



UNIT

11

Business Ethics

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The aim of this chapter is to:

- Give you an idea about ethics in business and various business ethics levels

Objectives:

On completion of this chapter, you will be able to:

- business ethics- An Understanding
- levels of business ethics
- stakeholders in business
- types of stakeholders
- strategies to adopt with stakeholders



We are living in a world of change today, be the change social, economic or political. The question that arises in our mind, and especially the mind of a new entrepreneur like you "Can I, in this kind of world, operate as an ethical person especially an ethical entrepreneur?"

So far as India is concerned, the history and culture of India offer good ground for the rooting of Business Ethics. The Gita concept of doing one's duty without seeking for the fruits, Manu's precept of inheriting debts as well as property, the Mauryan idea of accountability provide a basis for Gandhiji's belief that politics and business must work hand-in-hand for the development of the nation. Where has India gone wrong to day? How have we reached a state of such ethical cynicism? What do we do for the future? These are the questions.

What is Business Ethics?

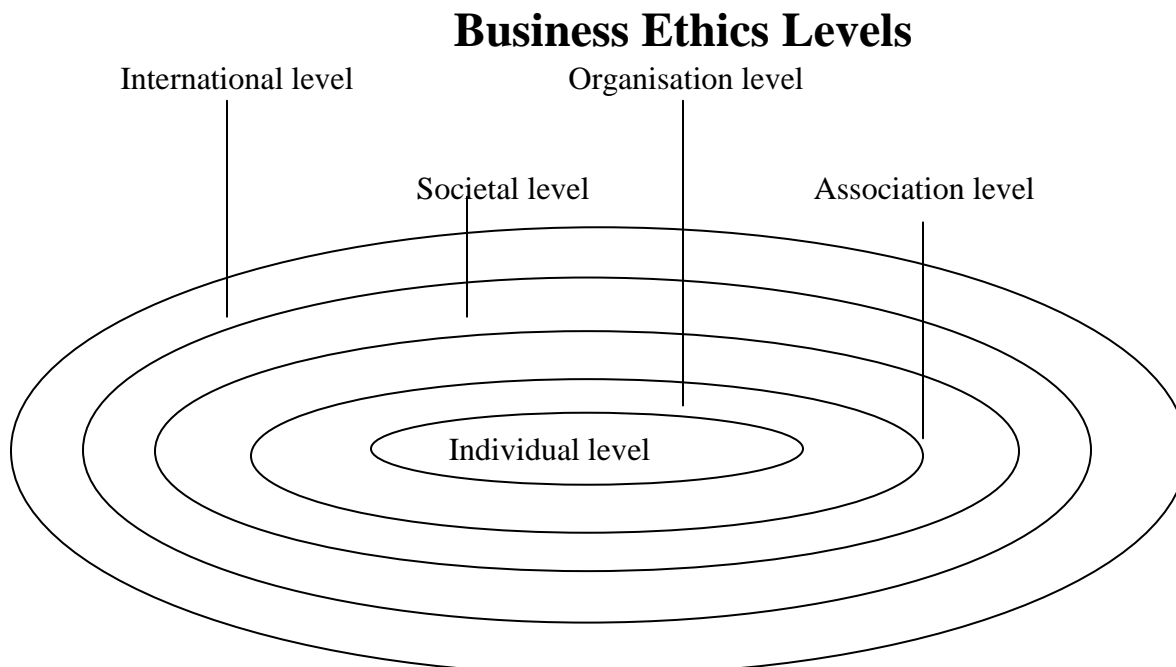
Business Ethics basically deals with what is right and wrong, good and bad in business transactions.

An eminent expert on Business Ethics defines it as " The study of how personal moral norms apply to the activities and goals of commercial enterprise." It is the study of how business contacts pose their own unique problems for the moral person, who acts as an agent of this system.

For your purpose, Business Ethics concerns three basic areas of managerial decision-making:

1. Choices about what the laws should be and whether to follow them
2. Choices about economic and social issues outside the laws domain; and
3. Choices about the priority of one's self interest over that of the business

The figure below illustrates the main levels at which Business Ethics operates:



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Individual Level

At this level, the ethical questions that require answers are:

- to cheat or not to cheat on an expense account
- to accept or not, a bribe unauthorised payment.

At this level, you must examine your ethical motives and standards before taking action.

Organisation Level

At this level, for an entrepreneur, the issue involved are overlooking unjustified acts in the interest of the business or carrying out an unethical or illegal act to earn profits for your enterprise.

Association Level

At this level it involves advising a customer to engage in illegal business transactions.

Societal Level

Here again the question that arises is whether to give kickbacks (a sort of bribe) or not. It might be an acceptable negotiating technique, but you have to decide whether you want to apply it.

International Level

This is more complex situation as a mix of cultural, political or religious values may be involved. For example, you may not like to do business with a country where there is racial discrimination.

Understanding Business Ethics

As mentioned earlier, you have to operate in an environment which requires facing a number of challenges. Therefore, the 'Stakeholder approach' is a sustainable tool which can be used to understand ethical issues which affect business.

The Stakeholder approach is an analytical way of observing and explaining how different constituencies are affected by, and affect business decisions and actions.

Before we talk about the 'Stakeholder Approach' and categories of Stakeholders, let us make it clear who/what a stakeholder is.



A Stakeholder is a person or institution or agency that is affected by your enterprise. It can be your banker, financial institution or any other agency that has supported you financially or otherwise and obviously these do get affected by the performance of your enterprise. As your customers, competitors, suppliers or the general public who buy from you, supply to you or those whom the very existence of your enterprise touches i.e. in one way or the other are also your stakeholders.

This is reflected in two ways:

1. To act in the best interests of and for the benefit of your customers, employees, suppliers and people who have helped in financing your business; and
2. To respect and fulfill their (stakeholders') rights

Thus, the stakeholder approach is managing the complex relationships between the activities of your enterprise and those who affect or are affected by such activities.

Stakeholders can be further divided into two groups:

1. The Primary Stakeholders

- Customers
- Employees
- Suppliers
- Financial Institutions
- Banks
- Other investors

2. Consumers

- Competitors
- Government Support agencies
- Society
- Public

Next, you have to understand how to carry out a stakeholder analysis. This involves taking a series of steps aimed at performing the following tasks:

1. Mapping stakeholder relationships
2. Mapping stakeholder coalitions
3. Assessing the nature of each stakeholder's interest
4. Assessing the nature of each stakeholder's power
5. Constructing a matrix of stakeholders' moral responsibilities?
6. Developing specific strategies and tactics

Let us now discuss the above steps.



Step 1: Mapping Stakeholder relationships

In order to map these, answers to the following questions would be necessary:

1. Who are my current stakeholders?
2. Who are my potential stakeholders?
3. How does each stakeholder affect us?
4. What assumptions my current strategies make about my important stakeholders?
5. Which are the environmental factors affecting me and my stakeholders (e.g.: inflation, government policies, etc.)
6. How do I measure each of these factors and their impact on me and my stakeholder?
7. How do I keep my stakeholders satisfied?

Step 2: Mapping Stakeholder coalition

Once you have mapped the stakeholders, you have then to determine and map any coalition which may have been proved. e.g. your competitors, etc. joining against you. Mapping a coalition will help you to anticipate, predict and design strategies for tackling them.

Step 3: Assessing the nature of each Stakeholder's interest

Here, you have to determine the exact nature of each stakeholder's interest in relation to your business. Essentially the degree of interest that will be directly related to the volume of business the stakeholder has with your firm. More the volume the more will be the interest.

Step 4: Assessing the nature of each Stakeholder's power

The basic question here is 'what is in it for each stakeholder? The power can be:

- Political power
- Economic power
- Legal power

Knowing the nature of power will help you to:

- learn about grievances of stakeholders
- negotiate demands

This will help you to deal with the stakeholders in an efficient manner.

Step 5: Constructing a matrix of stakeholders' moral responsibilities

You can do this by constructing a model called "Relational Equity Model" which explains the different moral obligations and responsibilities and the level of interactions, which your firm must engage in to meet them.



Relational Equity Model

Customers	Prized for Trustworthiness
Suppliers	Esteemed for Just Character
Workers	Appreciated for Fairness
Govt. Support Agencies	Respected for Mutuality
Financial Institutes/Banks	Basic Value for Functional
Other Investors	Exchange

Bear in mind that for long-term business prosperity an ethical orientation is necessary since it enhances relational equity whose value is ‘Return on Relationship.’ The advantages are as follows:

- Empathy towards stakeholders
- Dynamic intimacy between the firm and stakeholders, based on:

Dignity : Respect for wellbeing and values of stakeholders
 Honesty : Attention to real value and avoidance of any deception
 Fairness : Sharing beyond commercial transactions
 Justice : In matter of importance to different stakeholders and society
 Sustainability : Acknowledging the larger inter-dependence.

Examples:

Dignity : You can extend to your employees the respect that you expect them to extend to customers.

Honesty : You own up the flaws in your product and take corrective steps.

Fairness : When you and your employees donate time for social work as an American Company does by giving time to schools and offering training in team-building and problem solving.

Justice : You withdraw from taking orders from customers because of human rights violation by them.

Sustainability: You avoid unnecessary paper consumption, reduce overall waste or recycle your rejects.

Step 6: Developing Specific Strategies & Tactics

The following figure will be useful to you both for identifying and deciding strategies, keeping in view the nature of relationship with different types of stakeholders.



Sr. No.	Type of Stakeholder	Strategies	Justification
1.	Supportive Stakeholder	Involve	Low potential for threat: high potential for cooperation
2.	Marginal Stakeholder	Monitor	Low potential for threat: high for cooperation
3.	Non-supportive Stakeholder	Defend	High potential for threat: and low potential for cooperation
4.	Mixed blessings	Collaborative	High potential for the threat: high potential for cooperation

Step 7: Monitoring Shifting Coalitions

Monitoring coalitions are important as stakeholders may form different shifting groups depending on exposure, political scenario and legal actions taken by your firm. So, it becomes necessary for you to monitor different events affecting stakeholders. This will enable you to assess the opportunities and threats which you and your firm/enterprise may have to face in order to survive in business.

Summing - Up

To sum-up, it is essential for you to develop an ethical orientation for long-term survival and growth of your business. This orientation would help your business in a number of ways, as it would create an atmosphere of mutuality and trust among the stakeholders and which in turn would ultimately determine the existence of the firm, irrespective of the fluctuations and changes in the social and economic scenario and government policies in the country.

The following Business Benefits can be derived from an ethical orientation:

1. An ethical enterprise character helps in building trust and reputation
2. A trusted firm earns greater loyalty from customers by focusing on issues of integrity
3. A trusted firm attracts and holds on to trusting people, helping the firm in retaining and getting the best out of people
4. A trusted firm attracts responsible strategic partners since people generally prefer to link up with firms considered responsible and trustworthy
5. A trusting firm creates trusting environment which generates creativity by allowing people to innovate without the failure of being punished
6. Trusting work environment creates openness to change since trust begets trust
7. Trusting work environment is faster and more responsible, as trust minimises such tactics as slowing down of work and so on
8. A trusting firm is motivated to produce excellence in both revenues and social results, since enduring firms are defined by their beliefs and traditions and not just by what they produce
9. A trusting firm creates opportunities for personal growth since neglecting the intellectual growth of the people kills their initiative and retards their growth.



Remember, that a business does not only survive for profits alone but has a social responsibility. This must be taken into account while pursuing any business to create ethical business relationships projecting the image of a company committed to adding value in all its business relationships.

SOCIAL RESPONSIBILITY OF ENTREPRENEURS

The years after 1991 have perhaps been the years of profound change in India's economy and have significantly affected business and business environment in India. This change has meant an increasing role, especially for the corporate sector and freedom from controls -an opportunity of immense proportions. It has also meant competition, both internal and external.

While corporate India presents one face of the country, there exist another face, market by poverty, illiteracy, inhuman living conditions, and overpopulation. The question arises, is this divide the future of the country?

Is corporate India expected only to create employment & pay its taxes, and will these 'benefits' automatically help the other face of India!

Corporate Social responsibility, is like many modern ideas, not new to India while there is an Indian tradition of this social responsibility, many companies are looking to the west. This does have advantages, but are they relevant to Indian conditions?

It is necessary for companies to develop an Indian attitude to social responsibility, which should address problems that India faces.

There are four major reasons why companies need to be responsible to society:

- Purely philanthropic reasons
- Internal reasons like employee morale and customer & Shareholder satisfaction.
- External reasons like satisfying local communities, publicity & tax benefits
- Enlightened self-interest, wherein a stable social environment & increasing prosperity mean a larger market and hence more profits in the long term.

Corporate Social Responsibility (CSR)

CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. CSR includes various initiatives aimed at ensuring socio-economic development of the community, which would be not merely livelihood oriented, but as a whole in a credible & sustainable manner. To put it in the words of an expert, "CSR is operating in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of a business."

The main function of an enterprise is, obviously, to create value through producing goods and services, thereby generating profit for the owner-entrepreneur. However, new social and market pressures are gradually leading to a change in the values and in business activity. Today there is



a growing perception that an enterprise cannot attend sustainable business success solely through maximising short-term profit, but instead through market-oriented yet responsible behaviour.

An enterprise/organization can have the following benefits of CSR, namely:

1. Improved financial performance;
2. Reduced costs- CSR reduces the cost per unit, either giving better margins or added edge in pricing;
3. Enhanced brand image and reputation;
4. Increased sales & customer loyalty;
5. Customer satisfaction;
6. Increased productivity & quality;
7. Increased ability to attract & retain employees;
8. Reduced regulatory oversight;
9. Brand visibility, recognition and awareness;
10. Increased market share;
11. Favourable positioning;
12. Competitive mileage;
13. More engaged investors;
14. Environmental sustainability;
15. Forging of partnerships

Growing Recognition of CSR

CSR has found recognition among enterprises, policy-makers and other stakeholders, as an important element of new and emerging forms of governance, which can help them to respond to the following fundamental changes:

- Globalisation has not only created new opportunities for enterprises, but has also made business more complex and the increasing extension of basic activities has led to new responsibilities;
- Considerations of image and reputation play an important role in the competitive environment as consumers & NGOs ask for more information about the conditions in which product & services are generated etc.;
- Partly as a consequence of this, financial stakeholders like banks & financial institutions ask for the disclosure of information, beyond financial reporting;
- As knowledge and innovation become increasingly important for competitiveness, enterprises have a higher interest in retaining highly skilled & competent personnel.

Impact of CSR on Business & Society

The potential of CSR policies to strengthen the relationship between enterprises and society has already been demonstrated in areas such as sustainable growth, education and social cohesion.

The following example of Infosys Technologies Ltd., clearly explains the concept of corporate Social Responsibility.



Infosys Technologies Ltd. Founded in 1981 and based at Bangalore provides consulting and IT services to client-globally. Mr. Naryanmurthy, Chairman and Chief mentor has a vision to be the best globally, commercially and ethically.

One of the core values of Infosys is a strong sense of social responsibility and a commitment to help people and communities.

The social initiatives of the company have taken the form of projects, philanthropy and employment initiatives. It encourages its employees to participate in community development activities. It seeks to be an environmentally friendly company, and where possible aims to recycle, to be energy efficient and non-polluting. It has also promoted research and educational initiatives –Efforts are also being made to incorporate employees into the stakeholder debate.

Infosys Foundation

The Foundation is a Trust comprising three to four members, with Mr. Murthy as a Chairperson.

It primarily aims at improving health, education, and basic facilities, benefiting a large number of individuals and institutions. The Foundation has successfully implemented projects in the areas of health care, social rehabilitation, and rural upliftment, learning and education, and even in the fields of art and culture.

The Foundation began its activities in Karnataka and has gradually extended its activities in Tamil Nadu, Andhra Pradesh, Maharashtra, Orissa and Punjab.

Further, these initiatives have not been to the detriment of the company's profits, as the many awards for 'Best Company' they have received. The Infosys Foundation has been instrumental in doing most of this work, although the company itself has contributed in more than just monetary terms. Employment practices, environmental concerns, and research partnerships serve to illustrate that India are, to a certain extent, beyond philanthropy.

