**6. Management Scope in Different Areas (06 hrs)**

a) Human Resource Management:-

**The first definition of HRM is that it is the process of managing people in organizations in a structured and thorough manner**. This covers the fields of staffing (hiring people), retention of people, pay and perks setting and management, performance management, change management and taking care of exits from the company to round off the activities. This is the traditional definition of HRM which leads some experts to define it as a modern version of the Personnel Management function that was used earlier.

**The second definition of HRM encompasses the management of people in organizations from a macro perspective** i.e. managing people in the form of a collective relationship between management and employees. This approach focuses on the objectives and outcomes of the HRM function. What this means is that the HR function in contemporary organizations is concerned with the notions of people enabling, people development and a focus on making the “employment relationship” fulfilling for both the management and employees.

These definitions emphasize the difference between Personnel Management as defined in the second paragraph and human resource management as described in the third paragraph. To put it in one sentence, **personnel management is essentially “workforce” centered whereas human resource management is “resource” centered**. The key difference is HRM in recent times is about fulfilling management objectives of providing and deploying people and a greater emphasis on planning, monitoring and control.

We have discussed the basic concept of HRM and the ways in which it helps the organization meet its goals. In this article, we discuss the reasons for organizations to have a HRM strategy as well as the business drivers that make the strategy imperative for organizational success.

It is a fact that to thrive in the chaotic and turbulent business environment, firms need to constantly innovate and be “ahead of the curve” in terms of business practices and strategies. It is from this motivation to be at the top of the pack that HRM becomes a valuable tool for management to ensure success.

### The Evolving Business Paradigm

One of the factors behind organizations giving a lot of attention to their people is the nature of the firms in the current business environment. Given the fact that there has been a steady movement towards an economy based on services, it becomes important for firms engaged in the service sector to keep their employees motivated and productive. Even in the manufacturing and the traditional sectors, the need to remain competitive has meant that firms in these sectors deploy strategies that make effective use of their resources. This changed business landscape has come about as a result of a paradigm shift in the way businesses and firms view their employees as more than just resources and instead adopt a “people first” approach.

### Strategic Management and HRM

As discussed in the articles on modern day HRM practices, there is a need to align organizational goals with that of the HR strategy to ensure that there is alignment of the people policies with that of the management objectives. This means that the HR department can no longer be viewed as an appendage of the firm but instead is a vital organ in ensuring organizational success.

The aims of [strategic management](https://www.managementstudyguide.com/strategic-management.htm) are to provide the organization with a sense of direction and a feeling of purpose. The days when the HR manager was concerned with administrative duties is over and the current HRM practices in many industries are taken as seriously as say, the marketing and production functions.

### Importance of HRM for Organizational Success

The practice of HRM must be viewed through the prism of overall strategic goals for the organization instead of a standalone tint that takes a unit based or a micro approach. The idea here is to adopt a holistic perspective towards HRM that ensures that there are no piecemeal strategies and the HRM policy enmeshes itself fully with those of the organizational goals. For instance, if the training needs of the employees are simply met with perfunctory trainings on omnibus topics, the firm stands to lose not only from the time that the employees spend in training but also a loss of direction. Hence, the organization that takes its HRM policies seriously will ensure that training is based on focused and topical methods.

In conclusion, the practice of HRM needs to be integrated with the overall strategy to ensure effective use of people and provide better returns to the organizations in terms of ROI (Return on Investment) for every rupee or dollar spent on them. Unless the HRM practice is designed in this way, the firms stand to lose from not utilizing people fully. And this does not bode well for the success of the organization.

**Introduction to Man power planning, recruitment and selection:-**

# **Manpower Planning:-**

Manpower Planning which is also called as Human Resource Planning consists of putting right number of people, right kind of people at the right place, right time, doing the right things for which they are suited for the achievement of goals of the organization. Human Resource Planning has got an important place in the arena of industrialization. Human Resource Planning has to be a systems approach and is carried out in a set procedure. The procedure is as follows:

1. Analysing the current manpower inventory
2. Making future manpower forecasts
3. Developing employment programmes
4. Design training programmes

|  |  |
| --- | --- |
| Steps in Manpower Planning1. **Analysing the current manpower inventory-** Before a manager makes forecast of future manpower, the current manpower status has to be analysed. For this the following things have to be noted-
	* Type of organization
	* Number of departments
	* Number and quantity of such departments
	* Employees in these work units

Once these factors are registered by a manager, he goes for the future forecasting. | Manpower Planning |

1. **Making future manpower forecasts-** Once the factors affecting the future manpower forecasts are known, planning can be done for the future manpower requirements in several work units.

