

## **CBSE Class 12 Business Studies**

### **NCERT Solutions**

#### **Chapter 11**

#### **Marketing**

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#### **Very Short Answer Type:**

##### **1. Explain the advantages of branding to marketers of goods and services.**

**Ans1:** Branding implies giving a unique name, sign, symbol or term for the identification of a product. The following are the advantages of branding to the marketers.

1. Helps in product differentiation: With branding marketer can differentiate his products from the competitors product.
  2. Helps in advertising: With the brand name advertising become more effective as it not only makes people aware about the features of product but also about brand which can provide these benefits.
  3. Differential pricing: with established brand name the firm can easily charge high price for its product as compared to competitor's product.
  4. Easy introduction of new product: the companies which use their company's name as brand name then it becomes very easy for such company to popularize the new product it is planning to introduce.
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##### **2. List the characteristics of a good brand name.**

**Ans:** A good brand name consists of the following characteristics.

- (i) The name should be short and easy to spell, pronounce and remember. For example, Ponds, Rin.
  - (ii) A brand should suggest the benefits or qualities of the product and also suit its functions. For example, Boost, Fair & Lovely.
  - (iii) The name should be unique as well as adaptable to packaging and labelling
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requirements. It should also be adaptable to different mediums of advertising and languages.

**(iv)** A brand name should be versatile and should be able to adapt to the new products if introduced under the brand.

**(v)** It must be distinctive and capable of being legally protected.

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### **3. What is the societal concept of marketing?**

**Ans:** Although marketing concept is satisfying the needs of customers in the best possible manner but then also it has attracted criticism from people who are concerned about society and environment. They argue that company should not follow the goal of customer satisfaction. This may lead to many social and environmental ills for example, a customer may want to have drugs so just to satisfy customer the firm should not supply him drugs. Some products bring harmful effects on environment so these should not be supplied only to fulfil the goal of customer satisfaction. The customer satisfaction must be within the ethical ecological aspects of our society.

### **4. List the characteristics of convenience products.**

**Ans:** Convenience products refer to those products that are purchased frequently, immediately and with minimum time and effort.

The following are the characteristics of a convenience product.

**(i)** Such products are easily available at convenient places with minimum time and effort wastage.

**(ii)** Convenience products are consumed frequently and have a continuous demand. Generally, the essential commodities come under the category of convenience products.

**(iii)** They are available in small units and low and standardised prices.

**(iv)** The competition in the market for such products is high. Thereby, heavy advertising is required for these products.

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### **5. Enlist the advantages of packaging of a customer product.**

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**Ans:** Packaging refers to the process of developing and designing the container for a product. A good packaging has the following advantages.

- (i)** It enables differentiation and identification of a product from other products.
- (ii)** It acts as a promotional tool. Use of colours, pictures, symbols in packaging helps in attracting the customers.
- (iii)** Appropriate packaging contributes to the convenience in handling the product.
- (iv)** It helps in protecting the quality of the product from any kind of damage. It helps in avoiding any kind of spoilage, breakage, etc. particularly at the time of storage and transportation.

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**6. What are the limitations of advertising as a promotional tool? Enlist.**

**Ans:** The following are the limitations of advertising as a promotional tool.

- (i)** It lacks personal form of communication and thereby is less forceful.
- (ii)** Evaluation regarding the effectiveness of the advertisement is very difficult to conduct.
- (iii)** Advertisements come in standardised form and cannot be moulded as per the requirements of different consumer groups.
- (iv)** Effectiveness of advertising is low as there can be numerous advertisement.

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**7. List five shopping products purchased by you or your family during the last few months.**

**Ans:** Shopping products purchased are the following.

- (i)** Clothes
  - (ii)** Jewellery
  - (iii)** Television
  - (iv)** Shoes
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(v) Home furniture

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**Short Answer Type:**

**1. What is marketing? What functions does it play with process of exchange of goods and services? Explain.**

**Ans:** Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others. It consists of all those activities that are involved in the process of exchange of the goods and services between producers and consumers.

These activities are –

Market research, market planning, product designing and development, standardisation and grading, packaging and labelling, branding, promotion and selling, physical distribution, transportation and storage and warehousing.

Thus, marketing plays an important role in the process of exchange of goods and services.

