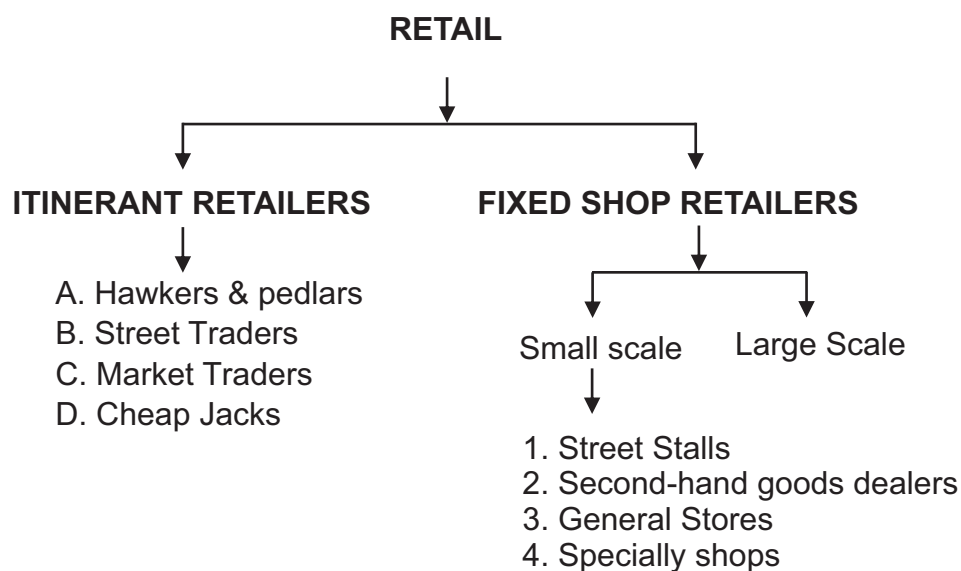
### 5. Miscellaneous Services

1. Retailers provide free-home delivery service to the customers.
2. They provide after sale service to customers.
3. They allow cash discounts on their sales.

## DIFFERENCES BETWEEN WHOLESALER & RETAILER

S.No	Wholesaler	Retailer
1.	Wholesaler is a link between manufacturer and retailer	Retailer is a link between whole saler and ultimate consumer.
2.	He buys in large quantities from the manufacturers	He buys in small quantities from the wholesalers
3.	He deals one line of products	He deals in different type of products
4.	Business spread to different areas	Business located in particular place of area
5.	He is very close to manufacturer but distant from consumer	He is very close to consumer and away from manufacturer.
6.	He operates his business in big commercial cities.	He operates even in a smallest villages and also big cities.
7.	Do not provide after- sale- service.	Provide after-sale- service.





## **TYPES OF SMALL SCALE RETAIL ORGANISATION**

### **ITINERANT RETAILERS**

Itinerant retailers are mobile traders who deal in low priced articles like fruits, vegetables, fish, glassware, clothing, books etc. They include dealers such as pedlers, hawkers, and market traders, Cheap jacks, street vendors etc. They have very little stock and limited capital.

#### **a) Hawkers & Pedlars**

Some retailers are hawkers. They are small-scale petty retailers moving from door to door in residential areas to sell their goods. Hawkers generally use a convenient vehicle to carry goods from door to door. Pedlars are also persons who trade on foot,

but carry their goods on their head or shoulders. Pedlars go from house to house and providing personal services directly at the door of the customer.

### **b) Street Traders**

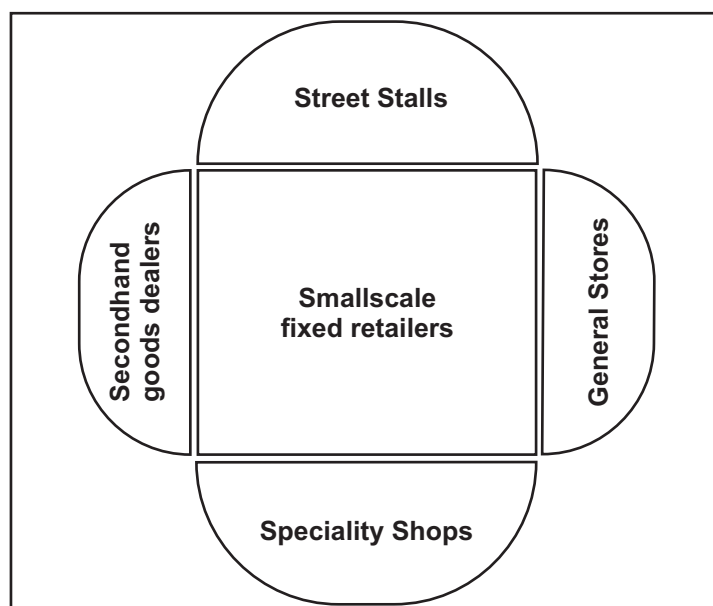
In big cities likes Chennai, Mumbai and Kolkatta the vendors kept their wares just on the pavements of busy streets. It is common to find small bookshops, pen-repairers, leather bag repairers and other household goods located in front of railway stations or near road crossing.

### **c) Market Traders**

These are traders displaying the goods in different localities at the weekend or the end of month. Most of the big villages and small towns in India have regular market days. Eg., Sunday bazaar, Monday bazaar etc.,

### **d) Cheap Jacks**

The cheap jacks hire shops in centrally located, residential areas. They deal in household goods such as clothes, utensils, plastic items etc., but they also move from one locality to another area when there are no prospects for them in the existing place.



### **Small scale fixed retailers**

Small scales fixed retailers are traders who have a fixed place of business but due to limited capital they operate at small levels.

#### **1. Street stalls**

Street stalls are formed as a fixed scale retail establishment. The stalls are organised on a very small scale. They need very limited space. His supplies are received from wholesalers or from local producers. He establishes personal contact with his customers.

## **2. Second hand goods dealers**

They are the retailers engaged in the sale and purchase of secondhand or used articles such as clothes, books, furniture etc., They receive their suppliers from those who sell these articles after use and also from auctions. The customers of such business are poor people who cannot afford to spend the prices for new products.

## **3. General stores**

A retail business carried on in a properly established shops is called as general stores. But their turnover of business is relatively small. Even a small general store may deal with all requirements of the customers like drugs, cloth, provisions, bakery products, stationery items, and confectionery etc., The important facility is the convenience of the customers to purchase variety of goods easily nearer to their houses.

## **4. Speciality shops**

A speciality shop is one that deals in goods of a particular description. They are small fixed shops like general shops but they deal in one product of a particular line. Eg., readymade garment stores, stationery shop, a furniture mart etc.,

## **QUESTIONS**

### **I. Multiple choice:**

1. The purchase of goods from a foreign country is called \_\_\_\_\_

- a) Import                      b) Export
- c) Entreport                  d) Re-Export

Answer (a)

2. The persons who come in between the primary producer and the final consumer to promote trade is called as

- a) Trader                      b) Middleman
- c) Agent                      d) Auctioneer

Answer (b)

3. When goods are imported for the purpose of export is called as \_\_\_\_\_

- a) Foreign trade              b) Home trade
- c) Entrepot                    d) Trade

Answer(c)

4. An agent is appointed by the

- a) Wholesaler                      b) Principal
- c) Retailer                         d) Manufacturer

Answer (b)

5. A warehouse keeper accepts goods for the purpose of \_\_\_\_\_

- a) Storage                         b) Export
- c) Selling                         d) Packaging

Answer(a)

6. Wholesaler's deals in \_\_\_\_\_ quantity of goods

- a) Small                            b) Large
- c) Medium                        d) Limited

Answer (b)

7. \_\_\_\_\_ can check the price fluctuations in the market by holding back the goods when prices fall and releasing the goods when prices raise.

- a) Agent                            b) Mercantile agent
- c) Whole saler                    d) Retailer

Answer(c)

8. \_\_\_\_\_ are agents who merely bring the buyer and the seller into contact.

- a) ) Broker                        b) Commission agent
- c) Selling agent                  d) Stockist

Answer (a)

9. \_\_\_\_\_ are mobile traders who deal in low priced articles with no fixed place of business.

- a) Retailers                        b) Agents
- c) Street stalls                    d) Itinerant traders

Answer (d)

10. Small scale Fixed retailers includes \_\_\_\_\_

- a) General stores                b) Pedlars
- c) Cheap Jacks                  d) Hawkers

Answer (a)

## II. Fill in the blanks

1. Trade acts as a connecting link between the producer and \_\_\_\_\_.  
(consumer)
2. Trade may be classified into \_\_\_\_\_ and \_\_\_\_\_ (home trade and foreign trade)
3. Domestic trade is otherwise called as \_\_\_\_\_ (internal trade)
4. Home trade can be classified in two \_\_\_\_\_ and \_\_\_\_\_ trade.  
(wholesale retail)
5. Mercantile agents are also called as \_\_\_\_\_ middle men (functional)
6. A warehouse keeper issue a \_\_\_\_\_ warrant. (warehouse)
7. Commission agents play a vital role in \_\_\_\_\_ marketing. (agricultural)
8. A retailer deals in \_\_\_\_\_ varieties of goods. (different)
9. The mobile traders who deals in low priced goods are called as \_\_\_\_\_ traders. (itinerant)
10. General stores are established in the \_\_\_\_\_ Place in a \_\_\_\_\_ area.  
(central, residential)

## III. Match the following

### SECTION-A

1. Warehouse-keeper
2. Broker
3. Auctioneer
4. Wholesaler
5. Retailer
6. De-cruer agent
7. Merchant Middleman
8. Mercatile Agent
9. Commisison Agent
10. Trader

### SECTION-B

- a. Bidder
- b. Different type
- c. Retailer
- d. Commission
- e. Profit
- f. Factors
- g. Warehouse Warrant
- h. De-cruer commission
- i. Single. Line
- j. Brokerage

## Answers

- |        |        |        |        |         |
|--------|--------|--------|--------|---------|
| 1. (g) | 2. (j) | 3. (a) | 4. (i) | 5. (b)  |
| 6. (h) | 7. (c) | 8. (f) | 9. (d) | 10. (e) |

#### **IV. short questions**

1. What is trade?
2. What are the classifications of trade?
3. What is Home trade?
4. What is Foreign Trade?
5. What are the channels used in Home Trade?
6. Who is a Middleman?
7. Define Wholesaler.
8. Define Retailer.
9. Who are the Mercantile Agents?
10. Who is a Broker?

#### **V. Paragraph questions**

1. Distinguish between factors and brokers.
2. Who is a wholesaler and what are the characteristics of a whole saler?
3. What are the services rendered by wholesaler to retailers?
4. What are the services rendered by whole saler to producer?
5. What are the differences between the whole saler and retailer?
6. Who is a retailer? What are the functions of retailer?
7. Explain the various types of small-scale fixed retailer?
8. Write a note on
  - a) Commission Agents
  - b) Del-credere agents
  - c) Auctioneers

#### **VI. Essay type questions**

1. What are the factors responsible to choose a proper channel of distribution?
2. Who are mercantile agents? Explain their types?
3. Discuss the functions of wholesalers?
4. Explain the services rendered by a retailer?
5. Who is a wholesaler? Explain the services rendered by a wholesaler?

## **CHAPTER - 3**

# **INTERNAL TRADE - LARGE SCALE RETAIL ORGANISATION**

### **INTRODUCTION**

Internal trade includes small scale and large scale retail organisations. In this chapter, we will discuss the large scale retail organisations. In recent years the retail units have started expanding its business in large scale due to increased business activities. Retailing on a large scale brings with it the economies of bulk purchase, advertising, sales, overhead expenses, management etc. The large-scale retail units take different forms. They are listed below:

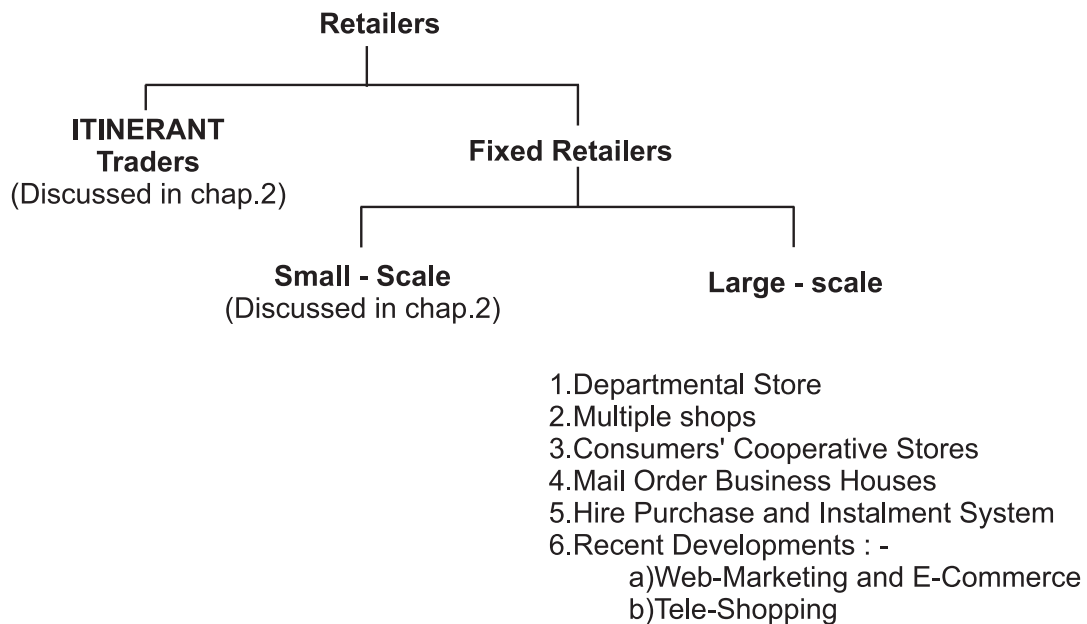
- I. Departmental stores
- II. Multiple shops
- III. Consumers' co-operative stores
- IV. Mail order business houses
- V. Hire purchase and instalment system
- VI. Recent developments:
  - a) Web-marketing and E-commerce
  - b) Tele-shopping.

### **LARGE SCALE RETAILERS**

#### **I. DEPARTMENTAL STORES**

A departmental store is a huge retail shop situated at a central place in the heart of the city. It comprises a number of small shops or departments. Each department deals with separate line of products. All the departments are housed under separate line of products. All the departments are housed under one roof and under one unified control and management.

## Types of Retailers



Departmental stores are of French origin. The first of its kind is Bon Marche started in Paris during 1850s. The following are the examples of departmental stores flourishing in various countries.

‘Bon Marche’ and ‘Louvre’ of France, ‘Harrods and Selfridges’ of England, ‘Sears and Roebuck’ of U.S.A; Spencers in Chennai, ‘Sears and Roebuck’ of U.S.A; Spencers in Chennai, Kamalaya at Kolkata, Army and Navy Stores in India etc.,

According to G.B.Giles “A departmental store is a collection of shops under one roof and ownership, each shop or department specialising in selling a special range of goods”.

### Features of Departmental Stores

#### 1. Universal provider from one place

A Departmental Store acts as a universal supplier of a wide variety of Products. It tries to satisfy all the expected human-needs under one roof. It offers the widest choice of variety and the customer can buy all his requirements from a ‘PIN’ to a ‘CAR’ under one roof.

#### 2. Large Scale Operation

It is a form of large-scale business. It is located in the centre of commercial areas. Mostly costly goods are sold here.

#### 3. Buying Comforts

The bigger Departmental Store offers a great number of amenities and attractions to the Customers. Restaurants, post and telegraph offices, parking, canteen, reading rooms and various forms of recreation etc., are provided to the customers.



#### **4. Departmental Integration**

All the Departments are under one ownership and one unified control. Each department operates as an individual unit and at the same time it is inter-related with other departments also.

#### **5. Self-Advertisement**

All the departments are advertised at one and the same time. When a customer moves in a departmental store, he passes through other various departments also.

#### **Type of Organisation:**

The Departmental Store due to its large-scale operations is formed either as a private or a public company usually constituted as a company with limited liability. It comes under a single management. It is managed by the Board of Directors. Naturally the ultimate control comes under the Board of Directors. The Managing Director is incharge of its day- to-day administration.

The whole organisation is divided into a number of departments. Each department is headed by a departmental manager.

#### **Advantages of a departmental store**

##### **i) Large-scale buying**

Since a departmental store purchases in bulk directly from the manufacturers, it can get more discount on its purchase, and the goods cost cheaper to the organisation.

##### **ii) Shopping convenience to customers**

The customers need not go from shop to shop for buying their requirements. They can complete their purchase under one roof. A great variety of goods are available in a departmental store. Thus it saves their time and labour.

##### **iii) Buying made pleasant**

Rest rooms, recreations, coffee bars, telephone booths etc. provided in a departmental store make buying pleasant. Courteous treatment satisfies the customers greatly.

##### **iv) Self advertisements**

One department advertises the other. Customers, while passing through different departments, are attracted by the way things are displayed. They are, thus, induced to buy things not originally thought of.

##### **v) Centralised location**

Generally a departmental store is centrally located. As such it is easily accessible to people from all parts of the city. For the floating population centralised location is an added advantage.

## **vi) Advantages of large-scale operations**

It reaps all the benefits of large-scale operation. It can employ expert buyers who have a thorough knowledge of the market.

## **Disadvantages**

### **i) Cost of operation**

The provision of various services, heavy advertisement and the central location increases the cost of running the store. Therefore prices charged by them tend to be higher and not competitive. That is why it is felt that a departmental store is meant for the rich who care more for quality and service.

### **ii) Unsuitable location**

Since a departmental store is situated away from residential localities, people hesitate to make a trip just for purchasing a few items required at short notice.

### **iii) Lack of personal touch**

Since the proprietors have no personal touch with their customers, they do not give personal attention to the customers. Therefore the people prefer to go to other small retail shops for buying.

### **iv) Required large amount of Capital for investment**

Such departmental store requires a large amount of capital for investment and business ability of high order to start this business. Hence a businessman with the limited capital and ability hesitates to start a departmental store. This sort of behaviour of the businessman is responsible for the slow growth of the departmental stores in India.

## **II. MULTIPLE SHOPS (CHAIN STORES)**

The very name 'Multiple Shop' indicates that under this organisation similar shops are established in multiples by the same management. In Europe this system is called as 'Multiple Shops' and the Americans call it as 'Chain Stores'.

In view of the huge capital required, multiple shops are generally organised and managed in the form of a Joint Stock Company. So the Management is entrusted to the Board of Directors.

## **Definitions**

According to Clark & Clark, "a chain store system consisting of a number of retail stores which sell similar products, are centrally owned and are operated under one management".

E.Thomas defines a Multiple Shop, as “is one of a chain of similar shops owned and controlled by a single business firm”.

## **Meaning**

A multiple shop is a network of a number of branches situated at different localities in a city or in a different part of the country. All the branches deal only with a particular product line and specialise in the same. This system consists of opening additional branches to increase the sales volume.

## **Features of Multiple Shops**

### **1. Centralised Management and Control**

The branches of Multiple shops may be a few or many but all come under a single centralised management control. The Head Office exercises overall control over the activities of the various branches. Each shop or branch is controlled by the Branch Manager. These managers follow the orders given by a Head Office and cannot take independent decisions.

### **2. Specialisation in one or a few commodities**

Multiple shops usually deal with necessities or durable goods of daily use. They deal with a single product line and specialise mostly in one line of goods or in a very few lines. They do not sell a variety of consumer goods. For examples., Bata Shoe Company specialises in footwear, Usha Ltd specializes in sewing machines and Higgsbothams deals with books etc.,

### **3. Standardised commodities**

The price, quality, design, size etc., of the products are the same in all the multiple shops in different localities. Hence only standardised goods are sold.

### **4. Centralised Buying and Decentralised Selling**

The goods needed for the various branches of multiple shops are purchased centrally by the Head Office. Branches are not allowed to make local purchases.

The required goods are sent by the Head office to all the branches for sale. The different branches sell their goods in different localities.

### **5. Sales on Cash basis**

All sales are strictly on the Cash basis. No credit is granted to the customers. The ‘Cash and Carry’ principle is strictly followed.

### **6. Nature of Advertisement**

All the branches of a multiple shop have uniform appearance. The window display or way of advertisement of the goods is common to all shops dealing with one product line. So it makes easy identification of the shop to the public.

## **7. Movement of Goods between branches**

There is movement of goods from one branch of shop having low demand to another branch having heavy demand. This is during seasonal demands like the Pongal, Deepavali seasons etc.

## **Advantages of Multiple Shops**

### **1. Elimination of middlemen**

Multiple shops owned by a manufacturer or a wholesaler eliminate all kinds of middlemen between the producer and the consumer.

### **2. Economies in bulk buying**

In the case of multiple shop organisation, the purchases are carried on by the Head Office for all its branches through its expert buyers. Bulk buying has the benefits of specialisation in a particular line of goods.

### **3. Uniformity in price**

Goods are sold at uniform prices in all branch shops. Goods are of standard quality. This creates public confidence.

### **4. Quick and Large Turnover**

Multiple shops deal only with constantly demanded goods and which have a rapid and large turnover in different territories. It increases the profitability of such shops.

### **5. Low cost of Advertising**

Multiple shops are similar and they deal with the same line of the business. The advertisement cost is much less. One advertisement creates the demand for the goods in all shops. Moreover, every branch is in itself the advertisement for the other.

### **6. Movement of stock**

If products do not move fast in a particular branch, they can be transferred to some other branches where there is ready demand for them.

### **7. Shortage of stock**

Similarly shortage of stock at one branch can be overcome by transfer of stock from branches having surplus stocks.

### **8. Return of the goods**

Since there is a direct link between the manufacturers and consumers, any defect in the commodity sold can be brought to the knowledge of the producers.

## **9. No Bad Debts**

The multiple shops carry out their operations only on 'cash basis'. Therefore there is no question of bad debts.

## **10. Proximity to customers**

Establishment of branches in various localities means going to the customers as nearly as possible. Consumers do not undertake any long trips for purchasing their requirements.

### **Disadvantages**

#### **1. Dealing with a few products**

Since a multiple shop deals with a restricted range of products, a customer cannot purchase all his requirements under one roof. Further no choice is given for the customer while selecting the good.

#### **2. Individual attention not possible**

In this connection, individual attention is not possible, as multiple shops deal with limited line of the products of uniform quality, shape etc.

#### **3. No Shopping comforts**

A multiple shop does not provide shopping facilities to customers such as parking, canteen, telephone booths, rest rooms etc.

#### **4. Ineffective supervision and control**

As there are many branches, a direct supervision and control may not be possible. So it may become ineffective and there will be greater chances for fraud at the branches.

#### **5. No initiative for the manager to increase sales**

Branch manager of a shop is just a head salesman. He has no voice in making purchases and fixing the prices of goods. He has no initiative in increasing sales. He has also no freedom even to alter the prices to suit the local conditions.

#### **6. No Credit Sales permitted**

Since "Cash and Carry system" is followed, sales cannot be promoted by permitting credit sales even to customers of known probity.

#### **7. A Large number of customers not possible**

As the branch shops are situated in the interior, they do not attract a large number of customers.

### Differences between Departmental Stores and Multiple Shops:

DEPARTMENTAL STORES	MULTIPLE SHOPS
<b>1. Definition ( Establishment)</b> A Departmental store is organised by adding a number of departments in the same premises.	They are established by setting up branches in different localities.
<b>2. Location</b> These stores are located at the central places of cities. Therefore they try to attract customers from far off places.	These shops are generally located near the customer's residences. So the choice of site for locating a multiple shop does not present a serious problem.
<b>3. Variety of Goods</b> These stores keep a wide assortment of goods in their shops. They satisfy the needs of the consumers at one place for different goods.	These shops do not offer variety of goods for their customers. But they satisfy only one particular type of need of the consumers.
<b>4. Flexibility</b> A departmental store when started initially faces a lot of problems such as finance, location, availability of experts etc., Even their closure will be a difficult one.	A multiple shop can very easily open new branches. It is also very easy to close down a losing branch.
<b>5. Change of location</b> A shifting of departmental store to another location entails enormous difficulties in view of its huge establishment.	If sales are downward, a multiple shop can change easily the location of its branch to a better locality in the same city as each branch is a small sized unit.
<b>6. Price</b> The overhead expenses and daytoday running expenses are more in the case of a departmental store. Therefore these costs are met by increasing the cost of product. Ordinarily prices charged by a departmental store are more than that of the ordinary retailers.	These shops do not provide much facilities to the consumers. Therefore, they have the prices of products equal to or less than the market price.

<b>7. Buying Comforts</b> A departmental store makes buying pleasant by providing rest rooms, restaurants, telephone booths etc.,	A multiple shop does not provide comforts to customers while buying.
<b>8. Bad Debts</b> Credit sales are also permitted and hence bad debts are unavoidable.	It sells goods only for cash and thus it prevents loss on account of bad debts.
<b>9. Movement of stock of Goods.</b> The inter-departmental transfer of goods is not possible as each department in a departmental store deals in separate line of goods.	If a particular branch of a multiple shop is facing any temporary shortage of goods, it can get immediate supplies from other branches and thus can manage the situation.
<b>10. Capital</b> This store requires large capital since they sell the goods of different varieties from 'PIN to SHIP'.	Comparatively it requires less capital to carry out business activities.
<b>11. Advertisement</b> This store advertises its goods locally, because they can satisfy the needs of the local people.	Multiple shops carry their advertising campaign throughout the country since they satisfy the needs of a large number of people.
<b>12. Freedom of the Departmental head and the branch manager.</b> The departmental head has some power to fix the price of goods and also to the prevailing conditions.	The Branch manager has no voice in making purchases and fixing the price of goods. He has also no freedom even to alter the prices to suit the local conditions.

### III. CONSUMERS' CO-OPERATIVE STORES

A Consumers' Co-operative Store is a retail business owned and operated by ultimate consumers and distribute goods and services primarily to the members. The primary aim of these stores is to eliminate middlemen and to supply its members, quality goods at a reasonable price.

The consumers' co-operative stores purchase their requirements in bulk from the wholesalers at wholesale price. They sell them to the members at market price. A part of the profit thus earned by the store is passed on to the members in the form of dividend and bonus on purchase. According to J. Stephenson, "A Co-operative Distributive Society is a combination of persons whose aim is to economise by buying in common and to retain their profits by selling in common".

## **Origin**

Distributive Co-operatives owe their origin to the pioneering efforts of 28 Weavers of Rochdale in England. These Weavers formed “Rochdale Pioneers’ Equitable Society” in the year 1844.

## **Characteristics of a Consumers’ Co-operative Store**

### **1. Voluntary Association**

A consumers’ co-operative store is a voluntary association of consumers formed with a view to save themselves from the exploitation of profiteers. The Societies are registered under the Cooperative Societies Act. The minimum number of members to start a society is twentyfive.

### **2. Capital contribution**

The consumers who form the society contribute capital by buying shares. The value of one share is kept low purposely to enable even the poor to become its members.

### **3. Management**

They have a managing committee elected from among members, which lays down the broad policy to be followed by the store. Day-to- day management is entrusted to paid officials.

### **4. Cash sales**

They generally sell goods only on cash basis and hence risk of bad debts is eliminated. But now-a-days credit sales are also permitted. Recently most of the goods are packed and sold to the customers.

### **5. Profit distribution**

The entire profits are not provided to its members as dividend not exceeding certain percentage. Further, members are given bonus on their purchases, known as patronage dividend. Some portion of profit is also utilised for some common good purpose.

### **6. Basic principles of these stores**

The fundamental principles of these co-operatives are open membership, supply of unadulterated goods at fair prices and democratic management etc. A member is given only one vote irrespective of the number of shares held by him in electing committee members.



### **Advantages of consumers' co-operative stores**

- 1) Since the value of a share of a co-operative store is kept very low, even the weaker section of the society can be benefitted by becoming its members.
- 2) 'one-man one-vote' principle followed by it ensures its democratic functioning.
- 3) Members gain a lot as they get unadulterated goods of good quality. They are able to get controlled items easily.
- 4) Even during times of scarcity, prices are not allowed to be raised. Only a fixed margin of profit is added to the cost price.
- 5) Unfair practices like false weighing and false measurements are absent in a co-operative store.
- 6) Payment of bonus to its members on their purchases ensures their continued patronage.
- 7) Since they trade on cash basis only loss on account of bad debts is eliminated.
- 8) In India, Co-operative Societies are actively encouraged by the Government. Many concessions are made available to them. Moreover, its officials periodically audit their accounts.

### **Disadvantages:**

- 1) Members, because of their ignorance and illiteracy, do not realise their rights and responsibilities. Hence most of the societies tend to be dominated by the rich people.
- 2) Instances of fraud, malpractices and irregularities have come into light.
- 3) Absence of incentives for those managing the stores may lead to inefficiency.
- 4) Sufficient attention must be paid to the buying function. But unscrupulous persons may abuse their position and buy goods of inferior quality for the co-operative stores. So it creates an unfavourable trend to the stores.

### **IV. MAIL ORDER BUSINESS HOUSES.**

The mail order business houses are retail-trading houses, which receive orders from the public through post. They deliver the articles by post, thus avoiding personal shopping by the consumers. So mail order business is selling and buying of goods through post.

#### **FEATURES**

##### **i) Contact with Customers**

There is no direct contact between the buyers and sellers in this business. When consumers are scattered due to the vast geographical location they can be contacted only through post and orders are received by sellers.

## **ii) Wide Publicity by Advertising**

Mail Order Houses give wide publicity through television, radio, newspapers, magazines etc.

## **iii) Preparation of Mailing list**

The first step in the operation of mail order business is the preparation of mailing list. It contains the names and addresses of persons who are likely to be interested in their products. This mailing list is prepared from various sources. For example, from the books of Municipalities Publishing House collecting the names and addresses of teachers from schools or colleges etc., As per the list, they are sending out the price lists, and the prospectus to prospective buyers for getting orders.

## **iv) Getting orders and delivering goods**

When the orders are received through mail, goods are properly packed and sent by Registered Parcel Post or by Registered Book-post. Generally the goods are sent through V.P.P. (Value Payable Post). Under this method the seller sends the articles to the buyers' address. And only on receiving the payment for the same, the postman hands over the parcel to the buyer. If goods to be sent are bulky, they may be sent through Railway or lorry service.

## **v) Suitability of goods for Mail Order Business:**

All types of goods are not suitable for mail order business. Standardised and branded goods are highly suitable because there can be no difficulty in identifying the product. Further they should not be very bulky. Usually watches, fountain pens, books, medicines etc. are dealt in.

## **Advantages of Mail Order Business**

### **A) From the customer's point of view**

- i) The customer gets his requirements at his own place and thus saves the time and expense of shopping.
- ii) The customer can arrange for the payment of price till the goods are delivered by mail.
- iii) The articles which are not available in the local markets can be ordered through mail.

### **B) From the seller's point of view**

- i) The business premises need not be decorated nor need sales assistants to be engaged.
- ii) Business can be started even with a small amount of capital.

- iii) The risk of bad debts is eliminated particularly when payment is received through V.P.P.
- iv) The goods need not be accumulated. They may be collected only as and when the orders are received.
- v) The seller gets a very wide market to sell his products.
- vi) His business can be located at any place. It need not be centrally located.

**Disadvantages:**

- i) The buyer does not have the opportunity of inspecting the goods prior to placing his orders. Goods supplied may not correspond with his requirements.
- ii) It may involve a top-heavy expenditure on advertising and publicity.
- iii) Illiterate consumers cannot be approached through post.
- iv) Credit facilities are not available to the customers.
- v) There is a considerable scope for fraudulent dealing under this type of business.
- vi) The Customers who want to make enquiries have to waste their time and money in correspondence.
- vii) The possible causes of failure of business cannot be traced out by the seller easily.
- viii) Sometimes when goods have to be received from distant places, there is considerable delay. Thus, for urgent requirements, this business may not prove suitable.

## **V. HIRE PURCHASE TRADING HOUSES**

### **Hire purchase System**

Under this system a buyer of goods agrees to pay the price in instalments spread over many months or years. Though he gets possession of goods immediately on signing the contract, the ownership does not pass on to him till he pays the last instalment. The seller continues to be the owner till then.

#### **Features of Hire Purchase system**

- i) Hire-sale is also a form of credit sale.
- ii) The seller continues to be the owner, even though he has parted with the possession.
- iii) The buyer gets the ownership only on payment of last instalment.
- iv) If the buyer commits a default in payment, the seller is entitled to repossess the article.
- v) Only durable articles like Television, Radio, Fan etc., are suitable for hire sale.

## **Instalment System of Selling**

This system is otherwise called 'Deferred Payment System'. Under this system title or ownership of articles as well as possession is passed on to the buyer, as soon as the first instalment is paid. On default of payment, the seller cannot seize the article but can go to the court of law to recover his dues.

Thus the fundamental difference between these two systems is that while in the case of hire sale, ownership is not transferred to the buyer till the payment of the last instalment; in the case of instalment selling, the buyer becomes the owner immediately.

### **Advantages of Hire Purchase System**

- i) Consumers can purchase costly articles under hire purchase system as payment of the price is spread over a number of months. So this scheme is very beneficial for the poor people.
- ii) This system increases sales considerably.
- iii) This system is particularly advantageous to sellers as they can take back the goods when the buyers fail to pay.
- iv) This system creates a habit of 'Compulsory Saving' with the buyer, since the payment has to be made by the buyer at the due date.
- v) The seller gets more than the cost price of the goods in the form of Interest.
- vi) The Buyer cannot mortgage or resell the goods till all the instalments are paid.

### **Disadvantages of Hire Purchase System:**

- i) On account of the easy payment facility, consumers go in for articles, which may be beyond their means. Thus, this encourages lavish expenditure.
- ii) As consumers have to pay instalments over a period of time, their future income is mortgaged.
- iii) The Instalment price is higher than the cash-down price.
- iv) Even though the hire-seller has the right to repossess the articles in case of default, to sell them again is difficult as they are second- hand goods.

### **Differences between Hire Purchase System and Instalment System**

<b>HIRE PURCHASE SYSTEM</b>	<b>INSTALMENT SYSTEM</b>
<b>1. Contract of Sale</b> It is not a contract of sale as the ownership is still retained by the seller.	It is a contract of sale as the buyer becomes the rightful owner after payment of the first instalment.

