UNIT IV SERVICE BUSINESS - II

CHAPTER 16 EMERGING SERVICE BUSINESS IN INDIA

Learning Objectives

To enable the students to
i. gain knowledge on franchising business
ii. learn about factoring and its importance
iii. study the fundamentals of logistics
iv. be aware of the outsourcing business

16.01 FRANCHISING

A. Meaning and definition

One of the key components of success of any business lies in its ability to reach out to customers at local, national and global level. Franchising has often been used as a method for expanding domestic market and for entering international markets. A wide variety of goods and services are now made available to customers using this model. Franchising is used by businesses for marketing and distributing products and services.

According to International Franchise Association a franchise is a "*continuing relationship in which the franchisor provides a licensed privilege to do business, plus assistance in organising training, merchandising and management , in return for a consideration from the franchisee.*"

As explained in Wikipedia, franchising is "*the practice of the right to use a firm's business model and brand for a prescribed period of time. ... For the franchisor, the franchise is an alternative to building "chain stores" to distribute goods that avoids the investments and liability of a chain*".

There are two parties to a franchising agreement

Franchisor: The owner of a business who provides the franchise. Generally he owns the patent / trademark and offers it to the franchisee under a licensing agreement. Depending on the agreement, the franchisor may also provide support services like service/product training, marketing, advertising, etc. The franchisor levies fees in the form of royalty.

Franchisee: The individual who acquires the right to operate the business or use the trademark of the seller is known as the franchisee.

B. Characteristics of franchising

(i) Franchise relationship is based on an agreement which lays down terms and conditions of this relationship.

(ii) The term of franchise may be for 5 years or more. The franchise agreement may be renewed with the mutual consent of the parties.

(iii) The franchisee gives an undertaking not to carry any other competing business during the term of the franchise; and the franchiser gives an undertaking not to terminate the franchise agreement before its expiry except under situations which may justify the termination of the franchise agreement.

(iv) The franchisee agrees to pay specified royalty to the franchiser, as per terms of the franchise agreement.

(v) Franchise means selling the same product and maintaining a similar type of shop decor (i.e. style of interior decoration) for which franchiser provides assistance to franchisee in organising, merchandising and management. The franchiser virtually sets up the business for the franchisee.

(vi) Franchisee is supposed to follow parent company's policies regarding mode of business operations, as per clauses in the franchise agreement.

(vii) Franchiser may give training to personnel working in the franchisee's organization.

C. Types of franchising

There are primarily two types of franchising

a) Product/ trade name franchising: In this type, the franchisee exclusively deals with a manufacture's product. Examples include Kidzee, French Loaf outlets, Bharat Petroleum bunks,Patanjali products, etc. Relationships like Maruti Suzuki with ABT Maruti or Hero Honda bike dealerships may be considered as franchises. However, they but should be considered more as exclusive dealerships with more operational freedom for the dealers.

b) Business format franchising: When a franchisor awards rights covering all business aspects as a complete business package to the franchisee it is called as business format franchising. This package includes training , support and the corporate name. This enables uniformity of products, services, environment across geographical boundaries with a high degree of standardisation. Examples are McDonald's, Pizza Hut. KFC, Hot breads, Titan, Color plus, Zodiac, Lakmé beauty parlour.

D. Advantages of franchising

a) ***Reduced risk:*** The franchisee will acquire the right of running an already established business, thus eliminating the risk of starting a new business.

b) ***Business expansion:*** Franchising provides an opportunity to expand business at regional, national and global levels without incurring additional expenditure. Thus rapid growth of franchisor's business is facilitated.

c) ***Cost of advertising:*** The cost of advertising for the franchisor will be reduced since this cost will be shared by the franchisee. Moreover, it enables the franchisor to reap the benefits of increased visibility across regional and national boundaries.

d) ***Operational support:*** The franchisee is provided assistance in not only obtaining finance,but also in deciding business location , decor /design, staff training, and handling day to day operations.