The Manpower forecasting techniques commonly employed by the organizations are as follows:

* 1. **Expert Forecasts:** This includes informal decisions, formal expert surveys and Delphi technique.
	2. **Trend Analysis:** Manpower needs can be projected through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).
	3. **Work Load Analysis:** It is dependent upon the nature of work load in a department, in a branch or in a division.
	4. **Work Force Analysis:** Whenever production and time period has to be analysed, due allowances have to be made for getting net manpower requirements.
	5. **Other methods:** Several Mathematical models, with the aid of computers are used to forecast manpower needs, like budget and planning analysis, regression, new venture analysis.
1. **Developing employment programmes-** Once the current inventory is compared with future forecasts, the employment programmes can be framed and developed accordingly, which will include recruitment, selection procedures and placement plans.
2. **Design training programmes-** These will be based upon extent of diversification, expansion plans, development programmes,etc. Training programmes depend upon the extent of improvement in technology and advancement to take place. It is also done to improve upon the skills, capabilities, knowledge of the workers.

## **Importance of Manpower Planning**

1. **Key to managerial functions-** The four managerial functions, i.e., planning, organizing, directing and controlling are based upon the manpower. Human resources help in the implementation of all these managerial activities. Therefore, staffing becomes a key to all managerial functions.
2. **Efficient utilization-** Efficient management of personnel becomes an important function in the industrialization world of today. Setting of large scale enterprises require management of large scale manpower. It can be effectively done through staffing function.
3. **Motivation-** Staffing function not only includes putting right men on right job, but it also comprises of motivational programmes, i.e., incentive plans to be framed for further participation and employment of employees in a concern. Therefore, all types of incentive plans becomes an integral part of staffing function.
4. **Better human relations-** A concern can stabilize itself if human relations develop and are strong. Human relations become strong trough effective control, clear communication, effective supervision and leadership in a concern. Staffing function also looks after training and development of the work force which leads to co-operation and better human relations.
5. **Higher productivity-** Productivity level increases when resources are utilized in best possible manner. higher productivity is a result of minimum wastage of time, money, efforts and energies. This is possible through the staffing and it's related activities ( Performance appraisal, training and development, remuneration)

## **Need of Manpower Planning**

Manpower Planning is a two-phased process because manpower planning not only analyses the current human resources but also makes manpower forecasts and thereby draw employment programmes. Manpower Planning is advantageous to firm in following manner:

1. Shortages and surpluses can be identified so that quick action can be taken wherever required.
2. All the recruitment and selection programmes are based on manpower planning.
3. It also helps to reduce the labour cost as excess staff can be identified and thereby overstaffing can be avoided.
4. It also helps to identify the available talents in a concern and accordingly training programmes can be chalked out to develop those talents.
5. It helps in growth and diversification of business. Through manpower planning, human resources can be readily available and they can be utilized in best manner.
6. It helps the organization to realize the importance of manpower management which ultimately helps in the stability of a concern.

Meaning of recruitment:

 Any organisation is merely a blue print for human activity and requires people

in order to function. The mere passage of time causes some people to grow old, to

retire, to die or to become incapable. Seasonal and cyclical fluctuations in business

cause a constant ebb and flow in the work force. Hence employees constantly need to

be replaced.

 Once determination of human resources requirements has been made,

recruitment and selection process can begin. The acquisition of human resources can

be brought about through recruitment and selection. To recruitments to obtain fresh

supplies. Recruitment means discovering applicants for present or future jobs in an

organisation. Accordingly to Edwin B. Flippos “Recruitment is process of searching

for prospective employees and stimulating them to apply for jobs in the organisation.”

 Recruitment may also be described as art of attracting applicants from whom

the most suitable one may be selected. the purpose of recruitment is to provide a large

number of candidates so that the organisation will be able to select the qualified

employees it needs.

Recruitment is of 2 types

1. **Internal Recruitment -** is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three - Transfers, promotions and Re-employment of ex-employees.

Internal recruitment may lead to increase in employee’s productivity as their motivation level increases. It also saves time, money and efforts. But a drawback of internal recruitment is that it refrains the organization from new blood. Also, not all the manpower requirements can be met through internal recruitment. Hiring from outside has to be done.

Internal sources are primarily 3

* 1. **Transfers**
	2. **Promotions (through Internal Job Postings)** and
	3. **Re-employment of ex-employees -** Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.
1. **External Recruitment -** External sources of recruitment have to be solicited from outside the organization. External sources are external to a concern. But it involves lot of time and money. The external sources of recruitment include - Employment at factory gate, advertisements, employment exchanges, employment agencies, educational institutes, labour contractors, recommendations etc.
	1. **Employment at Factory Level -** This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the Factory or at the Gate. This kind of recruitment is applicable generally where factory workers are to be appointed. There are people who keep on soliciting jobs from one place to another. These applicants are called as unsolicited applicants. These types of workers apply on their own for their job. For this kind of recruitment workers have a tendency to shift from one factory to another and therefore they are called as “badli” workers.
	2. **Advertisement -** It is an external source which has got an important place in recruitment procedure. The biggest advantage of advertisement is that it covers a wide area of market and scattered applicants can get information from advertisements. Medium used is Newspapers and Television.
	3. **Employment Exchanges -** There are certain Employment exchanges which are run by government. Most of the government undertakings and concerns employ people through such exchanges. Now-a-days recruitment in government agencies has become compulsory through employment exchange.
	4. **Employment Agencies -** There are certain professional organizations which look towards recruitment and employment of people, i.e. these private agencies run by private individuals supply required manpower to needy concerns.
	5. **Educational Institutions -** There are certain professional Institutions which serves as an external source for recruiting fresh graduates from these institutes. This kind of recruitment done through such educational institutions, is called as Campus Recruitment. They have special recruitment cells which helps in providing jobs to fresh candidates.
	6. **Recommendations -** There are certain people who have experience in a particular area. They enjoy goodwill and a stand in the company. There are certain vacancies which are filled by recommendations of such people. The biggest drawback of this source is that the company has to rely totally on such people which can later on prove to be inefficient.
	7. **Labour Contractors -** These are the specialist people who supply manpower to the Factory or Manufacturing plants. Through these contractors, workers are appointed on contract basis, i.e. for a particular time period. Under conditions when these contractors leave the organization, such people who are appointed have to also leave the concern.