The Mahindra Example

“Corporate Social Responsibility has always been an integral part of the Mahindra Group's vision and the cornerstone of our Core Value of Good Corporate Citizenship”.

- Keshub Mahindra, Chairman

The Mahindra Group defines Corporate Social Responsibility as making socially responsible products, engaging in socially responsible employee relations and making a commitment to the community around it. At the Mahindra Group, Corporate Social Responsibility is not just a duty; it's a way of life.

In 2005, the Group celebrated its 60th anniversary by renewing its commitment to Corporate Social Responsibility. It pledged to dedicate 1% of its profit (after tax), on a continuous basis towards Corporate Social Responsibility. A unique kind of ESOPs - Employee Social Options was launched to enable Mahindra employees to involve



themselves in socially responsible activities of their choice. The Group also announced a special gift: to provide free cochlear implants to 60 profoundly hearing-impaired, under-privileged children.

In addition to giving impetus to the *Nanhi Kali* project for the girl child and the Mahindra All India Talent Scholarship for the economically disadvantaged, the Mahindra Group is planning to set up two Mahindra Pride Schools. These schools will offer a variety of courses, with an emphasis on employability, including training for Information Technology, Retail, Automotive Engineering, etc. They will provide new skills and capabilities to the weaker sections of society, particularly the scheduled castes and scheduled tribe youth. While these projects are already underway, plans for more social initiatives are on the anvil.

Annexures: Two cases on 'Business Ethics' (with questions to be answered)

Business Ethics

Case 1

Where the Shoe Pinches

Fitwell Shoe Company was located on the outskirts of Jugsalai, about one km away from the Tatanagar railway station, on the road to Chaibasa. It was set up after an extensive market survey, by a team of marketing experts from IIM Ahmedabad. It was funded by three alumni of IIM (A), who had made it to the top in the leather goods industry and who wanted to utilize their experience in promoting a worthwhile industrial venture. They would, they agreed, remain in the background and give strategic support to the company, while retaining their corporate positions. It was hoped that they would also be able to off-load some work to the new company.

Since Fitwell Shoes would be catering to the middle and low income groups' demands - which larger companies like Shree Leathers and Bata Shoe Company did not cater to - it would have a virtual monopoly in that area of the market. The three alumni appointed Kishan Gidwani, a graduate in production management from IIM Calcutta, as the general manager. Gidwani was given a wide range of powers, which included overseeing the future growth of the company.

Kishan Gidwani was very efficient, but lacked adequate knowledge of financial management. He, therefore, appointed his distant relative, Summet Malkani, a graduate of IIM Calcutta, a deputy general manager. Whereas, Gidwani was a low profile manager who was used to the paternalistic style of Management, Malkani was a flamboyant materialist. Both Gidwani and Malkani, however, knew their jobs and were largely responsible for the growth of Fitwell Shoe Company.

In 1980, there was a major rift between the three original promoters, and both Gidwani and Malkani arranged with some Bombay-based merchant bankers to help buy out Fitwell Shoes. Whereas the company had been running on a semi-paternalistic style of management, by 1980, it had become quite reactive and was fast moving towards a proactive management style.

To avoid foreclosure and then facing irate creditors, Malkani and Gidwani wanted the company to remain in business and increase its output as well. Lal Krishna Sarangi was the leader of the Fitwell Employees Union (FEU). He was known and seen as an out-and-out management man. Sarangi knew which side his bread was buttered and also knew that Malknai and Gadwani loved



apple-polishers. He was ready to stoop, if it meant that he would ultimately conquer. Sarangi's union was affiliated to the INTUC, and being a person who had his fingers in many a pie, Sarangi did not have time for the union. He did have a following, but he was nowhere near commanding a majority in the membership.

Malkani and Gidwani believed in the concept 'every manager is an HR manager' and so they did not have a Personnel function in their company. It was Malkani and Gidwani who looked after the personnel function. They were jokingly called Fitwell's "Twiddle Dee and Twiddle Dum". They needed the support of the workers, but were hell-bent on not having a personnel department in Fitwell Shoes.

Ramraja Mundu was the son of the local leader of the Jharkhand Mukti Morcha (JMM) and commanded the majority following amongst the workers at Fitwell Shoes. While Sarangi was a 'yes-main', Mundu was a firebrand radical. However, Mundu's conduct was always aboveboard and no matter what else one could say about him, no one could say that he was corrupt.

There was a local MLA, named Binay Yadav, who took a great deal of interest in Fitwell Shoes and was on first-name terms with all the senior managers of the company. In the year 1984, Fitwell Shoes went in for a massive expansion project which resulted in doubling its productive capacity with a 30% increase in its workforce. This had a salutary effect on Yadav, who claimed a lot of credit for this expansion of employment opportunities for his constituency members.

In 1987, the planned expansion of productive capacity began to run into rough weather as the small scale industry in Bihar and Bengal began to give stiff competition to Fitwell Shoes, and the orders coming from the original sponsor companies began to dwindle. Fitwell Shoes then put forward a productivity-linked incentive scheme, devised by Gidwani and Malkani, in consultation with Yadav. Sarangi and his men hailed this as a great achievement for the workers; while Mundu and his union rejected it out of hand as being a management gesture, which was too little and too late.

In 1988, there was a show of strength and Mundu won the election hands down. But Mundu was not a management man and the defeat of Sarangi was not taken kindly by the company. It was agreed that the company should help Sarangi to re-establish himself and give him all the support he needed. After all, Gidwani argued in Machiavellian terms, a manager always promotes the more manageable union leader – even if he does not command a majority following.

Gidwani and Malkani signed an agreement for implementing the new incentive scheme with Sarangi, under the advice of Yadav. The union, whose leader was Mundu, influenced the workers to reject the agreement out of hand. There was a 'Mexican stand-off' between the management and the workers while the new scheme hung fire.

Something had to be done and production had to pick up, or else the company would not be able to pay its creditors on time. It was of paramount importance that the workers be sold on the new incentive scheme. The immediate question facing the company was: Should the management of a company sponsor and support an 'internal' union?

The management of the company had approached National Institute of Training in Industrial Engineering (NITIE), Bombay, to conduct an industrial engineering survey so that incentive norms could be set. After charging consultancy fees of Rs. 1 lakh, and taking six months to study the company, a report was submitted. The management accepted the report and worked out their incentive plan. A year prior to the workers of the company joining the General Workers Union (GWU), the management sponsored and supported an 'internal' union: the Fitwell Workers Union (FWU). The GWU, was headed by Ramaraja Mundu, a tribal by origin and an engineer from BITS Mesra. Mundu had joined the company much earlier. Over the years, he had earned a reputation for his laudable work ethics and his concern for fellow workers. Much loved by his



factory mates, he was well-known in labour union circles for frankly voicing workers' concerns and for his socialistic views.

The FEU, which was headed by Lal Kishan Sarangi did not represent the workers' interests, as was expected. Many supervisors and workers felt that the only notable aspect about Sarangi was his closeness to Malkani. The real problem started when the FWU signed the agreement with the management. This agreement aimed at increasing production on the basis of an incentive scheme. According to the management, the workers were capable of increasing production by 12.5% per shift.

The industrial engineers of the company were cautious in their support for the scheme and suggested that it would be a touch and go situation. The idea may not be easy to sell, especially since Mundu was an engineer himself. They suggested that a consultant be brought in to support the management's action plan. This was accepted by Malkani. But Malkani wanted the union involved as well. He consulted Yadav who advised him to make a two-pronged attack: get a consultant and also involve the union of Sarangi.

The consultant from NITIE did a thoroughly professional job and submitted his report, in which he advised the company to tread with caution.

The workers demanded to see the report, but the management refused to divulge its contents. In order to coax them to produce more, the management and the internal union came to the conclusion that a payment of Rs 300 per month was adequate for this extra production. Thus, the incentive production bonus scheme came into being.

From the very beginning, there were several things wrong with the incentive scheme. In the first place, the GWU claimed that it was not consulted - ostensibly because it was not the recognized union. FWU had won the union elections held a year ago. The grapevine had it that Malkani had rigged the elections so that FWU, and not GWU, may win.

Secondly, the workers pointed out, no formal time and motion study was carried out to determine the production norms. They alleged that these norms were arbitrary and inconsistent, and were arrived at unilaterally by the management.

The union stated that the consultant from NITIE Bombay, who was brought in to set norms, was not an industrial engineer but an Organizational Behaviour specialist. However, Gidwani said that time and motion studies were conducted by the consultant, in conjunction with the company's industrial engineers. According to him, the company had also called in the National Productivity Council which had consulted the FWU, and come to the conclusion that the Company's norms were correct.

Thirdly, it was alleged that the incentive scheme was worded so loosely, as to allow the management a free hand in defining what was 'normal production', 'incentive production', and other crucial terms according to its convenience from time to time.

Dissatisfaction with the scheme was one reason why most of the workers joined the GWU. "An increase of Rs 300 was hardly adequate payment for an increase in production by 12.5%," said a union representative. But, as soon as the large-scale change in the unions took place, the management decided to reduce the already paltry payment of Rs 300 to Rs 100. As a result of a series of manouvres, the payment stabilised at Rs 40 for an increase in production by 12.5%. Thus, the already pathetic incentive scheme became even more unattractive to most workers.

This sudden reduction in payment was rationalized by the management, in consultation with the man from NITIE, by introduction new definitions of 'production'. All along production norms included rejects. According to the new scheme of things, production norms now had to be achieved after disallowing the volume rejected. What this meant in actual terms, was that the workers would have to increase production not by 12.5% but by about 15%.



The management also began calculating production not on an individual basis but over the entire assembly line and other similar workgroups. Thus, even when workers individually produced 12.5% above the normal level of production, they were penalized; because their production level was effectively reduced due to the average system of calculating production levels.

The last straw came when the management refused to pay the 20% bonus which statutorily it was bound to pay to the workers. The company paid 15% and linked the payment of the remaining 5% to the incentive scheme. It insisted that the 5% would be paid only if the workers produced 12.5% more than the normal level of production.

The workers, under the leadership of Mundu, reacted to these developments by collectively deciding not to produce the extra 12.5% and to forego the incentive payment. The management struck back swiftly. What was previously meant for extracting production in excess of the norm, now became a potential weapon for victimization. The adherence to the normal production output was immediately construed by the management as a go-slow tactic on the part of the workers. After conducting perfunctory enquiries, 265 of the workers were dismissed.

The management next concentrated its efforts on tackling the bothersome leader, Mundu. Malkani tried to spread rumours about Mundu siphoning off the union funds. But the charges did not stick, for Mundu was both well-loved and respected by the workers. Subsequently, Malkani tried to use the card of casteism. Mundu was a tribal from Ranchi, whereas, the majority of workers were caste Hindus from north Bihar. Malkani asked Sarangi to use this fact to win over the workers to FWU. But it was easier said than done. Yadav addressed a meeting at the gate of the works and when he heard that the company was going to play the cast card – he was not an upper caste Hindu himself – he withdrew support to the scheme. He openly came out in support of Mundu, especially since the Bihar State Assembly elections were less than a year away and he needed the votes badly.

Mundu did not join the bandwagon of casteism, as he knew he had a strong case, and ideologically, he did not want to stoop down to play caste-based politics. This was the month of May and a fresh order for shoes was expected from the smaller local companies for distribution to the workers during Durga Puja.

Meanwhile, a young lady came to Fitwell Shoes from XLRI Jamshedpur, for her summer project. Her name was Aruna Sukumaran. She was a conscientious girl who soon realized that things were just not right. She managed to get a copy of the confidential report from NITIE, and on studying it, concluded that the consultant was not in favour of the proposed scheme. She asked the company to divulge the contents to the union, but the company refused to do so. She leaked parts of it in her interview with Mundu a week later. In June that year, she submitted her summer project report to the company which was not well accepted, for the obvious reasons. Malkani called her in and threatened to write an unfavourable report to her institute. This would mean that the student would not be able to graduate.

Then came Sarangi who told her that if she wrote an adverse report, workers may stop work. This would mean that the management would resort to no work, no pay. Durga Puja was just few months away and this would destroy the happiness of a lot of families.

She went to her professor, Dr Narayan Acharjee, who had undertaken some consultancy work for Fitwell Shoes and was about to undertake a study of the company's grievance management and performance appraisal schemes. He did not wish to risk his future consultancy projects with Fitwell Shoes. So Dr Narayan Acharjee advised her to give a report to the company the way they wanted, and get her grades. The student rebelled. She then went to the student association but failed to get any support for her cause. A working solution was arrived at. Aruna Sukumaran would submit a report to the company as desired by them, and Dr Acharjee would help her to



write a case study based on her experience and submit it to the *Journal of Business History* in the USA for publication. This uneasy compromise was accepted by the student grudgingly.

ISSUES

1. Was the company correct in forcing an unacceptable incentive scheme down the throat of its workers?
2. Should the company encourage and set up a rival union using a friendly labour aristocracy?
3. What should the student have done? Was she doing the right thing by blowing the whistle on the company?
4. Should companies use consultants to legitimize their policies and give credibility to their own plans?
5. Did the MLA, Binay Yadav, do the right thing by withdrawing his support to the company? Why?
6. Should companies use summer trainees to submit reports that speak the truth or those which support the corporate image?
7. What should Dr Narayan Acharjee have done when the student told him the truth?



Case 2

Dalmundi Iron Mines

Over the years, when the importance of scientific environmental management and preservation of ecological balance were receiving greater world attention, the Dalmundi Group was, once again, the first among Indian Industries to conceive and execute environmentally compatible methods in every sphere of its industrial activity.

Dalmundi Iron Mines, located in the area bordering the states of Bihar and Orissa, is one of the oldest and largest open-cast iron ore mines in the country. It is a captive mine of the Dalmundi Group and has been its main supplier of iron ore since 1945, when mining first commenced. The mining has passed through the stages of manual, semi-mechanisation and full mechanization. With the introduction of complete mechanization in 1967, integrated crushing, screening and washing facilities were provided with in-built pollution control measures. The country's first slime dam for an industry of this nature was commissioned, which along with the thickeners, was a forerunner among mineral industries for effective means of water conservation, controlling water pollution and solid waste management.

The total lease area of the mines is 1160.60 hectares, of which 762.43 hectares is forestland and 389.17 hectares is non-forest land. Mining first started in 1945 and today its dispatch is 3.6 million tonnes per annum. Iron ore reserves, calculated as on January 1, 1994, are 167 million tonnes and the life of the mine is expected to be around 34 years. Workers, by and large, live in rented accommodation and their rents are reimbursement by the company. Supervisors live in company flats while managers live in company bungalows.

The iron ore deposit is concentrated in two parallel ridges. The principle ore type is haematite consisting of hard ore, friable and blue dust. The hard ore contains high amount of iron and low silica. The flaky ore shows comparatively high silica and alumina. The blue dust shows a high percentage of iron with higher silica and alumina content. The shaly and friable ore contains a comparatively low percentage of iron and a higher percentage of phosphorous requiring more beneficiation.

The state of Bihar wanted to actualize the plans for the famous Subarnarekha project which had been formulated in 1985 and the construction of which had stopped in 1993, when the World Bank loan had been frittered away. There was a mixed reaction from the Business world. On the one hand, the project would have helped to industrialise the region between Jhingpani and Chaibasa, as well as contribute towards the improvement of the infrastructure (roads, railway terminals, etc.). On the other hand, the real beneficiaries would not have been the local populace, and the basic agricultural sector on which 65% of Indians depend would not be helped.

When Anugrah Tete, a graduate of XLRI, Jamshedpur- who had been active in the environmentalist lobbies in Delhi- found out about the renewed interest in the Subarnarekha project, he decided to pay a visit to the mines.

Tete was shown around the mines by Col Jain, the general manager, as well as Dr. Nazim, the assistant general manager (HRM). Tete was told that the environmental effort had started on June 5, 1990, to coincide with the World Environmental Day. Tete did not disclose why he had paid the mines a visit nor did Nazim tell him that the mines were going in for forestation, so that



soil erosion from the Subarnarekha project's irrigation system would not adversely effect the mining operations. The irrigation system was not likely to materialise before 1999 and it was estimated that the iron ore deposits were going to deplete to uneconomic levels by 2020. For the Dalmundi Group, this meant that another site would have to be excavated. But, there was geological evidence to prove that sufficient iron ore could be located relatively close by, and so the Subarnarekha project did not pose much of a threat to mining operations.