Top 10 Franchises in India 2017				
Position	Name of Franchise	Country of Origin	Number of Years of Franchising in India	Industry
1	Subway	USA	16	Food & Beverage
2	Aloha India	Malaysia	15	Education & Training
3	Baskin-Robbins	USA	24	Food & Beverage
4	Kidzee	India	14	Children's
5	US Dollar Store	India	13	Retail
6	McDonald's	USA	21	Food & Beverage
7	Khadim's	India	22	Retail
8	Prestige Smart Kitchen	India	14	Retail
9	Domino's Pizza	USA	21	Food & Beverage
10	Bachpan (A Play School)	India	13	Children's

Examples of Indian Franchise

KIDZEE
WHERE KIDS LOVE TO LEARN

http://www.kidzee.com/partner-with-us/

Kidzee school franchise

Committed to quality education

Minimum area of 2000-3000 sq. ft.

Minimum investment ₹ 12, 00,000

Franchise with Oriental Cuisines Private Limited

Haldiram takes Franchise route to add 150 stores

Particulars	The French Loaf	Wangs Kitchen
Floor placement	Ground floor properties with good frontage	
Carpet Area	350 - 500 sq.ft.in a high footfall area.	800 - 1000 sq.ft. in a high footfall area
Investment	₹20 - 25 Lakh Approximately	₹50 - 65 Lakh Approximately
Location	Chennai, Rest of Tamil Nadu, Bengaluru, Mangalore, Mysore, Hyderabad & Kolkata	

E. Disadvantages of franchising

a) ***Franchising fees:*** The initial franchising fee and the subsequent renewal fees can be very high in case of successful businesses. From the franchisee's point of view, this may be a deterrent.

b) ***Fixed royalty payment:*** The franchisee has to make payment of royalty to the franchiser on a regular basis. This considerably reduces the income of the franchisee.

c) ***Danger of image tarnishing:*** If the franchisee does not maintain standards of quality and service; there is a danger that the goodwill and image of the reputed franchiser will be adversely affected.

d) ***Lack of freedom:*** The franchisee does not have the freedom to run his business in an independent manner. He has to abide by management and operational policies of the franchiser, This may serve as a deterrent whether suitable to him or not.

e) ***Limitation on range of products:*** The franchisee cannot introduce new product lines into the business, except those permitted by franchiser. This may mean loss of business to franchisee amidst demands based on local conditions.

F. Conclusion

Franchising enables a franchisor to expand the existing business to wider geographical regions within the country and abroad. Franchisees, especially those who are new entrants to business, do not have to "start from the scratch", but work with an established business model getting the necessary operational support and guidance. In international business, franchising is the best option to enter other country markets.

16.02 FACTORING

A. Introduction

Firms sell goods on cash and credit basis. When goods are sold on credit basis, bills are drawn on the buyer by the seller. In case of small and medium business, a considerable part of their working capital is tied down in bills receivables. The liquidity position of the firm is affected and this hinders the smooth functioning of the business. In order to overcome this hurdle, Factoring as a service has emerged.

B. Meaning and Definition

Factoring is derived from a Latin term "*facere*" which means 'to make or do'. Factoring is an arrangement wherein the trade debts of a company are sold to a financial institution at a discount. The factor is an agent who buys the accounts receivables (Debtors and Bills Receivables) of a firm and provides finance to a firm to meet its working capital requirements.The main advantage of factoring is that the small or big business firm receives short term finance (working capital) to meet day-to-day payments.

In a report submitted to the Reserve Bank of India, Mr.C.S.Kalyanasundaram defines factoring as "*a continuing arrangement under which a financing institution assumes the credit and collection functions for its clients, purchases receivables as they arise (with or without recourse for credit losses, i.e., the customer's financial inability to pay), maintains the sales ledgers, attends to other book-keeping duties relating to such accounts, and performs other auxiliary duties*".

The Factoring Regulation Act 2011 governs the registration of factors and regulating the assignment of receivables and the associated obligations.