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**2. Distinguish between the product concept and production concept of marketing.**

**Ans:**

Basis	Production concept	Product concept
Starting point	Factory	Factory
Main focus	Quantity of product	Quality of product
Means	Availability and affordability of product	Improvement of quality
Ends	Profits through large volume of production	Profits through quality of product

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**3. Product is a bundle of utilities? Do you agree? Comment.**

**Ans:** A product is a bundle of utilities. It is a carrier of functional and psychological and social satisfaction. For example, a product like shoes may provide three utilities i.e. protect the feet

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and give comfort in walking( functional benefit), the customer may feel confident and smart by wearing shoes( psychological benefit), he may be able to get acceptance and appreciation from a group by wearing a particular brand of shoes (social benefit).

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#### **4. What are industrial products? How are they different from consumer products?**

**Explain.**

**Ans:** Industrial products refer to those products that are used as inputs for the production of other goods. Such goods are not meant for final consumption rather they are used as raw material and inputs by the manufacturers for the production of consumer goods. For example, machines, tools etc. are industrial products. As against this, consumer products refer to those products that are used by the ultimate customers for their personal consumption purposes. For example, toothpaste, edible oil, furniture, etc. are consumer goods. The following points highlight the difference between industrial products and consumer products.

Basis of Difference	Industrial Products	Consumer Products
Number of Customers	The number of customers is limited. For instance, oil seeds (industrial product) are used mostly by the producers of mustard oil.	The number of customers is higher. For instance, mustard oil (consumer product) is consumed by many people.
Channel of Distribution	Such products require shorter channels of distribution such as direct selling or one level channel.	Such products require comparatively longer channels before they reach the final consumer. However, channel of distribution for perishable consumer products is small.
Location	Industrial products remain concentrated only in those areas where the industries producing these goods are located.	Consumer products readily and conveniently available.

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Demand	Demand for industrial product is a derived demand based on the demand for consumer products.	Demand of consumer product is not a derived demand rather sets the basis for demand for industrial products.
Role of Technical Features in Decision Making	Technical features play an important role while purchasing these products	Such products do not involve any technical complexities in manufacturing. Thereby, technical features does not have much role in the decision making while purchasing.

## 5. Distinguish between convenience product and shopping product.

**Ans:**

Basis of Difference	<b>Convenience Product</b>	Shopping Product
Demand	Convenience products have a continuous and frequent demand.	Shopping products have a relatively less frequent demand.
Nature of Products	Essential commodities come under the category of convenience goods.	Generally, such goods are durable in nature
Unit of Purchase and Price	These products are available in small units and have low unit price. Thereby, such products have low profit margin.	These products usually come in bigger units and have high unit prices. Thereby, the profit margin is also high.
Nature of Purchase	Such products are brought impulsively without devoting much time and effort.	Such products are not brought impulsively and the consumer devotes considerable time and effort to compare the price, quality, etc. of the product.

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Example	Ice-creams, medicines, newspaper, stationary items.	Jewellery, furniture, clothes, etc.
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**6. 'Products is a mixture of tangible and intangible attributes'. Discuss.**

**Ans:** Generally, a product is referred to as a tangible asset which has physical attributes. For example, we regard a motorbike or a laptop as a product. However, in marketing a product relates not just to physical or tangible attributes but also to certain intangible attributes. That is, a consumers' decision to purchase a product is based not just on its tangible attributes but also on certain other intangible attributes. In other words, a consumer purchases a product not just for its functional utility but for other factors as well such as brand name, reputation, social satisfaction, etc. For example, when a person purchases a laptop, along with the physical attributes and functional utility regarding the model, size, features, etc. he also looks for intangible attributes such as guarantee, brand, etc. Hence, product is a mixture of tangible and intangible attributes.

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**7. Describe the functions of labelling in the marketing of products.**

**Ans:** In the marketing process, labelling plays an important role in packaging of the product. Labelling basically provides the information about the product in the form of a tag (in cases of local unbranded products such as rice, wheat, etc.) or graphics (such as a lady applying cream on face for a face-cream).

There are various functions performed by labelling which are as follows:

**1. Describe the product and specify its content:** The manufacturer cannot communicate to each and every customer personally so if he wants to communicate and share some information about the product with the customer it is done through labels. The manufacturer prints all the information related to product such as contents, price, instruction to use etc.

**2. Identify the product:** the labels helps the customers to identify the product from the various types available for example, we can easily identify a Cadbury chocolate from the various chocolates kept in the shelf of a shop by the color of its label.

**3. Help in grading:** with the help of label products can be graded in different categories for

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example, Brook Bond Red Label, Brook Bond Yellow Label etc.

**4. Promote sale:** Attractive and colorful labels excite customer and induce him to buy the product. Especially in consumer goods attractive labels increase sales volume.

**(v)Information Required for Law:** Label also provides and mentions the information which are required to be mentioned as per the law. For example, on a packet of tobacco it is written 'chewing tobacco is injurious to health'.