Tete then visited the neighbouring villages and spoke to the Mundas. He discovered that land prices would escalate and that large companies were doing proxy purchases of land already. Hence, it was conceivable that the irrigation system would serve the needs of industry (by bringing water for factories), rather than that of agriculture, for which the World Bank loan had been granted.

Tete then went to Patna and sought an interview with the bureaucrats. Four points emerged:

- i. Now that Dalmundi would fall within the Jharkhand area, Patna was not very interested in what would happen.
- ii. Bureaucrats themselves had been making proxy purchases into the area with a motive to sell it at a premium to prospective small scale industrialists.
- iii. World Bank loans could be repaid more easily through industry than through agriculture and so the interests of the local populace would take a backseat.
- iv. The industries which would be located in the area would be lean, mean and highly technical. This meant that the locals stood little chance of gaining employment in those industries, due to the low level of both technical skills and education.

Tete contacted Medha Patkar and Baba Amte at once a movement to preserve the environment began with the sole intention to protect the local populace from exploitation. Both Medha Patkar and Baba Amte had led by example in the past and they told Tete that it was his turn now, to carry the flag on behalf of the exploited populace. After all, they said, he had worked during the agitation to ban the firing range from being located at Netarhat, and they had faith in his conviction and ability.

Tete then made a plan of action aimed at stemming the process of "land grab" in the villages. He saw no other option but to appeal to the conscience of the business community and use the power of the corporate world for fulfilling his socio-political agenda. He did not wish to bring up the issue of the villagers directly, since he did not envisage much support from the corporate world or the politicians in Patna for it.

Tete mobilised the resources of the local environment group- 'Friends of the Earth'- and caused a series of short articles to appear in the daily press on the ecological environment and conservation of forests. He then used his contacts in New Delhi to get Doordarshan to interview Dr. Ram Kishore, the horticulturist attached to the Dalmundi Group of companies, who looked after the parks and gardens department of the group. Overnight, the country knew what splendid work the Dalmundi Group was doing to provide a clean environment. The journalists who visited the house of the managing director, Nirmal Mahato, on a Sunday to interview him, came back duly impressed by the way his garden was maintained and the environmental consciousness of the management. The journalists trapped him into saying something which appeared as the headline to the published interview. It read: "Managing Director of the Dalmundi Group, Pledges His Corporate Commitment To A Cleaner And Healthier Environment." Everyone was visibly impressed and the MD personally called the journalist to thank and congratulate him. The next step was to organize a roundtable discussion on ecology, sponsored by the Indian Management Association. At that discussion, Nirmal Mahato was the chief guest and moderator. His



perfunctory remarks were widely circulated through the medium of the press. Dalmundi Group became a name synonymous with environment management.

Once Nirmal Mahato became known as the champion of the cause for a clean environment, the rest was easy. Tete who had remained in the background all along, personally called on Nirmal Mahato. He congratulated the MD on his vision and foresight and handed over a report by the Friends of the Earth on the Subarnarekha project. The next day the press again called on the MD, but, he was not available as he had a series of meetings scheduled for that day. A copy of the report of the Friends of the earth was also presented to the mines library by Tete. A week later, the press called on the MD to ask his opinion on the report. The MD had merely skimmed through the report, but said that the report was very good. The next day, the newspapers carried extracts of that report and the comments of the MD stating that the report was good.

The main points in the report, according to the article in the newspaper, were:

- There will be water seepage from the Subarnarekha project into the iron ore deposits 10 kilometres away.
- During monsoons the canals leading out of the Subarnarekha Dam would be over flooded and the national highway would be badly affected by that overflow.
- The price of land in the area adjoining the project (dam and canals) would escalate and this would mean that industries would have to pay higher rent to the locals, who had constructed flats for the employees of the industries and mines all around.
- The ecology of the region would be in danger, since a few of the endangered varieties of birds who nested in the woods may be wiped out of existence, if industries moved into the area as a result of the project.

Col Jain read and reread the report with growing trepidation. He assumed that Mahato had read the report. He contacted Tete and called him over to Dalmundi Iron Mines. The two of them then issued a joint statement to the press stating how the Subarnarekha project would be bad for the environment and endanger national heritage. At the back of Col Jain's mind, however, was the question of water seepage into his mines and the price of flat rents in the years to come. The Friends of the Earth then called on Col Jain and made him their honorary patron. Col Jain then began to show signs of favouring ecological concerns in the belief that he was toeing the line of the MD all the time, for which he would be acknowledged by the group.

At the National Environment Day Celebrations in 1995, Col Jain issued a strongly-worded statement indicating persons who sought development at the risk of damaging the earth's resources irrevocably. This, the national press carried.

Next morning Col Jain (CJ) spoke with an irate Nirmal Mahato (NM).

NM: What the hell do you mean by saying that you support the stoppage of the Subarnarekha project?

CJ: But Sir, I merely supported your views on the matter.

NM: Yes? Who told you that I was against the project? It does not concern Dalmundi Mines.

CJ: But, you said the report of the Friends of the Earth was good and that report said that our mines were in danger.

NM: Oh, blast that damned Tete! He trapped me! And do you know who was on the line a few minutes ago, burning my ears? Yes, the Chief Minister himself. And, as if that was not enough, I have been asked by the guys in Yojna Bhavan to call in on them next week.



- CJ: How is the Planning Commission involved, Sir? And I thought you were going to Yojna Bhavan anyway next week, Sir.
- NM: Stop thinking so much. I am seeing the guy at the Planning Commission regarding our prestigious proposed project in Haryana. And they want to see me about the Subarnarekha project for which the World Bank gave them a loan!
- CJ: So we are in deep trouble...
- NM: Yes you are right! We are in deep trouble. Get the press boys, iron your best suit and give Doordarshan an interview publicity distancing us from Tete and gang. I have arranged the Doordarshan crew through my contacts, to call on you within the next few hours. We have both been had, and unless you do something on the idiot box and I do something at Delhi, we will be taken to the cleaners. So get cracking!

ISSUES

1. Should Tete have used the corporation in the manner that he did? Is '*summum bonum*' or '*bahu jan hitayo bahu jan sukhayo*' a worthy philosophy to eschew?
2. Given the circumstances, did Nirmal Mahato act as a good managing director?
3. What ought to have been the real issues in this case?



UNIT

11

Export Environment, Procedures & Documentation

Contents

Chapter II

1. Export Environment
2. Export Procedures & Formalities
3. Export Documentation
4. Export Promotion Councils and other Export Organisations

The aim of this chapter is to:

- give you an idea of prevailing export environment and procedures, formalities and documentation required for exports

Objectives:

On completion of this chapter, you will be able to know about:

- export environment
- procedures & formalities for exporting
- documents required for entering the export market
- export promotion councils & commodity market



Most of you are budding entrepreneurs and have the dream of exporting your product/s. It is good to be ambitious, to have a long-term goal of going beyond the national boundaries. Besides, globalisation of the economy means that as an entrepreneur of the 21st century, you think global and do not be a "frog in the well".

But just thinking about exports will not suffice. You have to know the export environment and procedures of not only India but also of the country or countries to which you want to export your products or services. You should possess knowledge of not merely the needs and wants of people of that country, but also their culture and customs.

First, of course, familiarity with India's own:

1. Export Environment
2. Export Procedures
3. Export Documentation

is necessary; and in this chapter, we give you basic idea about these.

The Foreign Trade (Development and Regulation) Act, 1992 defines export as taking out of India any goods by land, sea or air. It means taking out of India any goods to a place outside India.

This definition does not specify as to what form of goods. Hence, it includes re-export of imported goods in any form or condition.

There are two categories of export:

- **OUTRIGHT (SALE) EXPORTS:**

Normally, most of the exports are made on outright sale basis against a firm price and no return of the unsold goods is made.

- **CONSIGNMENT EXPORTS:**

Here the importer abroad is at liberty to return the unsold goods, although exports may or may not be against firm price.

Exports can be of goods, projects or even services. Project exports include turnkey projects and civil construction contracts abroad.

Services-consultancy/technical or other services are categorised as a separate class of exports.



Export Procedure

1. How To Export
2. Preliminaries for Starting Export
3. Registration
4. Register with Export Promotion Council
5. Despatching Samples
6. Appointing Agents
7. Specimen Copy of Agreement
8. Acquire an Export License
9. Acquire Export Credit Insurance
10. Arranging Finance
11. Rates of Interest
12. Understand Foreign Exchange Rates & Protect Against Their Adverse Movement
13. Forward Contracts
14. Procuring/Manufacturing Goods for Export & Their Inspection by Government Authorities
15. Labeling, Packaging, Packing & Marking Goods
16. New Excise Procedure

How To Export

- Golden Rule
- Sell Experience
- Selling in Export
- On-time Deliveries
- Communication
- Testing Products
- Approach

Golden Rule: In order to be successful in exporting one must fully research its markets. No one should ever try to tackle every market at once. Many enthusiastic persons bitten by the export bug, fail because they bite off more than they can chew. Overseas design and product requirements must be carefully considered.

Always sell as close to the market as possible. The fewer intermediaries one has the better, because every intermediary needs some percentage for his share in his business, which means less profit for the exporter and higher prices for the customer. All goods for export must be efficiently produced. They must be produced with due regard to the needs of export markets. It is no use trying to sell windows which open outwards in a country where, traditionally, windows open inwards.

Sell Experience: If a person cannot easily export his goods, may be he can sell his experience. Alternatively, he can concentrate on supplying goods and materials to exporters' who already have established an export trade. He can concentrate on making what are termed 'own brand' products, much demanded by buyers in overseas markets which have the manufacturing know-how or facilities.



Selling in Export: In today's competitive world, everyone has to be sold. The customer always has a choice of suppliers. Selling is an honorable profession, and you have to be an expert salesman.

On-Time Deliveries: Late deliveries are not always an exporters fault. Dock strikes, go-slows, etc. occur almost everywhere in the world. If one enters into export for the first time, he must ensure of fast and efficient delivery of the promised consignment.

Communication: Communication internal and external must be comprehensive and immediate. Good communication is vital in export. When you are in doubt, pick up the phone or email for immediate clarification.

Testing Product: The risk of failure in export markets can be minimized by intelligent use of research. Before committing to a large-scale operation overseas, try out on a small scale. Use the a sample test, and any mistakes can then be corrected without much harm having been done. While the test campaign may appear to cost more initially, remember that some of the cost will be repaid by sales, so that test marketing often turns out to be cheaper.

Approach: If possible some indication of the attitudes towards the product should be established, like any sales operation. Even if the product is successful, to obtain reactions from the customer.

Preliminaries for Starting Export Business

- Setting up an appropriate business organization.
- Choosing appropriate mode of operations
- Naming the business
- Selecting the company
- Making effective business correspondence
- Selecting the markets
- Selecting prospective buyers
- Selecting channels of distribution
- Negotiating with prospective buyers
- Processing an export order
- Entering into export contract
- Export pricing and costing
- Understanding risks in international trade

Setting up an appropriate business organization

The first and the foremost question you as a prospective exporter has to decide is about the kind of business organisation needed for the purpose. You have to take a crucial decision as to whether a business will be run as a sole proprietary concern or a partnership firm or a company. The proper selection of organisation will depend upon

- Your ability to raise finance
- Your capacity to bear the risk
- Your desire to exercise control over the business
- Nature of regulatory framework applicable to you

If the size of the business is small, it would be advantageous to form a sole proprietary business organisation. It can be set up easily without much expenses and legal formalities. It is subject to only a few governmental regulations. However, the biggest disadvantage of sole proprietary business is



limited liability to raise funds which restricts its growth. Besides, the owner has unlimited personal liability. In order to avoid this disadvantage, it is advisable to form a partnership firm. The partnership firm can also be set up with ease and economy. Business can take benefit of the varied experiences and expertise of the partners. The liability of the partner though joint and several, is practically distributed amongst the various partners, despite the fact that the personal liability of the partner is unlimited. The major disadvantage of partnership form of business organisation is that conflict amongst the partners is a potential threat to the business. It will not be out of place to mention here that partnership firms are governed by the Indian Partnership Act, 1932 and, therefore they should be formed within the parameters laid down by the Act.

Exporters Manual and Documentation

Company is another form of business organisation, which has the advantage of distinct legal identity and limited liability to the shareholders. It can be a private limited company or a public limited company. A private limited company can be formed by just two persons subscribing to its share capital. However, the number of its shareholders cannot exceed fifty, public cannot be invited to subscribe to its capital and the member's right to transfer shares is restricted. On the other hand, a public limited company has a minimum of seven members. There is no limit to maximum number of its members. It can invite the public to subscribe to its capital and permit the transfer of shares. A public limited company offers enormous potential for growth because of access to substantial funds. The liquidity of investment is high because of easiness of transfer of shares. However, its formation can be recommended only when the size of the business is large. For small business, a sole proprietary concern or a partnership firm will be the most suitable form of business organisation. In case it is decided to incorporate a private limited company, the same is to be registered with the Registrar of Companies.

Choosing appropriate mode of operation

You can choose any of the following modes of operations:

Merchant Exporter i.e. buying the goods from the market or from a manufacturer and then selling them to foreign buyers.

Manufacturer Exporter i.e. manufacturing the goods yourself for export
Sales Agent/Commission Agent/Indenting Agent i.e. acting on behalf of the seller and charging commission
Buying Agent i.e. acting on behalf of the buyer and charging commission

Naming the Business

Whatever form of business organisation has been finally decided, naming the business is an essential task for every exporter. The name and style should be attractive, short and meaningful. Simple and attractive name indicating the nature of business is ideal. The office should be located preferably in a commercial complex, in clean and workable surroundings. The letter head should be simple and superb providing information concerning H.O., branches, cable address, telephone number, fax number, banker's name and address etc. Pick up a beautiful trade name and logo which reinforces your organisation's name and image.

Open a current account in the name of the organisation in whose name you intend to export. It is advisable to open the account with a bank which is authorised to deal in Foreign Exchange.



Selecting the Company

Carefully select the product to be exported. For proper selection of product, study the trends of export of different items from India. The selected product must be in demand in the countries where it is to be exported. It should be possible to procure or manufacture the selected product at most economic cost so that it can be competitively priced. It should also be available in sufficient quantity and it should be possible to supply it repeatedly and regularly. Besides, while selecting the product, it has to be ensured that you are conversant with government policy and regulations in respect of product selected for export. You should also know import regulations in respect of such commodities by the importing countries. It would be preferable if you have previous knowledge and experience of commodities selected by you for export. A non-technical person should avoid in dealing in high tech products.

Making effective Business Correspondence

You should recognise the importance of business correspondence as it is an introduction with the buyer in proxy which may clinch his response according to the impression created by the correspondence. For creating a very favorable and excellent impression, you must use a beautiful letter head on airmail paper and a good envelope, nicely printed, giving fully particulars of your firm's name, telephone, telex and fax number etc. Your language should be polite, soft, brief and to the point, giving a very clear picture of the subject to be put before the customer. Letters should be typed/ computer typed set, preferably in the language of the importing country. Also make sure that the full and correct address is written and the envelope is duly stamped. It should also be borne in mind that the aim of your business correspondence is not only to clinch the buyer's order but also to obtain the information on the following:

The specifications of the products already in use in the importing country. Whether your product meets the above specifications. If not, Whether your specifications offer any distinct advantages in terms of prices, quality, after-sales service, etc. The import policy prevailing in the buyer's country (e.g. whether there is any import licensing, any restrictions on remittances, any pre-qualification for product/supplier, etc.)

The trade practices in the buyers' country with special reference to your product, information like whether importers import and distribute the product/high sea sales, whether agent is required to book orders from actual users etc. In case your item requires after sales service, the manner in which it can be offered. The prices at which your product sells in the retail/wholesale market, the duty structure and any other cost element to arrive at the landed cost. Information on the margins at which the product is sold. This information will help you in evolving a pricing strategy.

Study of various market segments viz. Importers, Supermarkets, Government Suppliers, Institutional Sales, Tenders, Suppliers, etc.

The various factors that rule the market viz. Quality, Price, Delivery, Brand Name, Credit Terms, etc. Role of advertising and publicity and reference to the product and the country.