<b>2. Ownership Rights :</b> The buyer cannot hire, sell or pledge the articles bought.	The buyer can do anything with the article which in normal course the owner has the right to do.
<b>3. Action on Default :</b> A default in payment of instalment leads to seizure of articles and the buyer foregoes the money paid so far.	For a default in payment of instalment the article cannot be seized but legal action can be taken for the recovery of dues.
<b>4. Risk of Bad Debt :</b> As the ownership is retained by the seller, the risk of bad debt is the minimum.	As the buyer becomes the rightful owner even before paying the full amount the chances of bad debts are more.

## RECENT DEVELOPMENTS

- a) Web Marketing / Internet Marketing and e-commerce
- b) Tele-Shopping.

## A) WEB MARKETING /INTERNET MARKETING AND E-COMMERCE

### 1. INTRODUCTION

The growth of trade and commerce has increased the demand for internet and electronic commerce. At present geographical coverage of market for products and services is worldwide. It enforces the business to carry out its commercial activities like marketing, selling, delivering, servicing and paying for products and services through electronic commerce.

### 2. INTERNET

The internet is an international network of computers carrying unbelievable amount of information. It is a global collection of high-powered computers that are connected to each other with network cables, telephone lines, microwave dishes, satellites etc.,

The internet supports real time global communication and collaboration among employees, customers, suppliers and other business partners. This enables members of different organizations and people at different locations to work together to develop marketing and maintain products and services.

### 3. E-COMMERCE

It refers to the paperless exchange of business information using network-based technologies. In the past, an information-using network based technologies. In the past, a consumer had ample time to go from store to store locate a desired item, followed by bargaining, placing an order and finally getting the supply. This entire

process could range from a few hours to weeks depending on the product, quantity, quality and source of purchase. But the entire scenario has changed.

Everything in today's world depends on electronics whether it is:

E-DI	(Electronic Data Interchange),
E-FT	(Electronic Funds Transfer),
E-Cash	(Electronic Cash),
E-Stamp	(Electronic Stamp),
E-Mail	(Electronic Business or Mail),
E-Commerce	(Electronic Commerce).

## **BUSINESS APPLICATIONS**

In this section, an attempt is made to give some of the business applications of E-Commerce. The major area of applications is business- to-consumer, business-to-business and internal business process.

### **a) Business-to-consumer**

E-Commerce, between business and consumers, is accelerating the impact of information technology on consumer behaviour and business processes and markets. It establishes the interrelationships among E- Commerce, Consumer behaviour, and business processes and competition. Retailing on the web is an example for the same.

### **b) Business-to-Business**

Business-to-Business electronic commerce is the wholesale side of the commercial process. For example, suppose a business house wants to produce and sell a product to other business houses, it must purchase raw materials and variety of contract services from other business houses in order to produce and sell a product. It should also make up a network of business relationships.

### **c) Internal Business process**

The purpose behind intra organisational E-commerce is to help a business maintain relationships, which are critical in delivering superior customer service. Many Internet based enterprises are customer driven and market driven. E-Commerce facilitates managers to communicate using Video conferencing, e-mail and bulletin boards so that information is better disseminated and right decisions can be made. Since information travels faster, there is a better co-ordination between the various departments. In fact all efforts are being made to convert organisations into a paperless office.

#### **d. Business value of E-commerce**

E-commerce helps a business house overcome geographic, time, cost and structural barriers to business success. These four capabilities emphasize how several applications of E-commerce can help a firm to capture and provide information quickly to end users at remote geographic location at reduced costs as well as supporting its strategic organizational objectives. These capabilities allow business houses to generate cost savings from using Internet, better customer service and relationships through interactive marketing.

#### **Advantages of E-commerce**

- (1) E-commerce can increase sales and decrease costs.
- (2) A firm can use electronic commerce to reach narrow market segments that are widely scattered geographically.
- (3) As E-commerce increases selling opportunities for the seller, it increases purchasing opportunities for the buyer.
- (4) E-commerce increases the speed and accuracy with which business can exchange information. Thus it reduces costs on both the sides of transactions.
- (5) E-commerce provides buyers with a wider range of choice than traditional commerce.
- (6) It provides buyers with an easy way to customise the detailed information about a prospective purchase. Buyers can have instant access to information on the web.
- (7) Some products, such as software, music, audio clips, or images can also be delivered via the internet.
- (8) E-commerce can make products and services available in remote areas. For example, Distance Education has made it possible for people to learn skills and get degrees.

#### **Disadvantages:**

- i) Some consumers are still somewhat afraid of sending their credit card numbers over the internet due to the existence of malpractice.
- ii) Perishable goods eg: fish, vegetable & flower etc., and costly items such as jewellery or antiques etc., cannot be inspected from a remote location.
- iii) The percentage of users of net service is considerably very low. The attitude of the customers using network is not good.
- iv) It is costly in many circumstances.
- v) The quality and quantity of the product cannot be estimated to its real value.

## **TELESHOPPING**

In modern times Teleshopping is used by the customers. Teleshopping means shopping done through televisions, computers with Internet. Many small retail shop owners have Points Of Sale (POS) and Back Office Computer Systems. These can be connected with the personal computers used by the customers in their houses.

### **Features**

Now a days multimedia technology is used through personal computers. With its help and with the availability of exchange of data, advanced teleshopping can be easily implemented. Teleshopping will help the elderly and the disabled people who have visual, aural and oral defects. Besides helping others, Teleshopping is an easy way of shopping for the aged and the disabled people. These two categories of people need not depend upon others for shopping. People other than the elderly and the disabled can also make use of the services rendered by Teleshopping retail business.

### **Advantages**

1. Both the elderly and the disabled people could manage one of their life activities, i.e., Shopping through PC's (Personal Computers)
2. It initiates and motivates their self-help and self-dependence.
3. They gain self-confidence and self-respect. This enables them to have a positive approach to life.
4. People who have visual, aural and oral defects can also do teleshopping through various devices available for each category.
5. So the Social Organisations (e.g. Old Age Homes) who take care of these people can now divert their social work to some other places or activities.

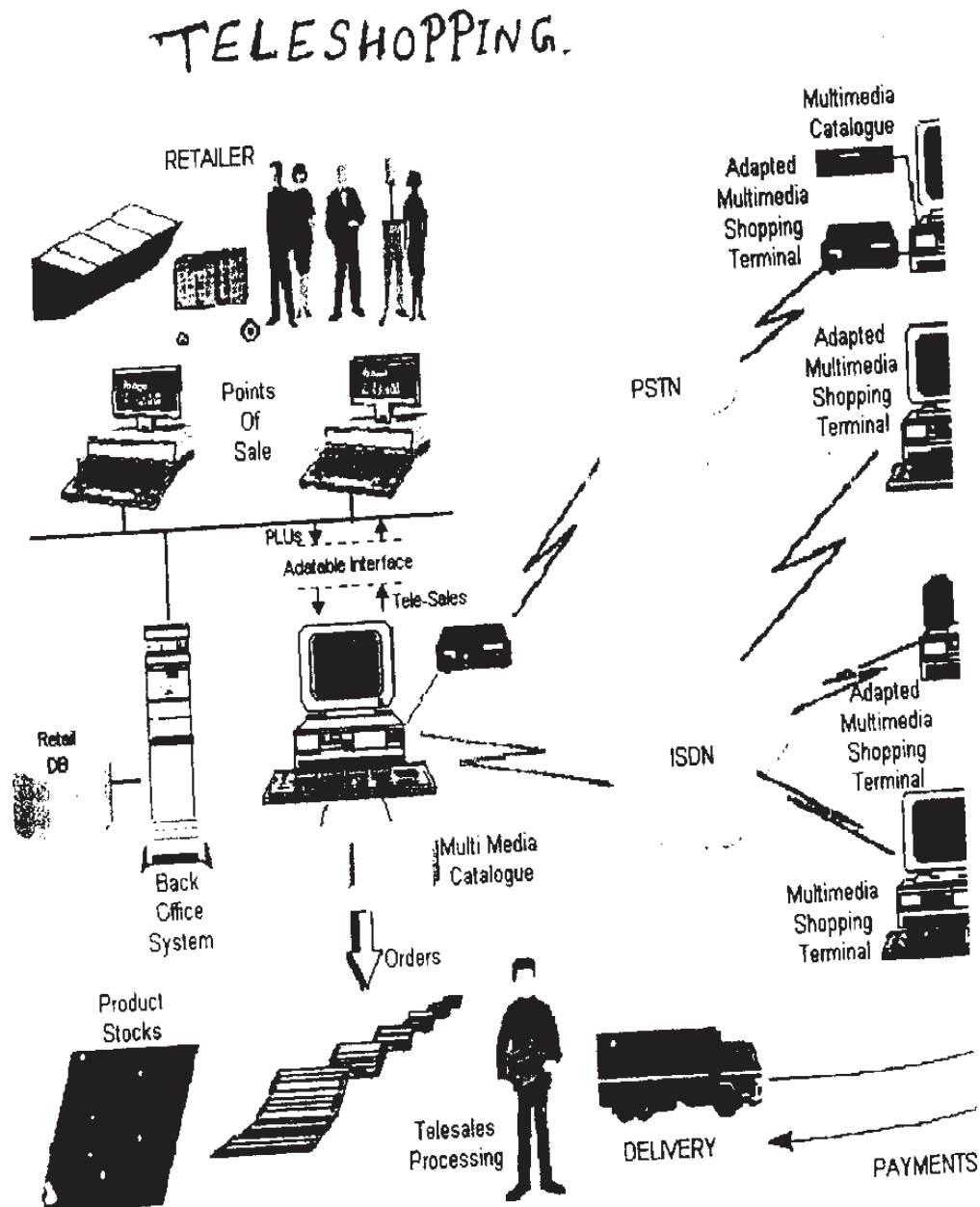
### **Problems faced**

1. The main problem of the implementation of Teleshopping is in the service management. There are difficulties for the service personnel (Oriented people) to contact the customers especially the aged and the disabled people. How far these people will utilise the technology of the PCS is also a question.
2. It is not easy to do teleshopping for those people who have visual and oral defects. It can be rectified by some other devices like touch- sensitive screen.
3. With the teleshopping service the distribution organisation has to deal with a lot of small orders spread over the territory.
4. It has also to keep its catalogue upto date, in a coherent multimedia format suitable for use by people with different handicaps (defects).e.g. Pictorial and audio description of goods.



5. The problem of managing payments in a secure way has also to be dealt with carefully.
6. Mechanism has to be studied and integrated for helping people with cognitive problems to manage their budget.

The following picture shows the teleshopping



## QUESTIONS

## I. Multiple Choice

1. This retail business acts as a universal supplier of a wide variety of products.
  - a) Multiple shop
  - b) Tele-shopping
  - c) Departmental store
  - d) Mail order Business.
2. It is a network of a number of branches situated at different localities in the city or in the different parts of the country.
  - a) consumers' co-operative store
  - b) multiple shop
  - c) Hire purchase system
  - d) Internet marketing
3. The aim is to economies by buying in common and to retain their profits by selling in common.
  - a) consumer's co-operative store
  - b) web marketing
  - c) multiple shop
  - d) teleshopping
4. The risk of bad debts in this business is eliminated particularly when payment is received through V.P.P.
  - a) Departmental store
  - b) co-operative store
  - c) Tele-shopping
  - d) mail order trading house.
5. It helps disabled and elderly people.
  - a) E-commerce
  - b) instalment system
  - c) Tele-shopping
  - d) multiple shop

Answers : 1- c 2-b 3-a 4-d 5-c

## II. Fill in the blanks

1. Generally a departmental store is a \_\_\_\_\_located.
2. A departmental store acquires a large amount of \_\_\_\_\_ for investment.
3. The goods needed for the various branches of multiple shops are purchased centrally by the \_\_\_\_\_ .
4. The weavers formed “Rochdale Pioneers Equitable Society” in the year\_\_\_\_\_.
5. A consumer’s co-operative store is a \_\_\_\_\_association of consumers.
6. The first step in the operation of mail order business in the preparation of list.

7. Generally in mail order business the goods are sent by the system of\_\_\_\_\_.
8. Under the hire purchase system a buyer of goods agrees to pay the price in spread over many months.
9. The instalment price of hire purchase system is higher than the \_\_\_\_\_ price.
10. Growth of trade and commerce increased the demand for Internet and \_\_\_\_\_ commerce.
11. The \_\_\_\_\_is a international network of computers carrying unbelievable amount of information.
12. E-commerce can make products and services available in \_\_\_\_\_areas.

### Answers

- |                 |                               |                |            |              |
|-----------------|-------------------------------|----------------|------------|--------------|
| 1. Centrally    | 2. Capital                    | 3. Head Office | 4. 1844    | 5. Voluntary |
| 6. Mailing list | 7. V.P.P (Value Payable Post) | 8. Instalments |            |              |
| 9. Cash down    | 10. Electronic                | 11. Internet   | 12. Remote |              |

### III. Match the following

- |                             |    |                                   |
|-----------------------------|----|-----------------------------------|
| 1. "Harrods and Selfridges" | a) | not suitable to illiterate people |
| 2. Multiple shop            | b) | consumer's co-operative store.    |
| 3. Mail order business      | c) | a particular product line         |
| 4. Hire purchase system     | d) | tele-shopping                     |
| 5. one member- one vote     | e) | departmental store                |
|                             | f) | future income is mortgaged        |

**Answers :** 1-e 2-c 3-a 4-f 5-b

### IV. Short questions

1. What is departmental store?
2. What do you mean by multiple shop?
3. Define consumer's co-operative store.
4. What is mail order business?
5. What is hire purchase system?
6. What is instalment system of selling?
7. What is E-commerce?

8. What is Internet?
9. Define chain store system.
10. What is teleshopping?

**V. Paragraph questions**

1. What are the advantages and disadvantages of consumer's co-operative stores? Explain.
2. Differentiate between hire purchase system and instalment system.
3. Explain the features of hire purchase system and instalment system
4. What are the merits and demerits of E-commerce?
5. Explain the advantages in teleshopping services and Explain the problems faced in it.

**VI. Essay type questions**

1. What are the features, advantages and disadvantages of departmental stores? Explain.
2. Explain the features, advantages and disadvantages of multiple shops.
3. Differentiate between departmental stores and multiple shops.
4. What are the features, advantages and disadvantages of Mail Order Business? Explain.

## CHAPTER - 4

# INTERNATIONAL TRADE

### INTRODUCTION

Trade is the process of taking goods from the source of production or place of procurement to the consumers. It also implies exchange of goods. Trade may be classified into internal trade, external trade, wholesale and retail trade. The exchange of goods within the country is called Internal trade. The exchange of goods between the countries is called external or foreign trade. In wholesale trade, goods are sold to retailers in large quantities. In retail trade goods are sold in small quantities to the consumers. In this section, we shall discuss about the meaning, need, merits, demerits, types, agencies involved in international trade, multinational companies, globalisation and world trade organizations.



### Meaning

Trade between two or more nations is called international trade or foreign trade. For example, India's trade with U.S.A, Japan, France, Pakistan etc., is called foreign trade or external trade. Foreign trade may be bilateral or multilateral. Trade between two countries is called as bilateral trade. Trade among many countries is called multilateral trade.

### Need

The following are the aims and needs of foreign Trade:

1. **To raise national income and standard of living:** The aim of foreign trade is to increase the income of the nation and thereby increasing the standard of living of the people.

2. **To enable even distribution of natural resources:** Every country has different type of natural resources. A country, which has more of such resources, gives it to other countries. For example Kuwait has more petrol. Thus foreign trade distributes surplus resources to the needy countries
3. **To enable even distribution of agricultural products:** Every country has different facilities to produce agricultural products. For example: Cuba produces more sugar, Egypt produces more cotton, and Argentina produces more of wheat. Thus foreign trade distributes surplus production to the needy countries.
4. **To minimize hurdles in production:** Due to non-availability of raw materials, machineries, technical know-how etc., one country has to import goods from another country because of various advantages.
5. **To reduce differences in economic growth rate:** Economic growth rate differs from one country to another. Therefore, the underdeveloped and developing countries have to depend upon developed one for finance and technology. This encourages international trade.
6. **To share the benefit of low cost of production:** Foreign trade enables a country to share the benefits of low cost of production by importing goods from that country where the cost of production is the lowest.
7. **To enjoy the fruits of development of science and technology:** Nowadays, the needs of the consumers have increased due to the advancement of science and technology. Internal trade alone cannot satisfy such needs and hence international trade becomes inevitable.

#### **MERITS:**

International trade, besides increasing income of the nation and individual results in many advantages. They are discussed below:

1. **Leads to specialization:** Goods can be produced at comparatively lower cost due to advantages of division of labour and availability of new methods of manufacture. Hence, foreign trade leads to specialization and encourages the production of different types of goods in various countries. It provides high returns to that country utilizing the available resources in an apt manner.
2. **Enables to obtain all type of goods:** Foreign trade enables a country to obtain goods, which it cannot produce. It can import any commodity from other countries at lower costs.
3. **Provides benefits of large-scale production:** Goods are produced not only for home consumption but also for export trade. Hence, production is carried on a large scale. Thus the advantages of large-scale production such as low cost, high quality, full utilization of factors of production etc can be achieved.

4. **Stabilize prices:** Foreign trade equalizes the prices of goods throughout the world by supplying the goods to the needy country.
5. **Increases quality:** Foreign trade improves quality of the commodities because of competition both within the nation and also at the international level. This would enable the consumer to get good quality products at lesser prices all over the world.
6. **Results in optimum use of resources:** Due to better production methods every country can produce products by using their available scarce resources economically. Hence, wastages are reduced. Thus the foreign trade helps every country to make optimum use of its available natural resources.
7. **Exchange of know-how and establishment of new industries:** A developed foreign country can provide all types of technical know-how, machineries and equipments to the underdeveloped and developing countries. This helps the establishment of new industries in the importing countries.
8. **Increases employment opportunities:** Establishment of new industries with new modern technology under foreign collaborations creates employment opportunities in export – oriented and other industries.
9. **Development of communication and transport facilities:** The international trade makes the people of different countries to meet together by means using various communication facilities. Nowadays the Internet facilities help them to exchange valuable informations. It also leads to the development of various types of transports.
10. **Facilitates better international understanding:** International trade helps in building better relationship among various countries. This gives benefits of mutual help mutual understanding of each other's problems and promotes world peace.

#### **DEMERITS:**

1. **Complicated procedures:** Export and import procedures are more complicated and give more problems than internal trade.
2. **Economic dependence:** The underdeveloped country has to rely on the developed countries, which may lead to the exploitation by the developed countries.
3. **Adverse effect on home industries:** International trade provides threat to the survival of the infant industries at home. Due to competition and liberal imports, the very survival of home industries gets affected.
4. **Import of harmful goods:** Import of luxury goods and spurious drugs may hamper the well being of the people. This may also affects the culture of the country.

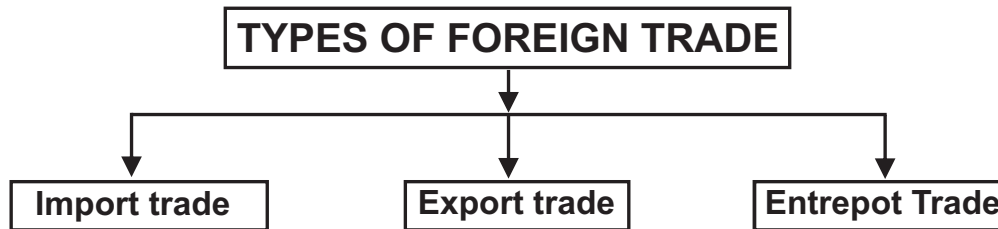
5. **Shortage of goods in home country:** In order to earn more money the essential goods needed by the home country may sometimes be exported to various other countries. This results in shortage of goods in the home country.
6. **World wars:** Due to unhealthy competition in the international trade, enmity among the countries may increase. Sometimes this may lead to war between countries.
7. **Political dependence:** International trade may make one country a slave of other country. This may lead to economic dependence and endanger the political stability of dependent country.
8. **Exhaust of natural resources:** With the intension of earning more money excessive exports may be made. This would exhaust the natural resources of a country in a shorter period. This will cause economic downfall of the country in the long run.

**Difference between home trade and foreign trade:**

Sl.No	Home trade	Foreign trade
1.	It refers to the trade within a country	It refers to trade between two or more countries.
2.	It involves exchange of goods and services within the country	This involves exchange of goods and services between two or more countries.
3.	In home trade there is no exchange of currencies.	In foreign trade exchange of currencies of different countries takes place.
4.	In home trade the risk of transportation is very less when compared to the foreign trade.	In international trade the goods are to be transported to long distances through various modes of transport and hence the risk of transportation is more.
5.	In home trade only the laws prevailing in that country have to be followed	In foreign trade the laws, customs and regulations of different countries are to be followed
6.	The aim of home trade is to provide the essential goods and services economically.	The aim of foreign trade is to raise the standard of living of the people.



**Types of foreign trade:** The foreign trade transactions are classified into three types as follows:



### **Import trade**

#### **Meaning:**

When goods are purchased from a foreign country it is called as import trade. For example when India buys petrol from Kuwait it is called as import trade.

#### **Import trade policy:**

In almost all the countries, the government controls the import trade. The objectives of such control are

- a) proper use of foreign exchange,
- b) restrictions on imports of non-essential and luxury goods and
- c) developing indigenous industries.

#### **Import trade procedure:**

Import trade procedure differs from country to country. The following are the general procedure of import trade:

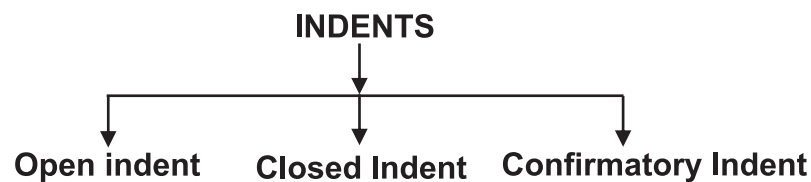
**1. Trade enquiry:** In this step the intending importer makes trade enquiry from the possible exporters. An enquiry is a written request from the intending buyer or his agent for getting informations about the Price of the products, its quality, design, size and the terms of payments and conditions of delivery. This can also be called as quotations. Before taking the decision to import all the quotations are compared.

**2. Obtain import license and quota:** As import of goods are controlled by the IMPORTS AND EXPORTS (CONTROL) ACT 1947, the person interested should get license for importing goods from the licensing authority. The import license may either be general license or specific license. The general license permits the import of goods from any country whereas the specific license or individual license authorises to import from the specific countries only.

The import license is issued in duplicate. The first copy is presented to the customs authority at the time of clearance of goods and second copy is used for obtaining foreign exchange from the Reserve Bank Of India.

**3. Obtaining foreign exchange:** After obtaining the license, the importer has to make arrangements for getting the necessary amount of foreign currency since the importer has to make payment to exporting country in their currency. In India the Reserve Bank of India is authorized to regulate the use of foreign exchange.

**4. Placing the indent or order:** After obtaining the import license and requisite amount of foreign exchange, the importer is to place order or indent for import of the goods. An indent is an order placed by an importer with an exporter for the supply of certain goods. It contains full details regarding the goods to be imported, the terms and conditions regarding price, shipment, delivery, the method of payment etc. An indent may of three types:



**a) Open indent:** If the selection of goods and other details are left to the agent's discretion in the foreign country it is called open indent.

**b) Closed indent:** If an indent contains full particulars of the exact goods required it is called closed indent.

**c) Confirmatory indent:** If the importer's agent places an order subject to the conformation it is called confirmatory indent.

**5. Arranging letter of credit:** It is an undertaking by the importer's bank that the bills of exchange drawn by the foreign exporter on the importer will be honoured on presentation. This is arranged to make sure about the credit worthiness of the importer.

**6. Obtaining shipping documents:** After receiving the order and the letter of credit, the exporter ships the goods. The exporter then intimates the importer about the dispatch of goods by sending an advice note to the importer. The advice note informs the importer about the probable date of arrival of the ship at the destination port. The exporter then draws a bill of exchange on the importer's bank for the invoice value of the goods. If bills of exchange is with the necessary documents it is called "Documentary Bill". It consists of:

- 1) The bill of exchange and
- 2) Shipping Documents.

The shipping document consists of the bill of lading, insurance policy, certificate of origin, consular invoice etc., which are forwarded to the importer's bank through a foreign exchange bank which has a branch or an agent in the importer's country for collecting the payment of the bill. Under the letter of credit arrangement, the importer's bank will hand- over 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 as Documents against acceptance, the documents will be delivered to the importer on the acceptance of the bill. Usually 30 to 90 days are allowed for the payment of the bill. If the bill is marked Documents against Payment the documents will be delivered to the importer only on payment of the amount noted in the bill.

**7. Clearing the goods:** After taking the possession of the documents of title to goods, the importer awaits for the arrival of the ship. After the arrival of the ship, the importer arranges for the clearance of the goods from the customs office by paying unloading charges, import duty or customs duty and port trust dues etc.,

**Intermediaries involved in import trade:** Goods are imported through intermediaries, namely indent house and clearing agents.

**1. Indent house:** These intermediaries are specialized in a particular trade. They collect some commission from the importers for the services rendered to them. If the importer wants to make use of the services of an indent house, he has to enter into an agreement with the indent house. The indent house may also be called as Indent firms or Import commission houses.

#### **Functions of indent houses:**

i.) They act as a middleman between the importers and exporters. They import goods from a foreign country on orders received from the home traders.

ii.) They furnish information on the availability of different types of commodities and arrange credit facilities to the importer

iii.) The indent houses maintain contacts with the exporters and get samples of products from them. These samples are shown to the local dealers and the orders are booked through their representatives.

iv.) They convey the grievances and complaints of the importers to the exporters etc.

**2. Clearing Agents:** The importer has to fulfill various formalities before taking the delivery of the goods. The importer may take delivery of goods by him or appoint clearing agents. The clearing agents are the specialized persons engaged in the work of performing various formalities required for taking delivery of goods on behalf of others. They charge a commission for providing such services.

### **Export trade**

**Meaning:** when goods are sold to a trader in any foreign country it is known as export trade. For example when India sells goods to other countries it is called as export trade.

**Export trade procedure:** Imports and Exports (Control) Act 1947 regulates the exports of goods from India. The procedure involved in exporting goods differs from country to country. However, the following procedures are followed:

**1. Receiving enquiries:** In the first stage, the exporter receives a trade enquiry from an importer about the price, quality of goods and terms and conditions of export. The exporter sends a quotation, which contains details regarding the terms of sale, validity period for the price offered, delivery schedule, payment terms etc.,

**2. Receipt of order or indent:** In second stage the exporter receives the orders directly from the importer or through some specialized agency like indent houses.

**3. Obtaining letter of credit:** After receiving the confirmed order, the exporter enquires about the credit worthiness of the importer. Generally, the exporter asks the importer to send a Letter of Credit to him. It is an undertaking by issued by importer's bank that the bills of exchange drawn by the foreign dealer on the importer will be honoured on presentation.

**4. Obtaining Export License or Quota:** The export trade is regulated by the Import and Export (Control) Act 1947 and also by the Foreign Trade (Development and Regulation) Act 1992. Goods which are subject to control cannot be exported without getting a valid export license. The exporter should apply to the Director General of Foreign Trade (DGFT) Or Regional Licensing Authority in the prescribed form. The license will be issued if the authority is satisfied.

**5. Compliance of foreign exchange regulations:** As per Foreign Exchange Regulation Act 1947(FERA), every exporter has to furnish a declaration that the exporter will surrender the foreign exchange to the extent of full value of goods to the Reserve Bank of India within a prescribed time. For this purpose the exporter has to prepare FOUR COPIES of GR FORMS. GR form is a form prescribed by the 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.

**6. Obtaining the Shipping Order:** The shipping Order contains instructions to the captain of the ship to receive the specific quantity of goods from the exporter mentioned therein. It is the responsibility of the exporter to arrange for the transport of goods by entering into an agreement with a shipping company or its agent for hiring space in a ship. This responsibility may be given to freight brokers or agents who are specialists in the field. The shipping agent gets shipping orders from the shipping company on behalf of the exporter. In case the consignment is big, the exporter may charter a whole ship or a major portion of the ship. In that case the agreement with the shipping company is known as Charter Party agreement. If it is the buyer's responsibility to arrange for the transport, he should be advised of the date on which the goods would be ready for despatch.

**7. Packing, marking and forwarding:** Packing and markings are made as per the instructions of the exporter. This is made to ensure the safe delivery of goods. Certain formalities are to be fulfilled before boarding the ship for export. Forwarding agents may fulfill these formalities.

**8. Preparation of Invoice and Consular invoice:** The next step after receiving the forwarding agent's advice or after shipping the goods is the preparation of invoice by the exporter. It contains details about the name of the ship, particulars about the shipments, destination, indent numbers, details regarding packing and marking, price of the goods and other expenses. It is prepared as per the terms and conditions agreed between the parties. In case of levy of ad valorem duties on the basis of value of goods, the consular invoice is sent by the exporter to the importer to be presented to the customs authorities. This is done to save time and troubles in taking delivery of goods. This form is received from the consul of the importing country stationed in the exporter's country. In this form the exporter enters all the details of goods and certifies the value of the goods and afterwards the Consul issues the certificate.

**9. Obtaining customs clearance:** The exporter should present an application to export along with three copies of shipping bill and export license to the customs office. On payment of duty if any, the customs authorities return two copies of the shipping bill along with license and G.R Forms to the exporter. The second copy is left in the customs office. The customs authorities issue an export pass after going through all the formalities.

**10. Paying dock dues:** After paying the export duty, arrangement is made to carry the goods to the docks. Dock is a place in the harbour where the goods are loaded into the ship. At this stage two copies of "dock challan" are submitted to the dock authorities along with one copy of shipping bill and shipping order. The authorities retain one copy and return the second copy of dock receipt to the exporter or his agents.

**11. Verification of goods to be shipped:** The goods are brought either to docks or directly to the ship. Before loading, the goods are verified by the captain of the ship or mate (the assistant to the captain) with the shipping bill and the order.

**12. Mate's receipt:** When goods are loaded, the captain of the ship or his mate would issue a receipt known as Mate's receipt. This receipt contains details relating to the quantity of goods, number of packages, condition of packing etc., If the Mate is satisfied a clean receipt is issued else a foul receipt is issued.

**13. Obtaining Bill of Lading:** It is a document issued by the shipping company acknowledging the receipt of goods on board the ship and containing terms and conditions on which goods are to be taken to the port of destination. Bill of lading is freely transferable by endorsement. The Master of ship signs this document. Bill of lading consists particulars such as, name of the ship, place of loading, particulars of the goods, port of destination, date, freight, name of the person to whom delivery is to be made, the name of the shipper etc. It serves three purposes :

- 1) It is a receipt for the goods shipped containing the terms on which they have been received
- 2) It is an evidence of contract for the carriage of goods.
- 3) It is a document of title to the goods specified therein and is freely transferable.

**14. Effecting insurance:** To safeguard the consignment from the perils of the sea goods shipped are insured. If the insurance is not taken, the bill cannot be discounted with the banks. Hence, the exporter insures goods against various types of risks involved in transit. Insuring the shipment with the Export Credit Guarantee Corporation (ECGC) can cover the commercial and political risks, like insolvency of the buyer, rebellion or civil war in the importing country. This helps exporters in securing export finance from banks

**15. Obtaining certificate of origin:** To avail the concessions in payment of duties, the certificate of origin has to be obtained by the exporter for sending it to the importer. This certifies the name of the country in which the goods under export are manufactured. In India the government has authorised the Federation of Indian Chamber of Commerce and Industry, Export Promotion Councils and Various other Trade Associations to issue such certificates.

**16. Receiving payments:** The exporter receives the payments for the goods exported from the importer as per the agreement between them. The various methods of receiving payments are given below:

**Documentary bills of exchange:** The exporter draws a bill of exchange for the value of goods and sends necessary documents to the importer along with bills of exchange. If the documents are released against payment, the arrangement is called Documents against Payment (D/P). If the documents are released against acceptance of the bill, the arrangement is called Documents against Acceptance (D/A). In this case, the branch of the bank concerned receives payment on maturity of the bill and gives credit to the exporters account.

**Discounting documentary bills of exchange:** If the exporter needs immediate payment, then the bills can be discounted with the bank. For this purpose he has to give a Letter of Hypothecation to the bank. This document authorizes the bank to sell the goods in case of dishonour of the bill by the importer.

- 1) **Documentary letter of credit:** A safer and quicker method of getting payment is known as Documentary letter of credit through which the importer arranges a bank to open Letter of Credit in favour of the exporter. The exporter can present the documentary bills to the bank to get immediate cash against the letter of credit.

- 2) **Payment through foreign draft:** In this method, the importer sends a bank draft for the value of the goods drawn on his bank which is payable at some branch of the bank in the exporters country. On receipt of such draft the exporter can get immediate payment from the bank.

**17. Obtaining various export incentives:** To encourage export, the government gives various types of incentives such as duty draws backs, import replenishment license and excise duty refund and various income tax incentives:

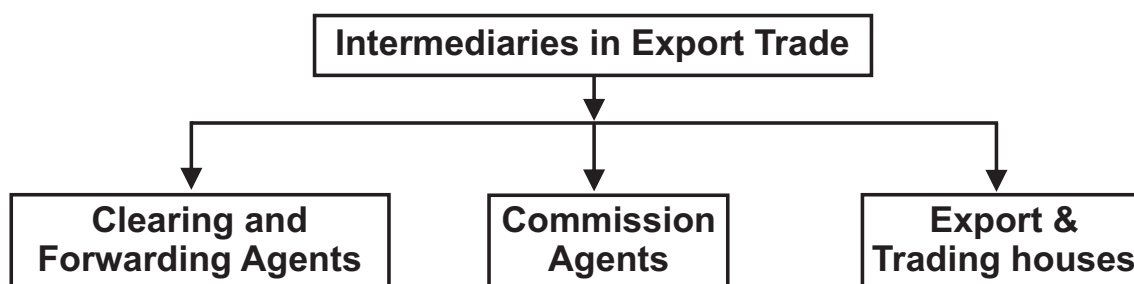
**Intermediaries involved in export trade:** The following intermediaries are engaged in Export Trade:

**1. Clearing and forwarding agent:** They are appointed to look after the shipping, customs and loading formalities of the goods on board the ship. They get reasonable charges for their services. They perform the following functions:

1. Negotiation of shipping Contract
2. Customs formalities
3. Loading of goods on the ship
4. Securing Bill of Lading
5. Undertaking the packing and marking of goods
6. Help in getting the goods insured.