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## **8. Discuss the role of intermediaries in the distribution of consumer non-durable products.**

**Ans:** Intermediaries play an important role in the distribution of consumer non-durables. They facilitate the transfer of goods from the place of production to the place where they are consumed.

The following are the different functions performed by the intermediaries in case of non-durables.

**(i)Arrangement:** An intermediary receives the supply of goods from various sources. He then sorts these goods into homogeneous groups based on their characteristics such as size, quality, etc.

For instance, an electronic goods seller receives supply of different electronic goods (T.V., washing machine etc.) and then sorts them based on their functions.

**(ii)Collection:** An intermediary maintains large stock of the goods so as to ensure easy flow of supply. For instance, the electronic goods seller maintains large stock of each type of the electronic item.

**(iii)Allocation and Packing:** This function includes breaking the larger stock into smaller units. For instance, each electronic item as well as their spare parts are packed separately.

**(iv)Building Variety:** An intermediary acquires various goods from different sources and assembles them at a single place. Thus, it maintains a variety of goods. He procures the products and then sells them in different combinations as desired by the consumers. For instance, a television and a video player are preferred together by most of the people. Thus,

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the retail can sell a combination of both.

**(v)Promotion of Product:** They assist in the promotion activities undertaken by the manufacturers. For example, the manufacturers use advertising for the promotion of their product. The intermediaries can aid this process by putting banners and displays. For example, an electronic goods retailer puts up banners for various products highlighting their features.

**(vi)Mediation:** Middle men perform the function of setting a deal that can satisfy both the producers and the consumers. They negotiate the price, quality, quantity, etc. for efficient transfer of ownership so as to satisfy the need of both the parties.

**(vii)Bearing Risk:** Intermediaries acquire goods from the producers and keep them in their possession till the final sale. In the process they bear the risk of fluctuations in demand, price, spoilage, etc. For example, suppose a retailer acquires large quantities of air conditioners. However, after a few months' winter sets in and the demand for air conditioners falls. Thus, the stock remains unsold and retailer would suffer a loss.

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## **9. Explain the factors determining choice of channels of distribution.**

**Ans:** One of the important decisions of marketing involves the choice regarding which channel of distribution to opt for. The following factors determine the choice of channels.

**1. Product related factors:** Following are product related factors which help in deciding the channels of distribution:

- a. Value of product line. If the unit value of product is high or for expensive product direct sale from company is preferred while for less costly products, longer channels are preferred.
  - b. Product Complexity: Technically complex product requires expert advice and guidance so direct sale is preferred whereas for simple product longer channels can be used.
  - c. Nature of product
  - d. Perishable or non perishable product: Direct selling is used for perishable products whereas non-perishable could be distributed with long channels.
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**(ii) Characteristics of the Company:** The two important characteristics of a company that affect the choice of channel are its financial strength and the degree of control that the company wishes to hold on the intermediaries. Shorter channels require greater funds than longer channels and also offer greater control over the members of the channel (intermediaries). Thus, companies that are financially strong or wish to command greater control over the channel of distribution opt for shorter channels of distribution.

**(iii) Competitive Factors:** The type of channels selected by the competitor also affects the selection of channel. As a company may select the same channel as selected by the competitor or sometimes the businessman prefers not to select the channel selected by the competitor. For example, if competitor has chosen to sell the detergent powder through big retail house, the businessman may select the sale by appointing salesmen for door to door.

**(iv) Market Factors:** Various other factors such as size of the market, geographical concentration of buyers, quantity demanded, etc. also affect the choice between the channels. For instance, if potential buyers are concentrated in a small geographical area then, shorter channels are used. As against this, if the buyers are dispersed in a larger area then longer channels of distribution may be used.

**5. Environmental Factors:** Other important factors which affect the choice of channels of distribution include environmental factors such as trade policy etc. for example- in a depressed economy shorter channels are preferred to distribute goods in economic way.

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## **10. Explain briefly the components of physical distribution.**

**Ans:** Physical distribution refers to movement of products from the place of production to the place of consumption. The following are the components of physical distribution.

**(i) Processing of Order:** Processing of order comprises of a number of steps such as placement of order, transmission of the order by the intermediaries to the manufacturer, maintenance of inventory as per the requirement, delivery of goods, etc. As all such processes take time, a physical distribution system should be such that it should ensure speedy and proper order processing. Generally, there exists a direct relationship between speed and accuracy of order processing and customer satisfaction. Fast and accurate order processing results in greater consumer satisfaction.

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**(ii)Transportation of Products:** Transportation of products refers to the physical movement of goods from the place where they are manufactured to the place where they are consumed. To make the goods physically available to the consumers they must be transported from the place of production to the place of consumption.

