1 STAKEHOLDERS IN COMMERCIAL ORGANISATIONS

Learning Objectives

After studying this chapter, you should be able to understand :

1.1. The Meaning of Stakeholders
1.2. Distinction between Stakeholders and Shareholders
1.3. Distinction between Stakeholders and Customers
1.4. Internal and External Stakeholders
1.5. Expectations of Stakeholders
1.6. Stakeholders Analysis

In the course of its functioning, a business enterprise or commercial organisation interacts closely with several social groups. Such interaction gives rise to a shared community of interest between the organisation and the social groups that surround it.

1.1. MEANING OF STAKEHOLDERS

The term 'stakeholders' has developed from the word 'stake' which means an interest or expected benefit. Stakeholders, therefore, mean all those individuals, groups and institutions which have a stake in the functioning and performance of a commercial organisation or a business enterprise. A person is said to be a stakeholder when that person has an interest in the organisation. The decisions and actions of the organisation influence the stakeholders directly or indirectly. These stakeholders may vary greatly from a few individuals to large institutions such as the Government. When a commercial organisation interacts closely with various groups in society, a community of interests develops between it and social groups. A commercial organisation must seriously consider the interests of its stakeholders. If it disregards them, the stakeholders can combine to block or delay its operations.

Stakeholders can have both positive and negative impact on a commercial organisation. On the positive side, stakeholders provide the necessary resources and support to business. A business enterprise gets finance, labour, raw materials, machinery, etc., from its stakeholders. It sells and distributes its products and services through them. In times of distress stakeholders (e.g., banks and Government) may provide the necessary support. On the negative side, stakeholders may block or interrupt the functioning of an enterprise when their expectations are disregarded. Therefore, stakeholders play a vital role in determining the success or failure of a business enterprise. A commercial organisation cannot survive and grow for long without taking care of the interests (stake) of its stakeholders. According to George Goyder, "industry in the twentieth century can no longer be regarded as a private management for enriching shareholders. It has become a joint enterprise in which workers, management, consumers, the locality, Government and trade union officials play a part. If the system which we know by the name of private enterprise is to continue, some way must be found to embrace many interests which go to make up industry in a common purpose."

1.2. DISTINCTION BETWEEN STAKE-HOLDERS AND SHAREHOLDERS

Stakeholders is a much wider term than shareholders. In a joint stock company, the persons and groups who own the shares of the company are known as shareholders. They contribute the company's share capital and assume the risk of loss. In addition to shareholders, customers, creditors, employees, Government and others also have a stake in the company. These are all known as stakeholders. Thus, shareholders are one out of several stakeholders.

The term shareholders is used only in connection with a joint stock company but the term stakeholders is used in connection with all business enterprises — sole proprietorship, partnership, joint stock company, etc.

1.3. DISTINCTION BETWEEN STAKEHOLDERS AND CUSTOMERS

Customers are the individuals and groups who purchase the products or services of a business firm. They do not have a stake in the success of the firm and are, therefore, not stakeholders. Stakeholders is a much wider term than customers.

Customers are an important group. Business exists to earn profits through satisfaction of the needs and wants of its customers. Customer is known as the king. According to Drucker, there is only one purpose of business — to create a customer. The customer is the foundation of business and keeps it in existence. It is to satisfy the expectations of customers that society entrusts wealth producing resources to business. No business can survive and grow without satisfying the customers. In modern business the motto is to 'delight the customer' which means offering to customers more than what they expect. Customers are the suppliers of bread and butter (revenue) to a business enterprise. However, customer is not a stakeholder as he does not have a stake in the firm.

Basis of Distinction	*Stakeholders*	*Customers*
1. **Financial stake**	Stakeholders like shareholders and employees have a financial stake in a business firm.	Customers do not have a financial stake in a business firm.
2. **Supply of capital**	Stakeholders supply financial capital or human capital.	Customers do not supply any capital to the organisation.
3. **Buying goods and services**	Stakeholders do not buy goods or services from the organisation.	Customers buy goods or services from the organisation.
4. **Risk taking**	Stakeholders take risks of the organisation.	Customers do not take risks of the organisation.
5. **Product orientation**	Products are not manufactured according to the tastes of the stakeholders.	Products are manufactured according to the tastes of the customers.
6. **Market orientation**	Market orientation is not necessary for satisfaction of stakeholders.	Market orientation is necessary to satisfy customers.
7. **Sharing of profits**	Stakeholders share profits in the form of interest, dividend, wages and salaries.	Customers do not share the profits of the commercial organisations.
8. **Participation in management**	Stakeholders such as the owners participate in the management of organisation.	Customers do not participate in the management of the organisation.

Distinction between Shareholders and Customers

Basis of Distinction	*Shareholders*	*Customers*
Stakeholder	Shareholders are stakeholders as they have a financial stake in the company.	Customers are not stakeholders as they do not have a financial stake in the company.
Investment	Shareholders invest money in the company by buying its shares.	Customers do not invest money in the company.
Dividend	Shareholders receive dividend from the company.	Customers do not receive dividend from the company.
Risk	Shareholders undertake risk of loss on the investment made in the company.	Customers do not undertake risk as they do not invest in the company.

Distinction between Shareholders and Creditors

Basis of Distinction	*Shareholders*	*Creditors*
Type of Stakeholder	They are internal stakeholders.	They are external stakeholders.
Nature of investors	They invest in the capital of the company.	They only give loan to the company.
Degree of risk	They assume greater risk of loss of capital.	They assume lesser risk of loss of loan.
Profit-shaving	They share in the profits of the company in the form of dividends.	They do not share in the profits of the company and receive only interest on their loan.
Membership	They are the members of the company, have voting rights.	They are not members of the company, no voting rights.