**Introduction to performance appraisal methods**

## The Purpose of Performance Appraisals

A performance appraisal (PA) or performance evaluation is a systematic and periodic process that assesses an individual employee’s job performance and productivity, in relation to certain pre-established criteria and organizational objectives. Other aspects of individual employees are considered as well, such as organizational citizenship behavior, accomplishments, potential for future improvement, strengths, and weaknesses. A PA is typically conducted annually. However, the frequency of an evaluation, and policies concerning them, varies widely from workplace to workplace. Sometimes an evaluation will be given to a new employee when a probationary period ends, after which they may be conducted on a regular basis (such as every year). Usually, the employee’s supervisor (and frequently, a more senior manager) is responsible for evaluating the employee, and he or she does so by scheduling a private conference to discuss the evaluation. The interview functions as a way of providing feedback to employees, counseling and developing employees, and conveying and discussing compensation, job status, or disciplinary decisions.

Historically, performance appraisals have been used by companies for a range of purposes, including salary recommendations, promotion and layoff decisions, and training recommendations.[**[1]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-1) In general, “performance elements tell employees what they have to do, and standards tell them how well they have to do it.”[**[2]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-2) This broad definition, however, can allow for appraisals to be ineffective, even detrimental, to employee performance. “Second only to firing an employee, managers cite performance appraisal as the task they dislike the most,” and employees generally have a similar feeling.[**[3]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-3) One key item that is often forgotten during the appraisal process (by managers and employees alike) is that the appraisal is for improvement, not blame or harsh criticism.[**[4]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-4)

## Developing an Appropriate Appraisal Process

One significant problem in creating an appraisal process is that no single performance appraisal method will be perfect for every organization.[**[5]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-5)Establishing an appropriate process involves significant planning and analysis in order to provide quality feedback to the employee. The most crucial task in the process is determining proper job dimensions that can be used to evaluate the employee against accepted standards that affect the performance of the team, business unit, or company.[**[6]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-6)Peter Drucker developed a method termed “Management by Objectives,” or MBO, in order to address the need for specifying such job dimensions. Drucker suggests that objectives for any employee can be validated if they pass the following SMART test:[**[7]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-7)

1. Specific
2. Measurable
3. Achievable
4. Realistic
5. Time-related

The process of an evaluation typically includes one or more of the following:

1. An assessment of how well the employee is doing. Sometimes this includes a scale rating indicating strengths and weaknesses in key areas (e.g., ability to follow instructions, complete work on time, and work with others effectively). It’s also common for the supervisor and manager to discuss and determine the key areas.
2. Employee goals with a deadline. Sometimes the employee may voluntarily offer a goal, while at other times it will be set by his or her boss. A significantly underperforming employee may be given a performance improvement plan, which details specific goals that must be met to keep the job.
3. Feedback from co-worker’s and supervisors. The employee may also have the chance to share feelings, concerns, and suggestions about the workplace.
4. Details about workplace standing, promotions, and pay raises. Sometimes an employee who has performed very well since the last review period may get an increase in pay or be promoted to a more prestigious position.

## Methods of Performance Appraisal

Numerous methods exist for gauging an employee’s performance, and each has strengths and weaknesses depending on the environment. The following outlines some of the more commonly used methods, as well as some recently developed ones that can be useful for various feedback situations:

1. Graphic rating scales: This method involves assigning some form of rating system to pertinent traits. Ratings can be numerical ranges (1–5), descriptive categories (below average, average, above average), or scales between desirable and undesirable traits (poor ↔ excellent). This method can be simple to set up and easy to follow but is often criticized for being too subjective, leaving the evaluator to define broad traits such “leadership ability” or “conformance with standards.”[**[8]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-8)
2. Behavioral methods: A broad category encompassing several methods with similar attributes. These methods identify to what extent an employee displays certain behaviors, such as asking a customer to identify the usefulness of a sales representative’s recommendation. While extremely useful for jobs where behavior is critical to success, identifying behaviors and standards for employees can often be very time-consuming for an organization.[**[9]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-9)
3. 2+2: A relative newcomer in performance appraisal methodology, the 2+2 feedback system demonstrates how appraisals can be used primarily for improvement purposes. By offering employees two compliments and two suggestions for improvement focused around high-priority areas, creators Douglas and Dwight Allen suggest that organizations can become “more pleasant, more dynamic, and more productive.”[**[10]**](https://courses.lumenlearning.com/wmintrobusiness/chapter/reading-performance-appraisals/#footnote-8747-10) If the goal is employee improvement, this system can provide significant benefits; however, if the goals are compensation changes and rankings, the system provides little benefit.