C. Factoring Process

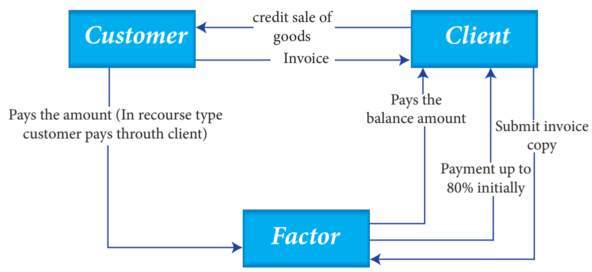
a) The firm enters into a factoring arrangement with a factor, which is generally a financial institution, for invoice purchasing

b) Whenever goods are sold on credit basis, an invoice is raised and a copy of the same is sent to the factor.

c) The debt amount due to the firm is transferred to the factor through assignment and the same is intimated to the customer.

d) On the due date, the amount is collected by the factor from the customer.

e) After retaining the service fees, the remaining amount is sent to the firm by the factor



D. Features of Factoring

a) Maintenance of book-debts

A factor takes the responsibility of maintaining the accounts of debtors of a business institution.

b) Credit coverage

The factor accepts the risk burden of loss of bad debts leaving the seller to concentrate on his core business.

c) Cash advances

Around eighty percent of the total amount of accounts receivables is paid as advance cash to the client.

d) Collection service

Issuing reminders, receiving part payments, collection of cheques form part of the factoring service.

e) Advice to clients

From the past history of debtors, the factor is able to provide advices regarding the credit worthiness of customers, perception of customers about the products of the client, etc.

E. Types of factoring

a) Full service factoring or Without recourse factoring:

When a factor agrees to provide complete set of services which includes financing, maintenance of sales ledger, debt collection at his own risk, and providing consultancy services as and when necessary, it is called as full servicing factoring.

b) With recourse factoring

When the factor does not undertake credit risk, it is known as with recourse factoring. In case the debtor fails to make the payment on due date, it is assigned back to the firm by the factor. Here the responsibility of collecting the amount lies with the selling firm.

c) Maturity factoring

In this type, the factor agrees to finance the firm only after collecting the amount on maturity from debtors.

d) International factoring

When the claims of an exporter are assigned to a financial institution and the finance is advanced on the basis of export invoice it is called as international factoring.

The factoring process involving the client firm, factor and the customer is given below.

F. Factoring vs Forfaiting

Forfaiting is defined as "the non-recourse purchase by a bank or any other financial institution of receivables arising from an export of goods and services".

Examples of Factoring companies in India

Canbank Factors Limited:

http://www.canbankfactors.com

SBI Global: http://www.sbiglobal.in

IFCI Factors Limited: http://www.ifcifactors.com

Export Credit Guarantee Corporation of India Ltd: https://www.ecgc.in/Portal/productnservices/maturity/mfactoring.asp

Small Industries Development Bank of India (SIDBI):http://www.sidbi.com/?q=receivable-finance-scheme

G. Conclusion

Factoring helps smooth running of business by getting short term credits from financial institutions against accounts receivables. Forfaiting is a variation of factoring with focus on international exports.

S. No.	Characteristics	Factoring	Forfaiting
1.	Basis of financing	Financing is dependent on exporter's credit standing	Financing is dependent on the availing bank's financial standing
2.	Cost	Cost is borne by the seller	Cost is borne by the overseas buyer
3.	Suitability	For transactions of short-term maturity period	For transactions of medium-term maturity period
4.	Extent of financing	Only a certain per cent of receivables factored is advanced	Full finance is available
5.	Risk	Risk can be transferred to seller	All risks are borne by the forfeiter

16.03 LOGISTICS

A. Meaning

Logistics can be viewed as a logical extension of transportation and related areas to achieve an efficient and effective goods distribution system.

B. Logistics Management

Logistics Management is defined as 'Design and operation of the physical, managerial, and informational systems needed to allow goods to overcome time and space (from the producer to the consumer)'. This implies that an integrated view of a number of different activities and functions may be required. These activities are represented as part of the value chain, called the generic value chain by Porter. All firms are viewed as a collection of primary and secondary activities.

C. Decisions

The logistics management involves various decisions that need examination for an integrated system, they are:

Product design, Plant location, Choice of markets/sources, Production structure, Distribution/Dealer network design, Location of Warehouses, Plant Layout and Logistics, Allocation Design, Production Planning, Inventory Management – Stocking Levels, Transportation-mode Choice, Shipment Size and Routing Decisions, and Transport Contracting, Packaging, Materials Handling, Warehousing Operations.

D. Key Actors

Shippers (users of logistics), Suppliers (of logistics services) – Carriers (rail, road, air, water, pipeline, rope-way), Warehouse Providers, Freight Forwarders, Terminal Operators (ports, stevedores etc), Government (regulator of logistics).