4. INTERNAL AND EXTERNAL STAKEHOLDERS

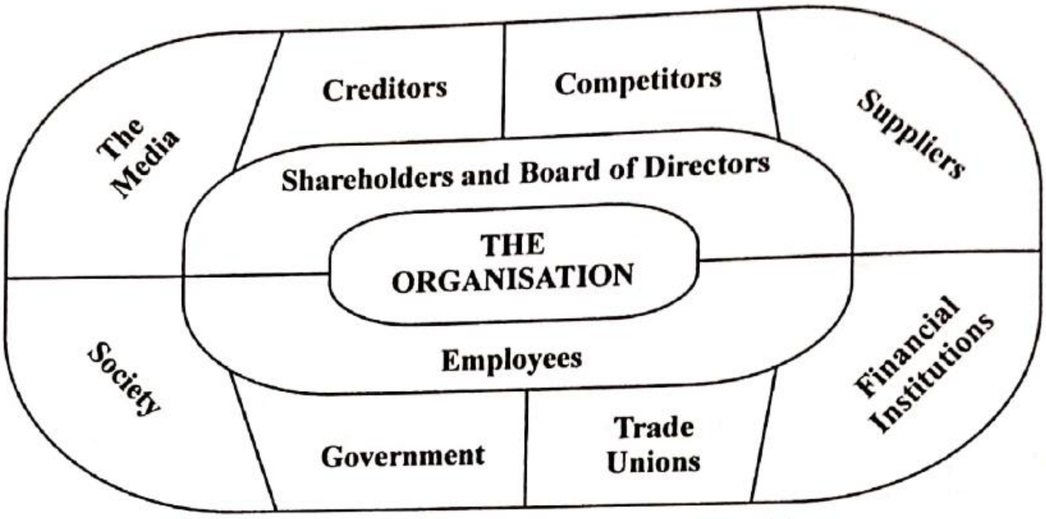
Stakeholders may broadly be classified into two categories as follows :

1. Internal stakeholders
2. External stakeholders

1. Internal stakeholders : Stakeholders who are involved in the business firms from within the organisation are known as internal stakeholders. They consist of owners/shareholders, employers and employees of the organisation. Shareholders or owners supply capital and have an important stake in the company. They assume the risks of business and participate in the profits and overall management of the company. Employer means one who offers employment to others. Employees (both managers and workers) provide the mental and physical efforts required for successful working of the enterprise. Their stake is also very crucial for the regular and smooth functioning of the enterprise. In case the firm does not succeed they lose their jobs. If the firm makes very little profits they get low salaries and wages.

2. External stakeholders : Stakeholders who are contributing to the business enterprise from outside the organisation are known as external stakeholders. They consist of creditors, suppliers, dealers, competitors, Government, local community, media and the society.

Stakeholders may be classified into primary and secondary. **Primary** stakeholders such as owners, employees, creditors, dealers, suppliers and competitors have more frequent and closer intractions with the enterprise than **secondary** stakeholders such as Government, media, local community and general public.



Internal and External Stakeholders

Basis of Distinction	*Internal Stakeholders*	*External Stakeholders*
1. **Position**	They operate from inside the organisation.	They operate from outside the organisation.
2. **Role**	They actively participate in the management and working of the organisation.	They do not participate actively in the management and working of the organisation.
3. **Constituents**	They consist of employers (owners and managers) and employees.	They consist of suppliers, customers, competitors, government and general public.

1.5. EXPECTATIONS OF STAKEHOLDERS

Every stakeholder group expects something from a business organisation. The expectations of different stakeholders are stated below :

Expectations of Employers (Owners, Shareholders and Managers)

Employers and Shareholders expect :

(i) safety of capital contributed by them

(ii) a fair and regular return (in the form of dividend) on their capital

(iii) capital appreciation in the value of their investment

(iv) accurate, up-to-date and regular information about the working and financial health of the company

(v) equal participation in policy decisions of the company

(vi) a public image of the company for which they can feel proud.

Expectations of Employees

Ideal employees expect :

(i) security of job and continuity of service under congenial conditions
(ii) a fair remuneration in the form of wages and salaries
(iii) safe and comfortable working environment
(iv) various welfare facilities such as housing, medical care, social security (in the form of pension, gratuity, provident fund, etc.), health, recreation, etc.
(v) opportunities for education, self-development, promotion and career growth
(vi) opportunity to participate in the profits and management of the organisation
(vii) quick and fair redressal of grievances
(viii) protection of trade union rights

Expectations of Suppliers

Ideal suppliers (those who provide raw materials) expect :

(i) fair prices for the supplies
(ii) regular and timely payment according to credit terms
(iii) reasonable terms of delivery and payment
(iv) regular orders for supply
(v) correct information about the company's financial position
(vi) healthy and co-operative inter-business relationship

Expectations of Creditors :

(i) safety of the loans given by them to the enterprise
(ii) regular payment of interest at the specified times
(iii) return of loans on the expiry of the specified time period
(iv) accurate and upto date information about the financial health of the enterprise
(v) security in the form of mortgage of assets or personal guarantee by owners of the enterprise

Expectations of Associates or Competitors

Ideal associates expect :

(i) fair trade practices regarding price, quality and service
(ii) an atmosphere of healthy competition and ethical behaviour
(iii) co-operation among competitors to ensure the growth of the entire industry
(iv) respect for intellectual property rights

Expectations of Government

An ideal Government should expect :

(i) to follow the laws and regulations of the country
(ii) to pay all taxes honestly, regularly and in time
(iii) to avoid corrupting public servants
(iv) to make proper use of scarce resources of the nation
(v) to assist in solving national problems like poverty, unemployment, unbalanced regional growth, etc.
(vi) to avoid monopoly and concentration of economic power.