**(iii)Warehousing:** Warehousing refers to the process of storing the produced goods before the final act of sale. If a company has a larger number of warehouses, it will be able to readily provide the goods on time at different locations. However, maintaining warehouses involves its own cost. Thus, a company must weigh the relative benefits and costs associated with warehousing and maintain a balance between the two as per the requirement.

**(iv)Maintenance of Inventory:** The firms maintain inventory so as to ensure timely supply of products. Similar to warehousing, maintenance of inventory also shares a positive relation with customer service. However, maintenance of inventory involves a cost as a huge amount of capital remains tied up in the stock unless it is sold. Thus, the firms must strike a balance between customer service and cost.

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## **11. Define advertising. What are its main features? Explain.**

**Ans:** Advertising is a technique used for promotion of a product. Through advertising the companies attract customers towards their product and induce them to purchase it. Some of the common modes of advertising are newspapers, magazines, television, etc. The following are the important features of advertising.

**(i)Cost Involved:** Advertising involves a cost. It is a paid form of promotion. The costs involved in advertising are to be borne by the sponsors.

**(ii)Impersonal Mode:** Advertising is an impersonal mode of communication. That is, there is no face-to-face interaction between the customer and the advertiser. Thus, it lacks a personal touch and creates a monologue.

**(iii)Specific Sponsor:** There are always some identified individuals or sponsors who undertake the responsibility of designing it and bearing the cost involved.

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## **12. Discuss the role of 'sales promotion' as an element of promotion mix.**

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**Ans:** Sales promotion refers to the incentives that are offered to the buyers so as to encourage them to purchase the product. It included activities such as offering discounts, gifts, free samples, etc. Such activities supplement other promotional activities undertaken by the company such as advertising and direct selling. They increasingly attract the customers and induce them to immediately purchase the product. Such activities are especially useful at the time of launch of a new product. They bring an initial boost to sales. For example, discounts are given in the form of offering the product at a lower price than the listed price. Free gifts are offered in the form of quantity gifts (such as 20% extra or buy 2, get 1 free). Free samples are provided in the form of small packets when launching a new brand. Such incentives are opted by the companies to attract more customers and boost its sales.

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**Long Answer Type:**

**1. Define marketing. How is it different from selling? Discuss**

**Ans:** Marketing refers to the process wherein the buyers and sellers interact with each other for purchase and sale of goods and services. It comprises of a range of activities such as planning, designing the product, packaging and labelling of the product, pricing and distribution and also after sale services such as maintaining customer relations and collecting feedback. Selling, on the other hand, refers to the promotion activities undertaken for the sale of goods and services. Such promotion activities can be in the form of advertising, publicity, etc. Through the process of selling the product is converted into cash. In this sense, selling can be regarded as a part of marketing.

The following points highlight the difference between marketing and selling.

<b>Basis of Difference</b>	<b>Marketing</b>	<b>Selling</b>
Scope of the Term	Marketing is a wider term and involves a number of activities such as planning, designing, after sale services, etc.	Scope of selling is limited to exchange of goods or services for some consideration.
Objectives	Marketing lays emphasis on enhancing customer satisfaction for maximising	Main objective of selling is to

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	profits.	maximise the profit and sale.
Emphasis	All marketing activities emphasise on customer satisfaction	Selling focuses on the need of seller.
Scope of Activities	Marketing activities start before production and continues even after the sale of the product.	Selling activities start only after the production of the product.
Strategies and Efforts	It involves strategies related to production, planning, designing, feedback services, etc.	It involves strategies related just to the promotion and sale of the product.

## 2. What is marketing concept? How does it help in the effective marketing of goods and services?

**Ans:** Marketing concept of marketing management lays emphasis on customer satisfaction. It believes that customer satisfaction plays a vital role in the success of any organisation. In the long run, any organisation can survive and maximise profits only if it identifies customer needs and effectively works towards fulfilling them. This concept identifies the fact that people purchase a product for satisfaction of a specific need (such as functional need, social need, psychological need, etc.). Any organisation must aim towards identifying such needs and satisfy them in an effective manner. That is, it must take all decisions based on needs and requirements of the customers. An organisation works and sells not according to what it has, but according to what the customer wants. The marketing concept is based on the following points.

- i.** The efforts of all marketing activities must be directed towards a particular segment of market or group of customers.
- ii.** The organisations must clearly identify the needs and requirements of the target customer.
- iii.** It should develop such products and services that satisfy the needs of the customers.
- iv.** It should not just independently work towards customer satisfaction, but should also aim at satisfying the customers better than its competitors.

v. The crux of all efforts of marketing is profit.