A specimen export letter is given below :

Specimen of Introductory Letter to International Importers

Ref: TIL/NYK2001/ 14th Nov, 2000

The Manager (Purchase)



M/s. TIL Ltd.

.....

.....

(U.S.A.)

Dear Sir,

We are exporters of a wide variety of items including for the last ten years. Our major buyers are in We are one of the registered export houses in India. We represent the leading manufacturers of these items in India. These items are produced in collaboration with, the world famous company. We follow the ISI specifications. We believe that your company imports the items we export. We are enclosing herewith a copy of our brochure and price list for your perusal. We shall be glad to send you detailed literature/ samples of items that may be of interests to you.

Yours sincerely,

For NYK Ltd.

Manager (Marketing)

Encl: As above.

Comments :

The text can be suitably amended with reference to the manufacturing activity or/items dealt in by the exporter.

Where the manufacturing is not in collaboration with a foreign company, it need not be referred to.

Product literature (of the buyer's interest) and price list should invariably be sent along with the letter.

The price list should categorically indicate whether the prices are f.o.b., & C&f or c.i.f. etc. However, discount need not be indicated in the price list.

The profile about your company should generally include the following matters:

- Company's name and address /Telex /Telephone /Cable /Fax/Email/ Date of establishment
- Export Executives
- Status: Partnership/ Company (Pvt. Ltd./Pub.Ltd) Govt.(Semi-Govt.)
- Bank Reference
- Exporting Since
- Value of Assets
- No. of Employees/ Manufacturing/ Sales/ Administration
- Foreign Offices/Representatives, if any
- Exporter/ Manufacturer/ Agent



- Main Line
- Technical Collaboration
- Standards/Specification followed
- Major Buyers- In India; Abroad

Selecting the markets

Target markets should be selected after careful consideration of various factors like political embargo, scope of exporter's selected product, demand stability, preferential treatment to products from developing countries, market penetration by competitive countries and products, distance of potential market, transport problems, language problems, tariff and non-tariff barriers, distribution infrastructure, size of demand in the market, expected life span of market and product requirements, sales and distribution channels. For this purpose you should collect adequate market information before selecting one or more target markets. The information can be collected from various sources like Export Promotion Council (EPCs)/Commodity Boards, Federation of Indian Export Organisation, (FIEO), Indian Institute of Foreign Trade (IIFT), Indian Trade Promotion Organisation (ITPO), Indian Embassies Abroad, Foreign Embassies in India, Import Promotion Institutions Abroad, Overseas Chambers of Commerce and Industries, Various Directories, Journals, Market Survey Reports.

Selecting prospective Buyers

You can collect addresses of the prospective buyers of the commodity from the following sources:

Enquiries from friends and relatives or other acquaintances residing in foreign countries.

Visiting/ participating in International Trade Fairs and Exhibitions in India and abroad. Contact with the Export Promotion Councils, Commodity Boards and other Government Agencies. List given in Appendix 4 of this book).

Consulting International Yellow Pages (A Publication from New York by Dun & Bradstreet, USA or other Yellow Pages of different countries like Japan, Dubai Etc.)

Collecting addresses from various Private Indian Publications Directories available on cost at Jain Book Agency, C-9, Connaught Place, New Delhi-1. (PH. 3355686, Fax.3731117).

Collecting information from International Trade Directories/ Journals/periodicals available in the libraries of Directorate General of Commercial Intelligence and Statistics, IIFT, EPCs, ITPO etc. A list of selected trade directories published abroad is given in Appendix 5 of this book.

Making contacts with Trade Representatives of Overseas Govt. in India and Indian Trade and Other Representatives/ International Trade Development Authorities abroad.

Reading biweekly, fortnightly, monthly bulletins such as Indian Trade Journal, Export Service Bulletin, Bulletins and Magazines issued and published by Federation of Exporters' Organisations, ITPO, EPCs, Commodity Boards and other allied agencies. A list of Indian Trade Periodicals containing names and addresses of importers is given in Appendix 6 of this book.

Visiting Embassies, Consulates etc. of other countries and taking note of addresses of importers for products proposed to be exported.



Advertising in newspapers having overseas editions and other foreign newspapers and magazines etc.

Consulting ITPO, IIFT, etc.

Contacting authorised dealers in foreign exchange with whom exporter is maintaining bank account.

Overseas importers can be contacted or informed about the products by the following methods:

By corresponding and sending brochures and product literature to prospective overseas buyers.

By undertaking trips to foreign markets and establishing personal rapport with overseas buyers. The number of trips will depend on your budget and resources. But it is essential for long-term success in international marketing to establish personal rapport. Foreign trip will provide first-hand information regarding the market, overseas customers, their requirement, taste, preference and better out communication of the merits of exporters' products.

Participation in buyer-seller meets and meeting the members of foreign delegation invited by Export Promotion Councils concerned.

Participation in international trade fairs, seminars.

Advertisement and publicity in overseas reputed newspapers and magazines. Facilities of free publicity can be availed from Import Development Centres.

Selecting channels of distribution

The following channels of distribution are generally utilised while exporting to overseas markets:

- Exports through Export Consortia
- Export through Canalising Agencies
- Export through Other Established Merchant Exporters or Export Houses, or Trading Houses
- Direct Exports
- Export through Overseas Sales Agencies

Negotiating with Prospective Buyers

Whatever the channel of distribution for exporting to the overseas countries is proposed to be utilized, it is essential that the exporters should possess the necessary skill for negotiating with the overseas channels of distribution. The ability to negotiate effectively is needed for discussion with importers or trade agents. While conducting business negotiations, the prospective exporter should avoid conflict, controversy and criticism vis-à-vis the other party. During conversation the attitude should be to communicate effectively. There should be coherence, creativity, compromise, concessions, commonality, consensus, commitment and compensation in business negotiations. The general problem you may face is about pricing. The buyer's contention is that prices are too high. It should be noted that though the price is only one of the many issues that are discussed during business negotiations, it influences the entire negotiating process.

Since this is the most sensitive issue in business negotiations, it should be tactfully postponed until all the issues have been discussed and mutually agreed upon. As far as the price is concerned, you should try to determine the buyer's real interest in the product from the outset, only then a suitable counter proposal



should be presented. It should also be remembered that the buyer may request modifications in presentation of the product. You should show the willingness to meet such request, if possible, provided that it will result in profitable export business. Price being the most important sales tool, it has to be properly developed and presented.

Therefore, in order to create a favorable impression, minimize costly errors and generate repeated business. The following points should be kept in mind while preparing the price list:

Submit a typewritten list, printed on the regular bond paper and laid out simply and clearly (with at least an inch between columns and between groupings) Prominently indicate the name of your company, its full address, telephone and fax numbers, including the country and city codes. Fully describe the items being quoted. Group the items logically(i.e. all the fabrics together, all the made-up together etc.).

Specify whether shipped by sea or by air, f.o.b. or c.i.f. and to what port.

Quote exact amount and not rounded-off figures.

Mention the dates up to which the prices quoted will remain valid.

Where there is an internal reference number which must be quoted, to keep it short (the buyer has no interest in this detail and the more complex it is, the greater is the risk of error).

One main point regarding export pricing is that while negotiating with overseas buyer, you may not remember the cost of a product. It may also be difficult for you to remember the profit margin built in various prices quoted by you. A clear jotting of this information is not free from the risk of being leaked out to the competitors or to the overseas buyers.

Some coding is, therefore, essential for the prices quoted by you so that at any stage/point of time, you can always utilise the information, enabling you to profitably negotiate with the overseas buyer. This can be done by assigning codes to the cost price.

For assigning codes to the cost price, you may select an English password consisting of 10 separate letters, each letter to represent a numerical figure. For example: 'CRAZY MOUTH' is the password selected by you, where C=1, R=2, A=3, Z=4, Y=5, M=6, O=7, U=8, T=9, H=0. This password can be successfully used for recognising various items of exports and their varieties.

Thus, a brass candle stand which is being quoted at Rs. 100(sale price) but whose cost price to you is Rs 25.50 will be coded as item number 'RYYH' and then assigned with a running serial number to make it more fascinating. You can decode the word 'RYYH' to write as Rs 25.50 so as to get an idea of difference between the Sale Price and the Cost Price, which will provide you the range within which you can negotiate with overseas buyers.

Processing an Export order

You should not be happy merely on receiving an export order. You should first acknowledge the export order, and then proceed to examine carefully in respect of items, specification, pre-shipment inspection, payment conditions, special packaging, labeling and marketing requirements, shipment and delivery date, marine insurance, documentation etc. if you are satisfied on these aspects, a formal confirmation should be sent to the buyer, otherwise clarification should be sought from the buyer before confirming the order. After confirmation of the export order immediate steps should be taken for procurement/manufacture of



the export goods. In the meanwhile, you should proceed to enter into a formal export contract with the overseas buyer.

Entering into an Export contract

In order to avoid disputes, it is necessary to enter into an export contract with the overseas buyer. For this purpose, export contract should be carefully drafted incorporating comprehensive but in precise terms, all relevant and important conditions of the trade deal.

There should not be any ambiguity regarding the exact specifications of goods and terms of sale including export price, mode of payment, storage and distribution methods, type of packaging, port of shipment, delivery schedule etc. The different aspects of an export contract are enumerated as under:

- Product, Standards and Specifications
- Quantity
- Inspection
- Total Value of Contract
- Terms of Delivery
- Taxes, Duties and Charges
- Period of Delivery/Shipment
- Packing, Labeling and Marking
- Terms of Payment-- Amount/Mode & Currency
- Discounts and Commissions
- Licenses and Permits
- Insurance
- Documentary Requirements
- Guarantee
- Force Majeure of Excuse for Non-performance of contract
- Remedies
- Arbitration It will not be out of place to mention here the importance of arbitration clause in an export contract Court proceedings do not offer a satisfactory method for settlement of commercial disputes, as they involve inevitable delays, costs and technicalities. On the other hand, arbitration provides an economic, expeditious and informal remedy for settlement of commercial disputes. Arbitration proceedings are conducted in privacy and the awards are kept confidential. The Arbitrator is usually an expert in the subject matter of the dispute. The dates for arbitration meetings are fixed with the convenience of all concerned. Thus, arbitration is the most suitable way for settlements of commercial disputes and it may invariably be used by businessmen in their commercial dealings.

The Indian Council of Arbitration Federation House, Tansen Marg, New Delhi. (Ph. 3319251 Fax:3320714) is a specialized arbitration institution providing arbitration facilities for all types of domestic or international commercial disputes. You should use their services as far as possible.

BRIEF SPECIMEN CONTRACT FORM FOR SALE PURCHASE TRANSACTIONS

EXPORTS AND IMPORTS



- I. Name and address of the parties.....(state correct appellation and complete address of the parties)
- II. We, the above named parties have entered into this contract for the sale/purchase, etc. (state briefly the purpose of the contract) on this(date) at(place)..... subject to the following terms and conditions:
 - a. Goods
 - b. QuantityQuality..... (Describe the quantity, quality and the other specifications of the goods precisely as per the agreement. An agency for inspection/certification of quality and/or quantity may also be stipulated).
 - c. Price..... Mode of payment(Quote the price, terms, i.e. ex-works/FOB(free on board) CIF(Cost, Insurance & Freight) etc. in the currency agreed upon and describe the mode of payment i.e. payment against L/C(letter of credit)/DA (document against acceptance) /D/P(document against payment)etc. It is also desirable to mention the exchange rate.)
 - d. Shipment.....(Specify date of delivery and the maximum period upto which delivery could be delayed and for which reasons, port of shipment and delivery should be mentioned).
 - e. Packing and marking.....(Requirements to be specified precisely)
 - f. Insurance(State the type of insurance cover required, i.e. FPA(free from particular average)/WA (with average)/ All Risks, etc. State also the party responsible for insurance)
 - g. Brokerage/Commission(if any payable may be mentioned)
 - h. Passing of the property and of risk. The property or ownership of the goods and the risk shall finally pass to the buyer at such stage as the parties may agree, i.e. when the goods are delivered at the seller's place of work/pass the ship's rails/are covered by insurance etc. as per agreed terms).

Arbitration

Arbitration clause recommended by the Indian Council of Arbitration: "All disputes or differences whatsoever arising between the parties out of relating to the construction, meaning and operation or effect of this contract or the breach thereof shall be settled by arbitration in accordance with the rules of the arbitration of the Indian Council of Arbitration and the award made in pursuance thereof shall be binding on the parties."(or any other arbitration clause that may be agreed upon between the parties). 3.Any other special condition, prevalent in or relevant to the particular line of trade or transaction, may also be specified.

Sd/-Seller

Sd/-Buyer

Notes: The above specimen contract form, drawn up in brief essentials, is meant for simple small scale transactions and is intended to draw the attention of the parties to important aspects of the trade deal in drafting the contract. The parties are free to add to or modify the terms as per the peculiar nature of their trade transaction. They may also consult with advantage, experienced commercial or arbitration bodies for the purpose or study published literature on the subject. The



use of the arbitration clauses in commercial contracts is becoming increasingly common, particularly in export-import transactions, with a view to promoting smooth and swift flow of business. The Indian Council of Arbitration (ICA) which is partly founded by the Government of India, provides comprehensive institutional arbitration service to all government departments and public undertakings as well as private traders, exporters and importers in India for amicable and quick settlement of all types of commercial disputes. It has been suggested by the Ministry of Commerce that all commercial organisations should make use of the arbitration clause of the Council in their commercial contracts with Indian and foreign parties.

Export Pricing and Costing

Export pricing should be differentiated from export costing. Price is what we offer to the customer. Cost is the price that we pay/incur for the product. Price includes our profit margin, cost includes only expenses we have incurred. Export pricing is the most important tool for promoting sales and facing international competition. The price has to be realistically worked out taking into consideration all export benefits and expenses. However, there is no fixed formula for successful export pricing. It will differ from exporter to exporter depending upon whether the exporter is a merchant exporter or a manufacturer exporter or exporting through a canalising agency. You should also assess the strength of your competitor and anticipate the move of the competitor in the market. Pricing strategies will depend on various circumstantial situations. You can still be competitive with higher prices but with better delivery package or other advantages.

Your prices will be determined by the following factors:

- Range of products offered
- Prompt deliveries and continuity in supply
- After-sales service in products like machine tools, consumer durables
- Product differentiation and brand image
- Frequency of purchase
- Presumed relationship between quality and price
- Specialty value goods and gift items
- Credit offered
- Preference or prejudice for products originating from a particular source
- Aggressive marketing and sales promotion
- Prompt acceptance and settlement of claims
- Unique value goods and gift items

Export Costing is basically Cost Accountant's job. It consists of fixed cost and variable cost comprising various elements. It is advisable to prepare an export costing sheet for every export product. For the format of the export costing sheet and other relevant details refer to Nabhi's EXPORTERS MANUAL AND DOCUMENTATION. As regards quoting the prices to the overseas buyer, the same are quoted in the following internationally accepted terms:

Ex-Works: 'Ex-works' means that your responsibility is to make goods available to the buyer at works or factory. The full cost and risk involved in bringing the goods from this place to the desired destination will be borne by the buyer. This term thus represents the minimum obligation for you. It is mostly used for sale of plantation commodities such as tea, coffee and cocoa.



Free on Rail (FOR): Free on Truck(FOT):These terms are used when the goods are to be carried by rail, but they are also used for road transport. Your obligations are fulfilled when the goods are delivered to the carrier.

Free Alongside Ship (FAS): Once the goods have been placed alongside the ship, your obligations are fulfilled and the buyer notified. The buyer has to contract with the sea carrier for the carriage of the goods to the destination and pay the freight. The buyer has to bear all costs and risks of loss or damage to the goods hereafter.

Free on Board (FOB): Your responsibility ends the moment the contracted goods are placed on board the ship, free of cost to the buyer at a port of shipment named in the sales contract. 'On board' means that a 'Received for Shipment' B/L (Bill of Lading) is not sufficient. Such B/L if issued must be converted into 'Shipped on Board B/L' by using the stamp 'Shipped on Board' and must bear signature of the carrier or his authorised representative together with date on which the goods were 'boarded'.