Expectations of General Public (Society)

Society or community expects :

(i) to protect the environment from all types of pollution
(ii) to produce socially desirable products in accordance with national interest and priorities
(iii) to help weaker sections of society by giving them preference in employment and other fields
(iv) to improve standard of living of people by promoting educational, medical and cultural institutions
(v) to donate funds for charitable and public welfare activities
(vi) to preserve social and cultural values
(vii) to respect human rights including rights of women and children

Expectations of Stakeholders

Stakeholder	*Stake in Business*	*Expectations*
Owners (Shareholders)	Provide capital to business under calculated risks	(i) reasonable return (ii) appreciation in share value (iii) safety of capital (iv) information on financial position (v) participation in policy decisions
Board of Directors	Guide and control the working of the organisation	(i) freedom to manage (ii) fair remunerations (iii) dignity of position (iv) reasonable tenure
Employees	Provide physical and mental effort	(i) fair remuneration (ii) proper working conditions (iii) opportunity for growth in career (iv) social security and welfare (v) share in profits and participation in management
Suppliers	Provide raw material	(i) fair and timely payments (ii) regular orders (iii) correct informations about financial positions of the firm (iv) healthy business relations
Government and regulatory agencies	Regulate the functioning of the business in public interest	(i) pay taxes and other dues regularly and in time (ii) follow laws of the land (iii) cooperate in schemes of economic and social development.
General public	Interest due to contribution of business to the local economy	(i) optimum utilisation of resources (ii) avoid all types of pollution (iii) help weaker sections (iv) promote balanced regional development (v) preserve social and cultural values.

1.6. STAKEHOLDERS ANALYSIS

As stated above, a commercial organisation has several stakeholders, each having certain expectations. A systematic and comprehensive approach is required to understand the needs of diverse group of stakeholders. Stakeholder analysis is a modern approach as it helps to identify each stakeholders group, its expectations and changes in their expectations over time.

Stakeholders analysis is the process of identifying the various stakeholder groups who have an interest (stake) in the decisions and activities of a commercial organisation. The steps involved in stakeholder analysis are given below :

1. Identifying the Stakeholders : First of all, it is necessary to identify the internal and external stakeholders of a commercial organisation. Internal stakeholders consist of employers (owners and managers) and employees of the organisation. External stakeholders include customers, suppliers, business associates, Government and the general public.

2. Mapping Stakeholders Relationship : A map is prepared to depict the diverse groups of stakeholders. This map, known as the Stakeholder Relationship Map, illustrates the various groups with which a commercial organisation interacts. It must take into account the interests of these groups in the course of its functioning. This map enables the managers to better understand the relationships among various stakeholders on specific issues and problems.

3. Understanding 'Stakeholders' Coalition : Various groups of stakeholders may combine to provide support to the enterprise. But they may also combine to block the working of the enterprise when their interests are not protected by the owners and managers. It is, therefore, necessary that managers understand how stakeholders may align on specific issues. The possible coalitions of stakeholders need to be evaluated. Moreover, coalitions of stakeholders keep on shifting. Managers must know shifts on stakeholder coalitions and be responsive to such shifts. For this purpose, it is necessary to review periodically the stakeholder map and revise stakeholder issues matrix.

4. Assessing Stakeholders Interest : The interest or stake of every stakeholder group is different. Managers must assess the different interests of various shareholders. Without such an assessment and understanding, it is not possible to meet the expectations of stakeholders.

5. Judging Stakeholders' Power : Different stakeholder groups have different types of power. Shareholders (owners) have legal power to vote on major decisions of the company. They try to protect their interest through *voting power*. Customers, suppliers and dealers exercise *economic power* on the activities of a commercial organisation. Government and regulatory agencies exercise *political power*.

6. Deciding Priorities of Stakeholders : Different stakeholders have different priorities regarding an issue or problem. They may not be equally interested and involved in all issues. Managers must understand the priorities of each group of stakeholders on every issue separately.

SUMMARY

1. Stakeholders mean all those groups which have a stake in a business firm.
2. Shareholders are one type of stakeholders.
3. Customers are another type of stakeholders.
4. Shareholders, managers and workers are internal stakeholders.
5. Creditors, suppliers, Government and society are external stakeholders.
6. Every stakeholder group has certain expectations from a business.

EXERCISES

SHORT ANSWER QUESTIONS

1. Define the term 'stakeholders'.
2. Distinguish between 'stakeholders' and 'shareholders'. [ICSE 2012]
3. Who are the stakeholders of a commercial organisation?
4. What do you understand by internal stakeholders?
5. What do you mean by external stakeholders?
6. State any two expectations of the Associates from a business enterprise. [ICSE 2017]
7. What is stakeholders analysis?
8. State any two expectations of employees from a business concern. [ICSE 2005]

9. Mention any two expectations of suppliers from a business organisation. [ICSE 2012]
10. State any two expectations of shareholders from a business concern. [ICSE 2007]
11. Distinguish between internal and external stakeholders. [ICSE 2009, 2017]
12. State any two expectations of competitors from a business concern. [ICSE 2013]
13. Distinguish between a shareholder and a creditor. [ICSE 2010]
14. State any two expectations of the Government from a business concern. [ICSE 2010]
15. Distinguish between shareholders and customers. [ICSE 2011]
16. State any two expectations of the general public from a business organisation. [ICSE 2011]

LONG ANSWER QUESTIONS

1. Distinguish between stakeholders and customers. [ICSE 2015]
2. Explain the expectations of internal stakeholders in a commercial organisation.
3. Explain the expectations of the Government from a business organisation. [ICSE 2017]
4. Discuss the expectations of customers and business associates.
5. Explain the expectations of employers and employees as stakeholders in a commercial organisation.
6. Explain the conflicting needs of the stakeholders of a company. [ICSE 2008]
7. Give any five points of difference between stakeholders and customers of a company. [ICSE 2009]
8. Give any five expectations of employees from a business enterprise. [ICSE 2011]
9. Differentiate between shareholders and creditors as stakeholders of a commercial organisation. [ICSE 2013]
10. Write any five expectations of the General Public or Society from a Business Enterprise. [ICSE 2014]
11. Give any five expectations of creditors from a business enterprise. [ICSE 2015]

ASSIGNMENT/PROJECT WORK

The Chairman of Fine Textiles Corporation faces a serious dilemma. His employees are demanding an average wage increase of 10% over present wages. Since profits are expected to be very small even at present cost levels, the management would not accept another increase in costs unless prices are raised. Consumer groups, however, are pressing the firms to keep their prices at current levels. The Chairman wonders what to do in such circumstances. Advise him. What do you think should be the most socially responsible decision in this situation?

QUESTION BANK

Q.1. Who is a stakeholder in a Commerical Organisation?

Ans. Any one who has a stake (financial interest) in a commercial organisation is a stakeholder.