**2. Commission agents:** A commission agent gets orders and passes on to exporters. The agent gets an agreed rate of commission. At the time of selecting the commission agent, an agreement should be entered between the parties. Either party may terminate the agreement by giving 45 days notice.

The remittances of commission are permitted only if such commission is declared in the customs statements. The RBI has delegated powers to authorized dealers for the remittances of commission maximum up to 12.5%. On the strength of the documents submitted by the exporter the authorized dealer will remit the commission either by telegraphic transfer/mail transfer or by demand draft.





**3. Export & Trading Houses :** These houses have been formed to increase the export, strengthen the global marketing capacity and to get various facilities for increasing export performance. It consists of merchant and production exporters, trading companies, export oriented units, units located in export processing zones, electronic hardware technology parks etc., have been recognized as export and trading houses.

**Merits of Export & Trading Houses:**

1. Get preferential treatment in obtaining permission for overseas trading
2. Get preferential treatment in obtaining duty exemptions.
3. Get special import licenses to import certain eligible items.

**Entrepot trade**

**Meaning:** If goods are imported from one country with the purpose of re-exporting to another, it is called Entrepot trade. Import duty is not levied on these goods. The important centers for entrepot trade are London, Hong Kong, Amsterdam and Singapore.

**1. Features:** The following are the special features of this type of trade:

- 1) No import duty is imposed on such goods.
- 2) These goods are processed and re-packed for re-export.
- 3) Such goods are kept in the Bonded warehouses till they are Re- exported.

**2. Need:** Under the following circumstances such trade is allowed:

- 1) When adequate banking facilities are not available in the importing country
- 2) When the volume of trade does not justify to have regular foreign trade
- 3) When it is difficult to establish direct link between the exporting country and the consuming country.

**Globalization**

**1. Meaning:**

Globalization is the integration of international markets for goods and services, technology, finance and to some extent labour. It is the integration of the country with the world economy. It implies that the linkage of a nation's market with the global market. Globalization encourages Foreign Direct Investment (FDI). The FDI not only augments the domestic investible resources but also stimulates exports. The International Monetary Fund (I.M.F.), World Trade Organization (W.T.O) and the World Bank are global bodies that are viewed as the agents of this globalization process .The so-called 'free trade' agreements, such as the General Agreement on Tariffs and Trade (G.A.T.T.) and the North American Free Trade Agreement (N.A.F.T.A.) are seen as catalysts for increasing the globalization activities.



**2. Merits:** The merits of globalization are briefly given below:

1. Rapid development and increasing use of information technology have enhanced the business value of information. Electronic Mail, Internet, Mobile Phone, computers for business works, Consumer information through Home T.V, Shopping by Television etc., have been providing valuable business informations. The globe has become almost like a village due to the best means of communication.
2. Competitiveness has increased the development in technology, training methods, employee participation etc to meet the global market with the help of global brands.
3. Trend towards Total Quality Management (TQM) is insisted in the market at competitive prices by producing at the least possible cost with better quality.
4. It has also increased the importance of project management and strategic management and other managerial skills.
5. It increased the importance of new product development to meet the competition as the very survival is challenged
6. Global strategic partnership has been formed with one or more foreign companies to exploit business opportunities.
7. It has also increased the joint venture with other countries to share cost of production and research facilities in the foreign countries.
8. It has increased the use of right to market the branded goods or use of patented processes or copyrighted materials by means of Licensing Agreement.

**3. Demerits:**

1. Several foreign companies have entered the Indian markets which may give balance of payment problems .
2. The Multinational companies bring second hand technologies that are outdated in their country.
3. It discourages indigenous technology and also small-scale industries.
4. In order to encourage exports very often currencies are devalued.

**Multinational company (MNC):**

**Meaning:** A Multinational Company is one whose ownership is accommodated in more than one country. Products are manufactured in many countries and sold in many countries. For example Toyota of Japan ,General Motors of U.S.A, Indian Oil Company of India are Multinational compaies.Jacques Maisonroque, the president of IBM world trade Corporation defines MNC as a company that meets the following five criteria:

- 1) It operates in many countries at different levels of economic development.
- 2) Multinationals manage its local subsidiaries.
- 3) It maintains complete industrial organizations, including Research and Development and manufacturing facilities in several countries.
- 4) It has multinational central management.
- 5) It has multinational stock ownership.

**Merits:**

1. They increase the investment level and increase the income and employment in the host country.
2. They increase the managerial skills by employing sophisticated management techniques.
3. They support the domestic enterprise operations and assist the domestic suppliers.
4. They help in increasing the competition and remove the domestic monopolies.
5. They try to equalize the cost of factors of production around the world.
6. They conduct efficient research and development and contribute to the inventions and innovations
7. They enable the host country to increase their exports and decrease their import requirements.
8. They provide an efficient means of integrating national economies.

**Demerits:**

1. They may retard growth of employment in the home country.
2. They may destroy competition and acquire monopoly powers.
3. MNC's technology is designed for worldwide profit maximization and is not for the development of needs of poor countries.
4. MNC's avoid taxes by manipulating the transfer price.
5. MNC's through their power and flexibility may under control and mine the national economic autonomy that is detrimental to the national interest of the countries.



**Meaning:** The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between the nations. The goal is to help producers of goods and services, exporters, and importers in the conduct of international trade. Its main aim is to ensure smooth flow of trade. The World Trade Organization (WTO) was established in 1995. In 1999, there were 135 member countries in the WTO.

**Functions:** The following are the functions of WTO:

1. It facilitates the operations, implementations and administration of the objectives of Trade agreements.
2. It provides negotiation facilities among member countries for smooth world trades.
3. It helps for the settlement of disputes between the member countries.
4. It co-operates with International Monetary Fund and the World Bank to get greater coherence in global economic policy making.

**Merits:**

1. The system helps to promote peace.
2. Disputes are handled constructively.
3. Rules make life easier for all.
4. Free trade cuts the costs of living.
5. It provides more choice of products and qualities.
6. Trade raises incomes.
7. Trade stimulates economic growth.
8. The basic principles make life more efficient.
9. Governments are shielded from lobbying.
10. The system encourages good government.

## QUESTIONS

### I. Multiple Choice

- Trade between people of many countries is called as
  - Home trade
  - trade
  - bilateral trade
  - Multi lateral Trade
- Import trade procedure starts with
  - Trade enquiry
  - Obtaining quota
  - Placing Indent
  - Arranging L.C
- To avoid disputes exchanges rates are fixed in advance preferably at time of:
  - Placing Order
  - Obtaining shipping order
  - Obtaining custom clearance
  - Playing Dock Dues
- The method of obtaining payment from the importer is:
  - By getting bill of exchange
  - Discounting the bills
  - By getting Letter of Credit
  - By Foreign Draft
  - All the above
- W.T.O is the only organization dealing with the:
  - Global trade rules
  - Home trade rules
  - Entrepot trade rules
  - None of the above

**Answers:**    1.a.                    2.a                    3.a                    4.e                    5.a

### II. Fill in the blanks:

- If the goods are imported from one country with object of exporting to some other country it is called \_\_\_\_\_ trade.
- \_\_\_\_\_ is an order placed by an importer with an exporter for the supply of certain goods.
- \_\_\_\_\_ is an undertaking by the importer's bank that the bills drawn on importer will be honoured.
- \_\_\_\_\_ is a document issued by the shipping company acknowledging the receipt of goods on board the ship.
- \_\_\_\_\_ is a document issued by the captain of the ship or Mate which is an evidence for the details of goods received by them

6. \_\_\_\_\_ is an institution, which provides insurance against various risks.
7. Special Import Licenses are given to \_\_\_\_\_ Houses.
8. \_\_\_\_\_ operates in many countries at different levels of economic development and has multinational central management.

### Answers

- |                            |                   |                     |
|----------------------------|-------------------|---------------------|
| 1. Entrepot                | 2. Indent         | 3. Letter of credit |
| 4. Bill of Lading          | 5. Mate's Receipt | 6. ECGC             |
| 7. Export & Trading Houses | 8. MNC            |                     |

### III. Match the following:

- |                          |                                 |
|--------------------------|---------------------------------|
| 1) Bonded ware house     | a) Re-export                    |
| 2) Consular Invoice      | b) Market without barriers      |
| 3) Certificate of Origin | c) Indian Oil                   |
| 4) Entrepot trade        | d) Export Intermediary          |
| 5) Global Market         | e) Form from consul             |
| 6) W.T.O                 | f) Global bodies                |
| 7) M.N.C                 | g) Import commission Houses     |
| 8) Super Trading Houses  | h) Goods made in a country      |
| 9) Indent House          | i) Saves transportation charges |
| 10) Clearing agents      | j) Import Intermediary          |

**Answers:** 1.i 2.e 3.h 4.a 5.b  
6.f 7.c 8.d 9.j 10.g

### IV. Short Questions:

- 1) What do mean by the term International Trade? Explain its need.
- 2) Explain the merits and demerits of international Trade.
- 3) What are the differences between the home Trade and Foreign Trade?
- 4) What are Intermediaries involved in Export Trade / Import Trade?
- 5) What do you mean by the term "Entrepot Trade? What is the need for it?
- 6) Explain the meaning of the term "Globalization".
- 7) Briefly explain the effects of globalization.

- 8) What do you mean by MNC's?
- 9) Explain the merits and demerits of MNC's?

**V. Paragraph Questions:**

- 1) Explain the merits and demerits of international Trade
- 2) Explain the intermediaries involved in export trade.
- 3) What are the different ways of securing payments in the international trade?
- 4) Explain the term entrepot trade. Mention the need for entrepot trade.
- 5) Explain the merits and demerits of globalization.

**VI. Essay type questions**

- 1) Explain Import Trade procedures.
- 2) Explain Export Trade procedures.
- 3) What do you mean by World Trade Organizations? Explain its functions and benefits.

## **CHAPTER - 5**

# **TRANSPORT**

### **Introduction**

The maximisation of human satisfaction and economic welfare are the cardinal objectives of a modern welfare state. It is therefore essential that the scarce resources, which have alternate uses, must flow uninterruptedly and continuously. Transport eliminates the barriers among different countries, different places and regions thereby permitting unrestricted movement of scarce resources.

### **Meaning**

The word 'transport' is derived from the Latin word 'transportare' which comprises of two expressions, viz., 'trans' which means 'across' (or the other side') and 'portare' means 'to carry'. In short transport means carrying from one place to another. Very few people actually produce the goods they require and they obtain such goods by giving money in exchange for them. But the question is about the availability of goods at the right time and place. This responsibility is ably shouldered and discharged by transport.

In a wider sense, the term 'transport' includes all the clerical, mental and manual occupations involved in the operation of road, rail, canal, sea and air transport. In a restricted sense, however, it denotes the services of these various forms of transport. They aid commerce by conveying goods from the places of their production or origin to innumerable places of consumption at the right time they are wanted. Goods have no use unless they made available at a place where and when they are wanted. They are said to acquire place and time utilities when they made available at right places and right times. Transport is, thus an integral part of commerce. Simply, transport is a means to carry men and materials (except pipelines, which carry liquid materials,) from one place to another resulting in creation of place and time utilities.

### **Definition**

According to K.K. Sexena "the transport system acts with reference to the area it serves in the same way as a candle does in a dark room".

### **Importance of Transport**

The need of transport is more than one, such as, the need for the conveyance of goods arises from the fact that they are often produced in one region and desired in another. The transportation of persons arises from the need of individuals to go from one place to another to satisfy some needs connected with business, social cultural or recreational interests.

The growth of domestic and foreign trade is dependent on transport. There is hardly any country in the world, which is not dependent on other regions for food, raw

materials and finished products. Most of the countries of Western Europe look to Asia and America for supplies of food and materials. The U.S.A., Canada and Argentina would not have raised so much wheat to cater for the world market, if there had not been provision for cheap conveyance by land and water. Not only this, the transport facilities have destroyed the monopolistic position of many producing countries.

Transportation has played a vital role in colonisation and development of many less populated countries, like Australia, South Africa, Canada and the U.S.A. Millions of immigrants from Europe settled in these countries because of the facilities offered in covering the long distance.

### **Functions of Transport**

The tremendous improvements in means of transport over the past two hundred years have produced significant economic effects and revealed how vital are the functions of transport. It creates place and time utility

#### **(a) It increases the efficiency of production**

The object of production is consumption, and production is incomplete if the goods and services do not reach the hands of the consumer. Efficient transport system creates time and place utilities and thereby affects the demand for goods and the value of goods. Time utilities are created by making available goods to the consumers. Perishables, like fruits, vegetables, fish, meat, etc., produced seasonally, are made available throughout the year by means of quick transport and scientific storage facilities. Place utility is measured in monetary terms by the differences in price at the place of the production where it has little utility and the place of consumption where it can serve human wants. Thus, transport makes production efficient and purposeful.

#### **(b) It stimulates wants by increasing quantity and variety of consumer goods**

Transport helps in getting commodities, which cannot be had or produced in a region due to unsuitable natural conditions. Countries of cold regions can get bananas, mangoes and dates, while tropical countries can have the fruits and materials of cold countries.

Tea and coffee are consumed by all kinds of people throughout the world, though they are grown only in some particular regions. Without adequate and efficient transport, goods cannot be had either in the quantities or varieties required in a complex economy.

#### **(c) It develops and expands the market**

The primary function of transport is to enable the physical distribution of goods at global level. The distribution of goods must take place easily, economically and speedily. The improved means of transport have proved their capability in becoming equal to this stupendous task. But for the development of transport facilities and the



improvement in means of communication, market for goods would have continued to be small and essentially local.

#### **(d) It helps specialisation and mass production**

Specialisation means the division of complex process of production into a number of separate processes so that each person or group specialises in each process. Specialisation has been extended to international level too. So that each country could specialise in the production of commodities for which it has the greatest comparative advantage over others. Specialisation has paved the way for the factory system and mass production. They all go hand in hand. They owe their growth to a great deal to transport. In the absence of worldwide network of transport, human beings would have been forced to confine consumption to goods produced by them or to goods available locally. By enabling mass production, transport helps to reduce cost of production.

#### **(e) Transport increases the mobility of labour and capital**

Transport facilitates migration of people from region to region and country to country. The settlement of Tamils in other parts of India and abroad, e.g., Sri Lanka, Burma, Malaysia and some of the countries of the West (are a few examples in point). Transport also helps in the similar flow of capital and technical know-how. The steel plants of India are apt examples of such flow of capital and expertise from Russia, Germany and the United Kingdom. Transport has brought about a revolution in diffusion of knowledge and growth of contacts among the developed and developing nations. It thus opens up vast opportunities for gainful employment of labour and capital.

#### **(f) Transport aids economic growth**

The improved means of transport are making significant contribution towards economic growth. As an agency for the movement of raw materials, fuel, labour and finished products and as an instrument for fostering the mobility of capital and technical know-how, transport is playing a remarkable role in the growth of all industries from agriculture to manufacturing. If agriculture is developing on commercial and scientific lines and if mineral and oil resources are tapped on a large scale, the credit for this progress goes to a transport.

#### **(g) Transport helps price stability**

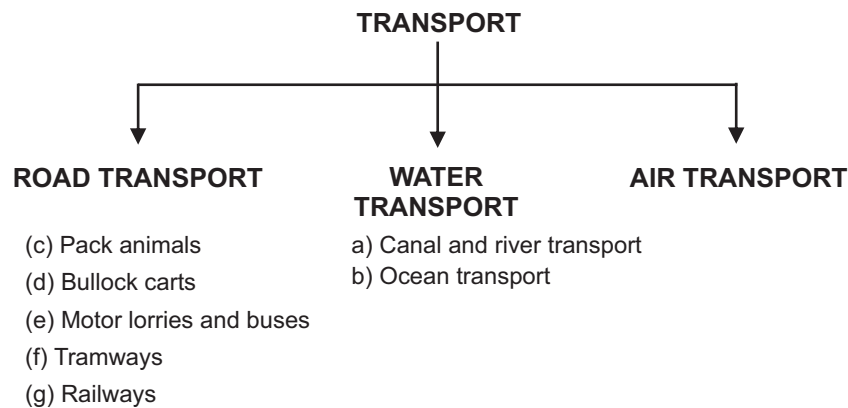
Transport helps to reduce variations in price of goods not only between regions of a country but also to a considerable extent between nations. It thus imparts place and time utilities to goods.

#### **Types of transport**

Transport system can be classified in different ways depending on the types of transport, the ways and means of transport and also the motive power used in transport.

Transport can be divided into three important types:

- a. Land → Road Transport
- b. Water → Water Transport
- c. Air → Air Transport



Under each type of transport, there are various forms, both traditional and modern. It is not much important to deal with all the forms of transport under each category. The study in the following pages is confined only to the significant forms of transport, which are listed below.

#### I. Land Transport

- a) Pack animals
- b) Bullock carts
- c) Motor lorries and buses
- d) Tramways
- e) Railways

#### II. Water Transport

- a) Canal and river
- b) Ocean transport

#### III. Air Transport.

### **LAND TRANSPORT**

#### **Pack Animals**

Pack animals like horse, mule, donkey, elephant, and camel etc. are used for carrying small loads. In backward areas, hilly tracts, forest regions and in deserts. Camels are used in deserts for similar purposes. Elephants are used in forest for carrying heavy logs of wood. Generally the pack animals serve areas inaccessible to

modern means of transport. They are also used for carrying small loads for which it is uneconomical to use modern means of transport.

### **Advantages of Pack Animals**

They are suitable for carrying small loads in hilly or narrow tracts. In rainy season when roads are muddy and become unusable by modern forms of transport, pack animals are used.

They constitute a cheap means of transport, as the expenses for their maintenance and the initial investment on them are relatively very low.

### **Disadvantages of pack animals**

They are:

- i) Very slow form of transport
- ii) Their carrying capacity is very much limited.

### **Bullock carts**

Bullock carts constitute the predominant form of rural road transport in India for goods traffic and to some extent for passengers' traffic. As villages are the backbone of our country and as nearly 70% of India's goods transport lies in villages, the bullock cart rules supreme in rural area. It links up the villages with the nearby markets and railway stations. It carries the produce for sale to the markets and brings the consumer goods to the villages.

### **Advantages of bullock carts**

1. It is a relatively cheaper means of transport. The cart is locally made with local materials. Investments on the cart and bullocks and cost of their maintenance are comparatively low.
2. It is suitable for rural roads, which are uneven, and which become muddy in rainy season needs no emphasis.
3. The duration and capacity are its two main drawbacks.

### **Motor trucks and cars**

Road transport has been operating from time immemorial. From the dawn of civilisation, people have been endeavouring to form roads and use wheeled vehicles to facilitate transport of men and materials.

Till motor trucks and buses came on the scene the means of transport used by the people of various countries were of course, traditional and backward in nature, like pack animals, bullock carts etc.

The credit of revolutionising the road transport and introducing the elements of speed and greater carrying, capacity into the system, goes to motor lorries and buses.

Since the development of petrol engine and subsequently diesel engine, they have been offering a serious competition to the railways. They are also responsible for disappearance of tramways.

### **Advantages of motor transport**

Roads are said to be the arteries of commerce. All traffic begins and ends with the road. Roads connect the interior parts of a country with railway stations and markets. They help in the exploitation of villages that are the rich sources of raw materials and valuable markets for finished products. Motor transport, as the dominant form of road transport, offers many advantages. They are:

#### **(a) Flexibility**

The greatest merit of motor transport is its flexibility. It can reach the interior and remote villages. Unlike railways, it is not wedded to any particular track. It can change its route, timing and areas of operation. It can pick up as well as deliver goods almost anywhere.

#### **(b) Complete service**

It provides a complete service to businessmen. It leads the goods from the factory or the firm and delivers them at the door of buyers. It thus avoids much handling and the resultant damage. But in the case of railways, goods have to be taken to the railway station, unloaded from the carriers and then loaded in the railway wagons; at the destination they have to be again unloaded from them before being delivered to consignees. Besides adding to the cost of goods, this intermediate loading and handling causes damage to goods and delays their delivery.

#### **(c) Suitability**

Motor transport is very well suited for short distance traffic. It is also suitable for delivery of small loads to many consignees on the way. As the capacity of lorries is less than that of railway wagons, small traders who have to transport limited loads, can conveniently make use of this transport. It is more suitable for goods like perishable articles which are to be delivered quickly and for meeting sudden demand.

#### **(d) Economy**

Goods for lorry transport do not require elaborate packing. It is common for owners of goods to travel in lorries along with their goods in order to personally attend to loading and unloading. This practice reduces the risks of breakages and thefts. Further, freight rates in roadways are comparatively lower for short distances and small loads than that in railways. The absence of intermediate handling and loading also reduces the cost in the case of motor transport. Moreover, laying a road is cheaper than laying a railway track. The users of roads pay very little for their laying and maintenance.

### **(e) Speed**

Motor transport is quicker than rail transport for transporting goods over short distances. Quick transport and prompt delivery help to increase the turnover of business.

### **(f) Service**

Motor transport renders a valuable service to interior rural areas by connecting them with railway stations, markets and nearby towns. It serves as feeder to other forms of transport, namely railways, waterways and airways. It helps fruits, vegetables, dairy products etc. reach nearby cities and towns in a state of freshness. Its service to hill areas deserves special mention because of its greater climbing capacity than rail transport. It earns huge revenue to the government and creates more employment opportunities.

### **Disadvantages of motor transport**

#### **(a) Undependability**

Motor transport does not usually have scheduled timings except passenger buses. It is irregular and undependable. Further roads may be rendered unsuitable for traffic during rainy season and during winter.

#### **(b) Unsuitability**

Motor transport is not suitable for transporting goods over very long distance. It is also unsuitable and uneconomical for conveying bulky and low-grade materials (like raw materials and agricultural goods) particularly for long distance.

#### **(c) Break downs and accidents**

Motor transport is prone to frequent breakdowns and accidents.

#### **(d) Absence of uniformity in rates**

Motor transport is generally owned and operated by different people and concerns. Different operators charge different rates for the same kind of goods. The absence of uniform rates leads sometimes to exploitation of traders.

#### **(e) Speed Limit**

For considerations of public safety, speed limit is generally prescribed for motor transport. Though adherence to speed limit is good for all concerned, it may at times turn out to be a disadvantage.

### **TRAMWAYS**

Tramways made their appearance in the 19th century as a form of transport suitable for big cities. Tramways were initially horse drawn, later steam-powered and

now electrically operated. Their carrying capacity is large and hence they are able to cope up with the peak - hour traffic in big cities. With the increasing popularity of motorbuses the tramways slowly declined and in many places disappeared altogether. It may be news to young people that Madras city also had tramways till 1933.

### **Advantages of Tramways**

1. Trams can operate on busy and congested streets with frequent stops.
2. Tramways constitute a safe means of transport. Tramcars go slow and are, therefore, not prone to accident.
3. Tramways are cheap form of transport. Large carrying capacity, less wear and tear of tramcars and lower capital investment contributes to their cheapness.

### **Disadvantages of Tramways**

1. Tramcars operate on rails and therefore cannot deviate from the set routes. Like railways, tramways are also inflexible.
2. Tramways are a very slow form of transport. They are not suitable for going to places quickly.
3. Tramways involve considerable capital outlay because like railways, tracks also have to be laid.

### **Railway Transport**

The invention of steam engines by James Watt revolutionised the modes of transport all over the world. Railways, as a mode of transport, is the most organised transport undertaking all over the world. The opening up of some countries, like the United States of America and Russia, was largely due to the railways. Railways are the cheapest and quickest means of transport for carrying heavy goods over long distance. It is no exaggeration to say that the railways revolutionized the land transport system.

Railways need a huge capital outlay for laying of tracks, construction of bridges, purchase of locomotives etc. They render an essential public service. Railways are among the biggest public utilities of a country. A right way has to be acquired by railways by encroaching upon others' properties. Railways touch upon the safety of millions of human lives. Hence they are subjected to Government control and regulation and in many countries, they are nationalized. Their monopolistic position also calls for Government control in order to prevent exploitation of the public.

## **Advantages of railway transport**

### **1. Suitability**

Railways are well suited for carrying heavy and bulky goods over long distances. With the advent of the diesel engine, the motor transport has, undoubtedly, become cheaper and the carrying capacity of lorries increased. But the railways still retain their superiority in this respect.

### **2. Best way of transport for long distance:**

Railways can provide unbroken long distance travel throughout the day and night. In roadways this is not possible, though night service vehicles are available in road transport, this has become very risky.

### **3. Safety**

Railways can provide better protection and safety to the goods than motor transport. In railways, goods are generally carried in closed wagons and are as such not exposed to sun, rain etc.

### **4. Less operating expenses**

Though the initial investment is large, in the long run the operating expenses will be very low in railways and it will prove a cheaper mode of transport.

### **5. Dependability**

This method of transport is regular and dependable. It has regular schedule of timings and is available throughout the year. Whether it rains or shines railway transport will operate unaffected by weather conditions.

### **6. Speed**

Because of greater speed, railways require less time than motor transport for carrying goods over long distance.

## **Disadvantages of Railway Transport**

### **1. Unfit for short distance or rural area**

Railway rates are higher than those charged by motor transport for transporting light articles over short distance.

### **2. Inflexibility**

As railway is tied to a particular track, it cannot deviate from the set routes

### **3. Uneconomical for rural areas**

Railways need heavy capital outlay for their construction. The recurring expenditure on their maintenance is also enormous. They can operate economically,

only if they are able to attract adequate traffic on a regular basis. As rural areas cannot offer adequate traffic regulatory railways will find it uneconomical to operate in such areas. They are, thus, forced to lose considerable rural traffic to motor transport.

#### **4. Greater risk**

In railway transport the possibility of theft, breakage or damage is much greater on account of intermediate loading and handling. Further movement of goods to and from railway station causes delays and additional expenses. Therefore even with a little higher freight-rate, businessmen prefer motor transport to railways.

#### **5. Loss due to under-utilisation**

If railways are not fully utilized and if wagons and coaches are to go half empty, a heavy financial burden will be cast on the railway. Due to inadequate traffic, if a line is to be withdrawn, enormous financial loss will have to be borne by the country. Railway construction and operation call for continuous planning and calculation. Any defective planning or operation of railways will entail the country in a heavy financial loss.

### **WATER TRANSPORT**

Water is a free gift of nature. Human civilization through the gradual application of science technology, have utilised water resources for economic, political and military activities. Tremendous changes are taking place in water transport due to considerable improvements in the constructions, design motive power, speed and safety of ships and boats. Further, in water transport there are two types. They are, Inland waterways and Ocean water ways.

#### **I. Inland waterways**

Inland or internal water transport comprises of rivers, canals and lakes. Rivers that are naturally navigable are called natural waterways. Canals and canalised rivers belong to the category of 'artificial water ways'.

At one time rivers were the main form of inland transport. Generally small boats, and steamers ply on rivers. If rivers are deep enough, large ships also can play on them. Rivers are the gift of nature. A unique feature of river transport is that of laying road or track is not necessary. However, with the advent of railways, river transport began to decline.

Canals are man-made waterways constructed for the twin purposes of navigation and irrigation. Like river transport, canal transport also fell on evil days after the advent of railways.



## **Advantages of river and canal transport**

### **1. It is the cheapest mode of transport**

River or canal transport is generally cheaper than railway transport. This advantage is greater when the points of despatch and of discharge are both on the waterside. The advantage may be reduced if additional transport is necessary for moving the goods to or from the waterway. For the carriage of cheap and bulky goods, especially when they need not be speedily delivered, this form of transport is the cheapest.

### **2. Greater carrying capacity**

It carries goods smoothly due to the absence of shaking and jolting during transit. Hence it is eminently suitable for the carriage of fragile goods like glassware, earthenware etc., without causing damage.

### **3. Development of foreign trade**

Only water transport particularly shipping had been helpful and also unique in the development of oceanic trade. It helps the countries to export the surplus goods to foreign countries and also import goods from foreign lands.

### **4. Development of international relations**

Oceanic transport has helped in bringing together different nations countries and continents separated from the rest of the world. It has helped in spreading culture, education, fashions, modes of living, ideas, etc., of one country to another.

## **Disadvantages of river and canal transport**

### **1) Limited operation**

The area of operation depends on the availability of waterways and also their suitability. Only navigable rivers, canals and oceans can provide water transport facilities. This service, like, roadways cannot offer door-to-door service.

### **2) Slowness**

This form of transport is generally slower than motor or rail transport. It is therefore not preferred for goods, which are to be carried urgently and speedily. The use of motor barges has to some extent reduced this drawback.

### **3) Uncertainty**

In winter, water may be frozen and traffic may be blocked. During summer, water level may drop and disrupt traffic. Thus this form of transport cannot be relied upon throughout the year.

#### **4) Unsuitability for small traders**

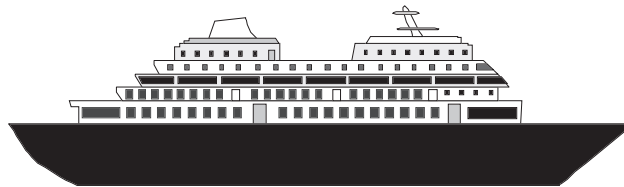
As this form of transport is slow-moving, it is unsuitable for small traders operating with small stock of goods. These traders depend upon quick replenishment of stocks to carry on their business and hence go in for fast-moving transport.

### **OCEAN TRANSPORT**

Ocean transport has been playing a significant role in developing economic, social and cultural relations among countries of the world. International trade owes its growth to ocean transport. We know how vital is international trade for the progress and happiness of the people of the world. Ocean transport enjoys a pride of place in aiding international trade. Cheapness is its great virtue. In the transportation of low-grade, bulky goods between countries, its role is commendable.

#### **II. Types of ocean transport**

Ocean transport may be divided into two broad categories, namely Coastal shipping and Overseas shipping



#### **Coastal shipping**

Coastal shipping constitutes an important means of transport in all countries having a long coastline. It is a cheap means of transport for the movement of bulky cargoes like coal, iron ore etc. to domestic ports of a country. Usually, coastal shipping trade of a country is reserved for national shipping. In India too, coastal shipping trade is now exclusively reserved for Indian ships.

Ocean going ships may also be divided into two, namely, Liners and Tramps.

#### **1. Liners**

Liners are mainly mail and passenger ships. They carry a small amount of cargo. They sail to schedule, whether they have a full load or not. They follow defined routes with fixed places and times of call. Regularity of service, good speed and luxurious facilities to passengers are the specialties of liners. There are two types of liners, namely, Passenger liners and Cargo liners.

##### **i) Passenger liners**

Passenger liners possess the attributes which have been described above under the heading “liners”

## **ii) Cargo liners**

Cargo liners are large ocean - going vessels, which carry large quantities of cargo and a limited number of passengers. They ply regularly according to a pre-arranged timetable. Normal trade demands throughout the year are met by the cargo liners; only seasonal or unusual traffic is left to the tramp.

## **2. Tramps**

Tramps are essentially cargo vessels. They have no set routes. They do not follow any timetable. They sail only when they get sufficient load. They sail at any time and carry cargoes for almost any ports.

## **3. Container ship**

It is specially constructed for the transport of cargo in containers. Goods packed into containers are loaded on a container ship and delivered in the same manner to consignees. The containerships are becoming increasingly popular.

## **4. Tankers**

Tankers are ocean-going ships, which are specially designed to carry crude oil, petrol and petroleum products.

## **5. Bulk Carriers**

These are ships built for a particular type of cargo like iron ore. Nowadays it is better to have larger bulk carries, because of lower cost of transport.

## **Advantages of Ocean Transport**

Ocean transport offers the following advantages

1. Ships sail on high seas, which are the gift of nature. Their routes need not be constructed and maintained unlike in the case of road or rail transport.
2. The carrying capacity of ships is individually much greater than that of any other single unit of transport.
3. Water transport requires relatively a little tractive power. Even the manpower used for the operation of ships is relatively less.
4. International trade and commerce has flourished and developed rapidly due to the facilities offered by overseas shipping transport since three- fourth of the earth is covered by water. It is natural that international trade can take place only with the help of ocean transport.
5. Both initial investment and maintenance cost in the case of ocean transport are less than that of railway transport.

6. Water transport has enabled the spread of culture, ideas, education, social and economic trades to various countries of the world.

### **Disadvantages of Ocean transport**

Ocean transport is also affected by some disadvantages. The most important among them are:

1. In ocean transport, the cargo may be Jettisoned to ensure the safety and security of the ship and its crew. The crew members may also at times by their negligent action, damage and spoil the cargo thereby reducing its commercial value.
2. Ocean transport is subject to great risk of storm and other perils of the sea.
3. Its movement is slow when compared with air transport.

### **AIR TRANSPORT**

Air transport is the fastest and the costliest mode of transport. Commercial air transport is now one of the most prominent modes of overseas transport. The modern air transport has its growth with the invention of aeroplane by Wright brothers. The First World War has made a significant contribution to the development of aircrafts. Though the aircraft was meant for military purpose, commercial transport system developed after the First World War. The air transport offers the most convenient form of transport. It is the most comfortable means of travel.

Air travel is a product of the 21<sup>st</sup> century. Several developments have taken place and are also taking place to develop air transport in all its aspects like technical commercial and economic.

Air transport provides unbroken journey to the passengers and does not require any special tracks for its movement.

### **Advantages of air transport**

Air transport is the most modern means of transport which has peculiar characteristics, advantages and limitations. The advantages of air transport are as follows:

1. It provides a regular, convenient, efficient and quick service
2. The service provided by it is comfortable for passengers and safety for goods.
3. Perishable goods like fruits, tomatoes, egg, meat, etc., can be transported quickly.
4. Air transport does not require huge investment for the construction and maintenance of its track.
5. During natural calamities, air transport is the only mode of transport which can provide articles of necessity in time.

6. Air transport can be used to move goods to areas, which are not accessible to other means of transport. When other means of transport are paralysed due to flood or landslide and war, air transport rises to the occasion to save human life from danger.

7. Where goods are perishable and are to be sold on the crest of popularity, air transport alone helps.

### **Disadvantages of air transport**

The disadvantages of air transport are as follows:

1. It is a very costly mode of transport. The rates and fares charged by air transport will be very high, which is beyond the reach of common people. The rates may be even ten times more than what is charged by the railways or shipping.