Marketing concept helps in effective marketing of goods and services. If all marketing activities are directed towards customer satisfaction, marketing of goods and services would take place in an effective and smooth manner. If decisions of production, pricing, designing, etc. are based on the needs of the customers, selling would not be a problem. For example, if customers want dual sim mobile phones, high pixel camera, GPS, etc. the company produces mobile phones with such features. Similarly, other decisions of the company such as pricing, branding, etc. are also based on the requirements of the customers.

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### **3. What is marketing mix? What are its main elements? Explain.**

**Ans:** Marketing mix refers to the set of marketing tools that are used to achieve the various objectives of marketing. In the process of marketing, market offering plays an important role. That is, for effective marketing, an organisation must decide the various features of a product such as its size, quality, location of sale, etc. Such decisions are affected by a large number of factors. Some of them are controllable by the firm. For example, decisions regarding packing, branding, pricing, advertising, etc. are within the control of the firm. However, there are certain non-controllable factors as well that affect the decision making by a firm. For example, government policies, credit policies of the banks are beyond the control of the firm. A firm continuously alters the various controllable factors to achieve the objectives of marketing. Such factors form the pillars of marketing and are known as marketing tools. From the various alternative marketing tools, a firm chooses the best combination to develop a market offering. Such a set of marketing tools used by the firm to achieve the desired objectives of marketing is known as marketing mix.

The following are the elements of marketing mix.

**(a) Product:** A product refers to any good or service that offers value and satisfies needs of a customer. For example, a car, toothpaste, soap, services of teacher, etc. are products. In marketing, a product relates not just to the physical product but it also includes the satisfaction of various needs and utilities of the customer. For example, consumption of a product benefits a consumer in the form of satisfaction of consumers' functional needs, social needs and psychological needs. Such benefits also form a part of product. In addition, a product also includes the after sale services such as taking feedbacks, redressing consumer

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complaints, etc. Important decisions regarding a product relate to its designing, quality, features, labelling, branding and packaging.

**(b) Price:** Price refers to the money paid by the customers to obtain a product. Price of a product affects its demand. As the price of a product increases, its demand falls and vice versa. The marketers must analyse properly the various factors that determine the price and decide a suitable price for the product. For example, the target customers, pricing policy followed by the competitors, objectives of the firm, etc. must be considered while deciding a price. The price set should be such that the customers find it at par with the value of the product. Suitable discounts and incentive schemes must also be decided.

**(c) Place:** Besides the product decisions and pricing decisions, a firm must also take decisions regarding the availability of the product to the target customers. A firm must appropriately decide the dealers or intermediaries for the distribution of the goods. Other important decisions comprise of managing the inventory, warehousing, storage and transportation of the goods.

**(d) Promotion:** Promotion comprises of those activities that communicate customers regarding the availability of a product, its features, qualities, etc. so as to influence the customers to purchase the product. Organisations undertake various promotional activities such as advertising, sales techniques, personal selling, etc. An organisation must carefully decide the medium of promotion, thereby, taking the related actions. For example, the organisation must decide which of the sales techniques such as discounts, free gifts, sale, etc. should be used.

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#### **4. How does branding help in creating product differentiation? Does it help in marketing of goods and services? Explain.**

**Ans:** Branding implies giving a unique name, sign, symbol or term for the identification of a product. Branding is one of the most important decisions for a marketer. Through branding the firms differentiate their products from that of other similar products. If instead of branding the firms opt for a generic name for their product, they would not be able to distinguish their product from that of competitors. This is because a generic name would represent the whole class of the product. For example, all shampoos are used for cleansing hair. However, one shampoo differs from that of others based on their brand name, symbol

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or sign used by different shampoo manufacturing firms.

Branding not only helps in product differentiation, rather also helps in marketing of goods and services. The following points highlight the importance of branding in marketing of goods and services.

**(a) Helps in Advertisement:** Branding helps a firm to advertise their product. Unless branding is not done a product cannot be advertised. Advertisement for a generic product can only create awareness about the category of product as a whole. It cannot attract customers towards a specific product. On the other hand, advertisement for a branded product helps in highlighting the specific qualities and features of the product.

**(b) Enables Differential Pricing:** Good branding helps in creating a loyalty of the consumers towards the product. The firms can benefit from this loyalty and charge a different price for their product from that of their competitors. For example, if consumers become habitual of using a particular product they would not mind paying a slightly higher price for it.