Q.2. Classify the six stakeholders of a firm into internal and external stakeholders.

Ans. Internal Stakeholders : Shareholders, employees

External Stakeholders : Creditors, suppliers, government, and society.

Q.3. Why customer is not a stakeholder in a firm?

Ans. A customer is not a stakeholder in a firm because he/she does not have a stake or financial interest in the firm.

Q.4. Explain the expectations of customers from a firm.

Ans. Expectations of customers from a firm are as follows :

(i) Good quality products or services

(ii) Reasonable prices

(iii) Cash receipts for the goods purchased

(iv) Fulfilment of guarantee / warranty

(v) Prompt and efficient after sale service in case of durable products.

Q.5. Explain the conflicting needs of the stakeholders of a company.

Ans. The needs and expectations of different stakeholders can be in conflict with one another. For example, when the prices of raw materials and wages of workers increase, cost of production goes up. The company has to increase product prices as otherwise it may not be able to maintain return to shareholders. But customers expect prices to remain constant. Workers demand increase in wages. Management of a company has to maintain a balance between the needs and expectations of various Stakeholders.

Q.6. Distinguish between Primary stakeholders and Seconday stakeholders.

Ans. (i) Primary stakeholders have closer and more frequent interaction with the commercial organisation than secondary stakeholders.

(ii) Owners, employees, creditors, dealers and supplies are primary stakeholders whereas government, media, local community and general public are secondary stakeholders.

2 MARKETING AND SALES

Learning Objectives

After studying this chapter, you should be able to understand :

2.1. Meaning of Marketing
2.2. Objectives of Marketing
2.3. Importance of Marketing
2.4. Difference between Marketing and Sales
2.5. Meaning of Product
2.6. Difference between Products and Services
2.7. Meaning of Pricing
2.8. Objectives of Pricing

In common language, the term 'market' is used to refer to a place where buyers and sellers actually meet to buy and sell goods and services. However, in the real sense, market means a group of buyers and sellers interested in exchanging goods and services for money. For example, all those persons who want and can afford to buy a car will constitute the market for cars. Due to paucity of time it is always not possible for the consumers to approach the seller. As a result, seller discovers novel means of reaching out to the consumer through various means of communication like fax, phones, SMS and mass media like Radios, Television and the Internet.

According to **Philip Kotler**, "A market is the set of all actual and potential buyers of a product." In the words of **Prof. Jevons**, "A market means a body of persons who are in intimate business relations and carry on extensive transactions in any commodity." According to **Clark and Clark**, "A market is a centre in which the forces leading to exchanges of title to a particular product operate and towards which and from which the actual goods tend to travel."

Thus, a market is the aggregate of the measures, activities and attitudes of buyers and sellers which influence the demand for a product or service.

2.1. MEANING OF MARKETING

There are two approaches to marketing — traditional (product oriented) and modern (consumer oriented).

Traditional Concept — According to the traditional approach, marketing is the process by which goods are made available to the consumers by the manufacturers. It involves transfer of goods and services from producers to consumers for value. In this approach marketing begins after the goods are produced and ends with their sale. Thus, the traditional approach focuses merely on the physical process of distributing goods and services.

Modern Concept — According to the modern approach marketing means sensing, stimulating, servicing and satisfying the needs and wants of present and potential customers in more efficient manner than the competitors. The main task of the organisation is to determine and satisfy the needs and wants of consumers.

According to **Philip Kotler**, "the marketing concept is a customer orientation backed by integrated marketing aimed at generating customer satisfaction as the key to satisfying organisational goals." Target market (the customers who are likely to buy the product), customer satisfaction, coordination (between all departments) and profitability are the elements of modern concept of marketing.

Elements of Modern Concept of Marketing :

(i) **Target Market :** The customers who are likely to use the product/service constitute the target market. The product/service should be designed and developed keeping in view the needs and wants of the target market.

(ii) **Customer Satisfaction :** Modern marketing seeks to satisfy customers through right product at right price, at right place and efficient after-sales service.

(iii) **Integrated Marketing :** Marketing activities are coordinated with the activities of other departments to achieve customer satisfaction.

(iv) **Profitability :** The focus is on achieving the long term goals of profitability and growth through customer satisfaction.

Some popular definitions of modern marketing are given below.

According to **William Stanton**, "Marketing is a total system of interacting business activities designed to plan, price, promote and distribute want satisfying goods and services to the benefit of present and potential customers."

In the words of **Philip Kotler**, "Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of values with others."

According to **H.L. Hansen**, "Marketing is the process of discovering and translating consumer wants into products and services and then in turn making it possible for more and more people to enjoy more and more of these products and services."

These definitions reveal the following **characteristics** of marketing.

1. Marketing is an integrated process : Marketing is not a single activity. It is rather a coordination of several inter-related activities. The interaction between different activities gives a unique character to marketing. Marketing is a managerial process in so far as it involves the functions of planning and control. Marketing is also a social process as it is concerned with the satisfaction of human needs.

2. Marketing is customer oriented : Marketing exists to identify and satisfy the wants of present and potential consumers. It starts and ends with the consumer. Customer is the focus of all marketing activities.

3. Marketing is a system : Marketing is a system comprising several sub-systems. Under marketing inputs (information about customers) are drawn from the society (supra system) and converted into outputs (want satisfaction) which are supplied to the society.

4. Marketing is a part of total environment : Marketing operates within the framework of total environment which comprises economic, social, legal, political, international and other forces. Changes in the environment influence marketing activities. Marketing is, therefore, a dynamic process as it keeps on adjusting to the changing environment.

5. Marketing is creative : Marketing creates time, place and possession utilities. Time utility is created by preserving goods for use in future. Place utility is created by carrying goods to places where they are needed most. Marketing creates possession utility by transferring products and services from producer to customer. Exchange process between buyer and seller is the essential element in marketing.

6. Marketing is goal-oriented : Marketing seeks to achieve benefits for both buyer and seller. It results in mutually beneficial relationship by satisfying wants of customers and by generating revenue for the seller.