2. Aircrafts are not quite suitable for carrying heavy loads and weights. Their use in carrying bulky and heavy loads, like raw materials, machinery, industrial goods, minerals, etc. will be very little or even negligible.

3. It is not dependable because unfavourable weather may disturb the air service suddenly

4. The construction and maintenance of aerodromes involve a huge capital expenditure. Air transport facility is, therefore, limited to important commercial centres.

5. Due to fast displacement of air, aeroplane will create abominable noise. Tenements in and around airports would be greatly affected by noise pollution.

6. Every country controls the air space above its territory. Therefore an aeroplane cannot fly over another country without obtaining its prior permission.

### **COMMON CARRIER**

#### **Meaning**

A common carrier is a person who is engaged in the business of carrying goods for hire indiscriminately for all persons. Railways and sea transport do not come under common carrier because they are covered by separate Acts.

#### **Duties of common carrier**

1) He is bound to carry goods for all persons without discrimination, irrespective of the freight charged is paid or agreed to be paid. However, he can refuse to carry goods in the following cases.

- a) There is no accommodation in his conveyance
- b) There is something illegal or objectionable about the proposed carriage of goods.

- c) The goods are to be carried by an unfamiliar route, i.e., a route on which he does not ordinarily operate.
  - d) The goods to be carried are not of the type he professes to carry
- 2) He is found to carry in his customary manner without unnecessary delay or deviation. But in some cases deviation is justifiable
  - 3) At the end of transit, he is required to deliver the goods to the consignee according to his instructions. But before delivery, he must take proper care of the goods and keep them in a safe place. i.e., a warehouse.
  - 4) He must not mix the goods consigned to him with his own goods.
  - 5) If there is any accretion to the goods, which are consigned to him, the carrier must return to the consignee such accretion with the rest of the goods. This can happen in the case of animals, as for example, a cow getting a calf when it is in transit or at the end of transit.

## **PRIVATE CARRIER**

### **Meaning**

A private carrier carries goods on occasions for particular persons of his own choosing under a special contract either for hire or gratuitously. Private carriers do not carry goods regularly from place to place.



### Differences between common carrier and private carrier

S.No	Common carrier	Private carrier
1.	A common carrier is one who is engaged in regular trade or business.	A private carrier is engaged in a casual occupation and carries goods on occasions or under a special contract
2.	He carries goods for all persons indiscriminately.	He carries goods for particular persons of his own choice.
3.	The liability of common carrier is governed by Carriers Act 1865	There is no separate Act. The liability of a private carrier is that of a bailee to whom goods are delivered in trust.
4.	He carries goods for hire or reward.	A private carrier may carry goods for hire or gratuitously.
5.	He is generally an insurer of the goods he carries. He is responsible for loss or damage caused either by his negligence or otherwise.	He is responsible only for loss or damage directly attributable to his negligence.

### CONTAINERISATION

‘Containerisation’ is a recent development. In recent years admirable changes and progress have taken place in the manner of transport of goods. The term ‘containerisation’ sums up these wonderful developments. Formerly, goods were packed in small quantities and sent by various means of transport. This involved heavy packing and handling expenses.

But to day there is tremendous change, goods are now packed in huge containers (20ft, 40ft). These containers are loaded on to lorries and carried. When they are to be transported by rail, the containers are loaded direct on to special railway chassis. If they are to be sent by sea, they are put directly in the containership. At destination, the containers are delivered in the same way to consignees. The container ships are specially constructed to transport cargo in containers. Likewise, the containers are carried and delivered by giant aircraft.

### Importance of Containerisation

The operations of loading, unloading and transfer from lorries to trains or ships are done by machines. Thus mechanization and automation have come to play a big role in the field of transport. be pumped in to the tanks of the ships.

In India also we have started using this method for handling the products of the oil refineries even when they are waiting in the far sea., i.e., Bombay High.

Other commodities like chemicals and milk are being pumped through pipelines on a small scale also, For transporting natural gas also this system is being widely used now.

## **Documents used in Transport**

### **1. Bill of Lading**

Bill of lading is a document containing the terms and conditions of the contract of carriage. It is issued by the shipping company and signed by the captain of the ship. It acknowledges the receipt of the goods described in it on board the ship. Thus it also serves as an official receipt of goods. Further, the person named therein is entitled to the possession of the goods. It can be transferred by endorsement and delivery. The person, to whom it is endorsed, has a right to take delivery of the goods at the port of destination. In this way, it also serves as a document of title to goods. i.e., a document evidencing ownership of the goods. It is however, not a negotiable instrument. Its main contents are: name of the Exporter, name of the ship, place of loading, particulars of goods shipped, port of destination, freight paid or to be paid, person to whom delivery of goods is to be made, date.

If the condition of the packages is good, a clean bill of lading is issued. If some of the packages are found damaged, a foul or claused bill of lading is issued.

### **2. Charter party**

When goods are to be consigned in large quantity, it is advantageous to hire the whole or substantial part of the ship.

The document through which this contract is made is known as 'charter party'. The charter may be a 'voyage charter' or 'time charter'. The person who hires the ship is known as 'charterers'. The charter party brings the vessel and crew under the control of the charterers. The charter becomes responsible to the third parties for the acts of the master and crew of the ship.

### **3. Way Bill**

There are organisations transporting goods by road. They operate their lorries and trucks on certain routes according to a fixed timetable. They are common carriers offering to transport goods for hire for all persons without discrimination.

The carriers, accepting goods for transport, issue waybills in the name of the consignor or consignees. The consignee must present the waybill at the office of the carrier situated at the place of destination to take delivery of the goods.



The waybill also is an acknowledgement of receipt of goods for transport by the carrier. It serves as an evidence of the contract of transport. It is also a document of title of goods. The ownership of goods represented by a waybill can be transferred by endorsement and delivery of the waybill. It is not, however, a negotiable instrument.

If a waybill is lost, the consignee will be allowed to clear the goods from the carrier after he executes an indemnity bond.

#### **4. Railway Receipt**

Goods to be despatched by rail may be sent either by goods train or by passenger train. It is an acknowledgement of receipt of goods by the railway for transporting. Then the railway undertakes to carry the goods to the destination. It serves as a document of title to goods, viz., it shows the title of its holders of the goods.

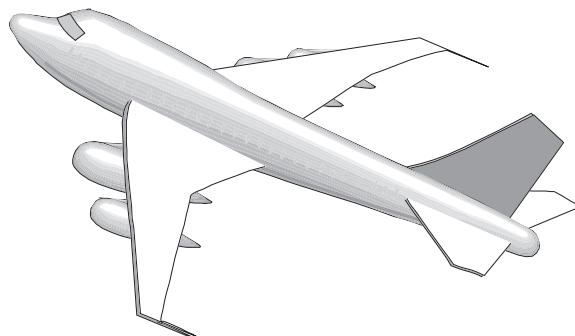
It may be issued in the name of the consignor or consignee. If it stands in the name of the consignor, he can endorse it in favour of the consignee and sends it to him. If it is originally issued in the name of the consignee, the consignor sends it to the consignee. Only on presentation of the railway receipt the railways will deliver the goods.

As railway receipt is a document of title to goods, ownership of the goods can be transferred by endorsement and delivery of the receipt. Thus while the goods are in transit, they can be sold from person to person by mere transfer of the receipt. However, it is not a negotiable instrument.

If a railway receipt is lost, the consignee can obtain the goods from the railway by executing an indemnity bond. Through the bond the consignee promises to protect the railway from loss in case some body else claims ownership of the goods.

#### **5. Air Consignment Note or Air Way Bill**

It refers to a document prepared by the consignor, which is handed over to the carrier of goods, while transporting goods through airways. Air consignment note is made out in three original parts. One is signed by the consignor and marked for the carrier. The second is signed by both the consignor and the carrier and marked for the consignee (Intended to accompany the goods) and the third is signed by the carrier and handed back to the consignor after the goods have been accepted.



## Questions

### I. Multiple Choice

1. Which one of the following is covered under Land Transport?  
a) Liners                      b) Tankers                      c) Pack Animals                      d) Tramps
2. Which one of the following is not covered under transport.  
a) Canal    b) River  
c) Bullock Carts    d) Bill of Lading  
e) None of these
3. Who is the inventor of the steam engine?  
a) James Watt                      b) Gopal                      c) R. Bhatt  
d) Mohini Sethi                      e) P.K. Ghosh                      f) All of the Above
4. In which year cycle and Rickshaw were introduced in the world.  
a) 1850                      b) 1847                      c) 1972  
d) 1867                      e) None of these
5. The first railway line in India was opened to traffic between  
a) Mumbai - Chennai    b) Chennai - Kolkata  
c) Mumbai and Thane    d) Delhi - Chennai

Answers: 1. (c)      2. (d)      3. (a)      4. (d)      5. (c)

### II. Fill in the Blanks

1. Elephants were used in forests for carrying heavy\_\_\_\_\_.
2. Motor Transport also responsible for decline of \_\_\_\_\_.
3. The term Inland waterways refer to \_\_\_\_\_Waterways.
4. Bill of Lading also serves as an\_\_\_\_\_
5. The way Bill also is an acknowledgement of \_\_\_\_\_for transport by the carrier.
6. Air consignment note is made out in \_\_\_\_\_original parts.

### Answer :

1. Wood
2. Tramways

3. Artificial
4. Official Receipt of goods
5. Receipt of goods
6. Three.

### III. Match the following

- |                    |                              |
|--------------------|------------------------------|
| 1. Bill of Lading  | a) Pipelines                 |
| 2. Charter party   | b) official Receipt of goods |
| 3. Bombay High     | c) Pack Animals              |
| 4. Ocean Transport | d) Voyage Charter            |
| 5. Land Transport  | e) Liners                    |

Answers : 1. (b)                      2. (d)                      3. (a)                      4. (e)                      5. (c)

### IV. Short Questions

1. Define Transport.
2. What are the importance of Transport?
3. Mention any two economic benefits of the Transport.
4. Write short notes on Land, Water and Air transport.
5. What are the Advantages of Land transport?
6. What are the merits of water transport?
7. What are the demerits of Air transport?
8. Define Containerisation.
9. Define Common carrier.
10. Define Private carrier.

### V. Paragraph Questions

1. What are the economic benefits of Transport?
2. How transport helps the Business People?
3. What is Land Transport and mention its types.
4. What is water Transport and mention its types.
5. What is Air Transport and mention its types.

6. Define Common and Private carriers and distinguish between common carrier and private carrier?
7. What are the disadvantages of Land, water and Air transport?

**VI. Essay type questions**

1. Define containerisation and bringout its types.
2. What is motor transport and bring out its types?
3. Explain different forms of Transport like Land, water and Air.

## **CHAPTER-6**

# **WAREHOUSING**

### **INTRODUCTION**

Warehousing is one of the functions of marketing. The place where the goods are stored is called as warehouse. The term “ware” means products. Storage or godown is generally located near the factory to keep the raw material and finished products. Storage is only a holding place. Whereas, the warehouse is located near the market to perform the other marketing functions such as grading, standardization, blending, mixing, packing etc. Therefore, we may say that a warehouse holds goods as a distribution center. The development of science and technology has improved the ways and means of storage.



Goods carried to warehouse

### **NEED FOR WAREHOUSING:**

Warehousing removes the hindrance of time by storing or warehousing without which much of the goods produced will be useless and there may not be any incentives for production. The following factors show the necessity for warehousing:

#### **1. Mass Production:**

Production is based on the anticipated demand for goods. Mass production of goods takes place by establishing big factories and modern machines. The markets for such goods are spread all over the country. Therefore, warehouses have to be built at different places to store these products to provide prompt supplies at various centers when demanded.

#### **2. Nature of commodities:**

Some commodities are perishable in nature and therefore it should be consumed in time to avoid deterioration. Storing them in cold storages can extend the consumption period. For example, fruits, vegetables, eggs, butter and the like are stored in storages as they are perishables.

### **3. Seasonal Production but Regular Consumption:**

Many commodities, especially the farm products such as wheat, sugar pulses etc., are produced only in seasons. However, consumption is evenly spread throughout the year. If storage is not provided, these commodities become waste and get deteriorated and during the off-season periods, it would become scarce. Therefore, storage at suitable warehouses is needed.

### **4. Regular Production but Seasonal Consumption:**

In anticipation of the demand in seasons certain goods are produced regularly. For example, ready-made garments, blankets, electric fans etc., Therefore these goods would require storage so that it can be released in large quantities to meet the heavy demand in seasons.

### **5. Proximity to production centers:**

Storage at different centers are required to supply the goods in time and without interruption. For this purpose goods are regularly fed to the warehouses situated at different market areas and thereby making them available easily to wholesalers, retailers and other dealers. In turn they will be sold to the ultimate consumers.

### **6. Storage of Raw materials for mass production:**

Some raw materials are to be made readily available to facilitate continuous mass production. Therefore, such types of materials are kept in warehouses to be supplied to the production center as and when required. For example raw cotton is purchased from the markets and warehoused for supplying the same to the production place.

### **7. Storage to keep buffer stocks:**

To avoid interruption in production and to avoid the danger of non-availability of commodities, certain minimum stock is to be stored. Therefore, storage is essential.

### **8. Storage for speculative purposes:**

Certain commodities are kept in the godown for sometime to get better prices for them. These are stored to get profit out of fluctuations in prices, till such time the goods are to be kept in the godown.

## **MEANING OF WAREHOUSE AND WAREHOUSING:**

### **1. Meaning of Warehouse:**

It is defined as a place specially suited for storage for a particular commodity. In common parlance, warehouse means godown. According to Stephenson "A warehouse is an establishment for the storage or accumulation of goods". It is a place where the goods are stored for future use. Depending upon the nature of the products to

be stored, warehouses are designed. To keep the fruits and perishable goods, cold storages are needed. Certain drug products are to be kept in suitable temperature. Liquids like petrol, oil, molasses need tanks while grains like barley, pulses etc., need ventilated halls. The place at which the goods are sold may also be called as godown or store.

## **2. Meaning of Warehousing:**

It is an arrangement by which goods are stored when they are not immediately needed and are kept in such a manner so as to protect from deterioration. It can be simply called as a place where the storage facilities are provided. The object of warehousing is preservation and protection of goods from deterioration in quantity and quality. It creates time utility.

## **FUNCTIONS OF WAREHOUSING:**

It renders invaluable services to the community by performing the following functions:

### **1. Protection of Goods:**

Warehousing saves the goods from deterioration by storing in suitable racks, cans, drums, bags and by keeping them away from sun, dust and rain. Thus the warehousing safeguards the goods from various agents of harms both natural and human. Making safety and security arrangements make pilferage and theft difficult. Fire protection devices are also kept ready to protect the goods from fire.

### **2. Price stabilization:**

Warehousing ensures price stabilization by supplying of goods as and when demanded. In the absence of warehousing, smooth flow of goods is not possible for raising the price. Thus warehousing acts as a cushion to absorb the price fluctuations and supplies the goods at more or less uniform prices throughout the year.

### **3. Storage of goods:**

There is a gap between the period of production and the period of consumption and also between the quantity produced and quantity consumed. The surplus goods are stored properly for the purpose of supplying them at right place and at the right time

### **4. Equalization of demand and Supply:**

Warehousing equalise the demand and supply of goods by storing the goods when they are not demanded and releasing when there is demand. Thus Consumers can get the commodities regularly even during the off-season periods. To avoid famines and scarcity of goods, the government also warehouses the food grains through effective warehousing programmes.

## **5. Facilitating Business Finance:**

Based on the goods deposited in a warehouse, the depositor can get finance by showing the receipt issued by the warehouse keeper from banks and other financial institutions.

## **6. Preparation for sale:**

Now a days modern warehouses undertake the functions of sorting, packing and labeling for the purpose of making the goods suitable for marketing. Hence, the warehousing is needed for making the goods suitable for marketing.

## **7. Delivery to the buyer:**

The buyer when he buys the goods can take delivery of goods from the warehouse. The seller can hand over the goods by simply issuing delivery order to the warehouse-keeper when the good are stored by mentioning the name of the buyer.

## **8. Widening the marketing area:**

A manufacturer can sell the goods to different marketing areas by establishing branch warehouses or taking the services of rented warehouses at the required places. Thus warehousing widens the market for the goods.

## **9. Concentration on production:**

Warehousing relieves the producers from the problem of storing the goods. They need not have separate storage place of their own since the warehouse keepers give all these special services. Therefore the producers can concentrate on production.

## **10. Conditioning the products:**

Warehouses condition certain commodities like cheese, tobacco and wood for getting improvement in quality, flavor and durability as the time passes.

## **11. Risk bearing:**

Incase of damage to the goods warehouse keeper compensate the loss caused to the owner of the goods. Thus wavehouse bear the loos of risk involved in storage of goods.

## **12. Other functions:**

Besides the above the warehousing also provides employment opportunities, avoids rush transportation during peak periods, smoothens the marketing process and raises the standard of living of the people, provides samples to the byer etc,.



## **KINDS OF WAREHOUSES:**

On the basis of ownership warehouses can be classified into the following types:

1. Private
2. Public
3. Co-operative

On the basis of services, warehouses can be classified into the following types:

1. Bonded
2. General merchandise
3. Special commodity
4. Cold storage
5. Field godowns
6. Household
7. Grain elevators
8. Yard storage
9. Institutional

### **On the basis of ownership**

#### **1. Private Warehouse:**

These are owned by private persons to store their own products. Large scale manufactures, wholesalers, and bid stockist have their own warehouses at different distributing centers in order to maintain the regular supply of goods with dealers and others. All expenses and risk involved in storing the goods are borne by them. Only the large and steady sales volume holders find it economical in maintaining such warehouses.

#### **2. Public Warehouse:**

These are started to provide storage services and facilities to the retailers, wholesalers, and stockists and even to the general public. These warehouses impose rental charges for the space used and service charges for providing services such as inspection of goods, packing them, shipping and invoicing them. These are constructed at strategic places where rail and road transportations are available.

#### **3. Co-operative warehouse:**

These are organized to provide warehousing facilities to members and others. Co-operative warehouses are formed by such person who would like to become its members. Its efficiency depends upon the full utilization of space, self-less management, loyalty of all the members and resources.

## **On the basis of services**

### **1. Bonded warehouse:**

These types of warehouses are licensed by the government and are permitted to accept the goods under bond. The imported goods awaiting clearance are kept in these warehouse till the duty is paid. The goods will be delivered only after payment of the duty. These types of warehouses are situated near the ports. If the government owns the bonded warehouses then customs authorities will have direct control over the warehouses. The owners of the goods are allowed to inspect, bottle, brand and blend the goods.

### **2. General merchandise warehouse:**

These are the most common type of warehouses which provide storage facility for any product which does not require special facility. They are simply resting places and can be used by the manufactures, wholesalers and retailers.

### **3. Special commodity warehouse:**

These warehouses are specially constructed for the storage of a particular commodity such as tobacco, cotton, wool etc.,.

### **4. Cold storages:**

Some of the products are to be stored in cold storages, which uses the technique of refrigeration to extend the period of marketing. For example: Perishables such as fruits, vegetables, fish, meat and eggs etc., are stored for future consumption.

### **5. Field godowns:**

This is popular in USA. Industrialists, wholesalers and retailers use this method of storage mainly for the purpose of getting financial assistance from the banks. Goods are stocked in a hall in their place and possession is given to a public warehouse keeper who issues a warehouse receipt. This receipt is pledged with the bank to get loans.

### **6. Household warehouses:**

These are small storage places used for meeting the requirements of small family wherein the surplus goods are stored. In villages, the agriculturalists store their produce in small rooms for meeting their consumption. These are all called household warehouses.

### **7. Grain elevators :**

It is a novel method of storing goods which is popular in USA and UK. Grain in bulk quantities can be stored in grain elevators.

## **8. Yard storage:**

Goods such as iron, timber etc., which do not deteriorate due to climate are kept open in a yard protected by a compound.

## **9. Institutional warehouses:**

Various institutions have their warehouse because of the nature of their activities. Food Corporation of India, banks, railways and others keep warehouses to conduct their normal work. The following are some of the warehouses run by the Institutions:

### **a) Food Corporation of India:**

As per the procurement policy of Government of India food grains are to be procured at a fixed support price and stored. This helps the growers to get reasonable price for their produce. It gives encouragement to the farmers to cultivate the produce for the next season. Buffer stocks are built to safeguard the consumers against high price.

### **b) Government warehouses:**

These are formed by the State and Central government for their exclusive uses.

### **c) Bank godowns:**

Goods pledged to the banks against loans given by them are kept in these warehouses.

### **d) Railway warehouses:**

Railways are also engaged in transportation of goods at various places within the country. Goods received for transportation are kept in the warehouse, till they are loaded in the wagons. Similarly, goods unloaded are kept in the godown till the owners take delivery of their goods.

## **ADVANTAGES OF WAREHOUSING**

The following are the advantages of warehousing:

1. Warehousing safeguards the stock of the merchants, who do not have storing place.
2. Warehouses reduce distribution cost of the traders by storing the goods in bulk and allows the traders to take the goods in small lots to his shop.
3. Warehouses near the market help the customers to take out the goods at a lower cost.
4. Some warehouses provide indirect financial assistance to the traders. For eg. bonded warehouses provide facilities to release the goods proportionately after getting the dues in installments.

5. Warehouses stabilizes the prices of the goods by effecting the movement of the goods.
6. It helps in the selection of channel of distribution. For eg. manufacturer will prefer to appoint a wholesaler or retailer who has his own warehouse.
7. It assists in maintaining the continuous sales and avoids the possibilities of “out of stock” position.

## **WAREHOUSING-DOCUMENTS:**

The following documents are used in connection with the warehousing:

### **1) Warehouse warrants:**

This is a document issued infavour of the owner of the goods by the warehouse keeper. This is a document of title to goods and can be transferred by simple endorsement and delivery. To transfer all the goods the warehouse warrant is sufficient. If only a part of the goods are to be transferred then delivery order is needed. The delivery order is to be accompanied by the warehouse warrant. The warrant will be delivered to the owner of the goods after making suitable entries about the goods delivered.

### **2) Dock warrant:**

Dock is a place in the harbour where the goods are loaded into the ship. Dock warrant is a document of title to goods issued by dock authorities. This document certifies that the dock authorities hold the goods. To take delivery of the goods this certificate should be given back to the authorities. The right of getting delivery of goods can be assigned to third parties.

### **3) Dock receipt:**

Dock receipt is an acknowledgement of receipt of the goods issued by dock authorities to the owner of the goods. It is not a document of title to goods. Therefore, the right of taking delivery of goods cannot be transferred.

### **4) Delivery order:**

This is a document through which the depositor directs the warehouse keeper to deliver the specified goods either to the party mentioned in the document or to the bearer. The warehouse keeper delivers the goods as per the instructions. Transfer of ownership takes place through this document.

### **5) Warehouse keeper's Certificate:**

This is a document issued by the warehouse keeper, which acknowledges the receipt of the goods from the depositor. It also shows the existence of an agreement to keep the goods in the warehouse subject to certain conditions. This is not a document of title to goods and is not transferable. The warehouse keeper can deliver the goods

only after receiving the delivery order from the depositor. The delivery order may be for all or a part of the goods deposited.

#### **Differences between Warehouse Receipt and Warehouse Warrant:**

<b>No.</b>	<b>Warehouse Receipt</b>	<b>Warehouse Warrant</b>
1	It is only an acknowledgement for the receipt of goods	It is not only an acknowledgement for the receipt of goods but also gives an authority to get delivery of goods by the owner or by third party.
2	It is not a document of title to goods	It is a document of title to goods
3	It cannot be negotiated or transferred to others	It can be negotiated or transferred to others
4	It cannot be given as a collateral security for getting financial assistance from bankers	It can be given as a collateral security for getting financial assistance from bankers
5	Surrendering this receipt and letter of authority can effect delivery of goods.	Delivery of goods is effected by surrendering this warrant with endorsement

#### **WAREHOUSING IN INDIA:**

India is an agrarian country but the importance of warehousing was not felt till 1950. The Pause Committee has estimated that post harvest losses are more than 10% of the food grains produced due to poor warehousing facilities. On the recommendation of the All India Rural Credit Survey Committee, The Agricultural Produce (Development and Warehousing) Corporations Act enacted in 1956 authorized the government to set up National Co-operative Development and Warehousing Board to develop agricultural Co-operatives and warehousing. The Central warehousing Corporation was established in 1957. This Act also permitted the establishment of State Warehousing Corporations. The three main agencies in the public sector engaged in providing large scale warehousing facilities are:

<b>THREE MAIN AGENCIES IN THE PUBLIC SECTOR</b>		
1. Food Corporation of India (FCI)	2. Central Warehousing Corporations (CWC)	3. State Warehousing Corporations (SWC)

### **1. Food Corporation of India (FCI):**

It provides storage facilities for food grains. FCI also hires storage capacity from other sources such as CWC, SWC, State Governments and private parties. The available storage capacity of Food Corporation of India in the seventh plan is 20.33 million tonnes.

### **2. Central warehousing Corporation (CWC):**

It was started in 1957. The available storage capacity of CWC in the seventh plan is 6.77 million tonnes. The following are the objects of CWC:

1. To provide an agency for scientific storage of varieties of agricultural produce, seeds, manures, fertilizers, agricultural implements and other notified commodities.
2. To issue a negotiable warehouse receipt for procuring credit to the owner of stocks.
3. To issue warehouse receipt after checking the quantity and quality.
4. To preserve the produce deposited with care and protect against insects and various pests and deterioration due to moisture and dampness.
5. To act as the agent of the government for the purchase, sale, storage and distribution of specified commodities and transport to and from the warehouse.
6. To construct warehouses at suitable places to store different commodities on scientific lines.
7. To reduce the cost of storage and facilitate the marketing of produce through proper grading.

### **3. State Warehousing Corporation:**

Every state government is given power to establish its own Warehousing Corporation after getting approval from the Central Warehousing Corporation. 50% of the capital is contributed by the CWC and the State Government contributes the balance 50%. The available storage capacity of SWC in the seventh plan is 9.70 million tonnes.

#### **Functions of SWC:**

The following are the functions of SWC:


1. To start and run the warehouses at places not reserved for the central warehouses
2. To regulate the markets at its specified centers.
3. To act as an agent of the Government and CWC.
4. To subscribe the share capital of co-operative warehousing societies.

## WAREHOUSING IN TAMIL NADU:

A premier warehousing agency in the State of Tamilnadu was established in 1957. It provides price support to the agricultural sector. It is one of the biggest public warehouses operating in the state offering logistic services to a diverse group of clients.


### Performances:

1. Tamilnadu Warehousing Corporation (TNWC) operates 65 warehouses across the state with a storage capacity of 6.3 lakh tonnes providing warehousing services for a wide range of products running from agricultural products to sophisticated industrial products.








### தமிழ்நாடு சேமிப்புக் கிடங்கு நிறுவனம்

(தமிழ்நாடு அரசு சார்பு நிறுவனம்)



பூச்சிகளால் தொல்லைபா ?  
இல்லை இனி உங்களுக்கு கவலை  
விஞ்ஞான முறையில் பொருட்களைச் சேமிக்கிறோம்!  
வியக்கத்தக்க முறையில் பூச்சிகளை ஒழிக்கிறோம்!!  
கோப்புகளை தின்னும் பூச்சிகளா!  
கொடிய நோய்களை உருவாக்கும் கொசுக்களா!!  
சாப்பிடும் தானியங்களில் வண்டுகளா!  
சகலத்தையும் கடித்துக் குதறும் எலிகளா!!  
கட்டிடங்களை அரிக்கும் கரையான்களா!  
நட்டங்களை ஏற்படுத்தும் புழு பூச்சிகளா!!  
ஊறு விலைவிப்பவை எதுவாயினும்,  
உறுதியுடன் கட்டுப்படுத்தி விடுகிறோம்.  
தரமான பூச்சிக்கொல்லி மருந்துகளால்  
உங்கள் இருப்பிடம் வந்து  
பொறுப்புடன் சேவை செய்ய காத்திருக்கிறோம்  
தவறாமல் நாடுங்கள்  
தமிழ்நாடு சேமிப்புக் கிடங்கு நிறுவனத்தை





தலைமை அலுவலகம்

பூச்சித் தடுப்பு பிரிவு  
தமிழ்நாடு சேமிப்புக் கிடங்கு நிறுவனம்,  
100, அண்ணாசாலை,  
கிண்டி, சென்னை-600 032.  
தொலைபேசி : 2351303, 2351497, 2351798

மண்டல அலுவலகம் : தொ.பே.

திண்டுக்கல்	427873
சேலம்	340076
திருச்சி	201169
திருநெல்வேலி	337423

Source : [www.tnwarehouse](http://www.tnwarehouse)

2. Warehousing activities of Tamil Nadu Warehousing Corporation include food grain warehouse and custom bonded- warehouse.

3. Apart from storage and handling, Tamil Nadu Warehousing Corporation also offers its services in the area of handling, transportation, disinfecting services, fumigation services and other ancillary activities.
4. Tamil Nadu Warehousing Corporation also offers training on scientific storage of stocks to different agencies.
5. Scientific storage and handling services are offered for more than 200 commodities that include agricultural produce, industrial raw materials, finished goods and a variety of hygroscopic items.
6. Scientific storage facilities are available for more than 200 Commodities that include hygroscopic items through 65 warehouses in Tamilnadu.
7. At present TNWC is functioning in Tamilnadu with seven Regional headquarters at Kancheepuram, Cuddalore, Trichy, Salem, Dindigul, Mettupalayam and Tirunelveli.

#### **Functions of TNWC:**

1. The Regional Managers/Senior Regional Managers conduct regular inspection of warehouses with 100% physical verification of stocks in their region.
2. The copies of inspection reports for all inspections conducted by RMs/SRMs are submitted to Head Office along with their remarks if any. Based on this, further action is taken by the Head Office.
3. Regional Managers also conduct surprise inspection to sort out the problems in the warehouses.
4. The Regional Managers submit tour diaries every month for review by the Inspection Cell.
5. The inspection wing conducts staff meetings and Regional Managers' meetings depending upon the need to sort out business matters, collection, staff grievances etc.
6. The annual inspection of Regional Offices is taken up by Chief Managing Director every year to check the functioning of the Regional Offices.

#### **Custom-Bonded warehouse:**

1. The concept of Custom-Bonded Warehousing has been promoted with a view to facilitate deferred payment of custom duty to encourage entrepreneurs and export oriented units to carry out their operations with least investment.
2. TNSWC operates Custom-Bonded Warehouse with a capacity of nearly 6800 MTs. These bonded Warehouses are located all over the country at places well-connected with the port town of Tuticorin for smooth movement of goods to and from the discharge point.



**Disinfection Services:**

1. The Corporation also provides disinfection services to maintain the quality of goods stored.
2. It serves as a major pest control operator by providing pest control services in health, hygiene, anti-termite treatment, grain preservation, etc. Thus it becomes a part of State Pest Control Agency.

**Limitations of warehousing:**

The warehousing in India is not effective because of the following reasons:

1. Warehouses located are at longer distance from production centre.
2. 90% of the farmers are illiterate and are not able to know the benefits of storage and institutional credit availability
3. The farmers' marketable surplus is very small. Therefore they find that it is not worth to keep the produce in the warehouses located at longer distances.
4. There is no adequate facilities between the place of production and warehouse.
5. Warehousing corporations do not provide sufficient storage facilities, which are suitable for different commodities such as perishable and non - perishable commodities requiring different conditions.
6. More complicated formalities are to be fulfilled at the warehouses. The illiterate and innocent farmers are not able to copeup with these procedures.
7. The cost of warehousing is more than the benifits.

**Suggestions for Improvement:**

- 1) The scattered small surplus can be gathered through co-operative marketing.
- 2) Educate the farmers about the importance of storage and thereby protecting national wealth through warehousing.
- 3) Educate the farmers about the importance of co-operation and co operative societies.
- 4) Educate the farmers about the availability of institutional credit.

## QUESTIONS

## I. Multiple Choice

1. Warehousing removes the hindrances of:
  - a) Time
  - b) Place
  - c) Finance
  - d) Form
2. The warehouse which is providing storage services to retailers, wholesalers, stockists and also to general public is called:
  - a) Private warehouses
  - b) Public warehouses
  - c) Bonded warehouses
  - d) Household warehouses
3. The warehousing document, which is not giving document of title to goods is:
  - a) Warehouse keeper's receipt
  - b) Warehouse warrant
  - c) Delivery order
  - d) Dock receipt
4. The document which authorizes to deliver the goods either in part or full, is called:
  - a) Warehouse keeper's receipt
  - b) Warehouse keeper warrants
  - c) Delivery Order
  - d) Dock receipt
5. The institutional warehouse started with the support of the government is:
  - a) Food Corporation of India
  - b) Household warehouses
  - c) Private warehouses
  - d) Co-operative warehouses.

**Answers:** 1.a 2.b 3.a 4.c 5.a.

## II. Fill in the blanks

1. A warehouse holds goods as a \_\_\_\_\_ center.
2. \_\_\_\_\_ warehouses are licensed by the government and are permitted to accept the goods on bond.
3. \_\_\_\_\_ is a document of title to goods issued by dock authorities.
4. \_\_\_\_\_ can be given as a collateral security for getting financial assistance from banks.
5. \_\_\_\_\_ warehousing has been promoted with a view to facilitate deferred payment of custom duty to encourage entrepreneurs and export oriented units to carry out their operations with least investment

**Answers:** 1.distribution 2.Bonded 3. Dock warrants  
4. Warehouse Warrant 5. Custom Bonded

### III. Match the following

- |                            |                                    |
|----------------------------|------------------------------------|
| 1. Storage                 | a) Disinfections Service           |
| 2. TNWC                    | b) Time utility                    |
| 3. FCI                     | c) Facilities to members           |
| 4. Warehouse Receipt       | d) Food Grain storage              |
| 5. Co-operative warehouses | e) Cannot be transferred to others |

**Answers:** 1-b 2-a 3-d 4-e 5-c

### IV. Short Questions

1. What do you mean by the term "Warehousing"?
2. Explain the need for Warehousing.
3. Give the differences between warehouse and warehousing.
4. Give the differences between warehouse receipt and warehouse warrant.
5. Write a brief note on warehousing in Tamilnadu.

