June 2018

ECO-01 Business Organisation

Note : Attempt both Part - A and Part - B.

PART – A

1. Attempt any four of the following : 5+5+5+5

Ans: Underwriting refers to an agreement between the promoters or directors of a company on the one hand, and an individual, firm or institution (known as underwriter) on the other, whereby the latter agrees to take up the whole or part of the shares or debentures issued which may not be subscribed by the public.

In consideration of the undertaking given by the underwriter, the company agrees to pay a commission which is known as 'underwriting commission'. The commission agreed upon is generally a percentage of the issue price of the shares or debentures underwritten.

There is a written agreement betwcen the company and the underwriter known as the 'Underwriting Agreement' (or Contract). Usually the following aspects are specified in this agreement.

i) The number of shares or debentures which are agreed to be underwritten.

ii) An undertaking by the underwriters to take up such of the shares or debentures as are not subscribed by the public.

iii) An undertaking by the company that the terms of issue given in the prospectus will not be changed without the consent of underwriters.

iv) Authority of the underwriters to the company to allot them the balance of shares or debentures not taken up by the public.

v) The rate of commission to be paid to the underwriters and the mode of payment.

The commission is payable as a percentage of the issue price of all \he shares or debentures even if the issue is fully subscribed by the public.

To the promoters of a company the most important advantage of underwriting is that the funds required for the enterprise become available whether or not there is adequate public response to the issue of shares and debentures. The underwriters ensure the availability of finance. A new company has to invariably enter into various contracts with different parties for purchase of fixed asscts and other arrangements before the commencement of business. The promoters can confidently proceed with the preliminary steps after the underwriting agreement. They do not have to wait for the public response and actual subscription to the issue of shares and debentures. Thus, precious time may be saved and business activities started on a sound basis as a result of underwriting.

Another advantage of underwriting is that the company gets the benefit of expert advice from the underwriters.

The only disadvantage of underwriting is that it adds to the cost of raising finance. Thus, the rate of return on investment proposed to be made with the funds raised must be sufficiently high so as to absorb the additional cost of floating shares and debentures. But the significance of underwriting arrangement is such that even well-established profitable companies cannot avoid it while issuing additional shares or debentures to the public. Smaller companies often find the cost involved quite heavy.

(b) Differentiate between Advertisement and Publicity.

Ans: Advertising: The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. There is a huge investment to be made for advertising a single product. The key persons behind advertising are the company and its representatives. Advertising is under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Advertising is always customer focused, i.e., the more creative the advertise, the more are the customers attracted to it. Advertising always speaks the goodness about a product, to persuade the target audience to buy it. In contrast to publicity, the company has to pay money to the media for the space or time used. There is an identifiable sponsor. Normally, a company sponsors it for its product or service.

Publicity: The activity of providing information about an entity, i.e., a product, an individual or a company to make it popular is known as Publicity. It is what others say about the product. Publicity does not require any kind of investment. Publicity is done by a third party which is not related to any company. Publicity is not under the control of the company. Publicity is done only one-time act. Publicity is not done keeping customers in mind. Publicity, it is unbiased, and so it will speak the reality, no matter whether it is goodness or illness. Company does not make any payment to the media for the time or space used for publicity. There is no identifiable sponsor. Media presents the information voluntarily.

(c) State the services rendered by the retailers to the consumers.

Ans: Services of retailers to consumers are:

i) Holding ready stocks : By holding stocks, retailers supply varieties of goods of daily use to consumers.
ii) Display of goods : By displaying goods on shelves or in show-cases, retailers bring new products to the notice of customers. They also keep the customers informed about the latest varieties of goods available for sale by explaining their qualities and prices. Customers are also given demonstration of new products on the sales counter.

iii) Advice to consumers : Very often retailers help the customers to make their decision to buy certain goods by advising them on the merits and use of particular varieties of products.

iv) Personal services : Apart from meeting the needs of different types of customers, retailers also offer a variety of services like home delivery, sale on credit, etc.

(d) Briefly explain the merits of Partnership form of organisation.

Ans:

Easy formation: Although the formation of a partnership firm is not as easy as the sole proprietorship, but it is much less difficult as compared to a company. The partners agree to do business together and draw up and sign the partnership agreement. After that there are no complex government laws regulating the establishment of the partnership.

More capital available: Unlike sole proprietorship, there are two or more partners in partnership firms. So, a partnership firm does not have to rely on a single individual as the source of its funds. The added financial strength of the partners increases the borrowing capacity of the firm.