7. Marketing is an art as well as a science : Satisfying human wants is an art requiring continuous practice. It involves application of knowledge and skills to create utilities for both buyer and seller. Marketing is a science in the sense that it contains an organised body of knowledge borrowed from economics, psychology, sociology, anthropology, law and other disciplines. Marketing is, therefore, inter-disciplinary in nature.

8. Marketing is wider than market : Market implies potential buyers and sellers of a product or service. Marketing consists of not only the buyers and sellers but all institutions and activities involved in planning, pricing, promoting and distributing want satisfying products and services.

9. Marketing is pervasive : Marketing is required in business as well as in social and other organisations. In non-business organisations, marketing is necessary for spreading socially useful ideas and programmes of family planning, adult education, communal harmony, national integration, environmental protection, etc. Such marketing is called social marketing.

2.2. OBJECTIVES OF MARKETING

The main objectives of marketing are as follows :

1. Creation of Demand : A business firm can sell goods and services only when there are customers willing to buy them. Therefore, the first purpose of marketing is to create demand for goods and services. For this purpose, marketing finds out the needs and preferences of customers. Then advertising, personal selling, sales promotion and other methods are used to create demand and to persuade customers to buy.

2. Customer Satisfaction : Modern marketing is customer oriented. Today, all marketing activities begin and end with the customers. The focus is on selling satisfaction rather than on selling a specific product or service.

3. Market Share : Every business firm seeks to have a reasonable share of the total demand. In a competitive market, aggressive selling efforts are necessary to make products and services popular. Good quality goods are offered at reasonable prices to capture a large share in the market.

4. Profitability and Growth : Marketing seeks to achieve long-term goals of profitability and growth by satisfying the wants of customers. In order to survive and grow, a good business must create and satisfy customers. If the customers are not satisfied, business will fail to earn and survive. Therefore, modern marketing begins and ends with the customers.

5. Goodwill : Marketing aims at building the reputation of the enterprise over a time. The enterprise attempts to earn a name for itself and build its position in the market by selling quality products at reasonable prices, and through efficient after sales services.

6. Standard of Living : Marketing aims at improving the living standards of people by (a) providing a wide variety of products and services (b) supplying new and better quality products (c) creating more employment opportunities.

2.3. IMPORTANCE OF MARKETING

Marketing offers the following benefits.

1. Generation of Revenue : Marketing is the only source from which business can generate revenue to meet its expenses and to earn profits. The survival and growth of a business enterprise depends on the effectiveness and efficiency of marketing.

2. Customer Satisfaction : Marketing helps to identify and satisfy the needs and wants of consumers. Modern marketing begins and ends with the customers.

3. Employment Generation : Marketing offers challenging and rewarding jobs to a large number of persons. It also generates employment in production by enlarging the scale of distribution and production.

4. Higher Standard of Living : Marketing is helpful in improving the standard of living of people by offering a wide variety of goods and services with freedom of choice. It has modernised the living standards of people through the supply of quality products at reasonable prices.

5. Large Scale Production : Marketing makes mass selling possible and thereby facilitates large scale production. Economies of large scale production help to reduce the cost of production per unit.

6. Economic Development : Marketing gives a boost to transportation, banking, insurance, warehousing and other economic activities. It makes the economy strong and stable by balancing production with consumption. In fact, marketing is the kingpin that keeps the economy moving ahead.

7. Foreign Exchange Earner : Marketing helps in exploring foreign markets and in exporting goods and services. It is through marketing that a country earns valuable foreign exchange.

8. Creation of Utilities : Marketing includes all activities involved in the creation of place utility, time utility and possession utility. Place utility is created by making goods available at the places where they are needed. Time utility is created by making goods available at the right time. Possession utility is created when goods are transferred to those who need them.

2.4. DIFFERENCE BETWEEN MARKETING AND SALES

Quite often marketing and sales are used as interchangeable terms. In fact marketing is a much wider term than sales. Sales refers to the activities involved in obtaining orders from customers and directing the flow of goods and services to them. It involves transfer of ownership and possession of goods and services.

The main points of difference between marketing and selling are as follows.

1. Scope : Selling involves exchange of goods for money between the sellers and buyers. It is concerned with the distribution of goods already produced. Marketing is a wider term. It includes not only selling but other activities such as marketing research, product planning and development and advertising, etc.

2. Focus : Selling focuses on the needs of the seller, and marketing, on the needs of the buyer. Selling is mainly concerned with increasing the sales volume and no attempt is made to find out the needs of customers. Under marketing, needs of customers are determined first and then suitable products are developed to satisfy their needs.

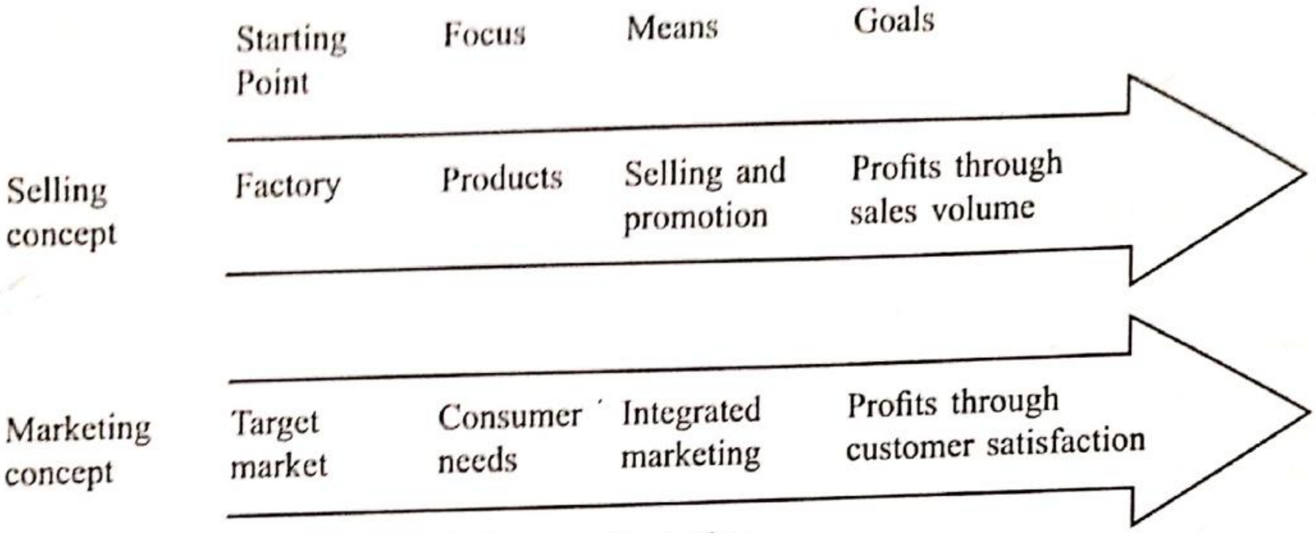
3. Beginning and End : Selling begins after the products are manufactured and comes to an end with their transfer to the buyer. Marketing begins before production and continues after the sale. Market research and after-sale service are important elements of marketing.