Appraisal methodologies depend greatly on the type of work being done; an assembly worker will require a very different appraisal system from a business consultant. Significant planning will be required to develop appropriate methods for each business unit in an organization in order to obtain maximum performance towards the appraisal goals.

**b) Material and Store Management:-**

# **Materials Management: Meaning, Importance and Functions**

The need for materials management was first felt in manufacturing undertakings. The servicing organizations also started feeling the need for this control. And now even non-trading organizations like hospitals, universities etc. have realized the importance of materials management. Every organization uses a number of materials. It is necessary that these materials are properly purchased, stored and used.

Any avoidable amount spent on materials or any loss due to wastage of materials increases the cost of production. The object of materials management is to attack materials cost on all fronts and to optimize the overall end results. Materials management connotes controlling the kind, amount , location and turning of the various commodities used in and produced by the industrial enterprises. It is the control of materials in such a manner that it ensures maximum return on working capital.

**L.J. De Rose:**

“Material management is the planning, directing, controlling and co-ordination of all those activities concerned with material and inventory requirements, from the point of their inception to their introduction into manufacturing process.”

As per De Rose all those functions which start with the procurement of materials and end with completion of manufacturing are a part of material management.

### Importance of Material Management:

Material management is a service function. It is as important as manufacturing, engineering and finance. The supply of proper quality of materials is essential for manufacturing standard products. The avoidance of material wastage helps in controlling cost of production. Material management is essential for every type of concern.

**The importance of material management may be summarized as follows:**

1. The material cost content of total cost is kept at a reasonable level. Scientific purchasing helps in acquiring materials at reasonable prices. Proper storing of materials also helps in reducing their wastages. These factors help in controlling cost content of products.

2. The cost of indirect materials is kept under check. Sometimes cost of indirect materials also increases total cost of production because there is no proper control over such materials.

3. The equipment is properly utilized because there are no break downs due to late supply of materials.

4. The loss of direct labour is avoided.

5. The wastages of materials at the stage of storage as well as their movement is kept under control.

6. The supply of materials is prompt and late delivery instances are only few.

7. The investments on materials are kept under control as under and over stocking is avoided.

8. Congestion in the stores and at different stages of manufacturing is avoided.

### Functions of Material Management:

Material management covers all aspects of material costs, supply and utilization. The functional areas involved in material management usually include purchasing, production control, shipping, receiving and stores.

**The following functions are assigned for material management:**

#### 1. Production and Material Control:

Production manager prepares schedules of production to be carried in future. The requirements of parts and materials are determined as per production schedules. Production schedules are prepared on the basis of orders received or anticipated demand for goods. It is ensured that every type or part of material is made available so that production is carried on smoothly.

#### 2. Purchasing:

Purchasing department is authorized to make buying arrangements on the basis of requisitions issued by other departments. This department keeps contracts with suppliers and collects quotations etc. at regular intervals. The effort by this department is to purchase proper quality goods at reasonable prices. Purchasing is a managerial activity that goes beyond the simple act of buying and includes the planning and policy activities covering a wide range of related and complementary activities.

#### 3. Non-Production Stores:

Non-production materials like office supplies, perishable tools and maintenance, repair and operating supplies are maintained as per the needs of the business. These stores may not be required daily but their availability in stores is essential. The non-availability of such stores may lead to stoppage of work.

#### 4. Transportation:

The transporting of materials from suppliers is an important function of materials management. The traffic department is responsible for arranging transportation service. The vehicles may be purchased for the business or these may be chartered from outside. It all depends upon the quantity and frequency of buying materials. The purpose is to arrange cheap and quick transport facilities for incoming materials.

#### 5. Materials Handling:

It is concerned with the movement of materials within a manufacturing establishment and the cost of handling materials is kept under control. It is also seen that there are no wastages or losses of materials during their movement. Special equipment’s may be acquired for material handling.

#### 6. Receiving:

The receiving department is responsible for the unloading of materials, counting the units, determining their quality and sending them to stores etc. The purchasing department is also informed about the receipt of various materials.

**ABC Analysis and EOQ:-**

**Definition**

The economic order quantity (EOQ) is a model that is used to calculate the optimal quantity that can be purchased or produced to minimize the cost of both the carrying inventory and the processing of purchase orders or production set-ups.

**Formula**

Following is the formula for the economic order quantity (EOQ) model:



Where Q = optimal order quantity

D = units of annual demand

S = cost incurred to place a single order or setup

H = carrying cost per unit

This formula is derived from the following cost function:

Total cost = purchase cost + ordering cost + holding cost

Limitations of the economic order quantity model:

It is necessary for the application of EOQ order that the demands remain constant throughout the year. It is also necessary that the inventory be delivered in full when the inventory levels reach zero.