More diverse-skills and expertise: The partnership involves more people in decision making because there are Inorc owners. An ideal partnership brings together partners who complement each other, not partners who have the same background and experience. One partner might be a specialist in manufacturing, another in marketing, and the third partner might be an accountant. Combined judgment of all these partners often leads to better decisions than otherwise.

Flexibility: Like $sole proprietorship, the partnership business is also owned and run by the partners themselves. They can easily appreciate and quiickly respond to the changing conditions.

Secrecy: In partnership firms, some secrecy can be maintained because there is no obligation to publish accounts of the firm.

Keen interest: Since partners are liable to losses and risks of a business, they take keen interest in the affairs of' the business.

Protection: Due to the rule of unanimity in fundamental matters, the rights of all partners are fully protected. If a partner is dissatisfied with the working of the firm, he can ask for dissolution of the firm and withdraw from the business.

Checks and controls over careless decisions: Since the partnership is run on collective basis and all partners participate in major decisions. there is lesser scope for reckless and hasty decisions.

Diffusion of risk: The losses of the firm will be shared by all the partners. Hence, the share of loss in the case of each partner will be less than that sustained in sole proprietorship.

(e) Briefly explain the procedure of raising funds through public deposits.

Ans: Companies often find it convenient and necessary to raise funds by inviting their . shareholders, employees and the general The Companies Act permits such deposits to be received for a period up to 3 years at a time. Thus, public deposits can be raised by companies to meet their shortterm and medium-term financial needs. It is a simple method of raising finance for which the company has only to advertise in the newspapers giving particulars about its financial position as prescribed by the Companies Act. The deposits are not required to be covered by mortgaging assets or by other securities. Moreover deposits can be invited by offering a higher rate of interest than the interest on bank deposits. C public to deposit their savings with the company. But companies are not permitted to raise unlimited amounts of fund through public deposits.

(f) State the problems of Public Enterprises.

i. Even though public enterprises are often registered as joint stock companies like any other private sector companies, their way of working is not fully commercial. It is so because these enterprises being close to the government system, often adopt the procedures, practices and attitudes prevalent in government departments.

ii. The Board of Directors of public enterprises are not fully professional. Often there is no continuity in the job of the top men.

iii. There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.

iv. There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.

v. Many important and large public enterprises are in areas where technology is difficult and new. And also the location is not always decided from the economic point of view.

vi. The workers unions are strong and well-organised. So, they are able to extract from these enterprises more than their rightful share.

vii. Most public enterprises show poor performance due to surplus manpower and low productivity of the personnel, almost at all levels, particularly so at lower levels.

viii. Public enterprises are very large in size as compared to private enterprises. Of the first 20 largest industrial enterprises in the country (in terms of assets), not leis than 16 are public enterprises. The complexity of managerial problems increase in geometric progression with increase in size. The public enterprises, by and large, have not been able to adequately cope with their complex managerial and administrative problems.

ix. Many constraints are also caused due to the public enterprises being subject to the government type audit by the Comptroller and Auditor General of India, and Parliament's scrutiny of their affairs.

PART – B

Attempt any three of the following

2. Define 'Advertising Media'. State its different types and the requisites of an ideal medium. 2+3+5

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

Advertising consists of preparing visual or oral message and their communication for making people aware of and favorably inclined towards a product or service or a point of view. The underlying objective of all advertising is to promote sales.

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

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

Advertising media may be divided into the following broad categories:

i) Press (Newspapers and Magazines)

ii) Radio

iii) Television

iv) Outdoor media

v) Direct mail

vi) Miscellaneous (Calendars, diaries, key-rings, purses, paper weights, etc., imprinted with a message along with the advertiser's name and address are also considered as advertising media)

Requisites of an ideal medium of advertising are:

1) Reach: The medium should be such as to reach the largest possible number of the target audience.

2) Message: It should be possible to convey the message adequately through the medium.

3) Economy: The medium must be economical from the point of view of cost.

4) Flexible: It should provide flexibility of size, design, layout, colour, etc.

5) Scope of repetition: The medium should provide adequate scope for repeating the message, if necessary, at frequent intervals.

6) Effective: The use of the medium should result in achieving the goal of sales promotion.

3. What are the various modes of creating charge ? 10 Explain them briefly.

Ans: The important methods of creating a charge are: (1) pledge, (2) hypothecation, and (3) mortgage.