4. Orientation : Selling is internally oriented because it seeks to maximise profits through increased volume of sales. On the other hand, marketing is externally oriented as it seeks to achieve profits through customer satisfaction. Selling aims at short-term profit maximisation whereas marketing aims at long-term stability and growth.

5. Demand Creation : Selling presupposes the existence of demand for the firm's product. On the other hand, marketing involves creation and maintenance of consumer demand.

Marketing involves the design of the products acceptable to customers and transfer of ownership from the seller to the buyer. On the other hand, selling involves procuring orders from customers and delivering the products to them. Selling is product-oriented, while marketing is customer-oriented. Selling begins after the production, because it is concerned with sale of goods already produced. Marketing, on the contrary, begins before the production cycle in order to identify customers' wants. Selling comes to an end with the delivery of the product to the customer. But marketing continues even after sale so as to provide after-sale service. Selling concentrates on increasing the sales volume, whereas marketing concentrates on satisfying the customer. "Selling focuses on the needs of the seller, marketing on the needs of the buyers. Selling is preoccupied with the seller's need to convert his product into cash, marketing with the idea of satisfying the needs of the consumer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it."

Thus, marketing is a much wider term embracing selling which merely involves promotional activities.



Selling vs. Marketing

Table : Distinction between Marketing and Selling

Basis of Distinction	*Marketing*	*Selling*
1. Meaning	Identifying and satisfying wants.	Exchanging goods for money.
2. Objective	Ensuring growth and stability of the firm — long term goals.	Maximising profits through increase in sales volume — short term goals.
3. Orientation	Customer oriented, let the seller beware.	Production oriented, let the buyer beware.
4. Scope	Wider in scope includes selling.	Narrow in scope part of marketing.
5. Beginning and end	Begins before production and continues after sale.	Begins after production and ends with sale.
6. Focus	External, on customer's needs.	Internal, on seller's needs.
7. Demand	Involves creation and maintenance of demand.	Presupposes existence of demand.
8. Growth	New and modern concept.	Old and traditional concept.
9. Approach	Integrated approach for achieving long-term goals.	Fragmented approach for immediate gain.
10. Process	Converting customers needs into products and services.	Converting products and services into cash.
11. Nature of activity	Philosophy and attitude.	Routine and tactical.

2.5. MEANING OF PRODUCT

In the narrow sense, a product means a set of tangible and physical attributes (such as materials, colour, design, size, weight, etc.) assembled in an identifiable form that a seller offers to the customers for sale. For example, a ball pen is a product consisting of plastic, metal, ink and other components.

In the broad sense, a product is much more than a set of physical attributes. It consists of a bundle of benefits which will provide satisfaction to the consumer. In addition to physical attributes it comprises added values such as package, brand name, label and goodwill of the producer. A customer who purchases a car buys not merely the physical object but also acquires brand name, warranty and prestige. Thus, a product may be defined as a set of tangible and intangible attributes offered by the seller to the customers. The psychological aspects of a product (the way consumers perceive a product) is more important than the physical characteristics. For example, when a consumer buys a bathing soap he is buying good complexion rather than some chemicals.

The features of a product are given below :

1. **Tangibility :** A product is tangible. It is made of certain physical attributes such as shape, size, etc. It can be seen, touched and felt.
2. **Associated Attributes :** In addition to physical features, a product has certain attributes which help customers to distinguish it from other products. Package, brand name, warranty, etc., are such associated attributes.
3. **Life Cycle :** Every product has its life cycle which consists of introduction, growth, maturity and decline stages.
4. **Exchange Value :** A product has some value which can be measured in terms of money.
5. **Need Satisfaction :** Every product is meant to satisfy some human need.

2.6. DIFFERENCE BETWEEN PRODUCTS AND SERVICES

Services refer to those intangible benefits, utilities and satisfactions which are offered for sale. Transportation, communication, banking, insurance, warehousing and advertising are, for example, considered services. Activities of professionals such as doctors, lawyers, chartered accountants, engineers, architects and consultants are also services.

Services being intangible, they cannot be seen, touched and stored for use in future. Services cannot be separated from the service provider. The quality of service cannot be standardised or made uniform all the time.

Services may be broadly classified as follows :

1. **Commercial Services :** These include services provided by traders (wholesalers, retailers, brokers, etc.), transporters (roadways, railways, airways and shipping), communications, banks and financial institutions, insurance companies, repairs and maintenance firms, warehouses, advertising agencies, hotels, etc.
2. **Professional Services :** These services are provided by doctors, lawyers, engineers, auditors, consultants and other professional experts.
3. **Personal Services :** These services include tailoring shop, beauty parlour, laundry, amusement parks, cinema house, theatre, shoe repairing, guest house, etc.
4. **Public Utility Services :** These refer to services rendered by post and telegraph department, police, fire brigade, military, schools and colleges, water and electric supply undertakings, sanitary service, courts, hospitals, etc.

There are several differences between products and services. A product is identifiable and one can feel its presence in many ways. But a service cannot be identified. For example, a cab is a product but hiring it is a service. A cab can be identified but not its service. Secondly, in buying a product the buyer obtains an asset whereas in buying a service the buyer incurs an expense. For example, when you stay in a hotel, you take away nothing but the experience of a night's stay.