Cost and Freight (C&F): You must on your own risk and not as an agent of the buyer, contract for the carriage of the goods to the port of destination named in the sale contract and pay the freight. This being a shipment contract, the point of delivery is fixed to the ship's rail and the risk of loss or of damage to the goods is transferred from the seller to the buyer at that very point. As will be seen though you bear the cost of carriage to the named destination, the risk is already transferred to the buyer at the port of shipment itself.

Cost Insurance Freight (CIF): The term is basically the same as C&F, but with the addition that you have to obtain insurance at your cost against the risks of loss or damage to the goods during the carriage.

Freight or Carriage Paid (DCP): While C&F is used for goods which are to be carried by sea, the term "DCP" is used for land transport only, including national and international transport by road, rail and inland waterways. You have to contract for the carriage of the goods to the agreed destination named in the contract of the sale and pay freight. Your obligations are fulfilled when the goods are delivered to the first carrier and not beyond. In case the buyer desires you to insure the goods till the destination, he would add 'including insurance' before the word 'Paid in Freight' or 'Carriage Paid to'.

EXS/EX-Ship: This is an arrival contract and means that you make the goods available to the buyer in the ship at the named port of destination as per sales contract. You have to bear the full cost and risk involved in bringing the goods there. Your obligation is fulfilled before the customs border of the foreign country and it is for the buyer to obtain necessary import license at his own risk and expense.

EXQ/Ex-Quay: Ex-Quay means that you make the goods available to the buyer at a named quay. As in the term 'Ex-Ship' the points of division of costs and risks coincide, but they have now been moved one step further -- from the ship into the quay or wharf i.e. after crossing the customs border at destination. Therefore, in addition to arranging for carriage and paying freight and insurance you have to bear the cost of unloading the goods from the ship.

Delivered at Frontier (DAF): The term is primarily intended to be used when the goods are to be carried by rail or road. Your obligations are fulfilled when the goods have arrived at the frontier, but before the 'Customs border' of the country named in the sales contract.



Delivery Duty Paid (DDP): This term may be used irrespective of the type of transport involved and denotes your maximum obligation as opposed to 'Ex-Works'. You have not fulfilled his obligation till such time that the goods are made available at his risk and cost to the buyer at his premises or any other named destination. In the latter case necessary documents (e.g. transport document or Warehouse Warrant) will have to be made available to the buyer to enable him to take delivery of goods. The term 'duty' includes taxes, fees and charges. Therefore, the obligation to pay VAT (Value Added Tax) levied upon importation will fall upon you. It is, therefore, advisable to use 'exclusive of VAT' after the words 'duty paid'.

FAO/FOB Airport: 'FOB Airport' is based on the same main principle as the ordinary FOB term. You fulfill your obligation by delivering the goods to the air carrier at the airport of departure. Without the buyer's approval delivery at a town terminal outside the airport is not sufficient, your obligations with respect to costs and risks do not extend to the arrival of the goods at the destination.

Free Carrier (Named Point) FRC: The term has been designed particularly to meet the requirements of modern transport like 'multi-modal' transport as container or 'roll-on-roll-off' traffic by trailers and ferries. The principles on which the term is based is same as applicable to FOB except that the seller or the exporter fulfills his obligations when he delivers the goods into the custody of the carrier at the named point.

Freight Carriage and Insurance Paid (CIP): The term is similar to 'Freight or Carriage Paid to'. However, in case of CIP you have additionally to procure transport insurance against the risk of loss or damage to the goods during the carriage. You contract with the insurer and pay the insurance premium.

Understanding risks in International trade

While selling abroad, you may undergo the following risks:

- i. Credit risk
- ii. Currency risk
- iii. Carriage risk
- iv. Country risk

These risks can be insured to a great extent by taking appropriate steps. Credit risk against the buyer can be covered by insisting upon an irrevocable letter of credit from the overseas buyer. An appropriate policy from Export Credit and Guarantee Corporation of India Ltd. can also be obtained for this purpose. Country risks are also covered by the ECGC. As regards currency risk, i.e. possible loss due to adverse fluctuation in exchange rate, You should obtain forward cover from your bank authorised to deal in foreign exchange. Alternatively, you should obtain export order in Indian rupee. Carriage risk, i.e. possible loss of cargo in transit can be covered by taking a marine insurance policy from the general insurance companies.

Registration

- Registration with Reserve Bank Of India: No longer required. Prior to 1.1.1997 it was compulsory for every exporter to obtain an exporters' code number from the Reserve Bank of India before engaging in export. This has since been dispensed with and



registration with the licensing authorities is sufficient before commencing export or import.

- Registration with Regional Licensing: Authorities (obtaining IEC Code Number) The Customs Authorities will not allow you to import or export goods into or from India unless you hold a valid IEC number. For obtaining IEC number you should apply to Regional Licensing Authority (list given in Appendix 2) in duplicate in the prescribed form given in Appendix 1. Before applying for IEC number it is necessary to open a bank account in the name of your company / firm with any commercial bank authorised to deal in foreign exchange. The duly signed application form should be supported by the following documents:

Bank Receipt (in duplicates)/Demand Draft for payment of the fee of Rs. 1,000/-.

Certificate from the Banker of the applicant firm as per Annexure 1 to the form given in Appendix 1 of this Book.

Two copies of Passport size photographs of the applicant duly attested by the banker to the applicants.

A copy of Permanent Account Number issued by Income Tax Authorities. If PAN has not been allotted, a copy of application of PAN submitted to Income Tax Authorities.

In case the application is signed by an authorised signatory, a copy of the letter of legal authority may be furnished.

If there is any non-resident interest in the firm and NRI investment is to be made with repatriation benefits, a simple declaration indicating whether it is held with the general/specific permission of the RBI on the letter head of the firm should be furnished. In case of specific approval, a copy may also be furnished.

Declaration by the applicant that the proprietors/partners/directors of the applicant firm/company, as the case may be, are not associated as proprietor/partners/directors with any other firm/company which has been caution-listed by the RBI. Where the applicant is so associated with a caution-listed firm/company the IEC No. is allotted with a condition that he can export only with the prior approval of the RBI.

Exporter's Profile as per form attached to Appendix 1 of this book (See Appendix 1A of this Book). The Regional Licensing Authority concerned will on merits grant an IEC number to the applicant. The number should normally be given within 3 days provided the application is complete in all respects and is accompanied by the prescribed documents. An IEC number allotted to an applicant shall be valid for all its branches/divisions as indicated on the IEC number.

Register With Export Promotion Council

In order to enable you to obtain benefits/concession under the export-import policy, you are required to register yourself with an appropriate export promotion agency by obtaining registration-cum- membership certificate.



For this purpose you should apply in the prescribed form, given at Appendix 3 of this Book to the Export Promotion Council relating to your main line of business.

For list of Registering Agencies, please refer to Appendix 4 of this Book. However, if the export is such that it is not covered by any EPC, RCMC in respect thereof may be obtained from the Regional Licensing Authority concerned.

An application for registration should be accompanied by a self certified copy of the Importer-Exporter code number issued by the Regional Licensing Authority concerned and bank certificate in support of the applicant's financial soundness. In case an exporter desires to get registration as a manufacturer exporter, he should furnish evidence to that effect. In the case of a manufacturer exporter the licensing authority may seek copy of registration with SSI/any other sponsoring authority in addition to the application in the prescribed form for the Import Export Code Number.

If the application for registration is granted, the EPC or FIEO shall issue the RCMC indicating the status of the applicant as merchant exporter or manufacturer exporter. The RCMC shall be valid for five years ending 31st March of the licensing year. The certificate shall be deemed to be valid from 1st April of the licensing year in which it was issued.

Registration With Sales Tax Authorities: Goods which are to be shipped out of the country for export are eligible for exemption from both Sales Tax and Central Sales Tax. For this purpose, you should get yourself registered with the Sales Tax Authority of your state after following the procedure prescribed under the Sales Tax Act applicable to your State.

Despatching Samples

As the overseas buyers generally insist for the samples before placing confirmed orders, it is essential that the samples are attractive, informative and have retention and reminder value. Besides, the exporter should know the Government policy and procedures for export of samples from India. He should also be aware about the cheapest modes of sending samples.

In this connection, it is advised that the postal channel is comparatively cheaper than sending samples by air. While sending samples through postal channel due regard should be given to weight and dimension of the post parcels as postal authorities have prescribed maximum weight and dimension for the post parcels handled by them. Where it is not possible to send the samples by post parcels, the same may be sent by air. So far as the Government policy regarding export of samples is concerned, distinction has been made between export of commercial samples and gift parcels. In terms of Para 11.4 of the Import Export Policy as modified upto 31.3.1999, goods including edible items of value not exceeding Rs.1,00,000 in a licensing year may be exported as a gift. Items mentioned as restricted for exports in the ITC (HS) Classifications of Export & Import Items shall not be exported as a gift without a license except in the case of edible items. Export of bonafide trade and technical samples having indelible marking as "sample not for sale" is allowed freely without any limit. However, in such cases where indelible marking is not available, the samples may be allowed for a value not exceeding US \$ 10,000, per consignment. In addition the exporter has the option to avail the facility of free samples upto US \$ 5,000 or 1% of the preceding year's exports, whichever is higher. An application for export of gifts/samples in excess of the limits specified above may be made to the DGFT.

Special provisions have been made for export of garment samples. Garment samples are allowed to be exported only by exporters who are registered with the Apparel Export Promotion Council (AEPC) or the



Wool and Woolen Export Promotion Council for woolen Knitwears. Export of samples to be sent by post parcel or air freight are further divided into 3 categories, namely : 1.Samples of value upto Rs.10,000, 2.Samples of value less than Rs. 25,000, 3.Samples of value more than Rs. 25,000.Where the value of the articles is less than Rs. 10,000, the exporter should file a simple declaration that the sample does not involve foreign exchange and its value is less than Rs. 10,000.Where the value of samples is more than Rs. 10,000 but less than Rs. 25,000 you should obtain a value certificate from the authorised dealer in foreign exchange (i.e. your bank). For this purpose, you should submit a commercial invoice certifying thereon that the parcel does not involve foreign exchange and the aggregate value of the samples exported by you does not exceed Rs. 25,000 in the current calendar year.If the value of samples exceeds Rs. 25,000 you should obtain Gr/PP waiver from the Reserve Bank of India.

Export of trade samples is allowed by sea/air (as distinguished from sea/airmail) without any value restriction, provided the customs authorities are satisfied about the bona fide of the goods that they do not fall in the export control restrictions. However, customs authorities may ask for suitable documentary evidence in this regard viz. correspondence etc. with the overseas buyer. Trade samples against which the foreign buyer agrees to make payment can be exported in the same manner in which normal exports are effected. Samples can also be carried personally by you while traveling abroad provided these are otherwise permissible or cleared for export as explained earlier.

However, in case of precious jewelry/stone items, you should declare the same to the customs authorities while leaving the country and obtain necessary endorsement on export certificate issued by the Jewelry Appraiser of the Customs.

Appointing Agents

Selling through an overseas agent is an effective strategy. These agents serve as a source of market intelligence. Regularly sending the latest trends on the current fashion, taste and price in the market. Being a man on the spot, the agent is in a position to render his advice to exporter or new methods and strategy for pushing up sales of your products. He also provides you support in the matter of transportation, reservation of accommodation, appointment with the government as and when required by you. In some countries it is compulsory under their law to sell through local agents only. It is, therefore, essential that you should carefully select your overseas agent.

Consider the points listed below when appointing an Agent :

- Size of the agent's company
- Date of foundation of the agent's company
- Company's ownership and control
- Company's capital, funds, available and liabilities
- Name, age and experience of the company's senior executives
- Number, age and experience of the company's salesman
- Other agencies that the company holds, including those of competing products and turnover of each
- Length of company's association with other principal
- New agencies that the company obtained or lost during the past year
- Company's total annual sales and the trends in its sales in recent years
- Company's sales coverage, overall and by area
- Number of sales calls per month and per salesman by company staff
- Any major obstacles expected in the company's sales growth



- Agent's capability to provide sales promotion and advertising services
- Agent's transport facilities and warehousing capacity
- Agent's rate of commission; payment terms required
- References on the agents from banks, trade associations and major buyers

Some source of information on agents are:

- Government Departments Trade Associations
- Chambers of Commerce
- Banks
- Independent Consultants
- Export Promotion Councils
- Advertisement Abroad.

Specimen Copy of Agreement

An agreement made this the day of between(name and address) hereinafter called the exporters of the first part and (name and address) hereinafter called the importers of the second part, wherein the exporters grant to the importers the importation and selling right in the territory of(fill name of country) for(names and brief description of product) subject to the terms and conditions given below :

- i. The exporter agrees that during the currency of the agreement he will not correspond or in any way deal with any part in the territory specified unless requested to do so by the importers.
- ii. The exporter agrees that any orders or enquiries relating to the specified territory received by him during the currency of this agreement will be passed on to the importers to deal with.
- iii. The exporter agrees that he will make shipment of all orders received from the importers by earliest shipping opportunity unless prevented from so doing by circumstances beyond the former's control.
- iv. The exporter agrees to charge the importers for all goods ordered during the currency of this agreement the prices detailed in Price List No. appended to this agreement unless any order is received at least one month after notification of price changes by the exporter to the importer.
- v. The exporter agrees to pay the importer commission on (fill in the dates of each year during the currency of this agreement) at the rate of per cent of the F.O.B. value of all orders satisfactorily completed during the months preceding the dates specified.
- vi. The exporter agrees that he will allow to the importers per cent of the value of all business satisfactorily completed with the importers during the currency of this agreement as contribution towards the importer's costs in publicising the products covered by this agreement. This allowance is to be settled by deduction from the manufacturer's invoices to the importers.
- vii. The importers agree that during the currency of this agreement they will not sell, recommend or in any other way deal with any competing or rivaling lines in the territory specified.



- viii. The importers agree that they will use their best efforts and endeavors at all times during the currency of this agreement to promote the sales of products covered by this agreement.
- ix. The importers agree that they will make net and full payment for all goods ordered through confirmed and irrevocable letter of credit established in (name of manufacturer's town or city). OR The importers agree that they will make net and full payment for all goods ordered against presentation of draft and shipping documents in (name of importer's town or city). OR The importers agree that they will immediately upon presentation at and retire such drafts net and in full upon maturity.
- x. The importers agree that they will write to the manufacturer at least once each calendar month and will send to the manufacturer a full market report on the prospects for sale of the products covered by this agreement every six months.
- xi. The importer agrees that they will place regular and adequate order with the manufacturer amounting in total to not less than during the first calendar year and not less than Rs. in each and every subsequent year during the currency of this agreement.
- xii. This agreement shall become valid with effect from the date of shipment of the substantial order amounting in value of not less than Rs. and remain in force for a period of twelve calendar months there from subject to either party being at liberty to terminate this agreement without notice in the event of the other party being in breach of any of the terms and conditions stated herein.
- xiii. Notwithstanding anything herein aforesaid if during the first twelve calendar months the importers have placed satisfactory orders with the exporters amounting to not less than Rs. this agreement shall be automatically renewed year after year provided that in the twelve calendar months immediately preceding the expiry date satisfactorily business amounting in total to not less than Rs. has been placed by the importers with the manufacturer.
- xiv. Any disputes arising under this agreement shall be settled in accordance with Indian Law in (.....)

Witness..... (Exporter)

Witness..... (Importer)

Acquire Export License

Exports free unless regulated: The current Export Licensing Policy of the Government of India is contained in the new Import Export Policy and Procedures, 1997-2002 as amended upto 31.3.1999. The Policy and Procedures are amended from time to time and for latest position kindly refer to. However, for the sake of information of the prospective exporters, it may be stated that all goods may be exported without any restriction except to the extent such exports are regulated by the ITC (HS) Classifications of Export and Import items or any other provisions of this policy or any other law for the time being in force. The Director General of Foreign Trade may, however, specify through a Public Notice such terms and conditions according to which any goods, not included in the ITC (HS) Classifications of Export and Import items may be exported without a license. Such terms and conditions may include Minimum Export Price



(MEP), registration with specified authorities, quantitative ceilings and compliance with other laws, rules, regulations.