(1) Pledge: Section 172 of the Indian Contract Act defines pledge as '&a bailment of goods as security for payment of a debt or performance of a promise". A pledge is a contract whereby a borrower delivers his movable property to the lender as a security for the loan on the understanding that the property pledged will be returned to the borrower on repayment of the debt. The borrower who pledges the property is called the 'pledged' or 'pawner' and the person with whom the property is pledged is known as 'pledgee' or 'pawnee'. Delivery of goods and return of goods are the two essential features of pledge. Delivery of goods may be either physical delivery or constructive (symbolic) delivery. When the pledgee puts his own lock on the godown or when the keys of the lock are handed over to the bank, it amounts to delivery of goods. Similarly, handing over the duly endorsed documents of title to goods like railway receipt, bill of lading, etc., amount to delivery of goods. While accepting a pledge as a charge, the bank should ensure that the contract is in writing to minimise the misunderstanding of the terms. The

contract should be complete in all respects and should incorporate all the usual clauses of pledge. It is advisable for the bank to get a declaration from the boirower to the effect the goods deposited with the bank are left as a security for the advance. The bank should see that the borrower has a valid title to the property pledged. The bank should ensure that the goods are kept safely in the godown. It is desirable that the bank should ensure goods against theft, fire, riot, etc. When goods are pledged, only the possession over the goods is given and not the ownership. The pledger or the borrower continues to be the owner of the property. If the borrower failed to repay the loan in time, the bank has a right to file a suit against the borrower for the recovery of the amount, and retain the goods as collateral security. But since this is a lengthy process, the banks are given the right to sell the pledged goods and recover their money. But before selling the goods, the bank must give a reasonable notice to the borrower about his intention to sell the goods. If the proceeds of sale are less than the amount due, the borrower is still liable to pay the balance. But if the proceeds of sale is in excess of the amount due, the bank has to pay the surplus amount to the borrower. In case the goods are sold without giving a reasonable notice to the borrower, the sale cannot be set aside, but the bank will become liable to the borrower for damages. For securing a charge on the property, the method of pledging is very simple and therefore, it is very popular. It should also be noted that the right to retain the goods pledged is applicable only in case of a particular debt for which the goods are pledged. The bank has no right to retain the security, as security for other debts owned by the borrower.

(2) Hypothecation: Hypothecation is a mode of creating charge on goods or related documents without the surrender of possession of goods. According to Prof. Herbert Hart, "Hypothecation is a legal transaction whereby goods may be made available as security for a debt without transferring either the property or the possession to the lender". Hypothecation is resorted to such cases where transfer of possession of the property from the borrower to the creditor is either impracticable or inconvenient. For example, if the borrower wants to borrow on the security of motor vehicle, which is being used as a taxi, it shall not be advisable to pledge the vehicle with the bank, as it will deprive him of his livelihood. In the case of hypothecation, an equitable charge is created on the goods for the amount of debt but the hypothecated goods actually remain in the physical possession of the borrower. The borrower who hypothecates the goods is known as 'hypothecator' and the lender is termed as 'hypothecatee'. Hypothecation is done by the borrower by executing a document called a 'letter of hypothecation' in favour of the lender. In this letter it is stated that the said goods or property are at the order and disposition of the lender until the debt is cleared. It also empowers the lender to sell the hypothecated property in the event of default or repayment by the borrower. As the lzypothecated goods remain in the possession of the borrower, there is considerable scope for fraud. The same goods may be hypothecated with another person. It is a risky method no doubt. That is why this facility is granted to parties of unquestionable integrity and honesty. Even then the banker should obtain a declaration from the borrower to the effect that the goods are not hypothecated earlier with some other lender and that the borrower has a clear title to the property hypothecated. The bank should carry out regular inspection and physical verification of the hypothecated goods.

(3) Mortgage: When immovable property like land and building is offered as security for debt, a charge is I created thereon by means of a mortgage. A mortgage is the transfer of the interest in a specific immovable property by one person to another for the purpose of securing an advance of money. The transferor is called 'mortgagor' and the transferee is known as 'mortgagee'. The advance of money in respect of which the mortgage is effected is called the ‘mortgage money' and the instrument by which