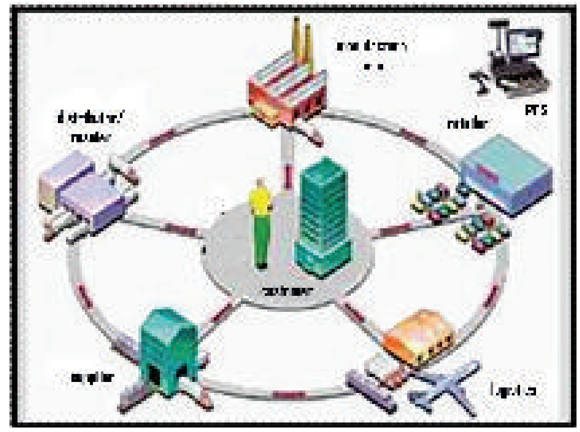
Organisations taking proactive managerial attention in co ordinating the actors in logistics leads to reduced logistics costs and improved customer service.

E . Role of Government

The government plays a significant role in logistics in India. The important legislations that affect logistics are Central Sales Tax and Local Sales Tax, Consignment Tax, Excise Duties, Octroi and Entry Tax, Use of Packaging Material, MODVAT, GST, Motor Vehicles Act and similar acts for other modes, Distribution of Policies.

F. Classification of Logistics Applications

The Logistics Management can be classified on the basis of applications from various dimensions in the process of examining and evaluating alternatives. They are 1. Decision-wise 2. Actor-wise 3.Inbound logistics and Outbound logistics



G. Elements of Logistics Cost

The important elements of logistics cost are

Product Inventory at source, Pipeline Inventory, Product Inventory at Warehouses and Dealers, Transit Losses/Insurance, Storage Losses/Insurance, Handling and Warehouse Operations, Packaging, Transportation, Customers' Shopping.

H. Models in Logistics Management

The decision areas of Logistics can be addressed using various quantitative models from Operations Research namely

i. Forecasting Models ii. Mathematical Programming Models – Location Models, Allocation Models, Distribution Network Design Models iii. Inventory Models iv. Routing Models v. Scheduling Models vi. Alternatives Analysis

I. Logistics and Infrastructure

Generally a good transportation, storage, handling and information infrastructure helps in efficient logistics management. In India most of the transportation happens through road and rail. Pipeline and Water transport are to be fully utilized further. Air transportation is used for high value commodities. In transportation infrastructure the following framework can be used to identify the problem areas like Right of way, Vehicle, Motive power, Terminals, Operations/systems.

J. Logistics Management to Supply Chain Management

Logistics Management deals with the efficient management of a static gap between demand and supply whereas Supply Chain Management tries to identify the dynamic nature of the value creation itself such as responsiveness, quality and design. Hence, it aims for an effective management response over the longer run.SCM focuses on profit maximization rather than cost minimization. LM activity is supply driven and SCM is more demand driven.

MTQWH

16.04 OUTSOURCING

A. Meaning of Outsourcing

Recently a new type of business in service sector has become popular in the world. It is called the Business Process Outsourcing (BPO). BPO refers to outsourcing the work which is routine in nature, to an outside agency. This practice was initiated in United States of America in few companies. The routine work of a company if outsources the company concentrate on critical issues without wasting time on routing job. In later years it became popular in other countries also. For example designing an advertisement, after sales service, maintance of accounts etc. can be outsourced.

The companies must identify their core competence and concentrate on that function and outsource all other routine function to outside agencies, who are specialized in those functions.

B. Features of Outsourcing

1. Transferring Non Core Activities to Outsiders

Companies can outsource those non core activities functions like maintenance, housekeeping, gardening, etc. to outsiders, depending upon the nature of the business and the activities are identified as core or non core activities.

2. Outsourcing Involves Contracting

As the companies start outsourcing their activities focusing on their main business, the outside agencies enter into an agreement with the company to perform the routine activities on a contractual basis.

3. Operational Efficiency through Outsourcing

Companies specialize in their business system as the time available at their disposal can be utilized for the core activities leading to efficiency improving quality of the product.