Application for an Export License: An application for grant of export license in respect of items mentioned in Schedule 2 of ITC (HS) Classifications of Export and Import items may be made in the form given in Appendix-18A or 18B or 18C, as the case may be, to the Director General of Foreign Trade and shall be accompanied by the documents prescribed therein. The Export Licensing Committee under the Chairmanship of Export Commissioner shall consider such applications on merits for issue of export licenses special High Powered Licensing Committee under the Chairmanship of Director General of Foreign Trade shall consider applications for export of dual purpose chemicals and for special materials, equipment and technologies, as specified in Schedule 2 Appendix 5 and Schedule 2 Appendix 6 respectively of the book p 7 3 titled ITC(HS) Classifications of Export and Import items on the basis of guidelines issued in this regard from time to time.

Export of Canalised Items: An application for export of canalised items mentioned in ITC (HS) Classifications of Export and Import items may be made to the Director General of Foreign Trade.

Trade Fairs/Exhibitions: Any Indian wishing to organise any Trade Fair/Exhibition in India or abroad, would be required to obtain a certificate from an officer of the rank not below that of an Under Secretary to the Government of India, in the Ministry of Commerce, or an Officer of India Trade Promotion Organisation, duly authorised by its chairman in this behalf, to the effect that such exhibition, fair or as the case may be, similar show or display, has been approved or sponsored by the Government of India in the Ministry of Commerce or the India Trade Promotion Organisation and the same is being held in public interest.

Gifts/Spares/Replacement Goods: For export of gifts, indigenous/imported spares and replacement goods in excess of the prescribed ceiling/period, an application may be made to the Director General of Foreign Trade.

Export through Courier Service: Import/Exports through a registered courier service is permitted as per the Notification issued by the Department of Revenue. However, importability/exportability of such items shall be regulated in accordance with the policy.

Acquire Export Credit Insurance

Export credit insurance protects you from the consequences of the payment risks, both political and commercial. It enables you to expand your overseas business without fear of loss. Further, it creates a favorable climate for you under which you can hope to get timely and liberal credit facilities from the banks at home.

You can obtain Export Credit Insurance from the Export Credit and Guarantee Corporation of India Limited. In order to provide you Export Credit Insurance, the following covers are issued by the ECGC :

Standard policies to protect you against the risk of not p 7 3 receiving payment while trading with overseas buyers on short-term credit.

Specific policies designed to protect you against the risk of not receiving payment in respect of:

- exports on deferred payment terms
- services rendered to foreign parties
- construction work, including turnkey projects undertaken abroad



The policies are either:

Whole Turnover Policies in the form of 'Open Cover' in respect of shipments made during 24 months period. You have to obtain credit limit on each one of your buyers to enable ECGC to approve a limit on the basis of credit worthiness of the buyer. These policies are basically similar to whole turnover policies but only apply to specific contracts.

Specific Policies for exports of capital goods on medium or long-term credit, turnkey projects, civil construction works and technical services. These policies are basically similar to whole turnover policies but only apply to specific contracts.

Financial guarantees issued to banks against risk involved in providing credit or guarantee facilities to you, and

Special schemes viz. transfer guarantee issued to protect banks which add confirmation to letters of credit, Insurance cover for Buyers' Credit, Lines of Credit, Joint Ventures and Overseas Investment Insurance, and Exchange Fluctuation Risk Insurance. The other guarantees which banks can offer to you through ECGC schemes are :--- Bid Bonds,--- Advance Payments Guarantee,--- Bank guarantee for due performance of the contract by the exporter,---Bank guarantee for payment of retention money,--- Bank guarantee for loans in foreign currencies. Details of these schemes can be obtained from your own banker or local office of the Export Credit and Guarantee Corporation of India Ltd.

The Shipments (Comprehensive Risks) Policy is the one ideally suited to cover risks in respect of goods exported on short-term credit. Shipments to associates or to agents and those against letter of credit can be covered for only political risks by suitable endorsements to the shipments (comprehensive risks) Policy. Premium is charged on such shipments at lower rates.

For obtaining a policy you should apply to the nearest office of the ECGC in the prescribed Form no.121 (obtainable from ECGC) along with the following documents :

- i. Bank Certificate about the financial position
- ii. Application form for fixing the credit limit
- iii. Name/address of foreign buyer fixing sub-limits

After examining the proposal, ECGC would send the exporter an offer letter stating the terms of its cover and premium rates. The policy will be issued after the exporter conveys his consent to the premium rate and pays a non-refundable policy fee of Rs. 100 for policies with maximum liability limit up to Rs. 5 lakhs; Rs. 200 between Rs. 5 lakhs and Rs. 20 lakhs and Rs. 100 for each additional Rs. 10 lakhs or part thereof subject to a ceiling of Rs. 2500. As commercial risks are not covered in the absence of a credit limit, you are advised to apply to ECGC for approval of credit limit on buyer in the prescribed Form No:144 (obtainable from ECGC) before making shipment. Credit limit is the limit up to which claim can be paid under the policy for losses on account of commercial risks. If no application for credit limit on a buyer has been made, ECGC accepts liability for commercial risks up to a maximum of Rs. 5,00,000 for D.P./C.A.D. transactions and Rs. 2,00,000 for D.A. transactions provided that at least three shipments have been effected to the buyer during the preceding two years on similar terms, at least one of them was not less than the discretionary limit availed of by the exporter and the buyer had made payment on the due dates.

Arranging Finance



Financial assistance to the exporters are generally provided by Commercial Banks, before shipment as well as after shipment of the said goods. The assistance provided before shipment of goods is known as per-shipment finance and that provided after the shipment of goods is known as post-shipment finance. Pre-shipment finance is given for working capital for purchase of raw-material, processing, packing, transportation, ware-housing etc. of the goods meant for export. Post-shipment finance is provided for bridging the gap between the shipment of goods and realization of export proceeds. The later is done by the Banks by purchasing or negotiating the export documents or by extending advance against export bills accepted on collection basis. While doing so, the Banks adjust the pre-shipment advance, if any, already granted to the exporter.

Pre-Shipment Finance

An application for pre-shipment advance should be made by you to your banker along with the following documents:

Confirmed export order/contract or L/C etc. in original. Where it is not available, an undertaking to the effect that the same will be produced to the bank within a reasonable time for verification and endorsement should be given. An undertaking that the advance will be utilised for the specific purpose of procuring/manufacturing/shipping etc., of the goods meant for export only, as stated in the relative confirmed export order or the L/C. If you are a sub-supplier and want to supply the goods to the Export/Trading/Star Trading House or Merchant Exporter, an undertaking from the Merchant

Exporter or Export/Trading/Star Trading House stating that they have not/will p 7 3 not avail themselves of packing credit facility against the same transaction for the same purpose till the original packing credit is liquidated. Copies of Income Tax/Wealth Tax assessment Order for the last 2-3 years in the case of sole proprietary and partnership firm. Copy of Exporter's Code Number (CNX). Copy of a valid RCMC (Registration-cum-Membership Certificate) held by you and/or the Export/Trading/StarTrading House Certificate. Appropriate policy/guarantee of the ECGC.

Any other document required by the Bank. For encouraging exports, R.B.I. has instructed the banks to grant preshipment advance at a concessional rate of interest. The present rate of interest is 10% p.a. for preshipment advance upto an initial period of 180 days. Preshipment advance for a further period of 90 days is given at the concessional rate of 13% p.a. Banks are free to determine the interest rate for advances beyond 270 days and upto 360 days.

Following special schemes are also available in respect of pre-shipment finance:

Exim Bank's scheme for grant of foreign currency pre-shipment credit to exporters for financing cost of imported inputs for manufacture of export products.

Scheme of export packing credit to sub-suppliers from export order.

Packing credit for deemed exports.

Pre-shipment Credit in Foreign Currency (PCFC). For further details refer to Nabhi's "How to Borrow from Financial and Banking Institutions".

Post Shipment Finance



Post-shipment finance is the finance provided against shipping documents. It is also provided against duty drawback claims. It is provided in the following forms:

Purchase of Export Documents drawn under Export Order: Purchase or discount facilities in respect of export bills drawn under confirmed export order are generally granted to the customers who are enjoying Bill Purchase/Discounting limits from the Bank. As in case of purchase or discounting of export documents drawn under export order, the security offered under L/C by way of substitution of credit-worthiness of the buyer by the issuing bank is not available, the bank financing is totally dependent upon the credit worthiness of the buyer, i.e. the importer, as well as that of the exporter or the beneficiary. The documents drawn on DP basis are parted with through foreign correspondent only when payment is received while in case of DA bills documents (including that of title to the goods) are passed on to the overseas importer against the acceptance of the draft to make payment on maturity. DA bills are thus unsecured. The bank financing against export bills is open to the risk of non-payment. Banks, in order to enhance security, generally opt for ECGC policies and guarantees which are issued in favor of the exporter/banks to protect their interest on percentage basis in case of non-payment or delayed payment which is not on account of mischief, mistake or negligence on the part of exporter. Within the total limit of policy issued to the customer, drawee-wise limits are generally fixed for individual customers. At the time of purchasing the bill bank has to ascertain that this drawee limit is not exceeded so as to make the bank ineligible for claim in case of non-payment.

Advances against Export Bills Sent on Collection: It may sometimes be possible to avail advance against export bills sent on collection. In such cases the export bills are sent by the bank on collection basis as against their purchase/discounting by the bank. Advance against such bills is granted by way of a 'separate loan' usually termed as 'post-shipment loan'. This facility is, in fact, another form of post-shipment advance and is sanctioned by the bank on the same terms and conditions as applicable to the facility of Negotiation/Purchase/Discount of export bills. A margin of 10 to 25% is, however, stipulated in such cases. The rates of interest etc., chargeable on this facility are also governed by the same rules. This type of facility is, however, not very popular and most of the advances against export bills are made by the bank by way of negotiation/purchase/discount.

Advance against Goods Sent on Consignment Basis: When the goods are exported on consignment basis at the risk of the exporter for sale and eventual remittance of sale proceeds to him by the agent/consignee, bank may finance against such transaction subject to the customer enjoying specific limit to that effect. However, the bank should ensure while forwarding shipping documents to its overseas branch/correspondent to instruct the latter to deliver the document only against Trust Receipt/Undertaking to deliver the sale proceeds by specified date, which should be within the prescribed date even if according to the practice in certain trades a bill for part of the estimated value is drawn in advance against the exports.

Advance against Undrawn Balance: In certain lines of export it is the trade practice that bills are not to be drawn for the full invoice value of the goods but to leave small part undrawn for payment after adjustment due to difference in rates, weight, quality etc. to be ascertained after approval and inspection of the goods. Banks do finance against the undrawn balance if undrawn balance is in conformity with the normal level of balance left undrawn in the particular line of export subject to a maximum of 10% of the value of export and an undertaking is obtained from the exporter that he will, within 6 months from due date of payment or the date of shipment of the goods, whichever is earlier surrender balance proceeds of the shipment. Against the specific prior approval from Reserve Bank of India the percentage of undrawn balance can be enhanced by the exporter and the finance can be made available accordingly at higher rate. Since the actual amount to be realised out of the undrawn balance, may be less than the undrawn balance, it is necessary to keep a margin on such advance.



Advance against Retention Money: Banks also grant advances against retention money, which is payable within one year from the date of shipment, at a concessional rate of interest up to 90 days. If such advances extend beyond one year, they are treated as deferred payment advances which are also eligible for concessional rate of interest.

Advances against Claims of Duty Drawback: Duty Drawback is permitted against exports of different categories of goods under the 'Customs and Central Excise Duty Drawback Rules, 1995'. Drawback in relation to goods manufactured in India and exported means a rebate of duties chargeable on any imported materials or excisable materials used in manufacture of such goods in India or rebate on excise duty chargeable under Central Excises Act, 1944 on certain specified goods. The Duty Drawback Scheme is administered by Directorate of Duty Drawback in the Ministry of Finance. The claims of duty drawback are settled by Custom House at the rates determined and notified by the Directorate. As per the present procedure, no separate claim of duty drawback is to be filed by the exporter. A copy of the shipping bill presented by the exporter at the time of making shipment of goods serves the purpose of claim of duty drawback as well. This claim is provisionally accepted by the customs at the time of shipment and the shipping bill is duly verified. The claim is settled by customs office later. As a further incentive to exporters, Customs Houses at Delhi, Mumbai, Calcutta, Chennai, Chandigarh, Hyderabad have evolved a simplified procedure under which claims of duty drawback are settled immediately after shipment and no funds of exporter are blocked.

However, where settlement is not possible under the simplified procedure exporters may obtain advances against claims of duty drawback as provisionally certified by customs.

Negotiation of Export documents Drawn under L/C: This aspect has been discussed in the chapter on Special Care for negotiation of Export Documents under Letter of Credit.

Rates of Interest

The rate of interest depends on the nature of the Bills, i.e., whether it is a demand bill or usance bill. Like pre-shipment, post-shipment finance is also available at concessional rate of interest. Present Rates of interest are as under:

Demand Bills for transit period Not exceeding (as specified by FEDAI) 10% p.a.

Usance Bills (for total period comprising usance period of ex-port bills, transit period as specified by FEDAI and grace period, wherever applicable:

- a. Up to 90 days 10% p.a.
- b. Beyond 90 days and up to six 12% p.a. months from the date of shipment.
- c. Beyond six months from the 20% date of Shipment (Minimum)

Against duty drawback etc., receive- Not excevable from Government covered by adding 10%ECGC guarantees (upto 90 days) p.a. 4. Against undrawn balance (upto 90 days) -- do -- 5.Against retention money (for suppldoies portion only) payable within one year from the date of shipment (up to 90 days).

Normal Transit Period: Foreign Exchange Dealers Association of India (FEDAI) has fixed transit period for export bills drawn on different countries in the world. The concept of this transit period is that an export bill should normally be realised within that period. The transit period so fixed by FEDAI is known as 'Normal Transit Period' and mainly depends on geographical location of a particular country.



Direct and Indirect Bill: If the currency of the bill is the same as the currency of the country on which it is drawn, it is termed as direct bill, e.g. an export bill in US \$ drawn on a place in U.S.A. However, if the currency of the bill in which it is drawn is different than the currency of the country on which it is drawn, it is termed as indirect bill, e.g. an export bill in US \$ drawn on a place in Japan. The normal transit period fixed for indirect bill is on higher side as compared to transit period fixed for direct bills.

Notional Due Date: To determine the due date of an export bill we have to consider the following 3 components: (1) Normal transit period as fixed by FEDAI (2) Usance period of the bill (3) Grace period if applicable in the country on which the bill is drawn. Grace period is applicable only in the case of usance bills. The notional due date of an export bill may thus be calculated after adding all the above 3 components. The concessional rate of interest is chargeable upto the notional due date subject to a maximum of 90 days.

FORFAITING FINANCE BY AUTHORISED DEALERS: Reserve Bank has now permitted the authorised dealers (Banks) to arrange forfeiting of medium term export receivables p 7 3 on the same lines as per the scheme of EXIM Bank and many International forfeiting agencies have now become active in Indian market. Forfaiting may be usefully employed as an additional window of export finance particularly for exports to those countries for which normal exports credit is not intended by the commercial banks. It must be noted that charges of forfeiting are eventually to be passed on to the ultimate buyer and should, therefore, be so declared on relative export declaration forms.

EXTERNAL COMMERCIAL BORROWINGS: Proposals for raising foreign currency loans/credits viz., Buyer's Credits, Supplier's Credits or Lines of Credits by firms/companies/lending institutions, banks, etc. for financing cost of import of goods, technology or for any other purposes, other than short-term loans/credits maturing within one year should first be submitted to government of India, Ministry of Finance (Department Economic Affairs), ECB Division, New Delhi for necessary clearance. The proposals are considered by the government on merits of each case and in the light of prevailing Government policy.

EXIM BANK FINANCE: Besides commercial banks, export finance is also made available by the EXIM bank. The EXIM bank provides financial assistance to promote Indian exports through direct financial assistance, overseas investment finance, term finance for export production and export development, pre-shipment credit, lines of credit, re-lending facility, export bills re-discounting, refinance to commercial banks, finance for computer software exports, finance for export marketing and bulk import finance to commercial banks. The EXIM Bank also extends non-funded facility to Indian exports in the form of guarantees. The diversified lending programme of the EXIM Bank now covers various stages of exports, i.e. from the development export markets to expansion of production capacity for exports, production for export and post shipment financing. The EXIM Bank's focus is on export of manufactured goods, project exports, exports of technology, services and export of computer software.