the mortgage is effected is called the 'mortgage deed'. In a mortgage, the possession of the property need not always be transferred to the mortgagee. Usually, it remains with the mortgagor. Since the mortgagee gets the interest in the property, he has a right to sell of the property and recover his loan. When the borrower ' repays the amount of loan together with interest, the interest in the property is re-conveyed to the mortgagor. While accepting a mortgage as a charge, the bank should ensure that the borrower has a valid title to the property and this can be done by examining the original title deeds. The bank must not part with the title deeds to the borrower when the mortgage is pending. If the advance against mortgage is given to a joint stock company, then the charge should be registered with the Registrar of Companies within 30 days of the creation of the charge. The mortgaged property should be inspected periodically to ensure that it is in good condition. If the property mortgaged is building, the bank should ensure that it is insured against fire, riot etc. There are several forms of mortgage. They are (i) simple mortgage; (ii) Usufructuary mortgage; (iii) English mortgage; (iv) Mortgage by conditional sale; (v) Equitable mortgage or mortgage by deposit of title deeds and (vi) anomalous mortgage.

4. What is a 'Public Corporation? Explain its merits and limitations. 2+4+4

Ans: Public corporation is corporate body created by the Parliament or State Legislature as the case may be, by a special Act which defines its powers. duties, functions, immunities and the pattern of management. Public corporation is also known as statutory corporation. The capital is wholly subscribed by the government. It is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be.

Public corporations are constituted for any of the following purposes:

i) To transfer the business of a nationalised undertaking to the corporation.

ii) To facilitate the acquisition of undertakings belonging to an existing company.

iii) To promote, develop and operate certain schemes.

iv) To extend certain social services and utility-services.

v) To provide for regulation and control of the working and operations of an institution or for other matters connected therewith or incidental thereto.

Public corporation is an autonomous corporate body created by a special Act of a legislature as the case may be. The Act defines the powers, duties, privileges, immunities, relationship to thc government department, etc. : It is Fully owned by the state and the capital is wholly subscribed by the state.

Merits of public corporation are:

i) Initiative and flexibility (Autonomous set-up): As it is autonomous corporate body set up under an Act of Legislature, it manages its affairs independently with its own initiative and flexibility. There is great flexibility in terms of a public corporation's operations. It experiments in new lines, exercises initiative in business affairs and enjoys the operational flexibility as in private enterprises.

ii) Avoids red-tapism: The evils of red-tapism and bureaucracy associated with departmental form of organisation are avoided. Business functions cannot be carried out efficiently in a government set-up, which is marked by rules, regulations and procedures. Compared with a departmental organisation a public corporation can take quick decisions and prompt actions on any matter affecting its business.

iii) Easy to raise capital: Public corporations are government owned statutory bodies. They can easily raise required capital on their own whenever needed by floating bonds at relatively lower rates of interest. Public also comes forward to subscribe to such bonds since they are safe.

iv) Protects public interest: Compared to a departmental organisation, a public corporation is relatively free from political interference, parliamentary enquiry and departmental checks and controls. Although it has a considerable degree of administrative autonomy, its policies are subject to parliamentary control. Thus, it ensures protection of public interests. Further, the Board of Directors of the public corporations consists of persons from various fields such as business experts and the representatives of special interests like labour, consumers, etc., who are nominated by the government. Thus, exploitation of any class at the cost of another is ruled out.

v) Works with service motive: Public corporation avoids the defects of profiteering, exploitation, illegitimate speculation, etc., which are often associated with private enterprises. A public corporation works primarily with service motive and profit Forms of Organisation in earning is only a secondary consideration. Though it works efficiently to show good Public Enterprises results in the form of 'surplus,' such surplus must not be the result of exploitation. The surpluses generated by the public corporations are used for the good of the consumers and the community.

vi) Secures working efficiency: It secures greater working efficiency by providing better amenities and more attractive terms of service to its employees which in turn; reduces the labour problems.

vii) Secures benefits of large scale economies: Economies of large scale operations are realised by the virtue of increased size and scale of the business. Further, it is easy to reap considerable economies in management by affecting the integration of several companies under this form. For example, giant government undertakings organised as autonomous units such as, banking, insurance, transport, etc., can secure better management and staff with comparatively lesser costs.