### V. Paragraph Questions

1. Explain the functions performed by the warehousing.
2. Write a brief note on the various types of document used in the warehousing.

### VI. Essay type Questions

1. Explain the various kinds of warehouses.
2. Write a brief note on warehousing in India.

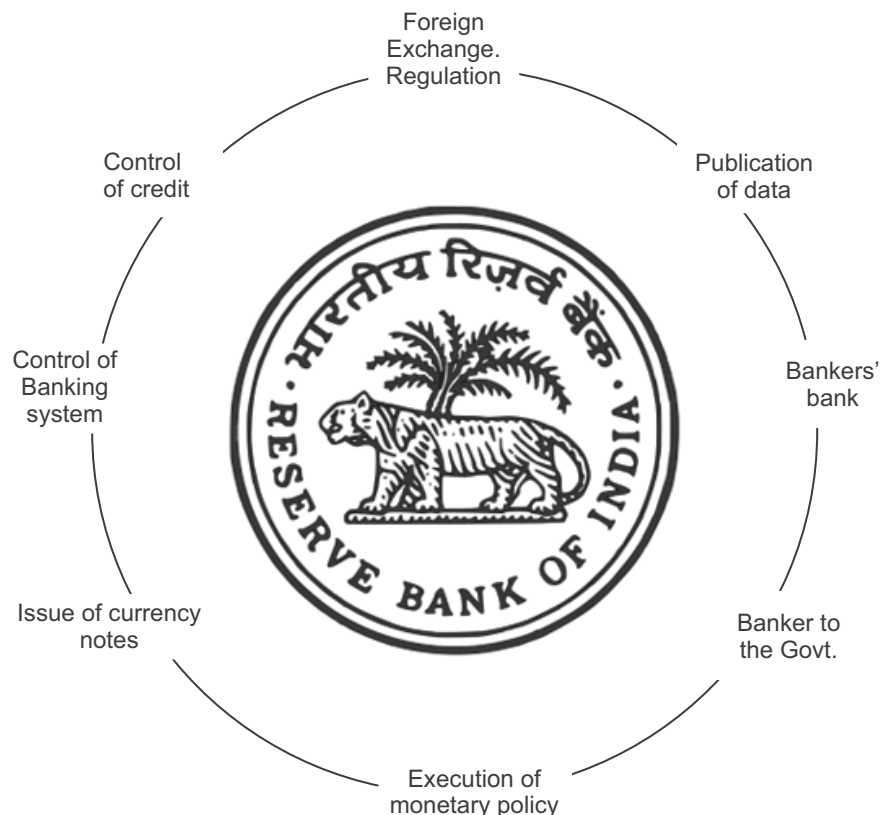
## CHAPTER-7

# BANKING

### INTRODUCTION

Banking is considered to be the nerve center of trade, commerce and business in a country. It plays a vital role in distributing the money for the development of trade, industry and commerce. Therefore we may say that banking is the lifeblood of modern commerce. Bankers are not only dealers in money but also leaders in economic development of a country.

### FUNCTIONS OF RBI



### NEED FOR BANKING

A sound banking system is necessary to achieve the following objectives:

- 1. Savings and capital formation:** Bank plays a vital role in mobilizing the savings of the people and promoting the capital formation for the economic development of the country.
- 2. Canalization of savings:** The mobilized savings are allocated by the banks for the development of various fields such as agriculture, industry, communication, transport etc.,.

3. **Implementation of Monetary Policy:** A well-developed banking system can easily implement the monetary policy because development of the economy depends upon the control of credit given by the banks. So, banks are necessary for the effective implementation of monetary policy.
4. **Encouragement of Industries:** Banks provide various types of financial services such as granting cash credit loans, issuing letter of credit, and bill discounting etc., which encourages the development of various industries in the country.
4. **Regional development:** Banks, by transferring surplus money from the developed regions to the less developed regions reduces regional imbalances.
5. **Development of Agriculture and other neglected sectors:** Banks are necessary for the farmers. It also encourages the development of small-scale and cottage industries in rural areas.

## MEANING OF BANK

In simple words bank is an institution, which deals in money and credit.

1. **According to Herbert L. Hart** “A banker is one who in the ordinary course of his business honours cheques drawn upon him by persons from and for whom he receives money on current accounts”.
2. **According to Banking Regulation Act** “Banking means the accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise”.

## Features of Banks

From the above definitions the features of a bank may be listed as follows:

1. Acceptance of deposits of money from the public.
2. Obligation to refund deposits on demand.
3. Lending or investing money for promotion and development of business.
4. Profitable employment of funds received as deposits from the public.
5. Money is with-drawable by cheque or draft.

## KINDS OF BANKS

Banks can be classified on the basis of their functions, ownership and schedules of RBI. The following table shows the classification of banks:

## **Kinds of Banks**

### **A. On the Basis of Functions**

1. Commercial Banks
2. Industrial Banks
3. Regional Rural Banks
4. Exchange Banks
5. Central Bank

### **B. On the Basis of Ownership**

1. Public Sector Banks
2. Private Sector Banks
3. Co - operative Banks

### **C. On the Basis of Schedules of RBI.**

1. Scheduled Bank
2. Non - Scheduled Bank

## **A. ON THE BASIS OF FUNCTIONS:.**

### **1. Commercial bank:**

Banks, which help for the development of trade and commerce, are called Commercial Banks. The commercial banks may be owned by government or owned by private sector. For eg: Canara Bank, Punjab National Bank, Lakshmi Vilas Bank, Karur Visya Bank etc., are called as commercial banks.

### **2. Industrial bank :**

These banks assist to promote industrial development by providing medium and long-term loans, underwrites the shares and debentures, assisting in the preparation of project reports, providing technical advice and managerial service to the industries. For eg: Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), are known as industrial banks.

### **3. Regional rural bank:**

These banks are established in rural areas. Its object is to develop the rural economy by providing credit and other facilities for agriculture, trade, commerce, industry and other productive activities in the rural areas.

#### 4. Exchange bank:

Exchange banks deal in foreign exchange and specialize in foreign trade. It plays an important role in promoting international trade. It encourages flow of foreign investments into India and helps in capturing international capital markets.

#### 5. Central bank:

Every country has a central bank of its own which is called as central bank. It is the apex bank and the statutory institution in the money market of a country. The central bank occupies a central position in the monetary and banking system of the country and is the superior financial authority. In India, the Reserve Bank of India is the central bank of our country.

It performs the following functions:

- a) It regulates and supervises the whole banking system in the country.
- b) It controls the credit in the country.
- c) It has the sole right of note issue.
- d) It is the lender of last resort and custodian of foreign exchange of the country.
- e) It acts as the banker for the government.
- f) It acts as the bankers bank.
- g) It acts as the bank of central clearance.

#### B. ON THE BASIS OF OWNERSHIP:

- 1. **Public Sector Banks:** These types of banks are owned and controlled by the government. The nationalized banks and regional rural banks come under this category.
- 2. **Private sector Banks:** These Banks are owned by private individuals and corporations.
- 3. **Co-operative Banks:** These banks are operated on co- operative principles. It is a voluntary association of members for self-help and caters to their financial needs on a mutual basis. These banks are also subject to control and inspection by Reserve Bank of India.

#### C. ON THE BASIS OF SCHEDULES OF RBI:

##### a) Scheduled banks:

These types of banks are included in the second schedule of the Reserve bank of India Act 1934. The banks, which fulfill the following conditions, are classified into scheduled banks.

- i) Its paid up capital and reserves are at least Rs.5 Lakhs.
- ii) Its operations are not detrimental to the interest of the depositors.
- iii) It is a corporation or co-operative society and not a partnership or a single owner firm.

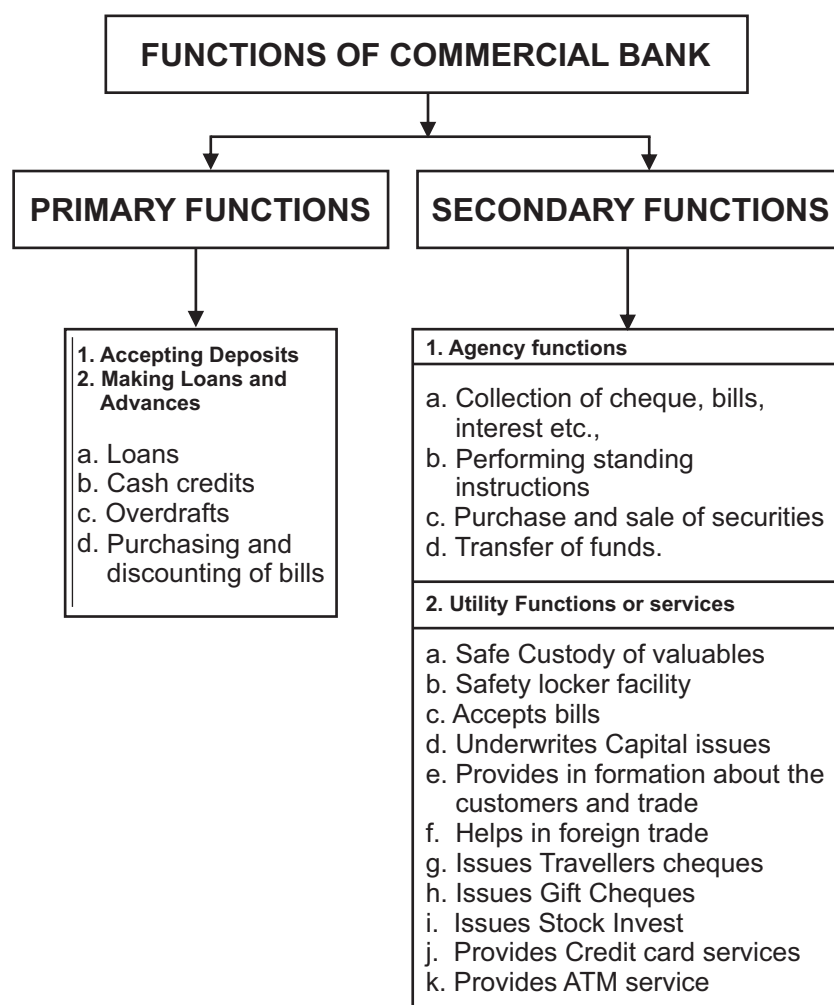
**b) Non-Scheduled banks:**

The banks, which are not covered by the second schedule of Reserve Bank of India, are called as non-scheduled banks.

**FUNCTIONS OF COMMERCIAL BANKS:**

Commercial Bank plays an important role in the economic development of a country. The functions of commercial banks can be classified into two broad categories:

1. Primary or Banking Functions.
2. Secondary or Subsidiary functions.





## PRIMARY FUNCTIONS:

Primary functions are also called as banking functions. The primary functions of a bank are two types. They are:

1. **Accepting Deposits:** Banks accept deposit from the public. These deposit carry interest. It also provides safety for their money. Bank accepts various types of deposits to meet the needs of the different types of customers. There are four types of Deposits:
  - a) **Fixed or Time Deposit Account:** When money is deposited for a fixed period it is called fixed deposit. Interest rate increases with the increase in period of deposit. The longer the period, the higher will be the interest rate. The bank issue deposit receipt after collecting the amount towards fixed deposit. The depositor can borrow money against the security of the fixed deposit receipt.
  - b) **Savings Bank Deposits Account:** In this account money can be deposited for any number of times but can be withdrawn only once or twice in a week. These restrictions are made to discourage the habit of frequent withdrawals. Any person can open a saving account.
  - c) **Current Deposits Account:** It is also called as an open account. In this account money can be deposited and withdrawn at any time during the working hours. As the amount in this account is repayable on demand, the bank pays no interest on such accounts. These types of accounts are useful for businessmen, companies, public institutions etc..
  - d) **Recurring deposits Accounts:** In this account, the depositor deposits a fixed sum of money every month for an agreed period. At the end of the specified period, he gets back the amount deposited along with the interest accrued thereon. The rate of interest is higher than in any other account. If a depositor is in need of money before the due date, he can get back the amount deposited from the banker or get loans against the recurring deposit.
2. **Making loans and advances:** Banks grant loans and advances to the needed persons. Interest is charged on these loans. It promotes the economic development of the country by giving assistance to industry and trade. The forms of loans and advances are:
  - a) **Loans:** Banks provides short-term, medium term and long-term loans. These loans are given against securities. Short-term loan is repayable within a year. Medium term loan is repayable within 5 year. Long-term loan is given for more than 5 years.
  - b) **Cash Credits:** It is an arrangement by which a bank allows his customer to borrow money up to a specified limit. Interest is charged on the amount utilised and not on the total amount of loan.

- c) **Overdrafts:** It is an agreement with a bank by the current account holder to withdraw more than the balance to his credit up to a specified limit. Interest is charged on daily overdrawn balances. The overdraft is allowed only for a short period and is only a temporary accommodation.
- d) **Purchasing and Discounting of Bills:** The bank purchases bills and credit the customers accounts with the net amount of the bill after deducting the discount charges. The bank also sends the bills for collection. At the time maturity of the bill the bank presents the bill to its acceptor for getting payment. In case of dishonour of the bill the bank recovers the full amount of the bill from the customers along with expenses made.

## SECONDARY FUNCTIONS:

The secondary functions can be classified into two types namely agency function and utility function.

**1. Agency functions:** The following are the agency functions of the bank:

- a) **Collection of cheque, bill, and interest:** The banks provide services by collecting cheques, bills, promissory notes, dividend warrants and interest etc., on behalf of their customers. For these services the bank charges a small commission.
- b) **Executing standing instructions:** The bank makes payments for insurance premium, subscriptions and other periodical payments after getting standing instructions from the customer. The bank charges a small commission for these services.
- c) **Purchase and sale of securities:** After getting instructions from the customers the banker purchase or sell securities on behalf of the customers. The banks get a commission for these services.
- d) **Transfer of funds:** On behalf of the customers a bank may transfer funds from one place to another place through drafts, A telegram and internet.

**2. Utility Functions or services:** The following functions are considered as general utility functions:

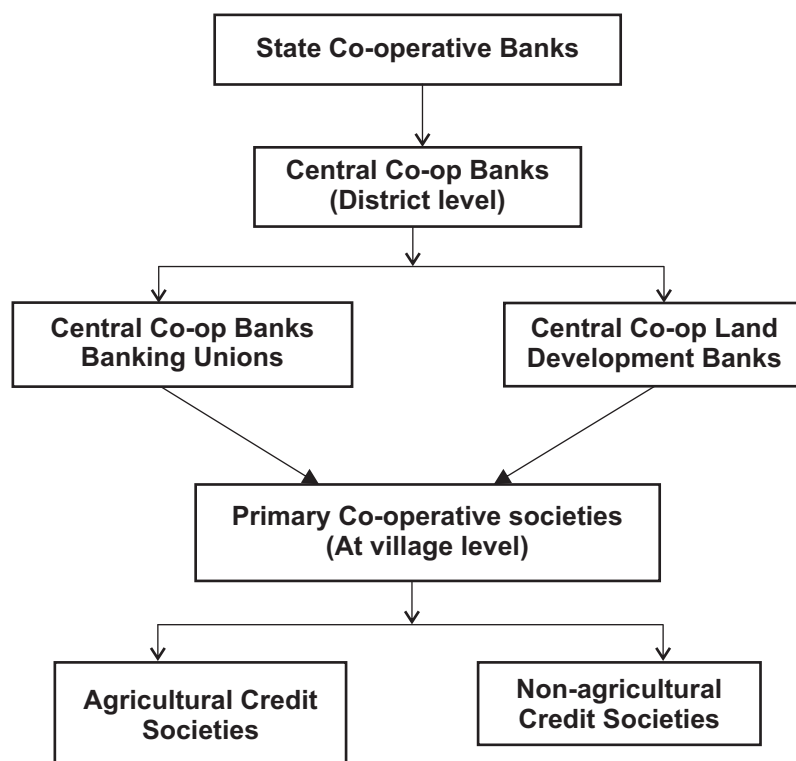
- a) **Safe custody of valuables:** In this type of facility the banker keeps the valuable things such as ornaments, jewellery, and documents under their custody. They give acknowledgement for the valuables kept with them. The banker collects reasonable charges, for providing this service.
- b) **Safety locker facility:** In this type of facility the banker allows the customer to keep any kind of valuables in the locker allotted to the customer by the banker. The customer has to pay periodical rental charges to the bankers. The customer keeps ornaments, jewellery, valuable documents etc in the locker.

- c) **Accepting bills:** The bank accepts the bills of exchange on behalf of its customers and thereby encourages business connections. For this service a small commission is charged.
- d) **Underwriting of Capital issues:** Underwriting is a service provided by the banks to the companies. The banks undertake to sell the shares and debentures of companies to the public. For these services the bank charges a specified rate of commission.
- e) **Providing information about customers and trade:** Bankers frequently give information about the credit worthiness of their customers to the needy persons. This helps the customers to get credit facilities from various parties. Bank also publishes information about the business, industry and economy to help the customers.
- f) **Helps in foreign trade:** It helps in promoting foreign trade by issuing letter of credit discounting bill of exchange.
- g) **Issues Travellers cheque:** It is a cheque, which can be presented at different places of the specified banks. It is issued in different denominations. It reduces the risk of carrying cash. Banker may at the request of the customer issue travelers cheques by getting specimen signature from such customer. This cheque is counter signed by the banker.
- h) **Issues Gift Cheques:** It is a cheque to be presented by a customer as a gift to their relatives and friends on important occasions such as marriage, birthdays and other festival days. The bank issues gift cheques in different denominations.
- i) **Issues Stock Invest:** It is like a cheque issued by a banker to the customer to apply for getting shares and debentures. Under this scheme the customer gets interest till the date of allotment. The money would be transferred from customer account to the company's account only on confirming the allotment of shares or debentures. Banker issues stock invest after getting deposits for the required amount.
- j) **Provides credit card services:** To avoid the risk of carrying cash to different places the bankers issue credit cards. This card acts as an instrument of credit. Card holders may draw cash up to the specified limit from ATM centers and also use this card to purchase goods and get services.
- k) **Provides ATM service:** The Automatic Teller Machine has been started to save the banking time. Money can be drawn at any time at the specified centers.

## Co-operative Banks

The co-operative bank works on the principles of co-operation. The main function of co-operative banking is to link the farmers with the money markets of the country. The chart given below shows the structure of co-operative banks:

### Structure of Co-operative Banks



- a) **Primary Agricultural Co-operative societies (PACS):** It is the root of the credit structure. It is also called as village societies and the members belong to the related villages.

#### Functions:

- 1) It gives short-term and medium term loans to farmers.
- 2) It helps in distribution of fertilizers and seeds.
- 3) It helps in distribution of consumer goods to their members.
- 4) It helps in milk, egg, sugar production in the village.

- b) **Central Co-operative Banks (CCB):** It is the federation of all primary societies at the district level. Therefore it is also called as District co-operative central bank. It supervises, controls and finances the primary credit societies.

#### Functions:

- 1) It gives finances to primary credit societies.

- 2) It gives credit to individual customers on the basis of security.
- 3) It accepts deposit and pays higher rate of interest than commercial banks.
- 4) It helps in remitting money to their customers.
- 5) It helps in solving problems of primary co-operative societies.
- 6) It control and supervises the working of primary co-operative societies.

**c. State Co-operative Banks (SCB):** State Co-operative Bank is the federation of district Co-operative central banks. Each state has one state central co-operative bank. It is also called as Apex Bank in the three-tier structure.

**Functions:**

- 1) It co-ordinates the activities of primary and Central Co-operative Banks in the state.
- 2) It mobilizes deposits for the benefit of co-operatives.
- 3) It helps in maintaining a balance among Central Co-operative banks
- 4) It also functions as a commercial bank.

**d. Land Development Banks:** It was earlier called as Land Mortgage Banks. Its structure is not uniform in all the states. In some states it is separate, in some states it is federal. And in some state it is mixed.

**Functions:**

- 1) It gives long-term loans to agriculturalists for making improvements on the land, repaying old debts etc.,  
loans.
- 2) It gives loan to free the mortgaged land and to buy new land
- 3) It also grants loans to cottage and small industries in rural areas.

**INDIGENOUS BANKERS:**

Indigenous bankers are those who do not come under the control of RBI. For example money lenders, marvadis, chettiers, pawn brokers are known as indigenous bankers. They accept deposit and deal in Hundis (It is a credit instrument like promissory note.) The indigenous bankers rely on their own resources or borrow from one another to carry on their business. The following are their functions:

- 1) They receive deposits for a fixed period at a higher rate of interest.
- 2) They advance loans against security of and, jewellery, crops, goods promissory notes etc.

- 3) They write, sell and buy hundis, which are bills of exchange.
- 4) They finance both wholesale, and retail traders.
- 5) They engage in speculation of food and non-food. crops and other articles of consumption.
- 6) They act as commission agents to firms.
- 7) Some non-professional indigenous bankers run their own manufacturing or service firms
- 8) Some indigenous bankers provide long-term finance by subscribing shares and debentures of large companies.

The borrowers find it easy to get finance from indigenous bankers because of the following reasons:

- 1) Less formality.
- 2) No fixed banking hours.
- 3) Borrowers approach them directly and informally.
- 4) These types of bankers insist on punctuality of repayment of

### **RESERVE BANK OF INDIA**

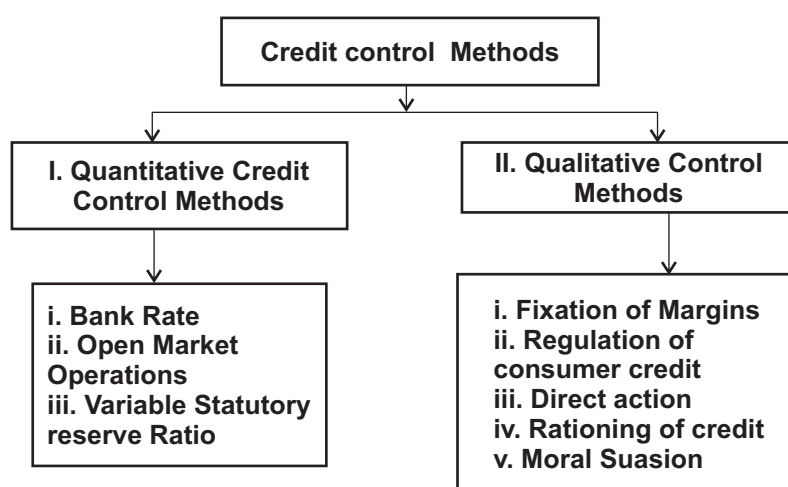
Reserve Bank of India was established in 1935. It is the central bank of India. The following are the main objectives of RBI :

- 1) To manage and regulate foreign exchange.
- 2) To build a sound and adequate banking and credit structure.
- 3) To promote specialized institutions to increase the term finance to industry.
- 4) To give support to government and planning authorities for the economic development of the country.
- 5) To control and manage the banking system in India.
- 6) To execute the monetary policy of the country.

### **Functions of RBI:**

1. **Issue of currency note:** RBI is the sole authority for the issue of currency notes in India except one rupee coin, one rupee note and subsidiary coins. These notes are printed and issued by the issue department.
2. **Banker to the Government:** RBI acts as the banker and agent of the government. It gives the following services:

- a) It maintains and operates the government cash balances.
  - b) It receives and makes payments on behalf of the government.
  - c) It buys and sells government securities in the market.
  - d) It sells treasury bills on behalf of the government.
  - e) It advises the government on all banking and financial matters such as financing of five year plans, balance of payments etc.,
  - f) It acts as the agent of the government in dealings with International Monetary Fund, World Bank International finance Corporations, EXIM Banks etc.,
3. **Bankers' Bank:** As per the Banking Regulation Act 1949, every bank has to keep certain minimum cash balance with RBI. This is called as Cash Reserve ratio. The scheduled banks can borrow money from the reserve bank of India on eligible securities and by rediscounting bills of exchange. Thus it acts as bankers' bank.
4. **Controller of Credit:** RBI controls money supply and credit to maintain price stability in the country. It controls credit by using the following methods:



#### Different methods of credit control:

1. **Quantitative Credit Control Methods:** In this method the central bank controls the quantity of credit given by commercial banks by using the following weapons.
  - i) **Bank Rate:** It is the rate at which bills are discounted and rediscounted by the banks with the central bank. During inflation, the bank rate is increased and during deflation, bank rate is decreased.
  - ii) **Open Market Operation:** Direct buying and selling of government securities by the central bank in the open market is called as open market operations. During inflation the securities are sold in the market by the Central Bank. During the deflation period, the central bank buys the bills from the market and pays cash to commercial banks.



- iii) **Variable reserve ratio:** Every commercial bank has to keep a minimum cash reserve with the Reserve Bank of India depending on the deposits of the commercial bank. During inflation this ratio is increased and during deflation the ratio is decreased.
2. **Qualitative Methods:** This is also called as selective credit control methods. The following weapons are used under this method:
- i) **Fixation of Margin :** Banker lends money against price of securities. The amount of loan depends upon the margin requirements of the banker. The word margin here it means the difference between the loan value and market value of securities. The central bank has the power to change the margins, which limits the amount of loan to be sanctioned by the commercial banks. During inflation higher margin would be fixed and during deflation lower margin would be fixed.
  - ii) **Regulation of consumer credit:** Customer gets this type of credit from bankers to buy goods and services immediately and pay for them later. It is therefore called as a shortterm debt given to purchase consumer durables. To regulate the credit, the down payment amount and maximum period of installments are changed to make the credit cheaper or costly.
  - iii) **Direct action:** To regulate the volume of bank loans the central bank may issue directives to the commercial banks from time to time. The directives may be in the form of oral or written statements or appeals or warnings. By means of these directives the RBI may decrease or increase the volume of credit.
  - iv) **Rationing of credit:** It is a method of regulating and controlling purpose for which credit is guaranteed by the commercial bank. It may be of two types.
    - a) **Variable portfolio ceilings:** In this method the central bank fixes a maximum amount of loans and advances for every commercial bank.
    - b) **Variable capital assets ratio:** In this method the central bank fixes a ratio, which the capital of the commercial bank must bear to the total assets of the bank. By changing these ratio the credit can be regulated.
    - v) **Moral Suasion:** This is a gracious method followed by RBI. In this method the RBI gives advices and suggestions to the bankers to follow the instructions given by it, by sending letters and conducting meeting of the Board of Directors.
5. **Custodian of Foreign Exchange reserves:** RBI controls the foreign exchange reserves and exchange value of the rupee in relation to other country's currencies. Currencies should be exchanged only with RBI or its authorized banks.
6. **Publication of data:** It collects data related to all economic matters such as finance, production, balance of payments, prices etc. and are published in the form of reports, bulletins etc.



7. **Bank of Central Clearance:** The central bank of India acts as a bank of central clearance in settling the mutual accounts of commercial banks. If there is no RBI branch to do this service, the State Bank of India discharges these functions.
8. **Promotional and Developmental Functions:** It provides finance for the development of Agriculture, industry and export. RBI also gives credit to weaker sections and priority sectors at concessional rate of interest. It takes an active part in developing organized bill market to provide rediscounting facilities to commercial banks and other financial institutions. It helps for the development and regulation of banking system in the country. The RBI has increased the banking facilities to the remote corners of the country through lead bank scheme. It has helped in promoting the financial institutions such as IDBI, IFCI, ICICI, and SIDBI etc.

### **INTERNET BANKING:**

Banking through Internet is called internet banking. It can also be called as electronic banking. Many banks have their own websites. They offer banking facilities such as account enquiry, request for statement and chequebooks etc., on the net. The introduction of Security First Network Bank (SFNB) in 1995 in USA is the first step in the development of Internet banking. These banks also provide ATM Card, a Visa cheque and Electronic bill payment facilities. For example, we can visit [www.onlinesbi.com](http://www.onlinesbi.com) to get the SBI's internet banking. This is available at certain designated Branches of SBI. We can access our account (s) at the host Branch through your Personal Computer, from our location. The following banking transactions can be done through the internet banking:

- ❖ access and view your account(s) to keep transactions and balance status.
- ❖ make account enquiry by transaction type/ between dates/by amount etc.
- ❖ request for transfer of funds between your account(s) at the host Branch.
- ❖ request for third party transfer of fund from your account(s) at host Branch.
- ❖ request for issue of cheque books.
- ❖ request for Stop Payment of cheque.
- ❖ request for issue of Drafts/Bank Cheques from the funds in your account.
- ❖ request for issue of Term Deposits/Special Term Deposits.
- ❖ request from renewal of Term Deposit Receipt / Special Term Deposit Receipt.
- ❖ issue Standing Instructions on your account.

### **ELECTRONIC FUND TRANSFER (EFT):**

The paper-based instruments such as cheque, draft, dividend and interest warrant processing and adjusting the accounts takes longer time. Using the computers

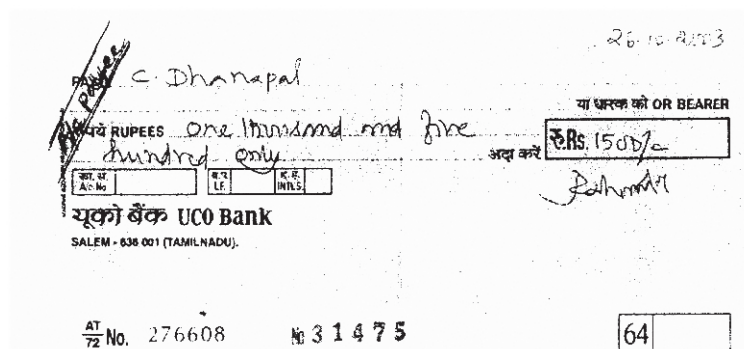
the settlement process is made fast by transmitting the information electronically. The use of data communications to transfer money among accounts is called as electronic fund transfer. EFT is a payment effected by communication of electronically transmitted message to his bank by a customer or a bank to another bank.

### EFT in India:

- 1) In 1995 the RBI has introduced Electronic Clearing System for the transfer of funds in Mumbai, Delhi, Calcutta and Chennai.
- 2) Floppy input clearing system was introduced in the banking industry in which the data are consolidated for settlement.
- 3) In 1997 RBI has introduced Electronic Clearing service for payment of electricity bills in Mumbai.

### CHEQUE:

A cheque is an easy and safe method of making payments to or withdrawing money from a bank. According to Negotiable Instruments Act 1881, "a cheque is a bill of exchange drawn on a specified banker payable on demand". There are three parties to a cheque:



1. **Drawer:** Is a person who writes the cheque and who orders the bank to pay the amount specified to the person named in the cheque.
2. **Drawee:** Is a bank on which the cheque is drawn and is ordered to pay the amount of the cheque.
3. **Payee:** Is the person to whom the cheque is payable. The drawer himself can be the payee also.

### FEATURES:

The following are the important features of a cheque:

- 1) An instrument in writing: A cheque is an instrument in writing.  
Writing in pencil is not allowed.

- 2) Contains an unconditional order: An order to pay the amount subject to the fulfillment of certain conditions is not a cheque.
- 3) Drawn on a specified banker: A cheque should be drawn on a specified banker. The name of the bank must be stated. Bank usually issues printed chequebooks to their customers. A cheque contains the name of the bank and place of the branch.
- 4) Certain sum of money only: The amount ordered to be paid by the banker must be certain and must be payable only in money.
- 5) Signature of the Drawer: The drawer should sign a cheque and that signature should resemble with the specimen signature.
- 6) Payable on demand: The amount stated in the cheque must be payable on demand. If demand is not made cheque need not be paid.
- 7) Payee to be certain: The person to whom the amount is to be paid must be certain. It may be made payable to a certain person or his order or to the bearer.

#### **MICR CHEQUE :**

MICR cheque is a modern form of cheque, which minimizes the human efforts and processing time (MAGNETIC INK CHARACTER RECOGNITION). It is a system that uses a special machine that types characters on the documents using ink containing iron oxide. These characters can be read by people as well as by a computer input devices. Magnetic Ink characters for bank identification number, customer account number and cheque number are preprinted on cheques. When a cheque is presented to the bank, the amount of the transaction is encoded before computer processing.

#### **Advantages of MICR cheque:**

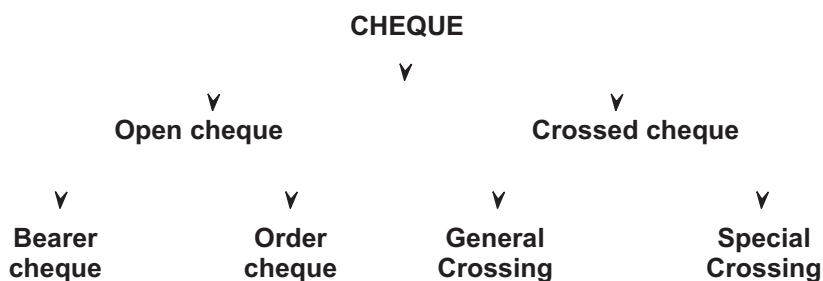
- 1) The clearing time for the cheques is considerably reduced.
- 2) The MICR characters are easily readable and as such it reduces errors.
- 3) Settlement between the banks is done fast and as such net position is quickly known.
- 4) It reduces the manual sorting and totaling work.

#### **Limitations of MICR:**

- 1) MICR cheques are expensive, as it requires superior quality paper and special ink.
- 2) Customers have to be educated in handling MICR cheques.
- 3) Counterfoils are not permitted in the chequebooks, which may cause inconvenience to customers.

## CROSSING OF CHEQUES-KINDS:

The act of drawing two parallel transverse lines on the face of the cheque is called crossing of cheque. A crossing is an instruction to a banker not to pay the cheque across the counter of the bank. It directs to pay to a bank only or to credit the amount to the account of the customer.



1. **Open cheque:** An open cheque is payable across the counter of the bank. It can be encashed at the counter of the bank. There are two types of open cheques:

i) **Bearer Cheque:** When a Cheque is payable to a named person mentioned in the cheque or the bearer thereof it is called a bearer cheque. For e.g., “**Pay Thangarasu or bearer**”.

ii) **Order cheque:** An order cheque is payable to the person mentioned in the cheque or his order, e.g., “**Pay Thangarasu or Order**”

2. **Crossed cheque:** A crossed cheque is one on which two parallel transverse parallel lines with or without the word “& Co”, “Not negotiable” etc are drawn. Crossing may be classified into two types namely:

i. **General crossing**

ii. **Special crossing.**

1) **General Crossing:** Where a cheque bears across its face an addition of the words, “and company” or any abbreviation there of, between two parallel transverse parallel lines, either with or without “Not negotiable” that addition shall be deemed to be crossed generally. The various forms of general crossing are shown below:

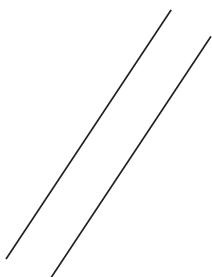


Fig.1.