**(c) Facilitates introduction in New Products:** Good branding helps in establishing a base for the introduction of a new product. If a new product is launched under an established and reputed brand then, it gets an initial boost and benefits from the brand name. Nowadays, many companies such as Samsung, Cadbury, etc. have multiple products under a single brand name.

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**5. What are the factors affecting the determination of the price of a product or service? Explain.**

**Ans:** Price refers to the money paid by the customers to obtain a product and this price affects its demand. Thereby, pricing plays an important role in the marketing of goods. The price charged by a firm for its product affects its revenue and profits as well. In addition to this, pricing also acts as a competitive tool. Firms producing similar substitutable products compete with each other on the basis of price. Thus, the firms must pay due emphasis on proper pricing of their products. The marketers must analyse properly the various factors that determine the price and decide a suitable price for the product.

The following are the factors that affect the determination of the price of a product or a

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service.

**(a) Cost of Product:** Cost of the product plays an important role in determining the price. It comprises of cost involved in production, distribution and sale of the product. Cost of product can be classified into three broad categories, namely, fixed cost, variable cost and semi variable cost. Fixed cost refers to those cost that do not vary with the level of output produced. For example, for the production of a good, a firm incurs cost on the purchase of machinery, land, etc. Such costs are fixed cost. On the other hand, variable cost refers to those costs that vary in direct proportion with the volume of production. That is, as the level of output increases, the variable cost also increases. For example, the cost incurred on labour, raw material, etc. are variable cost. Semi variable cost refers to those costs that vary with the level of output but not in direct proportion. For example, commission paid to intermediaries for the sale of good is a semi-variable cost.

Generally, the firms decide the price of a product such that they are able to cover all their cost. In addition, they also aim at earning some profit over and above the cost incurred by them. Thus, the firms decide upon the price keeping in consideration the cost as well as the profit factor.

**(b) Demand for the Product:** While determining the price, a firm must also consider the demand for its product. Herein, the elasticity of demand plays an important role. Elasticity of demand refers to the proportionate change in demand due to a given proportionate change in price. If due to small proportionate a change in price, the demand changes by a larger proportion, the demand is said to be elastic. That is, demand is said to be elastic, if a small rise (or, fall) in price leads to a relatively large fall (or, rise) in price. In this case, the firm cannot charge a higher price as it would lead to a large fall in the demand. On the other hand, demand is said to be inelastic, if a change in price does not affect the demand much. In this case, the firm has the privilege of charging a higher price, as even at a higher price, the demand would not fall much. Thus, price for goods having elastic demand is generally lower than price for goods having inelastic demand.

**(c) Degree of Competition in the Market:** Generally, higher the competition in the market, the lower is the price that a firm can charge for its product. This is because in case of high competition, if a firm attempts to charge a high price, it would lose its customers to the competitors. On the other hand, if a firm faces very little competition for its product then it

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has the freedom of charging a higher price.

**(d) Government Regulations:** At times to protect the interest of public at large, the government intervenes in the determination of price. For example, in case of essential commodities, the government can declare a maximum price that can be charged.

**(e) Objectives of Pricing:** Every firm has various pricing objectives which it considers while deciding a price. The following are some of the objectives of pricing:

**i. Profit Maximisation:** Every firm aims at profit maximisation. However, if the firm aims at maximising profits only in the short run, then it may decide to charge a higher price and increase its revenue. On the other hand, if the firm aims to maximise profit in the long run, it would charge a lower price so as to acquire a greater share of the market and benefit from larger sales.

**ii. Acquiring Market Share:** If a firm desires to capture a greater market share, it would charge a lower price so as to attract a greater number of customers towards its product.

**iii. Surviving Competition:** In face of high competition, a firm would keep the price for its product lower. This is because if it charges a higher price, it would lose its customers to the competitors.

**iv. Focus on Quality:** If the firm emphasis on enhancing the quality of the product, it charges a higher price to cover the additional cost incurred.

**(f) Method of Marketing:** Methods of marketing used by the firm such as distribution, advertisement, customer services, branding, etc. also affect the determination of prices. For example, if the firm uses intense advertising for the promotion of the product, then it would charge a higher price.

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**6. What do you mean by ‘channels of distribution’? What functions do they play in the distribution of goods and services? Explain.**

**Ans:** Channels of distribution refer to the individuals, institutions, agents who facilitate the process of distribution. As the potential consumers of a product are spread over a larger geographical area, it becomes difficult for the producers or the manufacturers to directly

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contact the customers for the sale of their products. Here, channels of distribution play an important role. They facilitate the transfer of goods from the place of production to the place where they are consumed. For example, for a manufacturer of sugar in Punjab, it would be difficult to contact the customers in other parts of the country. To ease the process, it would sell its product to whole sellers who in turn would sell it to the retailers. The retailers then finally sell the product to the customers. In addition, channels of distribution also reduce the efforts of the consumers by offering various goods and services at a convenient single location. For example, at a retail store a customer can get a wide variety of goods.