Many services are the outgrowth of the sales of certain products. For example, when a cab is sold, the buyer needs financial assistance, insurance and repair services.

In the marketing of services, certain marketing functions such as transportation, warehousing and inventory control are not needed, but these functions are essential in the marketing of products.

Distinction Between Products and Services

Basis of Distinction	*Products*	*Services*
1. Tangibility	Fully tangible (a) Can be felt and touched (b) Can be fully standardised	Intangible, may have physical evidence. (a) Cannot be touched (b) Cannot be standardised
2. Inseparability of buyer and seller	Fully separable, remote transactions are possible	Not separable, remote transactions not possible
3. Quality	Can be measured and controlled	Difficult to control and measure
4. Inventory	Can be stored	Cannot be stored
5. Sensitivity to time	Low sensitivity, e.g., a soap can be bought in advance of need.	Highly sensitive, e.g., doctor's services are needed when there is a patient
6. Risk	Product can be replaced.	Service delivered cannot be replaced.
7. Customisation	Increases costs and restricts sales	Increases customer delight
8. Market relationship	Product and brand are the focus of transaction	A very important link
9. Brand	Main strategy in product marketing	People are equally important
10. Perishability	Usually durable	Usually perishable
11. Ownership	Transferable	Not transferable

A product can be differentiated from a service on the following grounds.

1. Tangibility : A product is tangible as it can be seen, tasted, and touched. On the other hand, a service is intangible because it cannot be seen, tasted or touched. Therefore, a product can be checked before purchase while a service cannot be checked before purchase.

2. Perishability : A product is durable and it can be stored. For example, a showroom can store twenty cars which could not be sold this year. But a service is perishable and cannot be stored. If a bus which can carry forty passengers has only thirty passengers, then the service meant for ten seats perishes.

3. Ownership : When one buys a product one becomes its owner. For example, when you buy a car the ownership of the car is transferred from the seller to you. But when one buys a service one does not become its owner. For instance, if you hire a taxi there is no transfer of ownership from the seller to you.

4. Inseparability : A product can be separated from its producer. For example, the producer of a car need not be present when the car is sold to a customer. But a service cannot be separated from the service provider. For example, when you travel by a taxi, the taxi driver has to be present.

5. Homogeneity : In case of a standardised product, each unit of the product is a perfect substitute for another. It is impossible to differentiate one unit from other units. For example, when you buy a Maruti car you will get the same quality irrespective of the place of purchase. But services are not homogeneous. For example, you may not get the same service quality each time you hire a taxi. Services are highly variable. A patient may not get the same treatment in a village hospital which he can get in a metro hospital.

6. Technology : A product is technology based whereas a service is person based. For example, the quality of a car is dependent largely on production technology but the quality of its repair is dependent largely on the skill of the mechanic.

7. After-Sale Service : Consumer durable products such as cars, scooters, air conditioners, TV sets, refrigerators, etc., require repair and maintenance facilities after their sale. But no such facilities are required in case of services.

8. Participation : Customers do not participate in the process of manufacturing products. But customers participate in the production of services. For example, when a car is manufactured the customer need not be present in the factory. But when he hires a taxi he has to be present in the taxi.

9. Marketing Mix : In case of products, marketing mix consists of four elements – product, price, place (distribution) and promotion. But in case of services, marketing mix consists of three additional elements – people (who provide service), physical evidence (the tangible aspects of the environment in which a service is provided, *i.e.*, furniture, interior decoration, and crockery used in a restaurant) and process (a series of steps involved in providing a service).

2.7 MEANING OF PRICING

The term 'price' denotes the money value of a product or service. It is the amount of money a seller is asking for the product or service he offers for sale or the amount which buyers are to pay for it. According to **Clark**, "The price of an article or service is its market value expressed in terms of money." It reflects the worth of a product or service and the amount of money for which it can be exchanged. In practice, a person buys certain services or facilities along with the product and the price which he pays represents the amount of money paid for a product and the services accompanying it. Therefore, price may be defined as the amount of money which is required to acquire in exchange a specific assortment of product and its accompanying services. Pricing is the process of translating the value of a product or service in terms of money. It involves not simply the determination of a base price but the terms and conditions of sale, e.g., transportation costs, mode of payment, discounts and allowances, etc.

Price is an important element in the marketing mix of a firm and affects other components of the marketing mix. The quality of a product, the services supplied alongwith it, the channel of distribution and the promotional effort depend greatly upon the price. Price is fundamental to all marketing efforts. It is the regulatory mechanism by means of which the seller and the buyer come to a mutually satisfactory understanding. Price determines largely the sales volume and profit margins. Price structure affects the competitive position and market share of the firm. A firm cannot succeed if its prices are too low or too high. Prices are important from the point of view of consumers and sellers. To the consumer, price determines his purchasing power and standard of living. Consumers take their buying decisions and allocate their income with the help of the prices of alternative goods and services. Without pricing, there can be no marketing as a sale takes place only when the buyer and the seller agree on price. Price determines the revenue which the seller generates from the market.

In a free enterprise economy, prices determine the volume of economic activity. Price regulates production, distribution and consumption in the economy. Prices of goods and services determine largely the prices paid to various factors of production in the form of wages, interest, rent and profit. Price mechanism also influences the allocation of resources and the level of employment in the country. Competition on price weeds out the inefficient firms and compels the remaining ones to maximise efficiency. Pricing is also a difficult function of marketing as it involves the consideration of several intangible and interrelated factors. Prices depend not only upon the market forces of demand and supply but are also regulated by management and the government. Sound pricing requires intelligent judgement on market conditions and customer relations. Pragmatic pricing decisions require upto date knowledge of trends in sales and demand.