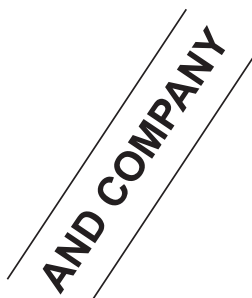


Fig.2.

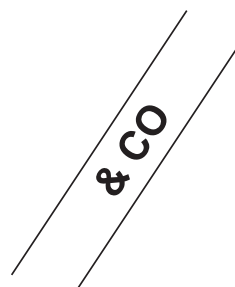
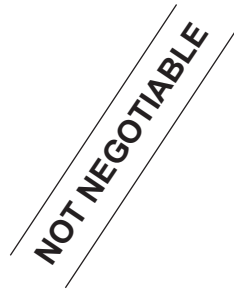



Fig.3.



NOT NEGOTIABLE

Fig.4.



A/C PAYEE

Fig.5.

### Significance of general Crossing:

1. When a cheque is crossed generally the banker should not pay the amount across the counter. The paying banker is directed to make payment through a banker.
2. The receiver of the amount of the cheque can be easily traced in case the cheque is lost or stolen, and collected. Thus the crossing assures safety.

For example, Suppose Thangarasu receives a crossed cheque for Rs.5, 000 drawn on State Bank of India, Salem:

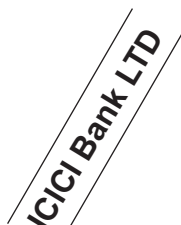
- a) If he goes to State Bank of India and demands money, he will not be paid.
- b) If he has account with state bank of India, Salem, he may instruct the banker to credit his account with the amount of the cheque. He can withdraw money at any time.
- c) If he has an account with another bank he sends the same for collection and gets his account credited after collection.
- d) If he has no account in any bank he can collect it through a person having an account in the same bank or any other bank.

**2. Special crossing:** When the name of the banker is written on the face of the cheque it is called special crossing. "Where a cheque bears across its face an addition of the name of a banker with or without the words, not negotiable that addition shall be deemed to be crossed specially and to be crossed to that banker" It should be noted that in special crossing two transverse parallel lines are not necessary. The various forms of special crossings are shown below:



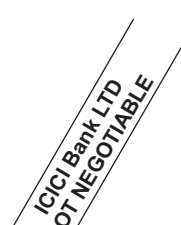
ICICI Bank LTD

Fig.1.



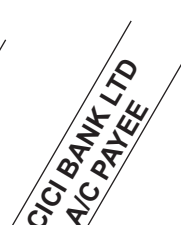
ICICI Bank LTD

Fig.2.



ICICI Bank LTD  
NOT NEGOTIABLE

Fig.3.



ICICI BANK LTD  
A/C PAYEE

Fig.4.

### **Significance of special crossing:**

1. In this case the paying banker should pay the amount only to the banker whose name is stated on the face of the cheque or to its agent for collection. This method of crossing is safe.
2. Suppose a person issues a cheque on the state bank of India, Salem in favour of Thangarasu for Rs.5, 000 with the name of the ICICI bank Ltd. written on it. It means that the paying banker (the State Bank Of India, Salem) must pay the amount to the ICICI Bank Ltd., or to its agent.

**Not negotiable crossing:** When the words “Not Negotiable” are added either to general crossing or special crossing, the cheque loses its negotiability. The transferee of such a cheque cannot secure a better title than that of the transferor even if he takes it in good faith and for consideration. If the transferor has defective title the transferee also gets the same defective title. It is like a stolen pen, the receiver of which does not get a better title than that of the thief.

**Account Payee crossing:** The addition of the words “A/C Payee”, “A/c Payee only”, “Payees Account only”, “A/C Thangarasu” to the general or special crossing gives direction to the collecting banker to collect the cheque and credit the proceeds to the account of the payee only. It is also called restrictive crossing. Even if a cheque is stolen or lost, it is difficult for any one to collect the cheque. The reason is that a banker will not collect the cheque unless a customer has an account in it.

## **ENDORSEMENT**

### **MEANING**

Endorsement means writing the name of a person on the back of a negotiable instrument. A person entitled to get money on a negotiable instrument like a cheque can transfer his right to another by signing on the back of the instrument. The person who endorses the instrument is called endorser and the person to whom it is endorsed is called endorsee. Section 15 of the Negotiable Instruments Act of 1881 defines endorsement as:

“When the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto, he is said to have endorsed the same and is called endorser”

## KINDS OF ENDORSEMENT:

There are various kinds of endorsements. They are:

1. **Endorsement in blank:** If the endorser signs his name only without mentioning the name of the person to whom the negotiable instrument is transferred, the endorsement is called endorsement in blank. In this case the endorser signs his name only. He does not state the name of the endorsee. So the amount stated in the instrument is payable to the bearer.
2. **Endorsement in full or special endorsement:** If the endorser directs that the amount stated in the instrument is to be paid to certain person or to his order, and then the endorsement is called the endorsement in full. It is also called as special endorsement.

For example : "Pay to L.Rajan or order"

3. **Restrictive endorsement:** If the endorser restricts further transfer of the bill, the endorsement is called restrictive endorsement. For example : "Pay to L.Rajan only"
4. **Conditional endorsement:** If the endorser imposes a condition for the transfer of the right to receive money on the instrument, it is called conditional endorsement. In this case the endorsee secures the right to receive the amount on the fulfillment of the conditions stated in the instrument. For example : "Pay to L.Rajan if he returns from US within two months".
5. **Sans recourse endorsement:** If the endorser endorses the instrument in such a way as to escape from his liability in the case of dishonour, the endorsement is called "Sans recourse endorsement". Sans recourse means "without recourse to me." The words sans recourse are written after the endorsement. The endorsement is as follows: For example "Pay to L.Rajan" Sans recourse.
6. **Facultative endorsement:** If the endorser waives the right of receiving the notice of dishonour, the endorsement is called "Facultative endorsement". The endorsement is as follows: For example "Pay to L.Rajan, notice of dishonour waived".

## DISHONOUR OF CHEQUE

It is the statutory duty of the banker to honour cheques drawn on him by the customers. If the banker dishonours or fails to pay a cheque without sufficient reasons, he will be liable to pay damages to the customers. So a banker must not refuse payment without proper and valid reason. He is not bound to honour a customer's cheque under certain circumstances. The following are the circumstances under which a banker can refuse payment of the cheque issued by his customer:

1. **Countermanding of payment by drawer:** The customer may ask his banker not to pay a particular cheque issued by him. This is called as countermanding or stopping the payment.
2. **Notice of customer's death:** When a banker receives notice of customer's death or comes to know it, the banker should not Pay the cheques issued by his customer prior to his death. The banker should return such cheques with the remark "drawer deceased".
3. **Insanity of the customer:** When a banker receives notice of insanity of his customer or comes to know of it, the banker should not pay the cheques drawn by the insane customer.
4. **Insolvency:** When a banker comes to know that customer has become insolvent he should not honour the cheques.
5. **Court order:** When a bank receives the order from the court attaching the money belonging to the customer, the banker should not honour the cheques. This court order is called as Garnishee Order.
6. **Notice of assignment:** When a banker receives notice that his customer has assigned the credit balance in the account to another, the banker should not honour the cheques.
7. **Knowledge of breach of trust:** When a banker comes to know that the customer operating the trust account misuses the funds against the rules of the trust, he should not honour the cheques.
8. **Knowledge of defect in the title of the holder:** When the banker believes that the person presenting the cheque is not the real owner, he should not honour the cheques.
9. **Insufficient fund:** If sufficient money is not available in the account of the customer the banker should not honour the cheques.
10. **Post dated cheque:** If a cheque contains a future date, the banker should not honour the cheque.
11. **Stale cheque:** If a cheque is in circulation for more than six months, it is recorded as stale cheque or out-of-date. The banker should not honour the cheques.
12. **Signature difference:** If there is any difference between the actual signature of the drawer on the cheque and his specimen signature, the banker should not honour the cheques.
13. **Irregular endorsements:** If the endorsement is not in the proper order, the banker should not honour the cheques.



- 14. Words and figures differ:** If the amount stated in words is different from the amount stated in figures, the banker should not honour the cheques.
- 15. Alteration:** If there is alteration of the cheques and such alteration is not conformed by the drawer by putting his full signature, the banker should not honour the cheques.
- 16. Form of the cheque:** If a cheque is not properly drawn, the banker should not honour the cheques.
- 17. Drawn on another branch:** If a cheque is presented for payment at a branch other than the one where the account is kept, the banker should not honour the cheques.

### **AUTOMATIC TELLER MACHINE (ATM)**

An ATM is a device located on or off the bank's premises to receive and give out cash round the clock. It is a specialized terminal connected to a bank's central computer via public telephone network. ATMs allow access to a range of banking transactions by inserting a magnetic strip plastic card containing account details and keying in a personal identification number.

#### **Advantages of ATMs to customers:**

1. It gives round the clock service and thereby banking time is saved.
2. Service is quick and efficient and free from errors.
3. On net working the cardholder can access cash and services at any place.
4. Funds can be transferred easily to any branch of the banks
5. Withdrawals can be made at any time and hence it can be called as anywhere banking facility.



### **Advantages of ATMs to Bankers:**

1. Crowd at the bank counter is considerably reduced.
2. It is an alternative to extend banking hours avoid opening new branches and therefore the operating expenses are reduced.
3. Help bank employees to focus on the analytical and innovative work.
4. It increases the volume of banking business by placing ATMs at the central places.
5. It avoids the cash transportation and cash handling.

### **CREDIT CARD**

A credit card is a small plastic card issued by a bank to his customer. The name, account number of the holder and the validity period of the card are marked on the card. It also bears the specimen signature panel on the reverse of the card. A cardholder is also given the list of shops and establishments in each city where cards are accepted. The cardholder is also informed about the limit up to which he can make purchases in a month.



When a cardholder purchases goods from the listed shop or uses the services of listed establishments, they verify the validity of the date, the cardholder's identity and credit limit.

Then credit card voucher is prepared which shows the details of purchases or services availed. In the voucher the image of the card is transferred by means of imprinter and the signature of the cardholder is obtained. These slips are presented to the issuing bank and after verification the account of the cardholder is debited. Then the issuing bank requests the cardholder to make payment within the specified time, say 10 to 15 days.

Some of the banks allow cash withdrawals also. For this service the cardholder has to pay service fee. Now, ICICI bank charges 2.95% per month as interest for cash withdrawals. Bank service charges varies from bank to bank.

## QUESTIONS:

### I. Multiple Choice:

1. Bankers are not only dealers of money but also leaders in
  - a) Economic development
  - b) Trade development
  - c) Industry development
  - d) Service development
2. A bank, which occupies a central position in the monetary and banking system of the country and has a superior financial authority, is
  - a) Central Bank
  - b) Commercial Bank
  - c) Exchange Bank
  - d) Co-operative bank.
3. When money is deposited for a fixed period it is called
  - a) Fixed deposit
  - b) Savings deposit
  - c) Recurring deposit
  - d) current deposit
4. Bankers are called as manufacturers of
  - a) Money
  - b) Loans
  - c) Deposits
  - d) Overdrafts
5. A cheque in circulation for more than six months is called
  - a) Stale cheque
  - b) Post dated cheque
  - c) Ordinary cheque
  - d) crossed cheque

**Answers:** 1. a                      2. a                      3. a                      4. a                      5. a

### II. Fill in the blanks:

1. Banks are necessary for the effective implementation of \_\_\_\_\_ policy.
2. Banks accept deposits and \_\_\_\_\_ money.
3. \_\_\_\_\_ banks deal in foreign exchange and specialize in foreign trade.
4. \_\_\_\_\_ banks are included in the second schedule of RBI.
5. \_\_\_\_\_ is an arrangement by which a bank allows his customer to borrow money up to specified limit.
6. An \_\_\_\_\_ cheque is payable to the person mentioned in the cheque or his order.
7. Addition of the words \_\_\_\_\_ directs the banker to collect the cheque and credit the proceeds to the payee's account.
8. \_\_\_\_\_ means writing the name of a person on the back of a negotiable instrument.

**Answers:**

- |                    |                |                 |
|--------------------|----------------|-----------------|
| 1. Monetary policy | 2. Lend        | 3. Exchange     |
| 4. Scheduled       | 5. Cash credit | 6. Order cheque |
| 7. Account payee   | 8. Endorsement |                 |

**III. Match the following**

- |                                   |                                   |
|-----------------------------------|-----------------------------------|
| 1. Industrial Bank                | - (a) RBI                         |
| 2. Central Bank                   | - (b) ICICI                       |
| 3. Open Market Operations         | - (c) Qualitative credit Control  |
| 4. Regulations of Consumer Credit | - (d) Quantitative credit Control |
| 5. Account payee                  | - (e) Stop payment order          |
| 6. Countermanding                 | - (f) Restrictive Crossing        |
| 7. ATM                            | - (g) Banking through Internet    |
| 8. Internet Banking               | - (h) Cash round the clock        |

**Answers:** 1. b 2. a 3. d 4. c 5. f 6. e 7. h 8. g

**IV. Short Questions**

1. What is a bank?
2. List the various types of deposits accepted by banks.
3. Lists the main types of banks.
4. What do you mean by indigenous banker?
5. List the credit control methods of Reserve Bank of India
6. Give the meaning of Internet banking.
7. What do you mean by Electronic Funds transfer (EFT)?
8. Define the term Cheque.
9. What do you mean by MICR cheque? Give its uses.
10. What do you mean by Endorsement?
11. What do you mean by ATM? What are its uses?
12. What do you mean by credit card? What are its uses?

## **V. Paragraph Questions**

1. Explain the need for banking.
2. Give the primary functions of a commercial bank.
3. Narrate the secondary functions of commercial bank.
4. Explain the structure of co-operative banks.
5. Give the features of a cheque.
6. Distinguish between restrictive endorsement and conditional endorsement.
7. What are the differences between fixed deposit account, savings deposit account and current deposit account?

## **VI. Essay Type Questions**

1. Explain the various types of banks.
2. Explain the functions of commercial banks.
3. Explain the functions of Reserve bank of India.
4. Explain the different types of crossings. Give their significance.
5. Explain the different types of endorsement.
6. Give the circumstances under which the banker can refuse payment for the cheque issued by his customer

## **CHAPTER - 8**

# **INSURANCE**

### **Introduction**

Every business is exposed to different types of risks such as fire, theft, burglary, accident, etc., Some of the risks can be transferred to specialised institutions known as Insurance companies. Insurance is nothing but socialisation of risks. Insurance companies indemnify the loss of the insured.

### **Necessity of Insurance**

Insurance is the best protection against risks attached to business, property and life. Business involves many risks. There is always the danger of goods being damaged or destroyed while they are on transit or when they are kept in godowns. This loss arising on account of fire accident, theft, etc., is reduced largely by gathering the goods insured. Like business, human life is also exposed to many risks, A family generally depends on the income brought in by the bread winner, but when a death suddenly occurs, the family may be left in very difficult situation. Uncertainty is inherent in human life. Insurance substitutes this uncertainty by providing financial compensation.

### **Meaning**

Insurance is based on principles of co-operation. The losses of a few are shared by many. An insurance company, otherwise called the insurer organise this co-operative effort. Insurance is a contract between the insurer and the insured under which the insurer undertakes to compensate the insured for the loss arising from the risk insured against. In consideration the insured agrees to pay premium regularly. The person whose risk insured is called the insured or assured. The person who agrees to compensate the loss arising from the risk is called the insurer or assurer or underwriter.

### **ASSURANCE**

The term 'Assurance is applied to contracts, where the risk insured against is certain to happen, but the time of its happening is uncertain. Thus the risk insured against death is contract of assurance. Technically speaking a life insurance may be called as "Life Assurance".

### **DISTINCTION BETWEEN INSURANCE AND ASSURANCE**

The basic principles of insurable interest and utmost good faith apply equally to all classes of insurances. Life Assurance differs, from other forms of insurance in the following ways.

S.No	INSURANCE	ASSURANCE
1.	Loss due to risk is not certain to happen which may or may not take place.	Each person has to die sooner or later. So loss due to risk of death is certain.
2.	This is a contract for a short period (one year)	But it is a long term contract (for 15 years or more)
3.	Value of subject matter can be easily determined	It is difficult to determine the value of human Life which is the subject matter of contract.
4.	It is the contract of indemnity	It is not a contract of indemnity
5.	When the insurer compensates the loss suffered by a person, he acquires the right and remedies available to that person	This does not apply here.

## PRINCIPLES OF INSURANCE

A contract of insurance is a mercantile contract. All the principles applicable to mercantile contracts are applicable to contracts of insurance. Further there are special principles applicable to contracts of insurance. They are;

### 1. Insurable Interest

Insurable interest is necessary for a valid contract of insurance. Insurable interest must be a pecuniary interest. A person is said to have insurable interest in a property, as to have benefit from its existence and prejudiced by its destruction. Insurable interest is not to be presumed from the existence of mere relationship. But the pecuniary interest must be proved.

#### Example

1. A person has insurable interest in his own life and in the life of his spouse
2. A house owner has insurable interest on his house upto the full value of his house property.
3. A mortgagee acquires insurable interest on a property pledged upto the amount lent.
4. A creditor has insurable interest in the life of the debtors.

The time when insurable interest should exist differs according to the nature of insurance. In life assurance the assured should have insurable interest at the time the contract was entered to. In marine insurance it should be at the time of loss but in fire insurance insurable interest must exist not only at the time the contract was entered into, but also at the time of loss.

## **2. Utmost good faith**

A contract of insurance is a contract of utmost good faith. The principle of disclosure of all material facts should be followed. In a contract of insurance, the proposer is bound to make full disclosure of all facts (Material or otherwise). Misrepresentation, non-disclosure or fraudulent misrepresentation in any document leads to disowning the insurer from all liabilities under the contract. No policy can be challenged after two years on the basis above reasons. But this provision is not applicable, if the insurer proves that misrepresentation or non-disclosure of material facts has been willfully done by the insured, with a view to defraud the insurer. It is equally obligatory for the insurer to observe utmost good faith and provide all facts to the insured.

## **3. Indemnity**

‘To indemnify’ means ‘to make good the actual loss suffered’. The principle of indemnity is applicable to property insurance alone. Insurance contract are contracts of indemnity. This means that the insured should be placed after a loss, in the same position as he was immediately before the loss. This principle ensures that the insured does not make any profit out of the insurance. In the event of total loss, the insurer pays the actual loss or the sum insured whichever is less. Under no circumstances the insured can get more than the actual loss.

### **Example**

If a person insures Rs.6,00,000 lakhs worth of building for Rs.4,00,000 lakhs against fire and fire occurs and he incurs a loss of Rs.2,00,000/- he can get Rs. 2,00,000/- only from the insurance company. If the loss due to fire exceeds Rs. 4,00,000 lakhs, he cannot get actual loss on compensation but only Rs. 4,00,000 lakhs (Subject to average clause). The principle of indemnity does not apply to life and personal accident insurance.

## **4. Proximate cause**

Proximate means nearest. It is only the nearest reason and not the remote reason is the factor to be taken into account. The insurer is liable only if the nearest cause comes within the meaning of risk insured.

## **5. Contribution**

Where a property is over insured by double insurance, each insurer is bound as between himself and other insurers, to contribute ratably to the loss, in proportion to the amount for which he is liable under his contract with the insured.

## **6. Subrogation**

The principle of subrogation is referred as stepping into the shoes of others. Subrogation means transfer of rights and remedies of the insured to the insurer after the indemnity has been effected. According to this principle, after the insured is



compensated for loss, the right of ownership of such damaged part of the property passes to the insurer. If the insured has any right of act against third party and can claim damages from that party, the benefit of recovery of compensation shall be transferred to the insurer. Eg., if a car belonging to Mr. Sanker is damaged due to the negligence of Mr. Raja, and Mr. Sanker is fully compensated by the insurer, the insurer can sue Mr. Raja. In this case, Mr. Sanker cannot sue Mr. Raja to recover any compensation.

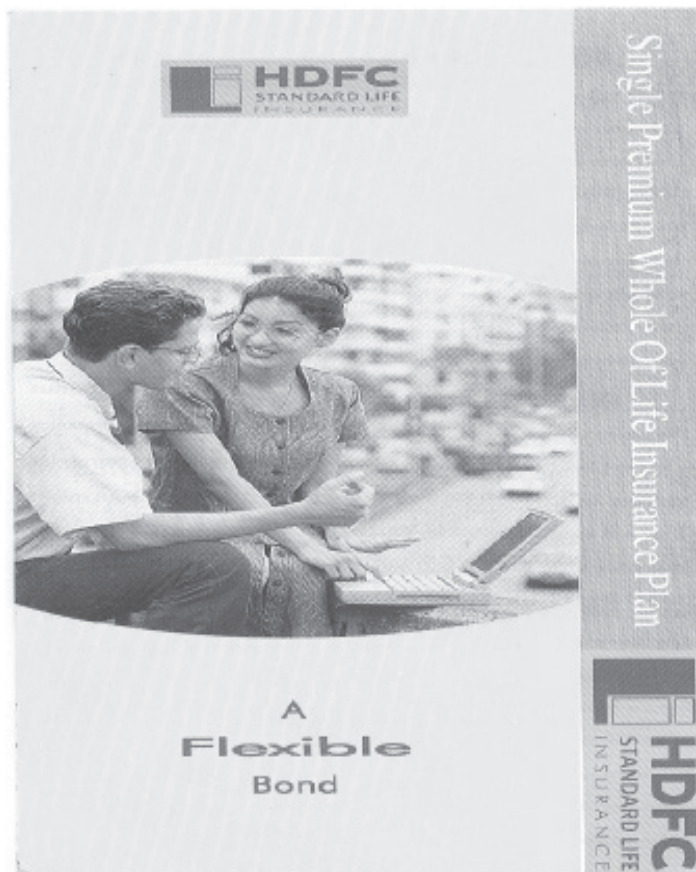
## FORMS OF INSURANCE

The insurance can be broadly divided into two categories, they are explained below.

1. Life insurance
2. General Insurance

### 1. Life Insurance

Life insurance contract may be defined as the contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period whichever is earlier. The definition of Life insurance contract is explained in Insurance Act, 1938 by including annuity business.



**Life Insurance policy**

## **Features of Life Insurance**

In Life Insurance and in accident insurance, the principle of indemnity is not involved, the value of life is incapable of estimation and except in a limited sense cannot 'be made good' by insurance. Therefore, Life Insurance is not a contract of indemnity. There is no question of actual loss in it. Consequently the question of proof of actual loss does not arise, whether the assured suffered any financial loss or not. The insurer must pay the policy amount on the maturity of the policy. A person can take any number of policies of any amount on his own life. There is no limit in law.

In life Insurance policy, the insurer has to pay the insured amount one day or other, because the death of assured or his attaining a particular age is certain to happen.

## **Kinds of Life Policies**

The life insurance contract provides elements of protection and investment. After getting insurance, the policy - holder feels a sense of protection because he shall be paid definite sum at the time of death or maturity.

The life insurance policies can be divided on the basis of

1. Duration of Policy
2. Method of Payment of Premium
3. Participation in profit
4. Number of lives covered
5. Method of Payment of Claim amount

### **1. On the basis of duration of policy**

The life insurance policies according to the duration may be whole life policy and term Insurance policy

#### **a. Whole Life Policy**

In whole life policy the sum assured is payable to the legal heir only on the death of the assured. It is to protect and support the family of the assured after his death. Under this scheme, premium may be payable throughout the life of the assured or for a limited number of years.

#### **b. Term Policy**

This policy covers the risk only, during a particular period. The sum assured is payable only if death happens during the term. Under this policy premium rate is lower than any other policy. Now a days in order to attract more people, policies are issued with the condition that the premium paid will be returned after the term is over, if death does not occur.

## **2. On the basis of payment of Premium**

The policies according to the payment of premium may be of the following types are : Single Premium policy and Limited payment whole life policy.

## **3. On the basis of participation in Profits**

Policies according to participation in profits may be Without profit policies, With profit policies.

## **4. On the basis of number of persons insured**

On the basis of number of persons insured in a policy, the policy may be:

- a) Single life policy
- b) Multiple life Policy
- c) Joint life Policy
- d) Last Survivorship policy

## **5. On the basis of method of payment of claims**

- a) Lump-sum policies
- b) Instalment or Annuity Policies

There are other life insurance policies which are as follows :-

### **i) Money Back policy**

This policy is more suitable for a person who is taking a career. Under this policy a certain percentage of the sum assured is paid periodically according to the terms of the policy.

### **ii) Children's Deferred Assurance (C.D.A)**

Minor children cannot enter into insurance contract by themselves. Under this policy, parent or guardian takes the policy on the life of the child. The proposer pays the premium. The Premium rate will be low. This policy develops thrift among children.

### **iii) Group insurance policy**

Group insurance is a plan of insurance, which provides coverage to a number of persons under one contract. Group insurance is available to the following groups.

#### **a) Employer - Employee groups**

Here employer takes out a master policy for the benefit of his employees. The master policy is in the name of the employer or a trust formed to administer the scheme.

## **b) Labour Union Group**

A master policy is taken out by any trade union for the benefit of its members. The cost is met from the Union's fund.

## **c) Creditor - Debtor Group**

The master policy is taken by the creditor to cover the outstanding amount of loans granted to debtors. In case of death of a debtor the claim amount can be applied towards the repayment of loans outstanding in his name.

Generally in life insurance, policies may be with profit or without profit. In case of With Profit policy, the assured not only gets the policy amount on maturity but also a share in the profits of the insurer called 'bonus'. But in case of Without - Profit policy, the policyholder gets only the policy amount on maturity. The premium rate is lower for this policy, compared 'With - Profit Policy'.

## **Surrender value**

The surrender value is the cash value of the policy which is payable to policyholder if he decides to terminate the contract. This surrender value is usually obtained from the paid-up value by applying a percentage factor. This percentage factor will vary according to the plan of assurance, the original term of the policy and the duration elapsed since the commencement of the policy. The surrender value is the amount of premiums paid which is returned to the policyholder at the time of surrendering the policy.

Normally no surrender value is paid if the policy lapses within two or three years of its issue because of expenses involved during the inception of the policy. In India, the policy can be surrendered for cash after the premium have been paid for atleast two years or to the extent of one-tenth of the total number stipulated in the policy, provided such one-tenth exceeds one year premium.

## **Nomination**

A policyholder would like that in the case of the death, the policy money should not be held up for want of succession certificate or letters of administration. This would take much time and cost. This problem can be solved by effecting nomination or assignment of life insurance policy in the name of any one in his family or relatives. Section 39 of the Insurance Act, 1938 has regulated nomination of life policies to enable the policyholder to seek prompt payment of claim in the event of his death.

According to Section 39 of the Insurance Act, 1938, nomination is the process of appointing or nominating a person or persons by the insured, to receive the payment of the policy, in the event of death. The person who is authorised to receive the payment of the policy is called nominee. If the policy matures by expiry of time, the policy amount is payable to the insured himself and not to the nominee.

The nomination can be done only by the insured. If a policy is insured on the life of another person on a proposal made by a third person, such a proposer is not entitled to make a nomination. It enables the insurer to know in advance to whom he should make the payment of claim in the event of death of the insured. Further, the nominee need not obtain a letter of administration from the court to claim the policy money.

## **General Insurance**

General Insurance business means “fire, marine or miscellaneous insurance business whether carried on single or in continuation with one or more, but does not include redemption business and annuity business” From the above definition general Insurance include all different types of insurance except life insurance.

- 1) Fire Insurance
- 2) Marine Insurance
- 3) Burglary Insurance
- 4) Mediclaim Insurance
- 5) Crop Insurance
- 6) Motor Vehicle Insurance
- 7) Third Party Insurance
- 8) Medical Insurance or Mediclaim

### **1. FIRE INSURANCE**

The object of fire insurance is to indemnify the insured against loss from fire.

#### **Fire Insurance is a personal contract**

A fire insurance contract does not ensure the safety of the insured property. Its purpose is to see that the insured does not suffer pecuniary loss from the insured property due to fire. If the insured property is transferred to another person, the contract of insurance comes to an end. It is not connected with the subject matter of insurance. Thus fire insurance is a mere personal contract between the insurer and the insured.

If the loss is due to ‘fire’ within the meaning of the policy, it is immaterial about the cause of fire and the insurer is liable to indemnify the insured. In the absence of fraud, the proximate cause of the loss only is to be looked into.

#### **Material facts and the proposal form**

The proposer is required to give information relating to his name, address and occupation, the description of the subject matter to be insured, for the purpose of identifying it. The description of subject matter of insurance must be quite adequate. As and when a claim arises the burden will be on the insured to prove that the property

damaged is the property insured with reference to the description given in the proposal form.

Apart from the question in the proposal form, the proposer should disclose the following:

- a) Any information which would indicate the risk of fire to be above normal i.e., probability.
- b) Any fact which would indicate the insurer's liability may be more than what may normally be expected.
- c) Any information related to the moral hazard involved.

**Example:**

A retail shop in which provisions, newspapers and confectionery were usually sold. The shop was insured against fire and explosion. During festival season, quantities of crackers and sparklers were kept in a tin box. Fire originated in the tin box and there was explosion damaging the shop and the contents. It was held that the insurer was not liable, as the insured had failed to disclose that he would store crackers and sparklers during the festival season.

Fire insurance can be taken in respect of movable and immovable properties. The insured must have insurable interest in the property at the time the contract was entered into and also at the time of loss.

**Kinds of Fire Policies**

**A) Floating Policy**

It is a policy covering stock in different places within the limits of one city / town / village by charging 25% of premium over and above the highest rate applicable to any one risk. The goods should belong to a single owner. No floating policy can be issued in respect of immovable property.

**B) Declaration Policy**

Declaration policies may be granted only in respect of own stocks of the insured or which are in the insurer's custody. Generally levels of stock will vary frequently depending on purchases and sales. The owner takes a policy for a stated sum (Maximum expected level) and premium is paid. Every month the owner declares the level of stock to the insurance company. At the end the premium is adjusted accordingly.

**C) Reinstatement Policy**

This policy is also known as new or old policy. This policy is issued in respect of building, plant and machinery, furniture and fixtures and fittings only. Under the reinstatement policy the payment to be made is the cost of reinstatement of the building or the cost of replacement of the machinery to a condition equal to prior to loss.

The damaged property is replaced by a new property. If due to technical improvement the replaced machinery is better than the damaged machinery (e.g, output is increased with the less consumption power) the insured is obliged to bear a part of the cost of the new machinery to ensure that he does not derive any undue benefit.

## **2. MARINE INSURANCE**

Marine insurance is the most important and challenging branch of insurance. It has developed over many countries. Under this, the insurer undertakes to indemnify the insured against marine losses.

The principles of utmost good faith, indemnity, insurable interest and proximate cause, will apply to marine insurance. But insurable interest is present at the time of loss of the insured property.

### **Kinds of Marine Policies**

Marine Policies are of different types. They are divided on different basis. Some of them are discussed briefly.

#### **On the basis of the subject matter policies are classified into**

- a) Cargo Insurance
- b) Hull Insurance
- c) Freight Insurance
- d) Liability Insurance

#### **a) Cargo Insurance**

The cargo may be of any description, e.g., wares, merchandise, property, machinery, goods etc., This branch deals with insurance of goods while in transit by ship. It provides protection against various risks, such as fire, explosion, collision, theft, cyclonic storm, jettisoning etc.,

#### **b) Hull Insurance**

Hull insurance mainly deals with the insurance of ocean going vessels, fishing vessels, yachts, dredgers and builders risks when a ship is under construction. This policy covers risks of fire, collision, storm, stranding and liabilities against third parties.

#### **c) Freight Insurance**

Freight is payable for the carriage of cargoes or if the vessel is chartered, hiring charges is payable. The carrier will lose the freight if the cargoes (goods) are not delivered at the destination. In that case, the insurance company covers the risk of freight loss.

#### **d) Liability Insurance**

This may include liability arising out of hazards such as collision, running a ground, damages to harbour etc. Insurance can also be taken for the expenses involved in non-compliance of rules and regulations (without any intention to deceive)

**On the basis of duration, policies may be classified as follows:**

##### **a) Time Policy**

Time Policies are specific as to the period. In this policy the period or time covered by the insurance is to be specified. As per section 27(2) of Marine Insurance Act 1963, a time policy, which is made for a time exceeding 12 months is invalid. Hence, a time policy is only for a period upto 12 months.

##### **b) Voyage Policy**

Under this contract, insurance is made for the duration of a particular voyage. This will cover the distance between the port of destination and the port of departure

**Example:**

A voyage policy may cover the distance between Chennai and Singapore. It may also prescribe a time limit within which the voyage must be completed. But the majority of the policies cover, specified voyage without any time limit.

**On the basis of terms**

##### **a) Construction or Builders Risk Policies**

These policies are against the risks of incidental to the construction of the vessel from the time of laying the keel for the vessel till the same is delivered after test voyage. This type of policy may also be effected when a vessel is undergoing repairs and is in dry docks.

##### **b) Port Risks Policies**

The policy covers all types of risks to the ship and its cargo while the ship is at a particular port. It covers any loss at the harbour from the time the ship arrives at a port, till it commences its own voyage.

##### **c) Floating Policies**

Under this policy, the insured need not declare anything specifically about shipments. It provides a continuous insurance protection automatically, during the period for which the policy is issued.

##### **d) Open Cover policies**

This is an arrangement for granting unbroken and automatic protection to the despatches involved in a stated period of time. The mutual obligation being for the



insured to declare all shipments and for the insurer to grant cover for all such shipments. The open policy covers the shipments during specified time on a world wide basis i.e., anywhere to anywhere basis.

### **3. BURGLARY INSURANCE**

Burglary insurance falls under the classification 'Insurance of property.' In a burglary policy, the loss of household goods and personal effects due to theft, burglary, house-breaking and acts of such nature are covered. The actual loss is compensated. The words, 'burglary, 'house breaking', 'theft' are clearly defined in the policy itself. Burglary insurance is becoming popular.