Thus, channels of distribution refer to the set of individuals, agents and institution that facilitate the exchange or transfer of goods and services from the producer to the consumer.

The following are the functions of channels of distribution.

- (a) Arrangement:** An intermediary receives the supply of goods from various sources. However, the goods received differ in terms of size, quality and features. The intermediary arranges or sorts these goods into homogeneous groups based on their characteristics.
  - (b) Collection:** A middle man accumulates and maintains large stock of the goods so as to ensure a continuous and smooth flow of supply.
  - (c) Allocation and Packing:** A middle man breaks the whole lot of goods into small, marketable units. It repacks the goods into convenient packets.
  - (d) Building Variety:** An intermediary acquires various goods from different sources and assembles them at a single place. Thus, it maintains a variety of goods. For example, a grocer maintains a wide variety of products for sale.
  - (e) Promotion of Product:** They assist in the promotion activities undertaken by the manufacturers. For example, the manufacturers use advertising for the promotion of their product. The intermediaries can aid this process by putting banners and displays.
  - (f) Mediation:** On one hand, the middle men interact with the producers and on the other hand, with the customers. Thus, they form a link between the producers and the customers. They negotiate on matters related to price, quality, etc. and work towards satisfying the needs of both the parties.
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**(g) Bearing Risk:** Intermediaries acquire goods from the producers and keep them in their possession till the final sale. In the process they bear the risk of fluctuations in demand, price, spoilage, etc. For example, suppose a retailer acquires large quantities of sugar. However, after a period of time, the price of sugar rises which reduces its demand. Thereby, the retailer may lose out as the stock remains unsold.

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## **7. Explain the major activities involved in the physical distribution of products.**

**Ans:** Once the good are produced, packaged, promoted, branded and priced they must be made available to the consumers. That is, they must be moved from the place where they are produced to the place where they would be consumed. This physical movement of products from the place of production to the place of consumption is known as physical distribution of products. It involves the following four major activities.

**(a) Processing of Order:** Processing of order and delivery of goods is the most important component of buyer-seller relationship. Processing of order comprises of a number of a steps such as placement of order, transmission of the order by the intermediaries to the manufacturer, maintenance of inventory as per the requirement, delivery of goods, etc. All such processes take time. Physical distribution system should be such that it should ensure speedy and proper order processing. Generally, there exists a direct relationship between speed and accuracy of order processing and customer satisfaction. Fast and accurate order processing provides a consumer greater satisfaction. Thus, a proper system of order processing is of vital importance.

**(b) Transportation of Products:** Transportation of products refers to the physical movement of goods from the place where they are manufactured to the place where they are consumed. The potential consumers of a product are spread across a large geographical area. To make the goods physically available to them, they must be transported from the place of production to the place of consumption. Unless the products are physically transported and made available at the place of consumption, sale cannot take place.

**(c) Warehousing:** Generally, there is a time lag between the act of production and the act of sale or consumption. This implies that the goods must be properly stored and assorted before the actual sale takes place. This process of storing and assorting the products is known as warehousing. Proper warehousing ensures efficiency in delivery and sale of products which

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in turn results in greater customer satisfaction. For example, through warehousing a company can maintain stock of products and ensure timely delivery of goods as and when required. However, maintaining warehouses involves its own cost. Thus, a company must weigh the relative benefits and costs associated with warehousing and maintain a balance between the two as per the requirement.

**(d) Maintenance of Inventory:** Inventory implies maintaining a stock of products. The firms maintain inventory so as to ensure timely supply of products. Inventory shares a direct relation with customer service. Maintenance of higher inventory helps a firm in ensuring timely delivery of goods to the customers and thereby, improve customer service. However, maintenance of inventory involves a cost as a huge amount of capital remains tied up in the stock unless it is sold. Thus, the firms must strike a balance between customer service and cost. A firms' decision to maintain inventory is based on several factors such as how well the distribution system responds to the orders and the deliveries, cost involved in holding the inventory, firms' objectives, etc. An appropriate inventory must be decided by the firm keeping in consideration the various costs and benefits involved.

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### **8: Expenditure on advertising is a social waste' Do you agree? Discuss**

**Ans:** Expenditure on advertising is often considered as a social waste. Advertising is criticised on the grounds that it unnecessarily adds to the cost of the company, weakens social values and aggravates, builds up consumer needs and desires for multiple products. However, proponents of advertising argue that advertisement through greater sales brings down the cost and aids the process of growth.