4. Improved Customers Satisfaction

The number of customers can be increased through timely delivery and high quality services. Outsourcing helps in customer satisfaction and results in repetitive purchase of the same product

5. Cost Reduction

The only way to survive and earn profit is through global competitiveness by fixing a competitive price. Division of labour and specialization along with good quality product reduces the cost. For example outsourcing of research and development, manufacturing, software development etc.

C. Core and Non Core activities

Companies can benefit in the long run provided they are keen on their core activities rather than non core activities. A core activity involves experience, expertise, efficiency and even investment in the field of specialization. Non core activities can be outsourced to outsiders who are specialists in their area of operation.

D. Benefits

1. Focusing on Core Activities

Companies can focus on their core competence, a few areas where the company has distinct capability. The rest of the activities (non core) can be outsource to outside agencies.

2. To Fill up Economic Development

Outsourcing stimulates entrepreneurship, encourages employment opportunities, expands exports, enables tremendous growth of the economy.

3. Encourages Employment Opportunities

Companies that are outsourcing their non core activities provide chances for other small business units to take up the activities. This paves way for more job opportunities and new employment avenues.

4. Reduction in Investment

Companies through outsourcing avails the services of outsiders which in turn reduces the investment requirements. The amount so available can be utilized productively and this increases the profits.

5. Quest for Excellence

Outsourcing enables the firms to pursue excellence in two ways namely excelling themselves in the activities they do and excel outsiders by extending their capabilities through contracting out.

E. Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO)

Meaning

BPO means getting contractual services of external companies or group of companies to complete special work or process of a company. For example call centres, data entry etc. This reduces the expenditure by using cheap labour available in developing countries like Indian, China etc.

Need for BPO

1. To focus on key function
2. benefit of specialization / efficiency
3. cost cutting
4. Economic growth and development
5. Increasing profit
6. Catering to the dynamic demand

Knowledge Process Outsourcing (KPO)

Meaning

KPO refer to outsourcing of Knowledge based Process. It means obtaining high end knowledge work from outside the organization in order to run the business successfully and in cost effective manner. In short KPO firms get knowledge related, information related, work done from outside firm and it involves high value work carried highly skilled staff.

Need for KPO

1. Usage of best skills
2. Ultimate use of knowledge
3. Finding solution to complex problem

4. Reduction of expenditure
5. Special focus on principal functions
6. Outsources reduces risk

16.05 E-COMMERCE

E - Commerce or Electronic Commerce is the buying and selling of goods and services through electronic networks like internet. E – Business is a broader term which includes internal and external transaction of an organization across the internet. The internal transactions include finance, production, operations etc., while external transactions include customer – service, sales, marketing and business to business transactions. The term e – commerce denotes mainly external transactions, According to Deloitte Association report, seventy percent of revenue in e – Commerce in India in the year 2015 was only from online travel followed by online retail which accounted for 20 percent of revenue. The major segments in the sphere of e – commerce includes Health, Education, Real estate, Financial services, Digital downloads, Online classified advertisement etc.,

B. General Impact of E – commerce

About 40 million people of India is said to be employed in E – Commerce sector either directly or indirectly

i) E – commerce generates great opportunities for entrepreneurship in the sphere of online retailing, online service digital commerce and so on

ii) E – commerce companies have invested heavily in supply chain area, warehousing, and delivery points

iii) With a rise in e - commerce transactions sale of financial, physical and data security system related products has seen tremendous growth in India

iv) E – commerce promotes innovative practices of carrying on business. Social media and social media networks have opened new ways of transacting with the customers through e - commerce

v) Thanks to wider broad band connectivity many business concerns are switching over to e – commerce mode of transacting business

vi) More contemporary customers are buying through Flipkart and Amazon

vii) Direct marketing companies are using internet to promote products and render efficient customer service

C. Impact of E- commerce on vendors

i) Vendors could have a wider access to customers across the globe

ii) This helps minimize the cost of operating business due to direct distribution of goods to end consumers thanks to minimum invention of intermediaries

iii) Vender could interact with multiple buyers and sellers

iv) Business concerns could orient marketing efforts towards targeted customers.