#### **Types of Policy**

##### **a) Burglary - Business Premises' - Insurance Policy**

Business premises are generally covered from the risks of burglary and house breaking only. Mere theft without the use of force and violence is not covered. Policies issued to "business premises' cover stock-in- trade, goods held in trust, fixtures and fittings, etc., against the risks of burglary and house - breaking.

##### **b) Burglary - 'Private Dwellings' - Insurance Policy**

These policies cover theft risk also in addition to burglary and house - breaking risks. The total contents are to be insured for their full value. Under this, one policy may be issued for (a) furniture and house hold goods and personal effects and another for (b) jewellery and valuables.

##### **c) Jewellery and valuable Insurance Policy**

These policies cover the loss of jewellery and valuables. But cover is not operative while the jewellery adorns on the body of a person and loss arising whilst jewellery being worked upon.

##### **d) All risks Insurance Policies**

All risks insurance policy seeks to cover loss or damages by fire or burglary or theft or by any other accidental or fortuitous circumstances. This policy is specially suitable for Jewellery, valuables, works of art, paintings and other similar articles.

### **4. MEDICAL INSURANCE OR MEDICLAIM POLICY**

Under the scheme of mediclaim, the insurance companies pay for the insured hospitalisation, domiciliary hospitalisation, intensive care, surgery and other related medical expenses. With a small annual premium, the insured can avail of all mediclaim benefits upto limits specified in the policy. The premium rate depends on the category and the scheme has to be selected by the insured.

## **Types of Mediclaim Policy**

Under mediclaim, insurer offers two schemes to the insured they are,

1. Mediclaim with Personal Accident Insurance
2. Mediclaim without Personal Accident Insurance

The maximum benefit under scheme A is Rs.1, 50,000/- and scheme B is Rs.96, 000/-. The policy is issued to all Indian citizens. Income tax benefit is available on the amount of premium paid annually. Mediclaim policy is a boon to middle and low-income group families. Nowadays, medical and surgical expenses are increasing. One finds it difficult to meet the mounting hospital expenses. This scheme is becoming popular in India in recent times.

## **Privatization of Insurance**

Public enterprises in any country cannot perform all the economic and business activities efficiently. Even in a socialist country, public enterprises in all the fields cannot discharge their full responsibilities. Complete nationalisation will lead to serfdom and anarchism.

Now we are living in competitive world, public enterprises will have to compete with the private enterprises. If any public enterprise is found sick or weak it may be replaced by private enterprise with efficiency and productivity.

Liberalisation of the Insurance sector commenced with the setting up of the Insurance Reforms Committee by the Government of India in 1993. Among other things, the Committee recommended that private insurers be allowed to co-exist along with the government companies like Life Insurance and General Insurance Corporation of India. The move towards allowing private sector into insurance is motivated by prospective gains in efficiency, customer service and general awareness of insurance operations in the country. It will also ensure a greater mobilisation of funds required for the development of infrastructure. The need for liberalisation and private sector entry can be substantiated by the following points.

## **Need for privatization**

Need for privatization of insurance may be judged from the following grounds. A large number of public enterprises and their size and variety have given complex problems. Some of them are on account of procedural defects and too much rigidity in their operation. But many problems are inherent due to the basic principles of the public enterprises. They lack flexibility effectiveness and efficiency of private enterprises. Over the last decade, the experience of public enterprises particularly of departmental undertakings have been very discouraging. The control over performance and routine operations have been too rigid or too fearful to yield higher productivity.

The functioning of Government companies has been better than those of other forms of public enterprises but they could not override the private enterprises. It was considered that the public corporations could perform better than the other public enterprises but many public enterprises did not comply the expectations. The Government is having a nationalised insurance institution which serves both the governance and social welfare of the people.

## **Benefits of privatization of Insurance**

### **1. Creation of jobs**

New insurance companies are expected to help in expanding the employment resulting in more employment opportunities. Greater the market expands, higher the opportunity for new employment.

### **2. New and Innovative business**

Privatization leads to the development of new and innovative products in the field of Life & General insurance. Entry of foreign players with their professional approach and innovative temperament will accelerate the trend of introducing tailor-made, need-based business.

### **3. Greater management skill**

Entry of global insurance giants with much more risk management skills and greater risk absorbing capacity will ensure introduction of products having deeper and wider insurance converge. New entrants will like to focus on their new area and thus opting to offer products with new coverage.

### **4. Greater operation of freedom**

Investment managers in private sector enjoy greater operational freedom than their counterparts in the public sector and consequently the private companies can expect to obtain a better yield on investments than Life insurance & General Insurance Corporations.

### **5. Consumer needs and service**

This impetus of liberalisation will see the industry transforming approach towards its consumer. Unfortunately in recent past there has been much lip talks on this than any actual improvement coming up from public sector insurers. Relieved from bureaucratic shackles, industry could become more sensitive towards consumer-needs and service.

### **6. Expansion of Insurance Market**

Greater the expansion of insurance market, higher the opportunity for so many other sector of the economy to grow. This can provide a sustained market for a variety of business like, market for hardware and software products, training institutes and professional services such as legal, consultancy, financial, intermediary and large pool of long term resources for financing infrastructure development.

## **7. Social Security**

The new era of liberalized insurance sector will ensure over all economic growth of the country and bring more and more people under the coverage of insurance. This will ensure extending the benefits of social security to large sections of our population. The trade unions have expressed some reservation and apprehensions in allowing private entry on the following grounds.

1. The private companies would concentrate mainly on the urban segment.
2. Without adequate regulation the funds may not reach the public for their benefit.

Although there may be some grain of truth in the fear and apprehensions aired by trade unions and the employees of Life Insurance & General Insurance Corporations, the benefits to the nation would certainly outweigh them. Thus, it is clear that the action of our present Government in passing the Privatisation Bill is on the whole, a step in the right direction and also in the best interest of the country. The Government which has considered the opposition to this in-depth has also given solemn assurances to safeguard the interest of the employees of Life Insurance & General Insurance Corporations which, of course is one of the public sector institutions.

## Questions

## I. Multiple Choice

- Which of the following is covered under life Assurance policy?
  - Act only
  - Cargo Insurance
  - Declaration policy
  - Money Back Policy
- In which year Children's Money Back plan was introduced?
  - 1986
  - 1988
  - 1989
  - 1995
- In which year Insurance Act was amended in India?
  - 1940
  - 1928
  - 1938
  - 1945
- Which one is the principles of insurance?
  - Co-operation
  - Mutual Interest
  - Indemnity
  - Non-of these
- What is the minimum period of Life Assurance?
  - One Year
  - 5 year
  - 10 years
  - 15 years or more
- From the following which one is covered under Marine Insurance?
  - Liability Insurance
  - Endowment policy
  - Whole Life policy
  - Act only.
- From the following which one is covered under Fire Insurance?
  - Voyage Policy
  - Term Policy
  - Floating policy
  - Collective policy
- From the following which one is covered under BurglaryInsurance ?
  - Freight insurance
  - Open cover policy
  - Liability Insurance
  - Jewellery and Valuables
- In mediclaim policy, according to scheme A, maximum benefit amount is,
  - Rs.10,000
  - Rs.1,50,000
  - Rs.1,00,000
  - Rs.3,00,000

### Answers:

1. (d)      2. (d)      3. (c)      4. (a)      5. (d)  
6. (a)      7. (c)      8. (d)      9. (b)

## II. Fill in the blanks

1. Insurance is based on the principle of \_\_\_\_\_
2. Insurance is a contract between \_\_\_\_\_ and \_\_\_\_\_.
3. Technically speaking a Life Insurance should be called as \_\_\_\_\_.
4. Burglary insurance falls under the classification of \_\_\_\_\_.
5. In marine insurance insurable interest is enough at the time of \_\_\_\_\_
6. Under scheme A & B of medical insurance maximum benefits are \_\_\_\_\_ and \_\_\_\_\_ respectively.
7. Fire Insurance can be taken in respect of \_\_\_\_\_ and \_\_\_\_\_ properties.
8. Generally in Life Insurance Policies may be \_\_\_\_\_ or \_\_\_\_\_

### Answers:

1. Co-operation
2. Insurer, insured
3. Life Assurance
4. Insurance of Property
5. Loss
6. Rs.1,50,000 and Rs.96,000
7. Movable and Immovable
8. With profit or without profit

## III. Match the following

- |                                  |                       |
|----------------------------------|-----------------------|
| 1. Endowment Life Policy         | a) Motor Insurance    |
| 2. Liability Policy              | b) Burglary Insurance |
| 3. Reinstatement Policy          | c) Fire Insurance     |
| 4. Jewellery and valuable Policy | d) Marine Insurance   |
| 5. Act only Policy               | e) Life Assurance     |

### Answers:

1. (e)      2. (d)      3. (c)      4. (b)      5. (a)

## IV. Short questions

1. Give the meaning of insurance.
2. What is the need for Insurance?
3. Write short notes on privatization of Insurance.
4. Define the term "Assurance".
5. What is life insurance and mention its features?
6. Write short notes on marine insurance.

7. What is fire insurance and bring its importance?
8. Define mediclaim insurance.

**V. Paragraph questions**

1. Distinguish between Assurance and Insurance.
2. What are the principles of insurance?
3. What are the kinds of life policies?
4. What is the Classification of marine policies?
5. Explain the types of fire policies.
6. What do you mean by burglary insurance and mention its types?
7. What are the merits and demerits of privatization of insurance?

**VI. Essay type Questions**

1. Write an essay on privatization of insurance, its need and advantages.
2. Explain the principles of insurance?

## **Chapter - 9**

# **ADVERTISING**

### **Introduction**

Advertising is a promotional activity for marketing a commodity. In the present day world of mass production and distribution, advertising serves as a powerful tool in the marketing machinery. Different producers manufacture similar types of goods. They face tough competition in the market. Every producer is trying to create demand for his product. Advertising helps the manufacturer to increase his sales or maintaining his market. It is only through proper advertising a new product can be introduced in the market.

### **Meaning and Definition**

The word 'Advertising' is derived from two Latin words, Ad and vert, ('Ad' - towards and 'Vert' - to turn) which means, "turn towards", i.e., turning the attention of the target audience to a specific thing.

Hall defines advertising as "Salesmanship in writing, print or pictures or spreading information by means of the written and printed word and the pictures".

Stanton says, "Advertising consists of all the activities in presenting to a group, a non-personal, oral or visual, openly sponsored message regarding a product, service or idea".

### **Meaning of Advertising**

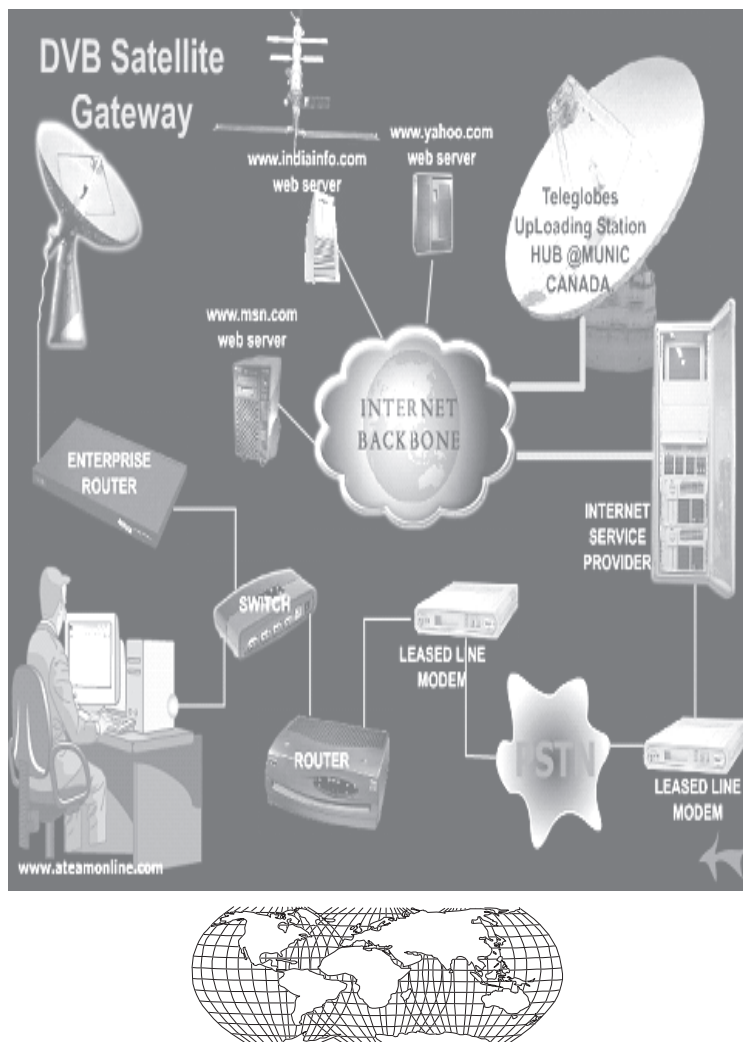
Advertising means a non-personal stimulation of demand for a product. It is the activity through which visual or moral messages are addressed to the general public. Advertising aims at influencing the public to buy goods or services. The purpose of advertising is to create a desire for the products among the consumers. Advertisement carries a convincing message about the availability, utility and superiority of a commodity.

### **Objectives of Advertising**

1. To make an immediate sale.
2. To build primary demand.
3. To introduce a price deal.
4. To inform about a product's availability.
5. To build brand recognition or brand insistence.
6. To help salesmen by creating an awareness of a product among retailers.
7. To create a reputation for service, reliability or research strength.



## INTERNET AND WEB ADVERTISING



8. To increase market share.
9. To modify existing product appeals and buying motives.
10. To inform about new products' availability or features or price.
11. To increase the frequency of use of a product.
12. To increase the number or quality of retail outlets.
13. To build overall company image.
14. To effect immediate buying action.
15. To reach new areas or new segments of population within existing areas.
16. To develop overseas market.

Advertising is thought to be an art of creating demand. It is a subsidiary marketing force. Its use is primarily considered as being both complementary and supplementary to other methods of inducing sales.

Advertising with its broader objectives and purposeful functions brings many advantages or benefits to the manufacturers, wholesalers and retailers, consumers, salesmen and the community (society) at large.

The merits of advertising may be stated as follows:

### **1. Benefits to Manufacturers**

- a) Advertising increases sales volume of the product. Mass production leads to reduction in the cost of production and thus increases profits.
- b) It helps easy introduction of products into the markets.
- c) It helps to create an image and reputation not only of the product but also of the advertiser.
- d) Retail price maintenance is possible.
- e) It helps to establish a direct contact between manufacturers and consumers.

### **2. Benefits to Wholesalers and Retailers**

- a) Advertisement informs consumers about the quality of the product. Hence sale of that product is made easier for wholesalers and retailers.
- b) It helps quick sale of the product and increases the turnover. Thus, there is no question of old stocks. It reduces the expenses on overhead charges.
- c) It supplements the selling activities.
- d) It enables them to have product information.
- e) It ensures more economical selling.

### **3. Benefits to Consumers**

- a) Advertising gives information about the price and quality of a commodity. It guides a consumer to choose the product.
- b) It helps them to know where and when the products are available. It reduces their shopping time.
- c) It provides an opportunity to the consumers to compare the merits and demerits of various substitute products.
- d) It increases the utility of given commodities for many people.
- e) Modern advertisements are highly informative.

### **4. Benefits to Salesmen**

- a) Advertising creates a background for a product among the consumers. It makes the salesmen job easier.

- b) Since consumers have the previous knowledge about the product through advertisement, the salesman's time is saved. Hence he is able to contact more customers.
- c) Advertising not only reduces the salesman's job but also creates enthusiasm and confidence in him.

## **5. Benefits to Community or Society**

- a) Advertising leads to large-scale production creating more employment opportunities to various people directly and indirectly.
- b) It stimulates the consumers to buy new variety of goods. It helps to uplift the standard of living of the people.
- c) It gives more income to press. It leads to availability of newspapers at a cheaper rate.

## **Demerits of Advertising (Objections)**

Various objections against it may be listed as follows:

### **1. Economic Objections**

- a) Advertising is not productive. It is true that it does not produce any tangible goods. It is said to involve wasteful expenditure.
- b) It forces people to desire and buy goods, which, in fact, are not within their means.
- c) It increases the cost of goods. Advertising charges are included in the price, which the consumer has to pay.
- d) Advertising results in monopoly. The consumer becomes a slave to a particular brand.

### **2. Social Objections**

- a) Most of the advertisements contain tall claims and the consumers do not enjoy the benefits advertisement in full. They are short-lived only.
- b) The press is influenced by the advertisers because they provide major revenue for the existence of newspapers.

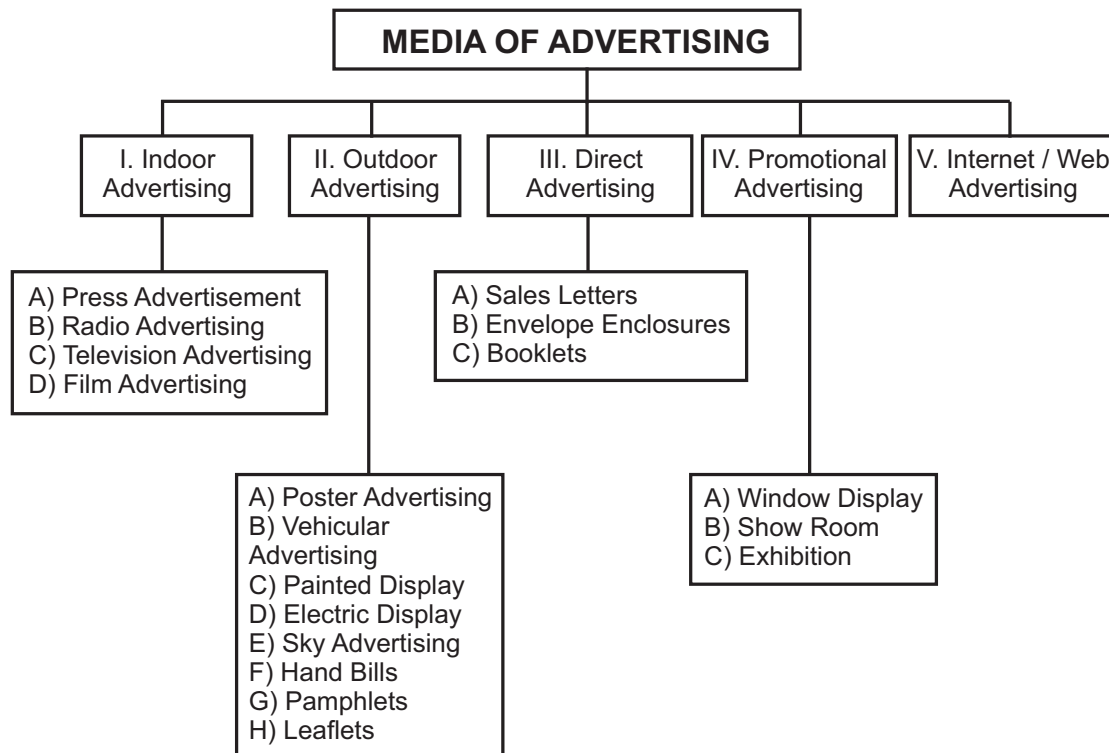
### **3. Ethical Objections**

- a) Advertising appeals make people to use such articles, which may affect their health. For example alcoholic drinks and cigarettes.
- b) People with less purchasing power cannot afford to buy articles even though advertisements create a strong need in them. Thus a section of society remains discontented.

Whatever may be said against advertising, it is increasingly used almost in every branch of business to promote sales. It is not merely a means of sales promotion but today it has become a science equivalent to any other social science.

## Media of Advertising

Mediam is a device through which an advertising message is conveyed to consumers. Proper selection of a mediam is necessary to achieve the desired results. Any wrong or careless selection is likely to result in wastage of efforts and money.



In selecting a suitable mediam, the following factors are to be taken into consideration:

1. The characteristics of the products.
2. Funds available for advertising.
3. Nature of the market (i.e.) different segments.
4. The degree of competition.
5. Mediam to be adopted.
6. Coverage of the mediam.
7. Size of the advertisement.
8. The probable cost of advertising.
9. The nature of product and position in the market.

## **Media of Advertising**

The media of advertising may broadly be classified into five types. They are: -

- I) Indoor advertising.
- II) Outdoor advertising.
- III) Direct advertising.
- IV) Promotional advertising.
- V) Web advertising or Internet advertising.

### **I) Indoor Advertising**

#### **1. Press Media**

- a) Newspapers.
- b) Magazines.

#### **2. Radio Advertising.**

#### **3. Television Advertising.**

#### **4. Film Advertising.**

### **I. Indoor Advertising**

Where people get the message by sitting at their home, through newspapers, magazines or hearing a radio or engrossed in T.V programmer or a film, is known as an indoor advertising.

#### **1. Press Media:**

Press advertising means advertising through newspapers, magazines and trade and technical journals. Press has become the most popular medium of advertisement. Press publicity takes two forms.

- a) Newspapers and
- b) Magazines

#### **a) Newspapers:**

A sizable share of the total advertising budget is spent on advertising in newspapers. In India there are both English and newspapers in regional languages name by The Hindu, Times of India, The New Indian Express and Thina Mani, Thinamalar, Thina Thanthi, Malai Murasu, Malai Mani etc.

Newspapers are bought largely for their news value. Newspapers are a suitable medium for goods requiring mass advertisement. Newspaper advertisements must be 'catchy and attractive'. The message should be 'short and suggestive'. Gripping headlines, attractive pictures and catchy slogans may be used to make the appeal effective.

**Its various advantages may be summed up as follows: -**

- i) Newspapers reach every nook and corner, so their coverage is high.
- ii) They reach the public at lower cost than any other medium.
- iii) High frequency enables speedy preparation and publication of advertisement.
- iv) They offer a lot of flexibility. According to the convenience and necessity of the advertiser, the shape and size of advertisement could be changed.
- v) Visual appeals could be created.
- vi) The selling message reaches the public while it is fresh. It pinpoints the shopping opportunities and thus makes quick results.

**Limitations of Newspaper advertisement:**

- i) The cheap quality of Newspaper does not give accurate and fine reproduction of the advertisement.
- ii) The life of a Newspaper is very short. If the advertisement is not seen on the day; it appears in the newspaper, it goes waste.
- iii) If prospects are limited in number, advertising in newspaper may be ineffective.
- iv) Often the persons expected to read the message miss to read the advertisement.
- v) Only colour advertisements are more effective, but they are very limited.
- vi) Illiterate people cannot understand newspaper advertisements.

**b) Magazines / Journals**

Magazines and journals may be weekly, fortnightly, monthly or quarterly publications. Trade and Technical journals are published for the professional use of auditors, company secretaries, doctors, bankers, teachers, lawyers etc. Special magazines for women and children are also published. Special issues are made during Deepavali and other festivals. Magazines like "India Today", "Business India", "Business World", "Gentlemen Society", "The Illustrated Weekly of India", "Readers Digest" etc., are some of the popular magazines in India. Besides, there are several other regional magazines also.

**Advantages of advertising in magazines**

- i) The most important advantage is the length of life. The advertisement may be seen several times.
- ii) Better reproduction of advertisements than newspapers.
- iii) Proper magazine if selected, reaches the right type of target audience.

- iv) More circulation and more readers and so the advertisement cost per reader is much less.
- v) It creates prestige, reputation and an image of quality.

### **Disadvantages**

- i) Changes in the copy of magazine cannot be effected quickly.
- ii) Preparation of cost of magazine is higher and hence advertising cost also would be higher.
- iii) The coverage of the magazine and the coverage of the distribution of goods may not synchronise i.e., inelasticity.
- iv) The advertisements cannot be brought out in time as needed by the advertiser.

## **2. Radio Advertising**

Sound moves faster. Radio advertising is the quickest medium of advertising. Commercial broadcasting has become more popular in all countries. Radio advertising reaches a large number of listeners both the educated and the illiterate. People tune on radio for entertainment. Advertising through radio appeals to the people because music, songs, dialogues, interviews etc. accompany it. Recently FM broadcasting has become very popular for commercial advertisement in metropolitan and its sub-urban areas. Delhi, Kolkata, Chennai, Mumbai, and Bangalore Stations of All India Radio undertake commercial broadcasting.

### **Merits of Radio Advertising:**

- i) It is alive, animated and quite dramatic. It has human appeal which is unparalleled by any other medium.
- ii) It has the advantage of wider coverage. The message also reaches the people at home.
- iii) It is attractive and more powerful.
- iv) Even illiterates who cannot read the printed message can be approached through radio communication.
- v) It is also cheaper.

### **Demerits**

- i) Detailed advertisements are not possible.
- ii) Non-availability of advertising message for future reference.
- iii) No pictorial presentation.
- iv) High cost of time and talent.

- v) The Radio message is short and people easily forget it.
- vi) Frequent repetition may cause boredom.
- vii) The radio is not suited for all kinds of products.
- viii) Estimation of audience is difficult.
- ix) There is no possibility of demonstration.
- x) There is less research information.

### **3. Television Advertising**

Television is the latest indoor medium of mass communication. It is an audio-visual system. The advertising message reaches the viewers at their home when they are relaxed and receptive. To day, worldwide advertisement can be made for a product with the help of multi channels in a Television.

#### **Merits of Television Advertising**

- i) TV appeals to both the senses of sound and sight. As a result it combines the two to produce high impact on communication.
- ii) It has all the merits of radio broadcasting.
- iii) It has overcome one of the major limitations of the radio i.e., Pictorial presentation of merchandise.
- iv) It provides colour visibility making the message all the more attractive and impressive.
- v) Through this medium products can actually be shown and demonstration can be made and explained.

#### **Demerits**

- i) Television advertising is costly and sometimes exaggerating also.
- ii) In the countries where television is a luxury its appeal is restricted to the rich people alone.
- iii) Some times, the advertisement is so interesting and attractive that viewers' attention is carried away from the product.

### **4. Film Advertising**

It is also an audio-visual medium. Film advertising is made in cinema theaters. The message is conveyed to a big audience in the cinema hall. The advertisement in the form of commercial films and slides are shown before the regular films.



### **Merits of Film Advertising**

- i) It has a mass appeal and covers all classes of people - poor, middle and rich.
- ii) It also helps to explain and demonstrate the use of a product. So demonstrations make the product more appealing and acceptable.
- iii) It is not waste as no advertisement can escape the attention of the mass.

### **Demerits of Film Advertising**

- i) Production cost is very high for a medium film.
- ii) There is censoring of films-restrictions.
- iii) Many people do not go to films.
- iv) For screening films the co-operation of the theatre owners is essential.
- v) The audience may get irritated when more advertising films are shown.
- vi) Back reference is not possible.

## **II. Outdoor Advertising**

Advertising media that delivers the message when people step out of their homes are known as out door advertising media. The following are the different kinds of outdoor advertising.

### **a) Poster**

It is a common form of advertising. A poster is a sheet of paper carrying advertising message. The posters are made in attractive colors. They are printed in brief. The posters are increasingly used by cinema producers, political parties etc. Advertisers paste the posters in important places to convey the message and attract the people.

### **b) Vehicular Advertising**

Advertisement is made inside and outside the buses or trains. This moving advertising is called as vehicular advertising.

### **c) Painted Display**

It is an artistic work visible from a distant place. This form of advertising structure is erected at various important places in a city. It attracts the passersby and conveys the message effectively.

### **d) Electric Display**

This mediam of advertising is attractive and popular in big cities. Beautiful neon-signs are used with the help of engineers and electricity. Night time is the right time for this type of advertising.

### **e) Sky Advertising**

Big kites and balloons are floated in the air and advertising message is written on them. This type of advertisement can be seen from a long distance. People out of curiosity normally are tempted to read the message conveyed by this medium.

### **f) Hand Bills**

It is a common way of advertising employed by small-scale businessmen. Printed leaflets containing business message are distributed among the people. Handbills are the cheaper means of advertising.

### **Merits of Outdoor Advertising**

- I) Outdoor advertising is capable of gaining more attention.
- II) It offers great selectivity. It could be used locally, regionally or even nationally.
- III) Flexibility is present.
- IV) Once the board is exhibited, it could be kept there for quite a long time.
- V) It is a very good medium to stress the brand names and package identity.
- VI) Coverage is greater.
- VII) Low cost.

### **Demerits**

- I) It has to be brief. Therefore, detailed explanation is not possible.
- II) Low prestige value regarding Hand Bills.
- III) The exact effect created on prospects is difficult to measure.
- IV) It could be used only as a supplementary to the other kinds of advertising. For example, it cannot be used for introducing a new product but it is an effective for reminder of an existing product.

## **III. Direct Advertising or Direct Mail**

This method is direct in its approach and hence often referred to as 'direct advertising' Here printed materials are used to spread information. A close touch with the customers is made possible through direct mail advertising. It may take various forms according to the method in which the advertisement copy is prepared.

- a) Sales Letter -cyclostyled or typed or printed ones.
- b) Envelope enclosures :
  - i) Circulars.

- ii) Folders - a single sheet folded.
- iii) Stuffers.
- c) Booklets, Gifts, Novelties, Catalogues, etc.

### **Merits of Direct Advertising**

- i) The message is directly addressed to the customers.
- ii) The message could be altered to suit different conditions.
- iii) Advertisement could be timely according to the wishes of the advertiser.
- iv) It is cheap when compared to other forms of advertisement.
- v) The great attraction of this method is its capacity to create and maintain personal contact.

### **Demerits**

- i) It is not cheap, especially when printing and postage charges are high.
- ii) The preparation of proper mailing list is not an easy job.
- iii) The list prepared becomes absolute in a short span of time.
- iv) The rejections and returns in posts are too many
- v) It has not proved its supremacy all over the other fields.
- vi) Applicable to only industrial products, where the customers are limited.

## **IV. Promotional Advertising**

### **(Purchase Point Advertising)**

It is another powerful medium of advertising. This is a direct method because the manufacturer either undertakes the advertising process directly or through the dealer. There are various forms commonly known as 'Store Display'.

#### **a) Window Display**

It means exhibition of goods through beautifully decorated windows. Goods are displayed in front of the shops or at busy centers like cinema houses or railway stations. Pleasing colours and proper lighting attract the attention of the people. Window display is changed periodically. New arrival of goods is exhibited whenever necessary. It serves as an effective and economic medium of advertising.

#### **b) Showroom**

It provides an opportunity to the consumers to inspect the products, which they desire to purchase. Different kinds of products are kept available in the showroom.

Salesmen help the prospective consumers with necessary information about the goods. A well-designed show room creates an interest in the minds of the customers. For instance, Textile mills, Firms producing furniture, Television sets, Radio sets, Watches, etc., generally establish showrooms at important centers of big cities.

### **c) Exhibition**

Exhibitions are trade shows conducted by manufacturers to exhibit their products. Exhibitions are gaining popularity in recent times. Various producers reserve stalls in trade shows and compete with each other in promoting sales. They are held at local, national and international level.

## **V. Web Advertising/Internet Advertising**

The first web advertisement was placed on the October 1994 Edition of the Hotwired Website. Web advertisement requires the participation of the Internet users. The Internet has enabled the consumers to interact directly with the advertisers and the advertisements. Web advertising is an attempt to disseminate information through Internet in order to effect a buyer seller transaction.

Advertising on the Web is usually non\_intrusive. The advertisement consists of a one liner. It requires the user to click on the advertisement for further information. This automatically takes him to the home page or Website of the advertiser, either for more information, or to try or purchase of the product.

There are two very good reasons for embracing the inevitability of the growing amount of commercial advertising on the Web.

- Advertising conveys much needed information.
- Advertising generates significant revenue.

### **Advantages of Web Advertising**

- i) Advertisements can reach a very large number of potential globally buyers.
- ii) Web advertisements are accessed on demand for all the 24 hours a day, 365 days a year and costs are the same regardless of audience location.
- iii) One-to-One direct marketing is possible
- iv) Web advertisements can be interactive and targeted to specific interest groups and individuals.
- v) Contents can be updated, supplemented or changed at any time at a minimum cost.
- vi) Multimedia will create more attractive advertisements.
- vii) They can efficiently use the convergence of text, audio, graphics and animation.

- viii) They can introduce new products or alternatives to existing products.
- ix) They can generate an awareness of the branded products.

### **Disadvantages**

- i) There is no clear standard or language of measurement.
- ii) Audience is only net sufferers, who are still lesser.
- iii) Cost is high in many circumstances.

## **QUESTIONS**

### **I. Multiple choice :**

1. Advertising appeals make people to use such articles, which may affect their health
  - a) Social objections                      b) Ethical Objections
  - c) Historical Objection                  d) Economical Objections
2. Electric Display comes under
  - a) Outdoor Advertising                  b) WEB Advertising
  - c) Indoor Advertising                   d) Direct Advertising
3. This advertising can reach a very large number of potential buyers globally
  - a) Show Room Advertising              b) Sky Advertising
  - c) Web Advertising                      d) Painted Display Advertising
4. It is an audiovisual Medium
  - a) Radio                                      b) Film
  - c) Poster                                     d) Electric Display
5. This advertising reaches a large number of listeners both the educated and illiterate
  - a) Web Advertising                      b) Newspaper Advertising
  - c) Sky Advertising                        d) Radio Advertising

Answers: 1) b.            2) a.            3) c.            4) b.            5) d.

### **II. Fill in the Blanks:**

1. Advertising is a promoted activity for marketing a \_\_\_\_\_
2. The word 'ADVERTISING' is derived from two \_\_\_\_\_ words.

3. Advertising means a non\_personal stimulation of \_\_\_\_\_ for a product.
4. Advertising is to create a desire for the products among the \_\_\_\_\_
5. Mass production leads to \_\_\_\_\_ in the cost productions and thus increases the profit.
6. Modern Advertisements are highly \_\_\_\_\_
7. Medium is a \_\_\_\_\_ through which an advertising message is conveyed to consumers.
8. \_\_\_\_\_ has become the most popular medium of advertisement.
9. Newspaper advertisements must be 'Catchy and \_\_\_\_\_'.
10. Only \_\_\_\_\_ advertisements are more effective, but they are very much limited.
11. Trade and Technical \_\_\_\_\_ are published for the professional use of Auditors.
12. Special magazines for \_\_\_\_\_ and children are also published.
13. Radio advertising is the \_\_\_\_\_ medium of advertising.
14. Television is the latest \_\_\_\_\_ medium of mass communication.
15. TV appeals to both the senses of \_\_\_\_\_ and sight.
16. Advertisers paste the \_\_\_\_\_ at important places to convey the message.
17. This moving advertising is called as \_\_\_\_\_ advertising.
18. Web advertisement requires the participation of the \_\_\_\_\_ users.
19. Advertising generates significant \_\_\_\_\_.
20. Exhibitions are trade shows conducted by \_\_\_\_\_ to exhibit their products.