2.8 OBJECTIVES OF PRICING

Pricing is not an end in itself but a means to achieve marketing objectives of the firm. Therefore, the pricing strategy of a firm should be designed to achieve specific objectives. Like other operating objectives, the objectives of pricing are derived from the overall objectives of the firm. The basic objectives of a firm are survival and growth. The objectives of pricing should be clearly defined because without clear-cut objectives, a sound price structure cannot be developed. In practice, very few firms define their pricing objectives in unambiguous terms. The specific objectives of pricing may vary from firm to firm and even for the same firm at different points of time. Most firms have multiple pricing objectives. The main objectives of pricing followed by different firms are as follows:

1. Target Rate of Return

An adequate return on investment or net sales is an important pricing objective. The idea is to secure a sufficient return on capital employed after covering costs of production and distribution. An estimate is made of the profits required to yield the expected rate to return over the long run. Prices are so set that the total sales revenue exceeds the total costs by the estimated profit amount. In other words, this objective leads to cost plus pricing.

Let us take an illustration. Suppose, a company has total investment of ₹ 50 lakh and seeks to earn 30% (before tax) return on investment. It expects to sell 20,000 units and the total cost per unit is ₹ 50. The price per unit can be calculated as under:

	₹
Total cost of a 20,000 units @ ₹ 50 per unit	= 10,00,000
30% (before tax) return on ₹ 50 lakh	= 15,00,000
Target sales revenue	= 25,00,000
Price per unit	$= \dfrac{25,00,000}{20,000}$
	= ₹ 125

Target return on investment is a long term objective. It ensures a reasonable return to the investors. Secondly, it does not lead to public criticism. Thirdly, the rate of return can be used to evaluate and compare the performance of different products of the firm. Fourthly, it provides a measure of restraint and a guideline for judging improvement in a new product line.

However, target return pricing may not be feasible in all conditions. This goal can be achieved by firms which are industry leaders or which sell in protected markets. Some firms may attempt to achieve target return on sales during the short run. They set a percentage mark-up on sales which is sufficient to cover operating costs and the desired profit. In such cases, the rate of profit would remain the same, but the amount of profits would vary with the number of units sold. The target rate of return differs from firm to firm depending upon the cost of capital and the actual market conditions in the industry.

2. Price Stability

In this objective, a firm seeks to cut or eliminate cyclical price fluctuations and to avoid price wars. The aim is to live and let live. This goal is used in an industry having a few firms. In an oligopolistic situation where one firm is very big and all others are small, the big firm acts as the price leader and other firms follow it. All the firms try to avoid price wars. No firm is willing to cut its prices for fear of retaliation by other firms. In order to avoid fluctuations in prices, they may even forgo maximising profits during the period of scarce supply or prosperity. This objective is followed in case of products which are vulnerable to price wars are advertised at the national level. Price stability helps in planned and regular production in the long run. However, it may create rigidity in pricing.

3. Market Share

Market share (sales of a firm in relation to those of competitors) is a very meaningful mark for measuring the market position or success. This pricing objective is followed by operating in an expanding market. When the market has a potential for growth over earning a reasonable return on investment may be declining if its market share maintained. Therefore, maintaining or improving the market share is a more worthwhile objective in growing markets. For example, firms manufacturing refrigerators, washing machines, etc. reduce prices to capture a larger share of the growing demand in India.

4. Meet or Prevent Competition

In a market characterised by cut-throat competition, firms often take pricing decision to meet or present competition. An established firm may cut prices drastically to prevent competitors from entering a market. Some firms match competitors' prices to maintain the status quo within an industry. This objective may also be adopted while introducing a new product. Sometimes a company adopts below cost pricing to fight competition. But in the long run firm cannot survive by charging less than the total cost of product.

5. Profit Maximisation

Firms pursuing this objective try to earn as much money as possible. Small and little known firms may try to charge as much price as the customer can bear. Due to high profits, new entrepreneurs will be attracted into the industry and prices will come down in the long run.

Traditionally, profit maximisation is considered to be the objective of pricing. But maximisation of profit may not be a pragmatic objective due to cut throat competition and growing focus on social obligations of business.

SUMMARY

1. Marketing is the process of satisfying the wants of customers through appropriate products and services. It is a customer oriented, integrated and goal-oriented philosophy.
2. Marketing seeks to create demand, to satisfy customers, to increase market shares, to achieve profitable growth, to build goodwill and to raise standard of living of people.
3. Marketing is a wider term than selling.
4. As compared to a product, a service is intangible, perishable and inseparable.
5. Pricing is the process of deciding the price customers will pay for a product or service. Target return, price stability, market share meeting competition and profit maximisation are its objectives.

EXERCISES

SHORT ANSWER QUESTIONS

1. Define marketing.
2. Give two objectives of marketing.
3. Give two differences between marketing and sales.
4. Distinguish between a product and a service. [ICSE 2008, 20
5. Why is pricing, a marketing activity, considered a difficult task? [ICSE 20
6. State any two objectives of marketing. [ICSE 20
7. State any two characteristics of a service. [ICSE 20
8. What is meant by pricing?

LONG ANSWER QUESTIONS

1. Briefly explain any five objectives of marketing. [ICSE 2014, 20
2. Distinguish clearly between marketing and sales.
3. What is a product? Explain the difference between products and services.
4. Explain various objectives of pricing.
5. "Marketing is customer-oriented whereas selling is producer oriented." Explain.
6. Marketing is essential for the success of a business organisation. Give five reasons to supp your answer. [ICSE 20

ASSIGNMENT/PROJECT WORK

Meet the owner/manager of a business firm selling some service. Enquire from him the uniq characteristics of the service sold. What special problems the firm is facing because it is selling services rather than a product? On the basis of your discussion what conclusion do you form? selling a service more difficult than selling a product?

QUESTION BANK

Q.1. Why marketing is called a system?

Ans. Marketing is called a system because it draws inputs (information about customers) an converts them into outputs (want satisfying products and services). Marketing system consis of several subsystems which are closely interrelated.

Q.2. State any two objectives of marketing.

Ans. Two objectives of marketing are as follows :

(i) To create demand (ii) To satisfy customers

Q.3. "Marketing is consumer oriented whereas selling is seller oriented." Explain.

Ans. Marketing seeks to gain profits through customer satisfaction whereas selling seeks t maximise profits. The former is based on the maxim caveat vendor (let the seller bewar whereas the later is based on the maxim caveat vendor (let the buyer beware). Thus marketing focusses on the needs and expectations of customers. On the other hand, sellin focusses on the need of the seller to earn money.