Forfaiting Finance from EXIM Bank: A new financing option for the Indian exporters is available under the forfaiting finance Scheme recently introduced by the EXIM Bank. Forfaiting is a form of trade finance involving discounting of medium-term export receivables with or without recourse to the exporter. The arrangement envisages discounting by Indian exporters of bill of exchange/promissory notes relating to export transactions which are "avalised" or guaranteed by the buyer's bankers with overseas forfaiting agencies on "without recourse" basis. Briefly, the procedure involved in the scheme of forfaiting finance by the Exim Bank is as follows:

Exporter initiates negotiations with the prospective overseas buyer with regard to the basic contract price, period of credit, rate of interest, etc., After successful negotiations, he furnishes the relevant particulars such as name and country of overseas buyer, contract value, nature of goods, tenure of credit, name and



country of guaranteeing bankers to the Exim Bank and requests for an indicative discounting quote. Exim Bank obtains the indicative quote of forfaiting discount together with commitment fee and other charges, if any, to be paid by the exporter, from an overseas forfaiting agency.

On receipt of the indicative quote from the Exim Bank, the exporter finalises the terms of the contract, loading the discount and other charges in the value and approaches Exim Bank for obtaining a firm quote. Exim Bank arranges to get the same from an appropriate overseas forfaiting agency and furnishes the same to the exporter. At this stage, exporter would be required to confirm acceptance of the arrangement to Exim Bank within a specific period as stipulated by that Bank.

The export contract clearly indicates that the overseas buyer shall prepare a series of avalised Promissory Notes in favour of the exporter and hand them over against the shipping documents to his banker. The Promissory Notes will be endorsed with the words without recourse by the exporter and handed over to his banker in India for onward transmission to the Exim Bank.

Alternatively, the export contract may provide for exporter to draw a series of Bills of exchange on the overseas buyer which will be sent with the shipping documents through latter's banker for acceptance by the overseas buyer. Overseas buyer's banker will hand over the documents against acceptance of Bills of Exchange by the buyer and signature of 'aval' or the guaranteeing bank. Avalised and accepted bills of exchange will be returned to the exporter through his banker. Exporter will endorse avalised Bills of Exchange with the words 'without recourse' and return them to his banker for onward transmission to the Exim Bank.

Exim Bank will forward the Bills of Exchange/Promissory Notes after verification to the forfaiting agency for discounting by the latter.

Exim Bank will arrange to collect the discounted proceeds of Promissory Notes/Bills of Exchange from the overseas forfaiting agency and effect payment to the nostro account of the exporter's bank as per the latter's instruction.

Understand Foreign Exchange Rates & Protect Against their Adverse Movement

- I. **Exchange Rates:** Export contracts are concluded either in Indian rupee or in foreign currency. Where the contracts are in Indian rupee, the related documents are also prepared in Indian rupees and no conversion is involved. However, where the bill is drawn in foreign currency, like US \$, , DM etc., you will get Indian rupees only after the conversion of foreign currency at the appropriate exchange rate. Thus the exchange rates become very important to determine the Indian rupees payable. A favorable exchange rate will fetch you more rupees and vice-versa. It, therefore, becomes essential for you to gain some basic knowledge about exchange rate, the working out of its quotation by the banks, the factors determining the exchange rates in the market and the precautions you should take so as to avoid possible losses in future, due to adverse movement of the exchange rates. In the following paragraphs we shall endeavor to explain these issues. The rates applied by the banks for converting foreign currency into Indian rupees and vice versa are known as exchange rates. In other words, exchange rate is the rate at which one currency can be exchanged for another. There are two systems of quoting exchange rates :



- a. **Direct Quotation:** Where the price of foreign currency is quoted in terms of home or local currency. In this system variable units of home currency equivalent to a fixed unit of foreign currency is quoted. For example : US \$ 1 = Rs. 40.00
- b. **Indirect Quotation:** Where exchange rates are quoted in terms of variable units of foreign currency as equivalent to a fixed number of units of home currency. For example : US \$ 2,500 = Rs. 40.00 Till 1.8.1993 banks were required to quote all the rates on indirect basis as foreign currency equivalent to Rs. 100 except in case of sale/purchase of foreign currency notes and traveller cheques where exchange rates on direct quotation basis were quoted.

From 2.8.1993 banks are quoting rates on direct basis only. There is distinction between inter-bank exchange rates and merchant rates. Merchant rates are the exchange rates applied by the bankers for transactions with their customers for various purposes, such as import, export, travel, remittances etc. These rates are calculated by the banks as per the guidelines issued by the Foreign Exchange Dealers Association of India (FEDAI). On the other hand inter-bank rates are the rates for transactions amongst the authorised dealers in foreign exchange. These rates depend on the market conditions. It is not in out of place to mention here that exchange rates are volatile and, therefore, you should make sincere efforts to choose appropriate time for tendering your export documents to the bank for purchase/negotiation. Therefore, plan your affairs in such a way that the documents are delivered to the bank when exchange rates are favorable enabling you to get more Indian rupees after conversion of foreign currency amount of the bill into Indian rupees. A distinction is also made between spot rates and forward rates. Spot rates are applicable on the day of transaction, i.e., the same day, whereas forward rates are the rates fixed in advance for a transaction which will mature at a specified date or during a specified period in future. Quotations for spot rates only are generally available and the customers have to enter into specific contracts for forward rates. Foreign exchange rates are always quoted as two way price i.e., a rate at which the bank is willing to buy foreign currency (buying rate) and a rate at which the bank sells foreign currency (selling rate). Banks do expect some profit in exchange operations and there is always some difference in buying and selling rates. However, the maximum spread available to banks is restricted in terms of ceiling imposed by Reserve Bank of India. All exchange rates by authorised dealers are quoted in terms of their capacity as buyer or seller. Different sets of exchange rates are applied for various types of foreign exchange transactions as under:

TT Selling Rate: This rate is applied for all clean remittances outside India i.e., for selling foreign currency to its customer by the bank such as for issuance of bank drafts, mail/telegraphic transfers etc. **Bill Selling Rate:** This rate is applied for all foreign remittances outside India as proceeds of import bills payable in India. This rate is a little worse than TT selling rate.

TT Buying Rate: This rate is applied for purchase of foreign currency by banks where cover is already obtained by banks in India. Thus all foreign inward remittances which are made payable in India are converted by applying this rate. A mail transfer issued by a bank in Dubai for US \$ 10,000 drawn on (say) Oriental Bank of Commerce in New York.

Bills Rate: This rate is applied for purchase of sight export bills which will result in foreign remittance to India after realisation. This rate is worse than TT buying rate and, in addition, interest will also be recovered by the bank for the period for which the bank is out of funds.



Forward Contracts

Elimination of exchange risk due to movement in the exchange rate can be avoided by the following options:

- By invoicing in Indian Rupees.
- By fixing the Foreign Exchange Contract.

First alternative is possible only when the buyer agrees to it. He may have his own reasons for not agreeing to invoice in Indian rupees. The second alternative is commonly resorted to. This alternative involves booking of forward exchange contract with your bank.

This means that pending submission of documents to the bank for purchase/negotiation, you have made firm commitment with the bank under which you agree to sell to the bank foreign exchange at a future date/period and the bank agrees to purchase at the firm rate the foreign exchange to be tendered by you on that date / during the agreed period.

Thus you are in a position to know in advance the exchange rate you are going to get on submission of your export documents. Thus, though you have to pay some charge for booking a forward contract, you are certain about the rupee amount of the bill on conversion of foreign currency at a future date. For booking a forward contract, you should approach your bank with whom you are enjoying a credit limit.

The bank will book a forward contract only against a firm export order showing description and quantity of the goods to be supplied, aggregate price and approximate date of shipment. The bank can accept telex, cable order/fax in this regard, provided you give an undertaking to produce the original one. Where shipment has already been completed, forward contract will be booked on the basis of export bill tendered by you. It can also be booked against an irrevocable Letter of Credit provided L/C is complete in all respects and you give a declaration to the bank that you have not booked any forward contract against the underlying sale contract covering shipments under the L/C. You must ensure delivery of the related documents within the agreed period of the contract. In case you fail to deliver the documents within the specified period, the forward contract needs to be cancelled and fresh contract booked for which your bank will levy cancellation charges as per the FEDAI Rules.

In case the documents are delivered before the stipulated period, it will involve early delivery and bank will levy charges for the early delivery, as per FEDAI Rules. Where the documents are not delivered at all, contract has to be cancelled either at your request or by the bank itself under certain circumstances, and this will entail cancellation charges as per the FEDAI Rules.

It, therefore becomes extremely important that the period of delivery of the export documents is carefully chosen and strictly adhered to, so as to avoid unnecessary charges on account of early delivery or cancellation of forward contracts. However, facility for substitution of export order is permitted by RBI on specific request if the unfulfilled export order and the substituted order is for the same commodity.

Procuring/Manufacturing Goods for Export & their Inspection by Government Authorities

I. Procuring / Manufacturing Goods

Once you are ready with the infrastructure for exporting goods and have obtained necessary finance, you should proceed to procure the goods for export. Procuring the goods should be done with extreme care and caution as to the quality and cost. However, procuring the raw materials etc. and manufacturing the goods for export will need extra efforts on your part. If you are an



established exporter, you can have the facility of procuring raw materials under the Duty Exemption Scheme.

II. Compulsory Quality Control & Pre-shipment Inspection

An important aspect about the goods to be exported is compulsory quality control and pre-shipment inspection. Under the Export(Quality Control and Inspection) Act, 1963, about 1000 commodities under the major groups of Food and Agriculture, Fishery, Minerals, Organic and Inorganic Chemicals, Rubber Products, Refractoriness, Ceramic Products, Pesticides, Light Engineering, Steel Products, Jute Products, Coir and Coir Products, Footwear and Footwear Products / Components are subject to compulsory pre-shipment inspection.

At times, foreign buyers lay down their own standards / specifications which may or may not be in consonance with the Indian standards. They may also insist upon inspection by their own nominated agencies. These issues should be sorted out before confirmation of order. Specific provisions have also been made for compulsory inspection of textile goods.

Products having ISI Certification mark or Agmark are not required to be inspected by any agency. These products do not fall within the purview of the export inspection agencies network. The Customs Authorities allow export of such goods even if not accompanied by any pre-shipment inspection certificate, provided they are otherwise satisfied that the goods carry ISI Certification or the Agmark.

Depending upon the nature of products, goods meant for export are inspected for quality in the following manner: Consignment to Consignment Inspection. Each individual consignment is inspected by the Export Inspection Agency, Commodity Board and certificate of inspection is issued. The application for inspection for goods has to be submitted well in advance before the expected date of shipment of the consignment. Inspection of the consignment is generally carried out either at the premises of the exporter, provided adequate facilities exist therein for inspection, or at the port of shipment. The export inspection agency has a right to exercise supervision of inspected consignment(s) at any place or time.

The application should be made in duplicate in the new prescribed form 'Intimation for Inspection' as per standardised pre-shipment export documents to the nearest office of the respective Export Inspection Agency along with the following documents :

Particulars of the consignment intended to be exported. A crossed cheque/draft for the amount of requisite inspection fees or an Indian Postal Order.

- Copy of the Commercial Invoice.
- Copy of letter of credit.
- Details of packing specifications.
- Copy of the export order/contract, indicating inter alia the buyer's requirement that goods are strictly according to the prescribed specifications, or as per samples etc.

After satisfying itself that the consignment of exportable goods meets the requirements stipulated in the export contract/order, the inspection agency issues, generally within four days of receipt of intimation for inspection, the necessary certificate of inspection to the exporter in the prescribed proforma in five copies.



The certificate is issued in the standardised form which is aligned pre-shipment export document. (Three copies for exporter, original copy for customs use, the second copy for the use of the foreign buyer and the third copy for the exporter's use, fourth copy for Data Bank, Export Inspection Council, New Delhi and the fifth copy is retained with the agency for their own office record).

In-Process Quality Control (IPQC)

Certain products like chemicals or engineering goods are subject to this control. The inspection is done at various stages of production. The exporter has to get his unit registered as "Export Worthy" and keep record of processing and production. Inspection by the officers of Export Inspection Agency is done from time to time. The certification of inspection on the end-products is then given without in-depth study at the shipment stage. Under this system, export is allowed on the basis of adequacy of in-process quality control and inspection measures exercised by the manufacturing units themselves. The certificates of inspection in favor of the units approved under the scheme are issued by the Export Inspection Agencies (EIAs) in the normal course. However, these units are kept under surveillance by the EIAs and random spot checks of the consignments are carried out by them. Units approved under this system of in-process quality control may themselves issue the certificate of inspection, but only for the products for which they have been granted IPQC facilities. However, these units have the option either to get the certificate from the Export Inspection Agencies (EIAs) or issue the same themselves. Consequently, the manufacturer exporters of products approved under the IPQC have been recognised as an agency for pre-shipment inspection for export of engineering products for which they have been approved by the Export Inspection Agencies at Bombay, Calcutta, Cochin, Delhi and Madras.

Self Certification Scheme

Large manufacturers/exporters, export houses/trading houses are allowed the facility of Self-Certification on the theory that the exporter himself is the best judge of the quality of his products and will not allow his reputation to be spoiled in the international market by compromising on quality. The industrial units having proven reputation and adequate testing facilities have to apply to the Director (Inspection and Quality Control), Export Inspection Council of India, 11th Floor, Pragati Tower, 26 Rajendra Place, New Delhi-110008. They are granted a certificate valid for a period of one year, allowing them self-certification facility. The facility is available to manufacturers of engineering products, chemical and allied products and marine products. During this period the exporter can issue a certificate signed by himself or by a person authorised by him. The certificate has to indicate the number and date of EIA's reference for registration under Self-Certification Scheme. It has to be issued in the aligned format as per new standardised pre-shipment documents. The approval of an industrial unit under this scheme is notified in the Gazette of India and the exporter has to pay a lump sum fee to the export inspection agencies depending upon his export turnover.

Minimum Quality Norms prescribed by the Export Inspection Council should be maintained and achieved for the grant of facility under Self-Certification Scheme.

III. ISO 9000



The discussion on quality control and pre-shipment inspection will be incomplete without saying a few words about ISO 9000. The ISO-9000 Series of Standards evolved by the International Standards Organisation has been accepted worldwide as the norm assuring high quality of goods. The ISO-9000 is also the hallmark of a good quality-oriented system for suppliers and manufacturers. It identifies the basic principles underlying quality, and specifies the procedures and criteria to be followed to ensure that what leaves the manufacturer / supplier's premises fully meets the customer's requirements. The ISO-9000 series of standards are basically quality assurance standards and not product standards. ISO-9000 spells out how a company can establish, document and maintain an effective and economic quality control system which will demonstrate to the customer that the company is committed to quality. The series of Standards aims the following:

- Increased customer confidence in the company
- Shift from a system of inspection, to one of quality management
- Removing the need for multiple assessments of suppliers
- Gaining management commitment
- Linking quality to cost-effectiveness
- Giving customers what they need

The implementation of ISO-9000 Standards involves:

- Management education
- Writing quality policy
- Nominating a quality representative
- Identifying responsibilities
- Identifying business processes
- Writing a quality manual
- Writing procedures
- Writing work instructions

It is thus clear that the ISO-9000 series of standards constitute of concept of Total Quality Management (TQM).

Labeling, Packaging, Packing and Marking Goods

An important stage after manufacturing of goods or their procurement is their preparation for shipment. This involves labeling, packaging, packing and marking of export consignments. Labeling requirements differ from country to country and the same should be ascertained well in advance from the buyer. The label should indicate quality, quantity, method of use etc. Special international care labels have been specified for the textile items by GINITEX, and the same should be scrupulously adhered to. Packaging fulfills a vital role in helping to get your export products to the market in top condition, as well as in presenting your goods to the overseas buyer in an attractive way. While packaging, quality should not be compromised merely to cut down costs, packaging should also be in conformity with the instructions issued by the importer. Packing refers to the external containers used for transportation. The shape of packing cases play a very important role in packing the cargo, and the nature of packing material to be used will depend upon the items exported. As regard specification for the size, weight and strength care must be taken to ensure that the weight of standard case does not exceed 50 Kg. for easy handling of the cargo. Before packing and sealing the goods, it should be ensured that all the contents are properly placed in the case and the list of contents of packing notes should be



prepared so that the buyer, the Customs authorities and the Insurance authorities can easily check the contents of each and every case.