**Fill in answers: -**

- |               |                |              |                  |
|---------------|----------------|--------------|------------------|
| 1. Commodity  | 2. Latin       | 3. Demand    | 4. Consumers     |
| 5. Reduction  | 6. Informative | 7. Device    | 8. Press         |
| 9. Attractive | 10. Colour     | 11. Journals | 12. Women        |
| 13. Quickest  | 14. Indoor     | 15. Sound    | 16. Posters      |
| 17. Vehicular | 18. Internet   | 19. Revenue  | 20. Manufactures |

### III. Match the following.

- |                          |                                 |
|--------------------------|---------------------------------|
| 1. Direct advertising    | a) "Readers Digest".            |
| 2. Magazines             | b) Kites                        |
| 3. Vehicular advertising | c) Leaflets                     |
| 4. Sky advertising       | d) Store display                |
| 5. Hand bills            | e) Inside and Outside the buses |
|                          | f) Circulars                    |

**Answers:**    1-(f)            2-(a)            3-(e)            4-(b)            5-(c)

### IV. Short Questions

1. What is Advertising?
2. Give the definition of Advertising.
3. List out any two advantages of advertising to Customers.
4. What are Social Objections to Advertising?
5. Name the major five divisions of advertising.
6. Write down any two demerits of Newspapers Advertisement.
7. What is Indoor Advertising?
8. What is Press Advertising?
9. What is Newspapers Advertisement?
10. What do you mean by Magazines Advertising?
11. What is Radio Advertising?
12. What is Television Advertising?
13. What is Film Advertising?
14. What is Outdoor Advertising?
15. What does 'poster' mean?
16. 'Painted Display'-Explain the term.
17. What do you understand by 'Electric Display'?
18. What is 'Sky Advertising'?
19. Give the meaning of 'Hand Bills'.

20. What is Direct Advertising?
21. What is Promotional Advertising?
22. What is Window Display?
23. What is meant by 'Show-Room'?
24. Explain the term 'Exhibition'.
25. What do you understand by 'Web Advertising'?

**V. Paragraph Questions- (Answer in about a page)**

1. What are the objectives of Advertising?
2. How do advertising helps manufacturers, salesmen and consumers?
3. Enumerate the disadvantages of advertising.
4. What is a medium of Advertisement? What are the factors to be considered in selection of suitable medium?
5. What are the advantages & disadvantages of Magazine Advertising?
6. What is Radio Advertising? Explain the merits and demerits of this Advertising?
7. What is Television Advertising? What are the merits and demerits of this Advertising?
8. What is Film Advertising? What are the merits and demerits of this Advertising?
9. What is Direct Advertising? What are the merits and demerits of it?
10. Write a paragraph about Promotional Advertising.

**VI . Essay Type Questions (Answer in about two pages)**

1. Bring out the advantages and disadvantages of advertising.
2. Explain the various kinds of Outdoor Advertising with merits and demerits of it.
3. Describe about WEB Advertising.
4. Describe about various Media of Advertising.



## **Chapter – 10**

# **SALESMANSHIP AND CONSUMERISM**

### **Introduction**

Salesmanship is one of the promotional activities of marketing. It is an art of winning the confidence of the customers. It is a technique of convincing a person to buy the goods.

Consumerism is an organised effort of consumers seeking remedy for unfair and illegal trade practices. It is a social movement seeking to increase the rights and powers of buyers. In this chapter, we will discuss the salesmanship and consumerism in detail.

### **Meaning of Salesmanship**

Salesmanship is the ability to induce people to buy goods, which they require. It is the ability to convert human needs into wants. The salesman is to help the consumer. In other words, salesmanship is an art of influencing or persuading people to buy the goods.

### **I. Definition of Salesmanship**

According to W.G. Carter, “Salesmanship is an attempt to induce people to buy goods”. According to Prof. Stephenson “Salesmanship refers to conscious efforts on the part of the seller to induce a prospective buyer to purchase something that he had not really decided to buy, even if he had thought of it favourably. It consists of persuading people to buy what you have for sale and in helping them to make up their minds.” According to the National Association of Marketing Teachers of America, ‘It is the ability to persuade people to buy goods or services at a profit to the seller and benefit to the buyer.’

### **II. Difference between salesmanship and personal selling**

Personal selling and salesmanship are often used interchangeably. Personal selling is a broader concept.

Salesmanship may or may not be an important part of personal selling.

### **III. Importance of Salesmanship**

In the present day, salesmanship plays an important role. A salesman is the connecting link between sellers and buyers at every stage, i.e., from the collection of raw materials to the finished product. The expansion of the market, growing competition etc., invites a better salesmanship.

### **a. To Producers**

Salesmanship is essential for producers for pushing products into the competitive market. To capture new market also, salesmanship is very important, Salesman increases the sales volume. It brings larger profits to the manufacturers. A salesman works as the “eye and ear” for the manufacturers. They improve their products according to the taste of the consumers and also their sales policies by keeping in mind the suggestions, impression and complaints of the consumers.

Salesmanship increases the rate of turnover and hence reduces stock. It minimises the economic stagnation. Consumers can select the best products according to their requirements, taste and preferences.

### **b. To Consumers**

A salesman educates and guides the consumers. He gives them more satisfaction. A salesman helps the consumers in making the right decision and proper selection of the products, which they want to buy.

### **Types of Salesman**

The various types of salesman are discussed below :-

#### **I. Manufacturers salesmen**

They are classified as follows :-

##### **a) Missionary salesmen**

They are also known as creative salesmen or pioneer salesmen. They are employed by manufacturers to do the work of missionary nature.

They create demand for the products. They usually develop goodwill. Manufacturers of medical supplies use this type of salesman to promote their products.

##### **b) Merchandising Salesmen**

They assist dealers by giving suggestions on display, store layout, service facility etc. They arrange wide publicity and conduct demonstration for dealer salesmen, by even working along with them. They are largely involved in selling, medicines, grocery etc. There is a wide scope for this type of salesmen.

##### **c) Dealer - Servicing Salesmen**

These salesmen call on retailers in their territory and visit them often. They bring samples of new products, take orders and provide window display.

##### **d) Sales Promotion Salesmen**

They are also known as retail salesmen. They are specialised in promotional work. They are representative of medical firms or publishers. They may not take spot

orders but they try to convince people like doctors about the new drug, research work, testing, result etc. They create demand by calling on customers.

#### **e) Technical Salesmen**

They are technically trained salesmen. They provide technical assistance to company's customers on matters connected with the product, its quality, its design, its installation etc. Generally this type of salesmen deals with computers, industrial machineries, chemicals, packing materials, etc.

#### **f) Wholesaler's Salesmen**

Products reach the hands of customers through a number of channels, the main channel being wholesalers. They are the nerve centres of distribution between manufacturers and retailers. These salesmen are mainly concerned with retailers through whom the products are to be marketed.

### **II. Retail Salesmen**

They are as follows :

1. Indoor salesmen
2. Outdoor salesmen

#### **1. Indoor salesmen**

Indoor salesmen work in the store - counters and selling over the counter. They do not need training, as they have to face only customers and not the prospects. They deal with regular buyers. They are order- filling salesmen.

#### **2. Outdoor Salesmen**

Outdoor salesmen may also be called travelling salesmen. Their main job is to make regular travels, visit customers and canvass orders etc.

### **III. Speciality Salesmen**

They are to sell exclusive products like expensive durable goods such as furniture, books, house furnishings, washing machines, automobiles, refrigerators, and vacuum cleaners etc. People purchase these products only after a personal and careful selection because they do not buy them frequently.

## **CONSUMERISM**

### **Origin of Consumerism**

The term consumerism came into existence in the early 1960s when it was coined by the business community in the western world particularly America. It is the social force designed to protect the interest of consumers by organising the consumers to bring pressure on the business community ensure protection.

## **Concept of Consumerism**

Producers, sellers and service providers give importance to the consumer. In a sense, every one of us is a consumer. It may be individuals, families and institutions. They consume a variety of products and avail a number of services almost everyday. You buy pen, pencils, notebooks, textbooks and other items for your studies. Sometimes one-quire notebooks you buy do not contain 192 pages and the pencil is not of a good quality. The textbook may not contain all the pages. Some pages may be missing. Have you not been dissatisfied and cheated over these when you have paid a fair price? Thus, a consumer is one who consumes goods manufactured and sold by others or created (air, water, natural resources) by nature and sold by others. One, who avails the services such as banking, transport and insurance, etc., is also a consumer.

In theory all business units consider consumer's satisfaction as their objective. A consumer is said to be the king and the businessmen are supposed to serve and satisfy him. But in reality consumers are cheated, looked at and exploited in many ways. This exploitation may be accidental or deliberate.

## **Definition of Consumerism**

According to Prof. Philip Kotlar "Consumerism is not limited to organised efforts only but, is a social movement seeking to augment the rights and powers of the buyers in relation to sellers".

## **Consumer Exploitation**

Some of the ways in which consumers are being exploited are as follows:

### **a) Selling at a higher price**

The price charged by the seller for a product or service is not proportionate to the quality but more than the fair price. Even in times of surplus stock, distributors create artificial scarcity in the market to push up the prices. The consumers suffer due to higher prices and non- availability of goods in the open market.

### **b) Product risk**

Harmful and banned drugs, electrical appliances with inadequate safety provisions are sold in the market. Such products are harmful and injure the consumers in the long run.

### **Example:**

Electrical gadgets with inadequate insulation leading to electric shocks.

### **c) Adulteration**

Adulteration is quite common. in food articles .It is a crime which cannot be pardoned. It spoils the health of the consumers.

**Example:**

- 1) 300 grams of vanaspati is found in a 500 grams tin of ghee, but labelled as "Pure Ghee".
- 2) One kilogram of sugar packet weighs only 970 grams, whereas labelled as "NET WEIGHT ONE KILOGRAM".
- 3) 500 grams of chilly power packet consists of 150 grams of red brick powder or coloured saw dust, whereas labelled as "PURE".
- 4) Chemicals are added to make the milk dense and white.

**d) Duplication**

Duplicates of popular brands of products are produced and sold. Duplicates are available in the market for every original & pure parts of components etc., A consumer is not in a position to distinguish duplicate from the original. Thus he is exploited.

**Example:** watches, auto spares, cosmetics, jewellery etc.,

**e) Substandard:**

On opening a packed and sealed container one finds the contents with poor quality.

**Example:** Packets of milk powder, ice cream, ghee and butter, toothpaste etc.



**Adulterated whitened milk**

#### **f) Artificial scarcity**

In milk booths and cinema houses we find “No stock” and “House full” boards. But milk and cinema tickets are available at a higher price in the black market.

#### **g) False claims**

Producers make false claims and bogus presentations about their products in the media (T.V) of advertising with a view to mislead the consumers.

**Example:** A ‘Pinch of Rin’ Advertisement

#### **h) Service during guarantee period**

In the case of consumer durable goods like televisions washing machines, refrigerators, cars, scooters etc. free service is guaranteed for a few years from the date of purchase. But in reality free service is denied on flimsy grounds. The consumer service is rendered only during the warranty period and thus exploited.

#### **i) Fitness**

Items unsuitable for human consumption are sold in the market. Some items marked as “unbreakable” but breaks while using them. For example, soft drinks.

#### **j) Others**

“Leak - Proof” batteries leak. A cheque issued by a customer of a bank with sufficient balance in his account is dishonoured without any valid reason, due to carelessness and negligence on the part of the bankers. A flat promoter does not hand over the completed flat on the due date. In medical shops drugs are sold even after their expiry date. In mail order business, products do not adhere to and match with the samples supplied earlier.

Like this one can go on adding to the list. All these show that the much talked about consumer orientation is a myth. The poor consumers should be protected from the unscrupulous traders and manufacturers. Filing a case against such exploitation in the regular law courts is time consuming, costly and highly complicated. Hence it is felt that the consumers should be well protected. As every one of us is affected in some way or other and being consumers, we should be united and create a movement against such exploitation. This movement is rightly called the ‘consumer movement’. It is a movement of the consumers, for the consumers and by the consumers.

#### **Origin and Growth of the Consumer Movement**

Consumerism or consumer movement is an outcome of sufferings, and exploitations of consumers. Consumerism is to secure protection from commercial terrorism and exploitative practices. The aim is to safe- guard their interests by establishing their rights and powers in relation to products and sellers.

Mr. Ralph Nader pioneered the fight against monopoly and unethical trade practices of large companies in the United States. He is considered as the father of the consumer movement. He initially fought against automobile industry for violating safety standards and pollution control laws. But to day, in almost all countries the consumer movement is well developed. In countries like Britain, Sweden, Netherlands, Denmark and even Kenya have stringent laws in their respective countries. The United Nations General Assembly has adopted a set of general guidelines for consumer protection.

### **Consumer Movement in India**

Consumerism as a movement is just slowly growing in our country. This is due to sellers market and the Government monopolises most of the services, such as Insurance, Banking, Transport, Telephone etc., Consumer awareness is lacking due to apathy and illiteracy of the mass. Consumers do not know their rights and responsibilities

### **Mahatma Gandhi**

The father of our nation, Mahatma Gandhi, emphasised consumer protection, referring to the consumers as the poor consumers". His famous statement is worth remembering.

**“A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an outsider to our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so”**

### **Rights of consumers**

- 1) Right to be informed about the product quality, quantity, purity, standard and price of goods.
- 2) Right of protection against marketing of goods which are hazardous to life and property.
- 3) Right of access to variety of goods at competitive prices.
- 4) Right of consumer education regarding usage, handling etc., of the products.
- 5) Right to have protection from unfair and deceptive trade practices.
- 6) Right to be heard and to be assured that the consumer's interest will receive due consideration.
- 7) Right to seek reprisal against unfair trade practices or unscrupulous exploitation of consumers.

## **John F.Kennedy**

The former President of the USA, Mr. John F.Kennedy summed up the basic consumer rights - "As the right to safety, the right to be informed, the right to choose, and the right to be heard."

### **Responsibilities of the consumer are as follows:-**

1. The consumer must pay the price of the goods according to the terms of the contract.
2. The consumer has got a duty to apply to the seller for the delivery of the goods. He has to take delivery of the goods in time.
3. The consumer has to bear any loss, which may arise to the seller as a result of the consumer refusing to take delivery or for not taking delivery of the goods in time as per the contract.
4. The consumer is bound to pay any interest and special damages to the seller in case he had delayed the payment to the seller.
5. The consumer must ask for and collect the invoice, money receipt, delivery note and guarantee card.
6. The consumer has to follow and observe the instructions and precautions while using the products.

### **Consumer oriented legislation in India**

Prior to the year 1986, the Central and State Governments in India enacted a number of legislation's affecting sale of goods, drugs, proper weights and measures, adulteration, sale of essential commodities, monopolistic and restrictive trade practices, etc. These Acts are listed below:

- a) Sale of Goods Act, 1930
- b) Dangerous Drug Act, 1930
- c) Agricultural Produce (Grading and Marketing) Act 1927
- d) Drugs and Cosmetics Act, 1940
- e) The Drugs Control Act, 1950.
- f) Indian Standards Institution (Certification marks) Act, 1952. (Now ISI is known as Bureau of Indian Standards)
- g) The Prevention of Food Adulteration Act, 1954.
- h) The Essential Commodities Act, 1955.
- i) Standards of Weights and Measures Act, 1958.



- j) Monopolies and Restrictive Trade Practices Act, 1969.
- k) Hire Purchase Act, 1972
- l) Packaged Commodities Order, 1975.

Nowadays, the consumers' grievances and dissatisfaction grew. Consumers themselves did not have any effective mechanism or institutional arrangement for the speedy redressal of their grievances. Lack of effective popular movement isolated the consumer and so his plight is increased. Sensing the pressure mounting from various consumer protection groups and consumers themselves, the Central Government enacted a comprehensive law called the Consumer Protection Act in 1986. This Act came into force with effect from 15.04.1987. This Act was further amended in 1993. The Act is referred in short as 'COPRA'

### **The Consumer Protection Act 1986 (Act No. 68 of 1986)**

The object of the Act is to provide for the better protection of the interests of consumers to make provision for the establishment of consumer councils and consumer courts for the settlement of consumer's disputes, and all matters connected there with. The Consumer Protection Act is of great importance. It is the latest to be adopted. It is applicable to public sector, financial, and cooperative enterprises. Recently even medical services have been brought under its scope. Its provisions are in addition to the provisions of other Acts listed earlier. The Act shall apply to all goods and services.

The Consumer Protection Act 1986 does not create rights or liabilities, but it establishes a new forum for the settlement of disputes relating to the sale of goods or services for consideration. The loss claimed by the consumers must be a loss based on some "deficiency of service" or "defect of the goods"

### **Definition of 'Consumer' under the Act:**

Under section 2(1) (d) "Consumer" means any person who buys any goods or avails services for personal use, for a consideration."

Any person buying goods or availing services under any system of deferred payment for personal use is also treated as consumer. But a person who obtains such goods for resale or for any commercial purpose is not a consumer. The Act defines the various terms such as the complaint, goods, service, consumer dispute, defect, deficiency of goods or service, manufacturer, trader, unfair trade practice, district forum, state commission, national commission, etc., For example the term "service" is provision of facilities in relation to Banking, Financing, Insurance, Transport, Processing, Supply of Electrical or other energy, Boarding and lodging, Entertainment, News and Information and Medical. But free services are not covered under this Act.

## **Consumer Protection Councils and Forums**

Under the provisions of the Consumer Protection Act 1986, there shall be consumer councils and a three tier quasi Judicial Machinery called redressal forums at National, State and District levels.

### **A) At National Level - The Central Council**

At the National Level, there is the Central Consumers Protection Council, called the Central Council. The object of the central council shall be to promote and protect the rights of the consumers. A National Consumer Disputes Redressal Commission has also been established under the Act. This is a quasi-judicial machinery. It is the apex body at the national level. This national commission consists of five members (a president and four members). The president to be appointed by the Central Government is either judge or a retired judge of the Supreme Court. The other four members had persons of ability, integrity and standing. They have adequate knowledge and/or experience relating to in the fields of Economics, Commerce, Law, Accountancy, Industry and Public Affairs on Administration. Out of members one should be a woman. This commission can entertain complaints where the value of goods or services and compensation if any, Claimed exceeds Rs. 1 Crore.

### **B) State Council**

State Governments have established the State Consumer Protection Councils and also the State Consumer Disputes Redressal Commission with the same objectives. The state councils are advisory bodies.

### **C) State Commission**

The State Commission can entertain complaints where the value of goods or services and compensation if any, claimed exceeds Rs.20 lakh but does not exceed Rs.1 Crore. It can also entertain appeals against the orders of any district forum within the state. It can call for records and pass appropriate orders. The State Commission shall have three members. The president of the State Commission shall be a Judge or retired Judge of a High Court appointed by the State Government. The other two members shall be persons of ability, integrity and standing. One of the members shall be a woman.

### **C) District forum**

At the district level, each state establishes a Consumer Dispute Redressal Forum known as the district forum. The district forum should consist of a president and two members. The president shall be a person who is a district judge or qualified to be a district judge. A member shall be a person of eminence in the field of education, trade and commerce. One of the members shall be a lady social worker. The district forum shall entertain complaints arising from within the district. The district forum can entertain complaints where the value of goods or services and compensation if any

claimed is within Rs 20 lakhs. The district forum shall be located at the head quarters of the district in the state. The complaints filed with the district forum shall be disposed of within 90 days from the date of notice received by the opposite party. (Person answering the claim/complaints). The time can be extended upto 150 days if analysis and testing of goods is required. The same time limit is applicable to State and National Commissions.

The complaints filed with the district forum shall be disposed of within 90 days from the date of notice received by the opposite party. (Person answering the claim / complaints). Time extension can be given upto 150 days if analysis and testing of goods is required. The same time limit is applicable to state and national commissions.

### **Procedure for making complaints before the District Forum or State Commission.**

An aggrieved consumer or his authorised agent can present the complaint in person or by registered post. The complaint can be written even on plain paper. No need to use stamp paper or payment of court fee.

The various steps involved in a consumer court case, from the point of view of the consumer are given below.

1. The consumer has to collect and keep ready all the evidences needed. Mere allegation is not a proof. Some documentary evidence or witness is needed.
2. The written complaint with sufficient number of copies containing the details referred to should be kept ready. Before filing the written complaint the consumer can approach the seller and get his views in this regard. In many cases, the problems are followed even before filing the suit.
3. If a person is acting on behalf of another, the necessary permission to act as an agent should have been obtained.
4. Receiving notice from the district forum and attending the hearing.
5. The opposite party will give its counter usually within 30 days from the date of receipt of notice if adjournment is asked for.
6. Reply to the counter should be submitted, if necessary.
7. On the next date of hearing, argument will follow and if need be witness will be brought in. There may be cross-examination and lastly the district forum will communicate its orders. If need be, the aggrieved party can appear before the state commission with in the stipulated period.

### **The complaint should contain the following particulars:-**

- a) The nature, description of the complaint and address of the complainant
- b) The nature, description and address of the opposite party or parties as the case may be, so far as they can be ascertained.

- c) The facts relating to complaint and when and where it arose.
- d) Document in support of the allegations contained in the complaint.
- e) The relief which the complainant claims
- f) All the relevant documents such as invoice, money receipt, delivery note, guarantee card, etc., may be exhibited in the forum.
- g) Besides the above, a signed affidavit should also be enclosed.

In case the goods are to be analysed and tested (for adulteration of oils, grains and such other items) the district forum may direct the complainant to give two separate samples. The packing procedure, for such sample goods is also provided under the rules. One set of these samples will be forwarded to the appropriate “laboratory” by the district forum.

The complainant himself or his agent can appear before the district forum on the date of hearing. It is obligatory for the complainant and opposite party to be present on the date of hearing. If either of the parties fails to appear, the case will be either dismissed or decided on merit.

After enquiring from both the parties, the district forum will pass the most appropriate order. It may be any one of the following orders:

- a) To rectify the defect in the goods
- b) To exchange the product
- c) To refund the amount received
- d) To compensate for any loss
- e) To stop unfair trade practices
- f) To stop harmful services and sale of harmful goods
- g) To pay the cost of litigation and incidental charges to the complainant or complaineer.

### **Merits of the Consumer Protection Act, 1986**

After the passing of Consumer Protection Act, the aggrieved consumer has been benefited in the following ways:

1. Instead of filing a case in a regular court, he can take up to the consumer court. The regular courts are already burdened with cases pending for many years. In a regular court generally, one has to take the services of an advocate but in a consumer court, the complainant himself can argue the case.

2. In a consumer court cases are disposed of within 90 or 150 days as the case may be. In a regular court, it takes several years to dispose the cases..
3. For filing a case in the consumer court no stamp fee need be paid. The complaint can be filed even on a plain paper
4. There is no cumbersome procedure to be followed by the complainant in a consumer court.

In short, the aggrieved consumer gets a speedy justice at a lesser cost with less formality.

In many cases, the lower consumer court (District forum and State commission) decides cases on the basis of precedents and decisions taken by the others forums in other districts and states and the National Commission. Hence, judgments are delivered speedily.

### **Consumer Movement in Tamilnadu**

After the passing of the Consumer Protection Act in 1986, by the Central Government and Tamilnadu Government implemented the said Act in our State and framed necessary rules under the Act in 1988. It set up the state commission and the district forums. It is rendering all assistance for the growth of the consumer movement. Today we have district consumers / forums functioning almost in all district head quarters.

### **Role of Government in Consumer Protection**

1. To make the function of consumer courts more meaningful, the Government is conducting training programmes for non-judicial members of the forum/ commission.
2. A consumer welfare fund has been created. Financial assistance is sanctioned to various consumers organisation for creating consumer awareness.
3. Rural consumer co-operative societies and the public distribution system are being strengthened.
4. The growth of voluntary organisations is encouraged by the Government to lessen the burden of consumer courts.
5. March 15th of every year is declared as a Consumer Protection Day to educate the public about their rights and responsibilities
6. A national institute of consumer affairs is being set up.
7. There is an Indian federation of consumer organizations
8. The Central Government is thinking of having a separate Ministry for Consumer Affairs.

## **Role of voluntary organizations in consumer movement**

We have so far discussed the Consumer Protection Act in detail and the various steps taken by the Government to protect consumer interests. Governmental legislation and rules and regulations can help the consumers to some extent. We all as a body of consumers have to voluntarily take recourse to a mass movement. Then only will consumerism and consumer protection be a reality.

At the world level, the International Organization of Consumer's Union (I.O.C.U) exists. Another non-governmental organization, namely, the Consumer International exists as the apex body in the world.

In India, some of the leading voluntary organizations are:

1. Consumer Guidance Society of India: (CGSI) was established in 1966 as a non-profit non-political organisation. This organisation was set up by a group of nine housewives and a few social workers. It is the pioneer of consumer movement in India. Today it has spread its wings throughout the country. It has ordinary members, life members, institutional members, and associate members, it has a number of branches.
2. Consumer Education and Research Society, Ahmedabad
3. Consumer Action Group (CAG), Chennai
4. Federation of Tamil Nadu Consumers Organisation
5. Tamil Nadu Consumers Protection Council, Trichy.
6. Common Cause, New Delhi
7. Tamil Nadu Consumers and Welfare Council, Salem

The role and functions of most of the voluntary organisations are almost identical. They are:

### **1. Consumer Guidance**

They build up consumer awareness through periodical exhibitions meetings, demonstrations, and through television, radio and such other mass media. They address students, women groups and social organisations.

### **2. Consumer Education:**

They bringout journals to educate consumers. Trained social workers educate the lower income groups through various programmes. The tricks and sharp practice of unscrupulous traders are exposed. Consumers buying power, credit and satisfaction are improved.

### **3. Consumer Representation**

These voluntary societies represent consumers in advisory bodies such as the central council, state council and lobby in parliament and assemblies on behalf of the consumers.

### **4. Consumer Protection**

These voluntary bodies act as the listening board for consumer grievances. They follow the complaints against shopkeepers, leaders and manufacturers. They file public interest litigations in consumer and regular courts.

### **5. Consumer Resistance**

A strong consumer resistance movement is also being built up on the lines of Swadeshi movement. Goods, which are to be boycotted on some ground or other, are being listed and circulated. These voluntary bodies have achieved spectacular results. Hundreds of cases have been won in various consumer courts on behalf of the consumers. Let us cite just one interesting case relating to deficiency of service.

A famous dog bite case was filed by the Consumer Education and Research Centre, Ahmedabad against the Life Insurance Corporation of India in the Supreme Court. The decision is a milestone in regard to the benefits payable to the policyholders who have died out of accident beyond the stipulated period of 90 days as specified in the policy. A victim of dog bite died after 92 days. The Life Insurance Corporation rejected the claim as death occurred after the stipulated period. The Supreme Court upheld the claim saying that cause of death should be the criteria and not the period of death. Invention of life saving drugs and advancement of medical science could have postponed the death. Now thousands of people who die of rabies can avail the insurance benefits.

With the liberalisation of our economy Multinational Corporations have entered India. Some of them may adopt all sorts of unfair trade practices and try to exploit the Indian consumer. So an ALERT CONSUMER IS THE NEED OF THE HOUR. Consumer Education has become an integral part of formal education. Indira Gandhi National Open University (IGNOU) conducts Certificate and Diploma courses in consumer education through correspondence education.

## Questions

### I. Multiple choice :

1. The term consumerism came into existence in the year.  
a) 1958  
b) 1954  
c) 1957  
d) 1960
2. Who is the father of consumer movement?  
a) Ralph Nader  
b) Mahatma Gandhi  
c) Mr. John F. Kennedy  
d) H. Buskirk & James
3. The Consumer Protection (Amendment) Act was passed in the year  
a) 1994  
b) 1990  
c) 1993  
d) 1998
4. The number of members in District Forum, State Commission and National Commission are \_\_\_\_\_ respectively.  
a) 3,3,5  
b) 3,3,3  
c) 1,3,5  
d) 3,2,4
5. Which of the following is Consumer Oriented Act?  
a) Indian Companies Act 1966  
b) Partnership Act 1932.  
c) Indian Income Tax Act 1961  
d) Hire Purchase Act 1972
6. Penalty for the violation of the orders of the forum commission is  
a) A fine or imprisonment or both  
b) Imprisonment upto 3 year  
c) Fine upto Rs.50,000  
d) Fine upto Rs .15,000
7. The former president of the USA, Mr. John F. Kennedy summed up the basic consumer rights are  
a) Right to Safety  
b) Right to be informed  
c) Right to Choose  
d) Right to be Heard.  
e) All of the above
8. The Consumer Protection Act 1986 came into force with effect from  
a) 1.1.1986  
b) 1.4.86  
c) 15.4.87  
d) 15.4.90

### Answers :

1. (d) 2. (a) 3. (c) 4. (a) 5. (d) 6. (a) 7. (e) 8. (c)



## II. Fill in the Blanks

1. Salesmanship is the ability to convert \_\_\_\_\_ into \_\_\_\_\_.
2. Salesmanship is a connecting link between \_\_\_\_\_ and \_\_\_\_\_.
3. Products reach the hands of customers through a number of \_\_\_\_\_.
4. The Sale of the Goods Act was passed in the year \_\_\_\_\_.
5. \_\_\_\_\_ of every year is celebrated as consumer's day.
6. An \_\_\_\_\_ consumer is the need of every hour.
7. The loss claimed by the consumer must be loss based on some \_\_\_\_\_.
8. The national commission had a president and \_\_\_\_\_ member.
9. Generally cases in the consumer court are disposed of within \_\_\_\_\_ days.

### Answers :

- |                      |                    |             |
|----------------------|--------------------|-------------|
| 1. Human needs, want | 2. sellers, buyers | 3. channels |
| 4. 1930              | 5. 15 march        | 6. Alert    |
| 7. Deficiency        | 8. Four            | 9. 90       |

## III. Match the following

- |                                      |       |                                     |
|--------------------------------------|-------|-------------------------------------|
| 1. Mahatma Gandhi emphasized         | - (a) | Consumer Guidance Society of India  |
| 2. Consumer Legislation              | - (b) | Ralph Nadar                         |
| 3. A voluntary consumer organisation | - (c) | State consumer redressal commission |
| 4. Father of consumer movement       | - (d) | Sale of Goods Act 1930              |
| 5. A statutory consumer body         | - (e) | Consumer protection                 |

**Answers :** 1.(e)      2. (d)      3.(a)      4.(b)      5.(c)

#### **IV. Short Questions.**

1. Give the meaning of Consumerism.
2. Define the term 'consumer movement'.
3. What are the rights of consumer according to John F.Kennedy?
4. Write a short note on National Commission.
5. Write a shorts note on Consumer Movement in Tamil Nadu.
6. Define Salesmanship.
7. Give the importance of salesmanship.
8. What are the types of retail salesman?
9. Distinguish between salesmanship and personal selling?
10. Write short note on State Commission?.

#### **V. Paragraph Questions.**

1. What are the various types of salesman?
2. Define consumerism. How consumers are exploited?
3. Explain the origin and growth of the consumer movement in India?
4. What are the consumer oriented legislations in India?
5. What are the special features of Consumer Protection Act 1986?
6. Briefly bring out consumer movement in Tamilnadu.
7. How does Consumer Protection Act help the consumes?

#### **VI. Essay type questions.**

1. Explain the rights and responsibilities of consumers.
2. Explain the structure of Consumer Protection Councils and Forums.
3. Explain the procedures to be followed before lodging a complaint to the District Forum/State Commission.
4. Explain the role of Voluntary Organisation in consumer movement.
5. Explain the salient features of the Consumer Protection Act 1986.

## **BIBLIOGRAPHY / REFERENCES**

1. Essentials of Commerce
  - Dr.O.R. Krishnaswamy
2. Principles and Practice of commerce
  - R.K. Sharma, Shashi K.Gupta, Arunmehra
3. Business and Society
  - K.V.Sundaram, Balagangadharan
4. Elements of Commerce
  - J.C. Sinha
5. Organisation of Commerce
  - S.A.Sherleker & Dr. P.C. Shejwalkar
6. Principles and practice of Commerce
  - J. Stephenson
7. Elements of Commerce
  - S.S.Gulshan & M.P.Gupta
8. Salesmanship & Publicity
  - Dr.M.M. Varma & R.K.Aggarwal
9. Modern Marketing
  - S.A.Sherlekar
10. Marketing Salesmanship & Advertising
  - M.S.Ramaswamy
11. Principles of Marketing & Salesmanship
  - J.C.Sinha
12. Fundamentals of Business Organisation & Management
  - Y.K. Bhushan
13. Principles and Practice of Marketing in India
  - C.B. Manoria & R.L.Joshi
14. Fundamentals of Selling
  - R.G.Walters & John W.Wingate

15. Business Organisation & Management
  - Prof.Sohrab R.Deva
16. A Text Book of Marketing
  - Prof.M.S.Arockiasamy
17. Electronic Commerce
  - Gary P.Schneider & James T. Perry.
18. International Business
  - 2nd Edition - Francis Cherunilam Wheeler Plushing, New Delhi.
19. Global Marketing Management
  - S.A. Sherlekar & V.S. Sherlekar Himalaya Publishing House - New Delhi
20. Business Organisation
  - Principles & Practice J.C. Katyal, R.K.Sharma, Shasi Gupta Kalyani Publications - New Delhi
21. Indian Economy
  - S.Sankaran - margham Publicaitons - Chennai.
22. Money, Banking International Trade and Public Finance.
  - T.T. Sethi
23. Marketing Management
  - T.Subbi Reddy
24. Marketing
  - Rajan Nair
25. Modern Marketing Principles and Practice
  - R.S.N.PILLAI, Bagavathi.
26. Website
  - Tnwarehouse
27. Indian Financial System & Commerical Banking
  - P.N.Varshney
28. Elements of Commerce
  - Surajit Sengupta M.A