The following points help in judging whether advertising can be considered as a waste:

**(a) Higher Cost:** Advertisement expenses add to the cost of the company. The companies in turn, pass this increased cost to the consumers in the form of higher prices. However, the supporters of advertisement argue that advertisement in fact brings down the per unit cost of production. This is because through advertisement greater number of customers can be attracted towards the product which in turn implies an increase in the demand for the product. In response to the increased demand, the manufacturers increase production. With increased production the per unit cost of production comes down. Thus, it can be said, that even though advertisement expenses add to the cost, this increase in cost can be

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compensated through fall in the per unit cost due to increased demand and production.

**(b) Weakens Social Values:** One of the major criticisms to advertising is that it weakens social values and instead promotes materialism in the society. Advertisement attracts customers towards new products and induces them to purchase it. With increased knowledge about the availability of new products, the customers feel dissatisfied about what they currently have. In the process, often they end up buying what they don't even require. However, such a process of discontentment and purchase of new products is never ending and materialism increases.

On the other hand, it is argued that advertisements just inform the buyers about the availability of various products and the final decision to purchase the product rests with the consumer. Advertisement increases the knowledge of the customers and keeps them informed.

**(c) Creates Confusion:** It is argued that a large number of advertisements on similar products confuse the customers. For example, advertisements of different hair oil claim for healthy and long hair by the use of their product. With numerous advertisements the consumer gets confused as to the product of which of the brand should be purchased.

On the contrary, supporters of advertisement do not agree with this criticism and argue that advertisement provided a choice to the consumers. The consumers can make a rational choice for themselves after analysing various factors such as price, style, quality, etc.

**(d) Promotes Inferior Goods:** It is argued that products of both superior quality as well as inferior quality are advertised. Through advertisement, demand for inferior goods can also be induced. However, such a claim is only partially true. This is because quality is a relative concept. What is inferior to one consumer can be superior to another. Advertisements promote all kinds of products and the consumer purchases them if it suits their requirements.

**(e) Objectionable Advertisements:** It is said that often advertisement undermine social values and are in bad taste. Sometimes the language, images and the content of the advertisement may not appeal to the society at large. For example, women in men cantered products (such as, shaving creams, deodorants, etc.) are often criticised.

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As against this, it is argued that good or bad taste is a subjective phenomenon and varies from person to person. What may be acceptable by one may be offensive for other.

Thus, it can be said that expenditure on advertisement though draws criticism, but the objections are not entirely true. While on one hand, they can be misused and have their own cons but on the other hand one cannot deny the benefits derived from advertisement.

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### 9. Distinguish between advertising and personal selling.

**Ans:** Advertising is an impersonal, paid form of communication used by the marketers for the promotion of goods and services. On the other hand, personal selling involves direct communication of the seller with the potential customers. That is, it involves direct face to face communication of the sellers with the customers for the purpose of sale of the product. The following points highlight the difference between advertising and personal selling.

Basis of Difference	Advertising	Personal Selling
Personal v/s Impersonal	It is an impersonal form of communication where the seller communicates with customers through various medium such as television, newspapers, etc.	It is a personal form of communication where the seller directly interacts with the potential customers.
Reach	Advertising has a broader reach as the advertisement reaches a large number people simultaneously.	It has a narrower reach as only a few people can be contacted directly.
Flexibility	It is inflexible as advertisements are standardised and cannot be adjusted as per the requirements of different customers.	It is flexible as the seller can adjust the message as per the requirements of different customers.
	It is more suitable where marketing is to be done to large	It is more suitable when marketing is to be done for a few selected

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Target Group	number of consumers. For example, advertising is suitable if, marketing is to be done for ultimate customers.	consumers. For example, if marketing is to be done for intermediaries and retailers, personal selling is more useful.
Cost Involved	As advertising reaches the masses simultaneously, the cost per person is low.	Personal selling is relatively costly.
Time Involved	Advertising reaches a large number of people simultaneously. Thus, it can cover the entire market in a short period of time.	As through personal selling only a few people can be contacted, it takes a lot of time and effort to cover the entire market.
Customer Feedback	Through advertising, feedbacks and reactions of the customers cannot be judged.	As the seller directly contacts the customers, he get feedback from the customers and judge their reactions
Medium of Communication	It involves communication through mass media such as television, newspapers, radio, etc.	It personal communication through sales persons.
Objective	The basic objective of advertising is to create interest of the customers towards the product.	The basic objective of personal selling is to create awareness about the product and induce decision making.