D. Impact of E-commerce on buyers

i) Buyers could have a global access to information about variety of products and services available in the market

ii) They could buy the products/services round the clock from anywhere in world

iii) The prices of products bought through e – commerce tend to be relatively lower than those purchased physically in the conventional shops due to offers, discount etc.

iv) Electronic and software products could be downloaded immediately after purchase through e – commerce mode

v) Customers could participate in e auction which is one of the facets of e – commerce and get contract in a free and fair manner

vi) Individuals could sell their used products through e – commerce mode with relative ease.

vii) Buyers can bargain and negotiate better terms and conditions with respect to buying knowledge products.

E. E – Commerce Domains/Models

1. Business to Customers (B 2 C)

This is fastest growing segment in e – commerce spare. Under this model, business concern sells directly to consumers

2. Business to Business (B 2 B)

Under the model, business concerns transact with one another through internet. For instance, Snapdeal, Filipkart, Alibaba, Indamart, Trade India. Com etc.

3. Consumer to Consumer (C 2 C)

Under this model, customers sell directly to other customers through online classified advertisement or through auction or through mobile or through market places. Example. Indian ventures in C 2 C are Kraftly App (buying and selling anythings) which deals in hand made products of a wide range. Onceagainstore. Com is a website that buys pre – owned women's fashion products. Other players are quirkr,Olx, ebay etc..

4. Customer to Business (C 2 B)

This model is reverse to auction model. Products like automobile, electronic items furniture and smilar product are traded by customer through websites. Example Naukri.com, and Monster.com are examples of Indian companies operating in this domain

5. Business to Government (B 2 G)

This model envisages selling products and services by business consumer to Government organization . For instance TCS operates the passport application process for the Government of India as part off - line process

Key Terms

Franchiser	Franchisee
Merchandising	Standardisation
Liquidity	Factor
Customers	Recourse
Transportation	Design
Operation	activities
application	framework

Key Terms (continue)

Specialisation	competence,
core activity	call centre,
Business Process Outsourcing,	
Knowledge Process Outsourcing,	
online business,	
economic development	
Electronic	Digital
Internet	Business
Logistics	Factoring
Outsourcing	

Self Study Exercise

Identify and write about five examples of franchises in your area.

[Hint: couriers, eating houses, training centres]

For Own Thinking

You are a small scale manufacturer of ignition coils for automobiles, located near Ranipet. Explain how will you avail of financial credits through factoring if you get orders from

a. Ford India , Chennai

b. Maruti Suzuki, Gurgaon

c. Kun Hyundai, Seoul

To identify the core activities of any business

To analyse the benefits of Outsourcing noncore items

To evaluate the areas which needs KPO

To understand critically analyse the impact of call centers

For Future Learning

1. Identify methods of moving goods
2. Draft ways and means of overcoming the problems in Logistics
3. Project the future of Logistics Management in India

1. Suggest methods of discriminating core and non core items
2. Write ways and means of overcoming the drawbacks of BPO,KPO
3. Project the future of outsourcing on economic development

To identify the activities involved in the movement of goods

To analyse the benefits of Logistics

To evaluate the areas which need more focus relating to Logistics

To understand critically and analyse the impact of Logistics on Profitability

Exercise

I. Choose the Correct Answer

1. **A continuing relationship which provides a licence privileges to do business and provides training, merchandising for a consideration is called _____________**

   a) Franchising

   b) Factoring

   c) Supply Chain Management

   d) Exchange

2. **Buying and selling of goods through electronic network is known as ______**

   a) E-commerce

   b) internet

   c) Website

   d) Trade

3. **An organization carrying out activities to move goods from producer to consumer is**

   (a) Transport

   (b) Logistics

   (c) Channels

   (d) Marketing

4. **The main benefit of Logistics is**

   (a)Productivity

   (b) Cost Minimisation

   (c)Profitability

   (d) Storage

5. **The main benefit of outsourcing is**

   (a) Productivity

   (b) Cost reduction

   (c) Skill

   (d) Units

Answers

1. a 2. c 3. a

4. b 5. b

II. Very Short Answer Questions

1. Who is a Franchisee?
2. State two disadvantages of Franchising.
3. What is meant by BPO?
4. What is meant by Logistics?

III. Short Answer Questions

1. What are the types of Franchising?
2. List the steps in factoring process. (any 3)
3. What is the impact of e-commerce on buyers? (any 3)

IV. Long Answer Questions

1. Enumerate the advantages of Franchising. (any 5)
2. Elucidate the features of factoring.

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