**Underlying assumption of the EOQ model**

Following are the underlying assumptions for the EOQ model. Without these assumptions, the EOQ model cannot work to its optimal potential.

1. The cost of the ordering remains constant.
2. The demand rate for the year is known and evenly spread throughout the year.
3. The lead time is not fluctuating (lead time is the latency time it takes a process to initiate and complete).
4. No cash or settlement discounts are available, and the purchase price is constant for every item.
5. The optimal plan is calculated for only one product.
6. There is no delay in the replenishment of the stock, and the order is delivered in the quantity that was demanded, i.e. in whole batch.

These underlying assumptions are the key to the economic order quantity model, and these assumptions help the companies to understand the shortcomings they are incurring in the application of this model.

**ABC ANALYSIS**

The ABC approach states that, when reviewing inventory, a company should **rate items from A to C**, basing its ratings on the following rules:

1. **A-items** are goods which **annual consumption value** is **the highest**. The top 70-80% of the annual consumption value of the company typically accounts for only 10-20% of total inventory items.
2. **C-items** are, on the contrary, items with the **lowest consumption value**. The lower 5% of the annual consumption value typically accounts for 50% of total inventory items.
3. **B-items** are the interclass items, with a **medium consumption value**. Those 15-25% of annual consumption value typically accounts for 30% of total inventory items.

The annual consumption value is calculated with the formula: (Annual demand) x (item cost per unit).

Through this categorization, the supply manager can **identify inventory hot spots**, and separate them from the rest of the items, especially those that are numerous but not that profitable.

c) **Marketing and sales**

 **Introduction, importance, and its functions:-**

Sales management facilitates the directions of activities and functions which are involved in the distribution of goods and services. According to Philip Kotler, “Marketing management is the analysis, planning implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organisational objectives.

It relies heavily on designing the organisations’ offering in terms of the target markets needs and desires and using effective pricing, communication and distribution to inform, motivate and service the market.”

Sales or marketing management is concerned with the chalking out of a definite programme, after careful analysis and forecasting of the market situations and the ultimate execution of these plans to achieve the objectives of the organisation. Further their sales plans to a greater extent rest upon the requirements and motives of the consumers in the market aimed at.

To achieve this objective the organisation has to give heed to the right pricing, effective advertising and sales promotion, discerning distribution and stimulating the consumer’s through the best services. To sum up, marketing management may be defined as the process of management of marketing programmes for accomplishing organisational goals and objectives. It involves planning, implementation and control of marketing programmes or campaigns.

### Functions:

(i) Sales research and planning.

(ii) Demand creation.

(iii) Sales costs and budget.

(iv) Price fixations.

(v) Development of products.

(vi) Establishing sales territories.

(vii) Co-ordination of sales.

These functions differ from company to company according to their size and the nature of their products.

### Importance of Sales Management:

Sales management has gained importance to meet increasing competition and the need for improved methods of distribution to reduce cost and to increase profits. Sales management today is the most important function in a commercial and business enterprise.

**The following are the other factors showing importance of the sales management:**

(i) Introduction of new products in the market.

(ii) Increasing the production of existing products.

(iii) Reducing cost of sales and distribution.

(iv) Export market.

(v) Development in the means and communication of transportation within and outside the country.

(vi) Rise in per capita income and demand for more goods by the consumers.

**Physical Distribution:-**

Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products.

Physical distribution activities have recently received increasing attention from business managers, including small business owners. This is due in large part to the fact that these functions often represent almost half of the total marketing costs of a product. In fact, research studies indicate that physical distribution costs nationally amount to approximately 20 percent of the country's total gross national product (GNP). These findings have led many small businesses to expand their cost-cutting efforts beyond their historical focus on production to encompass physical distribution activities. The importance of physical distribution is also based on its relevance to customer satisfaction. By storing goods in convenient locations for shipment to wholesalers and retailers, and by creating fast, reliable means of moving the goods, small business owners can help assure continued success in a rapidly changing, competitive global market.

## **A SYSTEM APPROACH**

Physical distribution can be viewed as a system of components linked together for the efficient movement of products. Small business owners can ask the following questions in addressing these components:

1. Customer service—What level of customer service should be provided?
2. Transportation—How will the products be shipped?
3. Warehousing—Where will the goods be located? How many warehouses should be utilized?
4. Order processing—How should the orders be handled?
5. Inventory control—How much inventory should be maintained at each location?
6. Protective packaging and materials handling—How can efficient methods be developed for handling goods in the factory, warehouse, and transport terminals?

These components are interrelated: decisions made in one area affect the relative efficiency of others. For example, a small business that provides customized personal computers may transport finished products by air rather than by truck, as faster delivery times may allow lower inventory costs, which would more than offset the higher cost of air transport. Viewing physical distribution from a systems perspective can be the key to providing a defined level of customer service at the lowest possible cost.