Limitations of public corporation form of organisation :

i) Less autonomy: Compared to departmental form, public corporations enjoy more autonomy. But, in practice, the autonomy of public corporation is closely and systematically controlled by the government even in matters where they are supposed to have freedom. For example, the Food Corporation of India and the Electricity Boards in various States (these are statutory corporations) are of important to the government and to the public at large. But, the Central and State Governments often find it difficult to allow them the freedom which they are entitled to as per their Acts.

ii) Inflexibility: A public corporation is set up by a special Act of legislature. Any change in the objects and powers of the corporation requires an amendment in the Act by the legislature. This tends to make a corporation inflexible and insensitive to changing situations.

iii) Clash amongst divergent interests: As you know, the corporations are owned by the government and are managed by a Board of Directors appointed by the government. When the Board of Directors represent different interests there may be clash of interests. This in turn, may hamper the smooth functioning of the corporation. Sometimes, the directors may abuse their autonomy and authority by indulging in undesirable practices. This would defeat the social objectives of public corporation.

iv) Ignores commercial principles: Public corporations do not have to face any competition. They are neither guided by profit motive nor haunted by the fear of loss. Therefore, there is a possibility of ignoring commercial principles in their working. This may ultimately lead to inefficiency and losses to the corporation. The losses, thus arising are met by the government through subsidies.

v) Excessive public accountabili6: You know that the public corporations work with the service motive rather than profit motive. This public accountability of the corporation sometimes acts as a stumbling block in the operational efficiency of the enterprise.

5. What is a joint stock company ? Explain its limitations as a form of business organisation. (3+7)

Difficulty in formation: Promotion of a company is not as simple as proprietorships and partnerships. A number of persons known as promoters should be ready to associate themselves with it for getting a company incorporated. A lot of legal formalities are to be performed at the time of registration. Promotion of a company is expensive as well as complicated.

Lack of secrecy : The management of companies is usually in the hands of many persons. Everything is discussed in the meetings of Board of Directors. Therefore, compared to sole trader and partnership concerns, maintaining business secrets is relatively difficult in a company form of organisation.

Delay in decision making: In company form of organisation all important decisions are taken by either the Board of Directors or shareholders in their meetings. Hence. decision making process is time consuming. If a quick decision is needed it will be difficult to arrange meetings all of a sudden. So, some business opportunities may be lost because of delay in decision making.

Neglect of minority interest: The representatives of the majority group of shareholders become the members in the Board of Directors. The shareholders who are in minority never get representation on the Board of Directors. As a consequence, the interests of the minority members may be neglected and oppressed at the hands of the majority group.

Concentration of economic power: The company form of organisation gives scope for concentration of economic power in a few hands. Some persons become directors in a number of companies and formulate policies to promote their personal interests. The shares of a number of other companies are purchased to create subsidiary companies. Establishment of subsidiary companies and interlocking of directorships have facilitated concentration of economic power in the hands of a few business houses.

Lack of personal interest: In sole proprietorship and partnership firms business is managed by owners themselves. In company form of organisation, day-to-day management is vested with the salaried executives who do not have any personal interest in the company. This may lead to reduced employee motivation and result in inefficiency.

More government restrictions” The company is subject to many restrictions from which the proprietorships and partnerships are exempted. So, it has to spend considerable time and effort in complying with the various legal requirements.

Fraudulent management: There is a possibility that some unscrupulous promoters may float a bogus company, issues shares and collect money. Later on, they can get away with the money by putting the company in liquidation. It is also possible that the directors and professional managers may misuse the company resources for their personal benefit and bring losses to the company.

6. Write short notes on any two of the following : 5+5

(a) Aids to trade

Ans: Activities which facilitate the trade are called 'aids to trade'. Thus, all human activities which eliminate the hindrances and facilitate the flow of goods from producers to consumers come under aids to trade. They are also called 'auxiliaries to trade'. The whole range of activities coming under aids to trade may be classified into five categories: 1) transportation, 2) warehousing, 3) insurance, 4) advertising, and 5) banking.

1)Transportation: All the goods are not consumed at the same place where they are produced. In the modern times there is a vast distance between centers of production and the centers of consumption. Therefore, goods are to be moved from the place of production to the place where they are demanded. This difficulty is removed by an important aid to trade known as transport. Thus, transportation eliminates the hindrance of place and creates place utility to goods. Transportation can be of three types: a) Land transportation - road, rail b) Air transportation-aeroplane C) Water transportation-boat, ship

2) Warehousing: Warehousing is an act of carefully storing goods in warehouses to sell or distribute them later. Warehousing is essential because there is a time gap between production and consumption. In other words, goods which are produced at one time, are not consumed at the same time. Hence, it becomes necessary to make arrangements for storage or warehousing. Goods once produced should be preserved properly till they are consumed. Particularly, perishable goods like milk, meat, vegetables, flowers, etc., should be preserved very carefully. Otherwise, they get spoiled and become useless. For this reason warehousing is recognised as yet another aid to trade. Thus, warehousing eliminates the hindrance of time and provides time utility to goods.