## **CUSTOMER SERVICE**

Customer service is a precisely-defined standard of customer satisfaction which a small business owner intends to provide for its customers. For example, a customer service standard for the above-mentioned provider of customized computers might be that 60 percent of all PCS reach the customer within 48 hours of ordering. It might further set a standard of delivering 90 percent of all of its units within 72 hours, and all 100 percent of its units within 96 hours. A physical distribution system is then set up to reach this goal at the lowest possible cost. In today's fast-paced, technologically advanced business environment, such systems often involve the use of specialized software that allows the owner to track inventory while simultaneously analyzing all the routes and transportation modes available to determine the fastest, most cost-effective way to delivery goods on time.

## **TRANSPORTATION**

The United States' transportation system has long been a government-regulated industry, much like its telephone and electrical utilities. But in 1977 the [deregulation](https://www.referenceforbusiness.com/knowledge/Deregulation.html) of transportation began with the removal of federal regulations for cargo air carriers not engaged in passenger transportation. The deregulation movement has since expanded in ways that have fundamentally altered the transportation landscape for small business owners, large conglomerates and, ultimately, the consumer.

Transportation costs are largely based on the rates charged by carriers. There are two basic types of transportation rates: class and [commodity](https://www.referenceforbusiness.com/knowledge/Commodity.html). The class rate, which is the higher of the two rates, is the standard rate for every commodity moving between any two destinations. The commodity rate is sometimes called a special rate, since it is given by carriers to shippers as a reward for either regular use or large-quantity shipments. Unfortunately, many small business owners do not have the volume of shipping needed to take advantage of commodity rates. However, small businesses are increasingly utilizing a third type of rate that has emerged in recent years. This rate is known as a negotiated or contract rate. Popularized in the 1980s following transportation deregulation, contract rates allow a shipper and carrier to negotiate a rate for a particular service, with the terms of the rate, service, and other variables finalized in a contract between the two parties. Transportation costs vary by mode of shipping, as discussed below.

**TRUCKING—FLEXIBLE AND GROWING**The shipping method most favored by small business (and many large enterprises as well) is trucking. Carrying primarily manufactured products (as opposed to bulk materials), trucks offer fast, frequent, and economic delivery to more destinations in the country than any other mode. Trucks are particularly useful for short-distance shipments, and they offer relatively fast, consistent service for both large and small shipments.

**AIR FREIGHT—FAST BUT EXPENSIVE**Because of the relatively high cost of air transport, small businesses typically use air only for the movement of valuable or highly-perishable products. However, goods that qualify for this treatment do represent a significant share of the small business market. Owners can sometimes offset the high cost of air transportation with reduced inventory-holding costs and the increased business that may accompany faster customer service.

**WATER CARRIERS—SLOW BUT INEXPENSIVE**

There are two basic types of water carriers: inland or barge lines, and oceangoing deep-water ships. Barge lines are efficient transporters of bulky, low-unit-value commodities such as grain, gravel, lumber, sand, and steel. Barge lines typically do not serve small businesses. Oceangoing ships, on the other hand, operate in the Great Lakes, transporting goods among port cities, and in international commerce. Sea shipments are an important part of foreign trade, and thus are of vital importance to small businesses seeking an [international market](https://www.referenceforbusiness.com/knowledge/Globalization.html) share.

**RAILROADS—LONG DISTANCE SHIPPING**Railroads continue to present an efficient mode for the movement of bulky commodities over long distances. These commodities include coal, chemicals, grain, non-metallic minerals, and lumber and wood products.

**INTRODUCTION TO PROMOTIONAL MIX**

Definition of the Promotional Mix:-

The promotional mix is best described as a series of tools that a business uses to communicate the message of why consumers should buy their product.

Why is the Promotional Mix Important?

The answer is very simple. If customers don’t know about your services and products, you will not get any sales. So the promotional mix is critical because it is the way you effectively communicate the characteristics of your goods and services to generate sales.

## **The Difference between Promotional Mix and Marketing Mix**

The marketing mix encompasses several aspects that attract new and repeat customers. The promotional mix is just one aspect of the overall marketing mix, and it focuses on communication and interaction with potential customers.

Four Elements of the Marketing Mix:

[**Product**](https://www.cleverism.com/product-four-ps-marketing-mix/) – Anything that can be offered to a potential customer that fills a want or need.

**Price** – The marketing mix factor that controls the volume of sales.

**Place** – The distribution of products and services at the right time and in the right place.

**Promotion** – Activities undertaken by a business to get the message out about its product or service to the target audience.

It is worth noting that many times companies will consider ‘people’ as the 5th part of a sound marketing mix.

### **Personal Selling**

This is often referred to as one-on-one or face-to-face selling. As the name implies, it establishes a direct in-person connection with a prospective customer that may build trust and lead to a sale; it is the only means of promotion that allows you to adjust the message as the sales situation is unfolding. The downside is that it is a very costly means of selling. Examples would be a salesman on the floor of a home improvement company or a representative in a booth at a trade show.

### **Advertising**

This is almost the exact opposite of personal selling because it involves no direct face-to-face customer contact at all. It happens when companies make expenditures to promote their product through such things as media and the internet. The main advantage of this type of marketing is it’s a one-way conversation that helps the customer focus on the benefits of your product or service for them. As mentioned, its biggest drawback is establishing trust because of its impersonal nature. Examples of advertising are television commercials and pop-up ads on websites.