3) Insurance: The goods may be destroyed while in production process, or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover thcse risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'. Thus, insurance eliminates the hindrance of risk.

4) Advertising: Exchange of goods is possible only when the consumers have the knowledge about the existence of a product. This is the hindrance of knowledge. This hindrance is eliminated through advertising. Through advertisement, producers communicate all information about their goods to the prospective consumers and create in them a strong desire to buy the product. Thus, advertising facilitates the flow of goods between producers and consumers by bringing the knowledge about the products to the consumers. Advertising is done through TV, radio, newspapers, magazines, hoardings, wallposters, etc.

5) Banking: Banking solves the problem of finance. Banking facilitates the flaw of goods by removing the hindrance of finance and credit. Businessmen receive money and pays money in large amounts. It is risky to carry a large amount of cash from one place to another. Here comes banking as a solution. Banking and financial institutions solve the problem of payment and facilitate a smooth exchange between buyer and seller. The businessmen may also require short-term and long-term funds. Bank

provide such finance to businessmen. Banks also advance loans in the form of overdraft, cash-credit and discounting of bills of exchange etc.

(b) Money market

Ans: Money market refers to transactions involving borrowing and lending of money for short periods for which again there is no definite place set aside in a town. A market for short-term funds that is meant to use for a period of upto one year is known as Money market.

The participants of money market are banks, financial institutions, foreign investors, and public and private companies. However, ordinary retail investors from public do not participate in this market. The money market deals in securities of short-term with a maximum tenure of one year. Money market securities are highly liquid. The instruments of a money market are less risky or safe as they are used for a short period of time and also because of the soundness of the issuers. The duration of money market is short; therefore, the expected return here is less. Companies approach money market when they need working capital. Transactions involving borrowing and lending of money for short periods for which again there is not definite place set aside in a town. Treasury bills, Commercial papers, Certificate of deposit, trade credit etc.

(c) Channel of distribution

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

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

1. Transactional Functions

2. Logistical Functions

3. Facilitating Functions

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

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

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

Thus, the channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post purchase service and maintenance, financing, market information, etc.

The distribution channels can be classified into two categories:

i) Direct channels

ii) Indirect channels

Direct channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen is present between the producer and the consumer. They' establish direct link with the consumers through travelling salesmen or through their own retail shops or show-rooms. The producer or manufacturer may employ salesmen to book orders by contacting the, potential users, and supply may be arranged from the stock held by the producer himself. Alternatively, the producer may set up retail shops/show rooms in different localities and sell-goods directly to the customers as shown below:

i) Producer --> Travelling Salesman -->Consumer

ii) Producer --> Retail shop/showroom -->Consumer

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

i) Producer-->Retailer-->Consumer

ii) Producer-->Wholesaler-->Consumer

iii) Producer--> Wholesaler-->Retailer-->Consumer

iv) Producer-->Agent-->Wholesaler-->Retailer-->Consumer

(d) Procedure of Import trade

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

i. Trade Enquiry

ii. Obtains import License

iii. Obtains Foreign Exchange

iv. Places the Order/Indent

v. Arranges Letter of Credit

vi. Gets Shipping Documents

vii. Clears the Goods

viii. Makes Payments

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

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

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

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

Arranges Letter of Credit : Depending upon the terms of the importer may have to arrange a letter of credit to be issued by his bank in favour of the exporter. All the terms and conditions agreed upon between the importer and exporter are generally spelt out in the letter of credit. The importer's bank issues the letter of credit authorising the correspondent bank in the exporter's country to buy the bill drawn by the exporter on the importer, or to accept the bill drawn on the bank itself. The importer's bank may require adequate amount to be deposited by the importer so as to cover the amount for which the letter of credit is issued.

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

1) Revocable letter of credit: It can be withdrawn or altered or revoked at the discretion of the issuing bank without the prior consent of the exporter.

ii) Unconfirmed irrevocable letters of credit: It cannot be cancelled or altered or withdrawn by the issuing bank prior to the date of expiry, without the consent of the exporter and is thus much safer.

iii) Confirmed irrevocable letters of credit : The irrevocable letter of credit shall be more safe if it is confirmed or guaranteed by a bank. With a confirmed irrevocable credit, the bank must pay the exporter, whatever happens to the importer or the foreign bank.

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

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

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