### **Direct Marketing**

This type of marketing tries to narrow the focus to a selected group of people who would be more interested in your product or service than others. Direct marketing can generate more sales because of its specific focus and it normally does it at less cost to the company; however, this type of marketing may be ill-received due to the sheer amount of it that people receive daily.Examples of this type of marketing are e-mail and direct mail advertising campaigns.

### **Sales Promotion**

This is actually a catch-all term that covers any type of promotions other than the ones that are specifically mentioned here. The advantage of them is that they can induce traffic and sales by changing a buyer’s perception of a product or service value. The disadvantage of sales promotions is the short-term nature of them often overshadows your company’s long-term sales goals. Sales promotions can be done by putting coupons on a flyer or snack chips being sold on a point-of-purchase display.

### **Public Relations**

This type of promotion has to do with creating a favorable image for your company as opposed to supplying direct information about a particular product or service. The advantage of public relations is that it can raise the appeal and image of your company for future purchasing decisions in a cost effective way. It must be noted also that it is very difficult to judge the effectiveness of this promotional campaign.

Good examples of this are a company that encourages others to give to disaster relief by matching donations or that hosts a run benefitting cancer research.

### **Corporate Image**

This is very similar to public relations except it is more direct in nature. It seeks to shape the company’s image in a very specific way; this is closely related to [branding](https://www.cleverism.com/lexicon/branding/). The benefit of a corporate image promotion is it can stop a declining sales trend because of poor perceptions about your product or service. The drawback to using this method is that people may see it for exactly what it is and be further dissuaded about purchasing your product or service.

A few very good examples of this are an airline that starts a campaign to fix its perceived uncaring image after a fatal crash of one of its aircrafts or a restaurant chain that needs to fix the negative publicity of a severe food illness outbreak at one of their locations.

### **Sponsorship**

This type of advertising is very similar to public relations in that it deals with a company’s image.It takes place when your company links itself to an event that makes it look good in the community or gives the impression your company is giving back something to the public.It can also be a non-charitable event that your product closely relates to, like sponsoring a sports team.

A sponsorship can do such things as brand enhancement if you do it in conjunction with another strong name, and it can also help your company’s entry into niche markets that are typically hard to break into. It is also normally cost effective for what your company gets outof it. The drawbacks to sponsorship are tarnishing your image if the event or team you sponsor gets caught doing something wrong, and you also have little control over the sponsorship situation.

Examples of a sponsorship are a beer company that sponsors a football (soccer) team or partnering with the Red Cross on a fundraising project after a natural disaster.

### **Internet Presence**

How big a role are internet promotions playing in the marketing mix these days? Let’s just say that they have their own category here where years ago they were just an afterthought. There is absolutely no doubt that the internet is now a very big promotional marketing channel, and most companies are highly aware of this fact.You would have to look far and wide these days for a company that does not have a website or at least a [blog](https://www.cleverism.com/lexicon/blog/). There are also many specialty businesses that have been born for the sole purpose of helping other companies with their internet presence.

A big part of using the internet as a promotional tool has to do with the rise of [social media](https://www.cleverism.com/how-become-social-media-pro/). Sure it’s free to get on and participate with such social media providers such as [Facebook](https://www.cleverism.com/using-facebook-business-purposes/) and [Twitter](https://www.cleverism.com/twitter-how-to-use-business/), but it is far from free for businesses to advertise on social media. These providers know what a powerful tool social media has become for advertising and marketing, and it costs a fair amount for those who use it.

People often refer to the world nowadays as a digital globe because of all the high-tech things like computers and smartphones that dominate life for people. In order for companies to compete for business, they definitely need to firmly establish an online presence. The best way to do this is to have a website that is comprised of factual and relevant data to your product or service and then optimize your site to drive traffic to it. If a website is optimized for [search engines (SEO)](https://www.cleverism.com/how-to-perform-keyword-research-boost-seo/), then it will show up on the first few pages after internet users search a generic keyword.

Big companies have whole departments that specialize in building websites and driving traffic to them, but small businesses often lack an online presence and are poorly optimized to drive traffic to them. Some studies suggest that over 90% of small business websites are not search engine optimized, and it puts them at a big competitive disadvantage.

If these sites were optimized, there is no doubt that their sales would increase if their product was good and priced fair. Establishing an internet presence is a big key for promoting products and services.

**d) Financial Management:-**

**Introductions, importance and its functions:-**

### Meaning of Financial Management

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

### Scope/Elements

1. Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.
3. Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
	1. Dividend for shareholders- Dividend and the rate of it has to be decided.
	2. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

### Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

### Functions of Financial Management

1. **Estimation of capital requirements:** A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.
2. **Determination of capital composition:** Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.
3. **Choice of sources of funds:** For additional funds to be procured, a company has many choices like-
	1. Issue of shares and debentures
	2. Loans to be taken from banks and financial institutions
	3. Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing.

1. **Investment of funds:** The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.
2. **Disposal of surplus:** The net profits decision have to be made by the finance manager. This can be done in two ways:
	1. Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
	2. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.
3. **Management of cash:** Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.
4. **Financial controls:** The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

**Elementary knowledge of income tax, sales tax, excise duty, custom duty and VAT**

**VAT:-**A value-added tax (VAT) or goods and services tax (GST) is a popular way of implementing a consumption tax in Europe, Japan, and many other countries. It differs from the sales tax in that taxes are applied to the difference between the seller-purchased price and the resale price. This is accomplished by taking full tax on all sales, but refunding the tax difference to the sellers.

**EXCISE DUTY :-**An excise or excise tax (sometimes called a special excise duty) is an inland tax on the sale, or production for sale, of specific goods or a tax on a good produced for sale, or sold, within a country or licenses for specific activities. Excises are distinguished from custom duties, which are taxes on importation. Excises are *inland* taxes, whereas customs duties are *border* taxes.

An excise is considered an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to try to recover or shift the tax by raising the price paid by the buyer. Excises are typically imposed in addition to another indirect tax such as a sales tax or value added tax (VAT). In common terminology (but not necessarily in law), an excise is distinguished from a sales tax or VAT in three ways:

1. an excise typically applies to a narrower range of products;
2. an excise is typically heavier, accounting for a higher fraction of the retail price of the targeted products; and
3. an excise is typically a per unit tax, costing a specific amount for a volume or unit of the item purchased, whereas a sales tax or VAT is an ad*valorem*tax and proportional to the price of the good.

**SALES TAX :-**A sales tax is a tax paid to a governing body for the sales of certain goods and services. Usually laws allow (or require) the seller to collect funds for the tax from the consumer at the point of purchase. When a tax on goods or services is paid to a governing body directly by a consumer, it is usually called a use tax. Often laws provide for the exemption of certain goods or services from sales and use tax.

**SERVICE TAX:-**  Service tax is a tax levied by Central Government of India on services provided or to be provided excluding services covered under negative list and considering the Place of Provision of Services Rules, 2012 and collected as per Point of Taxation Rules, 2011 from the person liable to pay service tax. Person liable to pay service tax is governed by Service Tax Rules, 1994 he may be service provider or service receiver or any other person made so liable. It is an indirect tax wherein the service provider collects the tax on services from service receiver and pays the same to government of India.

Few services are presently exempt in public interest via Mega Exemption Notification 25/2012-ST as amended up to date & few services are charged service tax at abated rate as per Notification No. 26/2012-ST as amended up to date. Presently from 1 June 2015, service tax rate has been increased to consolidated rate @ 14% of value of services provided or to be provided. The service tax rate now is consolidated rate as education cess & secondary higher education cess are subsumed with 2% of "Swachh Bharat Cess(0.50%)" has been notified by the Government.

### **Customs Duty in India**

Customs Duty is a type of Indirect Tax which is levied on goods which are imported into India. In some cases, it is also levied when the goods are exported from India.

In India, the basic law for levy and collection of customs duty is Customs Act, 1962 [.](http://www.cbec.gov.in/htdocs-cbec/customs/cs-acts-botm)It provides for levy and collection of duty on imports and exports, import/export procedures, prohibitions on importation and exportation of goods, penalties, offences, etc.

**INCOME TAX IN INDIA**

An **income tax** is a tax imposed on individuals or entities ([taxpayers](https://en.m.wikipedia.org/wiki/Taxpayers)) that varies with respective income or profits ([taxable income](https://en.m.wikipedia.org/wiki/Taxable_income)). Income tax generally is computed as the product of a [tax rate](https://en.m.wikipedia.org/wiki/Tax_rate) times taxable income. Taxation rates may vary by type or characteristics of the taxpayer.

The tax rate may increase as taxable income increases (referred to as graduated or progressive rates). The tax imposed on companies is usually known as corporate taxand is levied at a flat rate. However, individuals are taxed at various rates according to the band in which they fall. Further, the partnership firms are also taxed at flat rate. Most jurisdictions exempt locally organized charitable organizations from tax. Capital gains may be taxed at different rates than other income. Credits of various sorts may be allowed that reduce tax. Some jurisdictions impose the higher of an income tax or a tax on an alternative base or measure of income.

Taxable income of taxpayers resident in the jurisdiction is generally total income less income producing expenses and other deductions. Generally, only net gain from sale of property, including goods held for sale, is included in income. Income of a corporation's shareholders usually includes [distributions of profits](https://en.m.wikipedia.org/wiki/Dividend) from the corporation. Deductions typically include all income producing or business expenses including an allowance for recovery of costs of business assets. Many jurisdictions allow notional deductions for individuals, and may allow deduction of some personal expenses. Most jurisdictions either do not tax income earned outside the jurisdiction or allow a credit for taxes paid to other jurisdictions on such income. Nonresidents are taxed only on certain types of income from sources within the jurisdictions, with few exceptions.

Most jurisdictions require self-assessment of the tax and require payers of some types of income to withhold tax from those payments. Advance payments of tax by taxpayers may be required. Taxpayers not timely paying tax owed are generally subject to significant penalties, which may include jail for individuals or revocation of an entity's legal existence.