The consolidated statement of contents for a number of case is called the Packing List, which should be prepared in the prescribed standardised format.

Marking means to mark the address, number of packages etc. on the packets. It is essential for identification purpose and should provide information on exporters' mark, port of destination, place of destination, order number and date, gross, net and tare weight and handling instructions. It should also be ensured that while putting marks, the law of buyer's country is duly complied with.

All shipping cases should be marked a number with special symbols selected by the exporters or the importers, so that the competitors cannot find out the details of the customers and the country of destination or supplier's country of despatch. Care should also be taken to ensure that the marking conforms to those written in the invoice, insurance certificate, bill of lading and other documents. The International Cargo Handling Co-ordination, Association has set out for the use of exporters a number of recommendations for the marking of goods carried by ocean-going vessels. They are equally useful for sending goods by other modes of transportation.

Suggestions:

The marks should appear in certain order. Essential data should be placed in oblong frames with lines 1.5 centimeters thick, and subsidiary information should be placed in another type of frame.

Declaration on large packages should be placed on two continuous sides, and for consignments bound together on a pallet, also on the top.

Handling instructions should be placed on all four sides. Similar packages, such as goods in sacks, should be marked on two opposite sides.

Lettering should be at least 7.5 centimeters high for essential data, and at least 3.5 centimeters for subsidiary data. If the package is too small for such letter, other sizes may be used, but in the same ratio. The sizes of the symbols should also be in proportion to the size of the package and of the other markings.

Only fast dyes should be used for lettering. Essential data should be in black and subsidiary data in a less conspicuous colour; red and orange lettering should be reversed for dangerous goods only. For food packed in sacks, only harmless dyes should be employed, and the dye should not come through the packing in such a way as to affect the goods.

Stick-on labels should only be used on individual package or parcel and all old labels should be removed. Marking should be made by stencil or by branding or by pencil or brush without a stencil. If stencils are used, care should be taken that the letters and figures are perfectly legible to prevent confusion. This is especially true of the letters and figures --- B.R.P, O, G-G-D-C, H.N; 3-8 : 6-9 and 1-7.

The surface to be marked should be smooth and clean. If packages are to be bonded, they can be marked before this is done; the hoops should not however, cover the markings.

The figure should indicate the total number of packages making up the consignment and the consecutive number of the individual package. For example :1520/15/1 identifies the first package of a total number of 15 packets and 1520/15/15 the last one.



The name of the ship and the bill of lading number should be shown when this is possible. Handling instructions must appear in the language of the exporter and importer, and also, if possible, in the language of the countries where goods are to be handled en route or trans shipped.

New Excise Procedure

All excisable goods exported out of India are exempt from payment of Central Excise Duties, for which two different procedures have been approved

Rebate of Duty on Goods Export Procedure

Under the first procedure, known as 'Rebate of duty on Goods Export. The manufacturer has first to pay the excise duty on goods meant for export and then claim refund of the same after exportation of such goods to countries except Nepal and Bhutan. This is done under Rule 12 of Central Excise Rules. Under this rule, rebate of duty is granted for the finished stage as well as input stage. Rebate of duty in respect of the excisable materials used in the manufacture of the exported goods shall not be allowed if the exporter avails of the drawback allowed under the Customs and Central Excise Duties Drawback Rules, 1995 or Modvat. The following procedure should be followed while exporting under the rebate of duty. Removal of goods under claim of rebate from a factory or warehouse without examination by the Central Excise Officers. The exporters are allowed to remove the goods for export on their own without getting the goods examined by the Central Excise Officers. Form AR4 in such cases should be prepared in sixuplicate, giving all particulars and declarations. The exporter shall deliver triplicate, and quadruplicate, quintuplicate and sixuplicate copies of AR4 to the Superintendent of Central Excise having jurisdiction over the factory or the warehouse, within 24 hours of the removal of the consignment and would retain the original and duplicate copies for presenting along with the consignment to the Customs Officer at the point of export. The jurisdictional superintendent of Central Excise examines the information contained in AR4 and verifies the facts of payment of duty and other certificates/declarations made by the exporter. After he is satisfied that the information contained in the AR4 is true, he signs at appropriate places in the four copies of AR4 submitted to him and plus his stamp with his name and designation below his signature. He would then dispose of the triplicate, quadruplicate, quintuplicate and sixuplicate copies of AR4 as under:-

- i. **Triplicate:** To there bate sanctioning authority viz. Maritime Commissioner of Central Excise or the assistant commissioner of Central Excise declared by the exporter on the AR4. This copy on the request of exporter may be sealed and handed over to the exporter / his authorized agent for presenting to the rebate sanctioning authority.
- ii. **Quadruplicate:** To the Chief Accounts Officer in the Commissionerate Headquarters.
- iii. **Quintuplicate:** Office copy to be retained by the Central Excise Officer.
- iv. **Sixuplicate:** To be given to the exporter.

Procedure for exports under Central Excise Seal Where the exporter desires the sealing of the goods by the Central Excise Officers so that the export goods may not be examined by the Customs Officers at the Port/Airport of shipment, he should present an AR4 application in sixuplicate to the Superintendent of Central Excise having jurisdiction over the factory/warehouse at least 24 hours before the intended removal of the export goods from the factory/warehouse. The Superintendent of Central Excise may depute an Inspector of Central Excise or may himself go for sealing and examination of the export consignment. Where the AR4 indicates that the export is in discharge of an export obligation under a Quantity-based advance License or a Value-based Advance License issued under the Duty Exemption Scheme, in such cases the consignment is invariably examined and sealed by the Superintendent of Central Excise himself. The Central Excise Officer examining the consignment would draw samples wherever necessary in triplicate. He would hand over two sets of samples, duly sealed, to the exporter or



his authorized agent, for delivering to the Customs Officers at the point of export. He would retain the third set for his records. The export consignment is carefully examined vis-vis the description of goods, their value and other particulars/declarations on the AR4. The Central Excise Officer verifies the facts of payment of duty and other certificates/declarations made by the exporter. After he is satisfied that the information contained in the AR4 is true he would allow the clearances and also sign all the six copies of the AR4 at appropriate places and put his stamp with his name and designation below his signature. The copies of AR4 are disposed of as under:

Original and Duplicate: To the exporter for presenting to Customs Officer at the point of export along with the export consignment.

Triplicate: To the rebate sanctioning authority i.e. Maritime Commissioner of Central Excise or the jurisdictional Assistant Commissioner of Central Excise, as declared by the exporter on the AR4. The Central Excise officer may handover this copy under the sealed cover on exporter's request.

Quadruplicate: To the Chief Accounts Officer at his Commissionerate Headquarters.

Quintuplicate: To be retained for records.

Export under Bond Procedure

Under the second procedure known as "Exports Under Bond" goods can be exported out of India except to Nepal or Bhutan without prior payment of duty subject to the execution of the Bond with security / security for a sum equivalent to the duty chargeable on the goods to be exported. This is done under Rule 13 of Central Excise Rules which deals with export of goods in Bond as well as utilisation of raw materials etc. without payment of duty for manufacture and export of excisable goods. The following procedure has been prescribed in this regard.



UNIT

11

Venture Capital Financing

Contents

Chapter III

1. What is Venture Capital
2. Activities involved in Venture Capital Financing
3. Sources of Venture Capital
4. Indian Experience
5. Venture Capital Companies and Institutions
6. Conclusion
7. Answers to Questions about Venture Capital

The aim of this chapter is to:

- acquaint you with a comparatively new source of finance for your enterprise

Objectives:

On completion of this chapter, you will be able to:

- know what venture capital means
- know what the role of a venture capitalist is
- know sources of venture capital funds
- acquire an understanding of Government Institutions & Private Venture Capitalists
- know the change in dimensions of venture funds
- know the relationship between venture capital companies and investee-the entrepreneur
- get answers to your questions on venture capital



Venture Capital is one of the most important business developments of the post war (World War II) era. Its importance in the economic development of a country has now been widely recognised. You, as an entrepreneur, can think of venture capital funding as one of the sources of finance required for your business, provided you fulfill the norms.

Venture capital financing

Venture capital financing is a type of financing by venture capital: the type of private equity capital typically provided to early-stage, high-potential, growth enterprises in the interest of generating a return through an eventual realization event such as an IPO or trade sale of the company.

To start a new enterprise or to bring a new product to the market, the venture may need to attract financial funding. There are several categories of financing possibilities. If it is a small venture, then perhaps the venture can rely on family funding, loans from friends and personal bank loans.

For more ambitious projects, some enterprises need more than what is mentioned above, some ventures have access to rare funding resources that is called Angel investors. These are private investors who are using their own capital to finance a ventures' need. However, these funding methods are rare. Apart from these investors, there are also venture capitalist firms (VC-firms) who are specialised in financing new ventures against a lucrative return.

When a venture approaches the last one, the venture is going to do more than negotiating about the financial terms. Apart from the financial resources these firms are offering; the VC-firm also provides the necessary expertise the venture is lacking, such as legal or marketing knowledge. This is also known as **Smart Money**.

Venture Capital Financing Process

There are several ways to attract funding. In general, the venture capital financing process can be distinguished into five stages;

1. The Seed stage
2. The Start-up stage
3. The Second stage
4. The Third stage
5. The Bridge/Pre-public stage

The Seed Stage

This is where the financing takes place. It is considered as the setup stage where a person or a venture approaches a VC-firm for funding for their idea/product. During this stage, the person or venture has to convince the firm why the idea/product is worth to invest in. The VC-firm will investigate into the technical and the economical feasibility (Feasibility Study) of the idea. In some cases, there is some sort of prototype of the idea/product that is not fully developed or tested.



If the idea is not feasible at this stage, and the VC-firm does not see any potential in the idea/product, the VC-firm will not consider financing the idea. However if the idea/product is not directly feasible, but part of the idea is worth for more investigation, the VC-firm may invest some time and money in it for further investigation.

Example

A Dutch venture named High 5 Business Solution V.O.F. wants to develop a portal which allows companies to order lunch. To open this portal, the venture needs some financial resources, they also need marketer's and market researchers to investigate whether there is a market for their idea. To attract these financial and non-financial resources, the executives of the venture decide to approach ABN AMRO Bank to see if the bank is interested in their idea.

After a few meetings, the executives are successful in convincing the bank to take a look in the feasibility of the idea. ABN AMRO decides to put a few experts for investigation. After two weeks time, the bank decides to invest. They come to an agreement of investigate a small amount of money into the venture. The bank also decides to provide a small team of marketer's and market researchers and a supervisor. This is done to help the venture with the realisation of their idea and to monitor the activities in the venture.

Risk

At this stage, the risk of losing the investment is tremendously high, because there are so many uncertain factors.

The Start-up Stage

If the idea/product is qualified for further investigation and/or investment, the process will go to the second stage; this is also called the start-up stage. At this point many exciting things happen. A business plan is presented by the attendant of the venture to the VC-firm. A management team is being formed to run the venture. If the company has a board of directors, a person from the VC-firms will take seats at the board of directors.

While the organisation is being set up, the idea/product gets its form. The prototype is being developed and fully tested. In some cases, clients are being attracted for initial sales. The management-team establishes a feasible production line to produce the product. The VC-firm monitors the feasibility of the product and the capability of the management-team.

To prove that the assumptions of the investors are correct about the investment, the VC-firm wants to see result of market research to see whether the market size is big enough, if there are enough consumers to buy their product. They also want to create a realistic forecast of the investment needed to push the venture into the next stage. If at this stage, the VC-firm is not satisfied about the progress or result from market research, the VC-firm may stop their funding and the venture will have to search for another investor(s). When the cause relies on handling of the management in charge, they will recommend replacing (parts of) the management team.



Example

Now the venture has attracted an investor, the venture need to satisfy the investor for further investment. To do that, the venture needs to provide the investor a clear business plan how to realize their idea and how the venture is planning to earn back the investment that is put into the venture, of course with a lucrative return.

Together with the market researchers, provided by the investor, the venture has to determine how big the market is in their region. They have to find out who are the potential clients and if the market is big enough to realize the idea.

From market research, the venture comes to know that there are enough potential clients for their portal site. But there are no providers of lunches yet. To convince these providers, the venture decided to do interviews with providers and try to convince them to join.

With this knowledge, the venture can finish their business plan and determine a pretty good forecast of the revenue, the cost of developing and maintaining the site and the profit the venture will earn in the following five years.

After reading the business plan and consulting the person who monitors the venture activities. The investor decides that the idea is worth for further development.

Risk

At this stage, the risk of losing the investment is shrinking, because the uncertainty is becoming clearer. This can be explained by the fact because the prototype was not fully developed and tested at the seed stage.

The Second Stage

At this stage, we presume that the idea has been transformed into a product and is being produced and sold. This is the first encounter with the rest of the market, the competitors. The venture is trying to squeeze between the rest and it tries to get some market share from the competitors. This is one of the main goals at this stage. Another important point is the cost. The venture is trying to minimize their losses in order to reach the break-even.

The management-team has to handle very decisively. The VC-firm monitors the management capability of the team. This consists of how the management-team manages the development process of the product and how they react to competition.

If at this stage the management-team is proven their capability of standing hold against the competition, the VC-firm will probably give a go for the next stage. However, if the management team lacks in managing the company or does not succeed in competing with the competitors, the VC-firm may suggest for restructuring of the management team and extend the stage by redoing the stage again. In case the venture is doing tremendously bad whether it is caused by the management team or from competition, the venture will cut the funding.



Example

The portal site needs to be developed. (If possible, the development should be taken place in house. If not, the venture needs to find a reliable designer to develop the site.) Developing the site in house is not possible; the venture does not have this knowledge in house. The venture decides to consult this with the investor. After a few meetings, the investor decides to provide the venture a small team of web-designers. The investor also has given the venture a deadline when the portal should be operational. The deadline is in 3 months.

In the meantime, the venture needs to produce a client-portfolio, who will provide their menu at the launch of the portal site. The venture also needs to come to an agreement how these providers are being promoted at the portal site and against what price.

After 3 months, the investor requests the status of development. Unfortunately for the venture, the development did not go as planned. The venture did not make the deadline. According to the one who is monitoring the activities, this is caused by the lack of decisiveness by the venture and the lack of skills of the designers.

The investor decides to cut back their financial investment after a long meeting. The venture is given another 3 months to come up with an operational portal site. Three designers are being replaced by a new designer and a consultant is attracted to support the executives' decisions. If the venture does not make this deadline in time, they have to find another investor.

Luckily for the venture, with the come of the new designer and the consultant, the venture succeeds in making the deadline. They even have 2 weeks left before the second deadline ends.

Risk

At this stage, the risk of losing the investment still drops, because the venture is capable to estimate the risk. This can be explained by the fact that there is not much developing going on at this stage. The venture is concentrated in promoting and selling the product. That is why the risk decreases.

The Third Stage

This stage is seen as the expansion/maturity phase of the previous stage. The venture tries to expand the market share they gained in the previous stage. This can be done by selling more amount of the product and having a good marketing campaign. Also, the venture will have to see whether it is possible to cut down their production cost or restructure the internal process. Except that the venture is expanding, the venture also starts investigate in follow-up products and services. In some cases, the venture also investigates how to expand the life-cycle of the existing product/service.

At this stage the VC-firm monitors the objectives already mentioned in the second stage and also the new objective mentioned at this stage. The VC-firm will evaluate if the management-team has made the expected reduction cost. They also want to know how the venture competes against



the competitors. The new developed follow-up product will be evaluated to see if there is any potential.

Example

Finally the portal site is operational. The portal is getting more orders from the working class every day. To keep this going, the venture needs to promote their portal site. The venture decides to advertise by distributing flyers at each office in their region to attract new clients.

In the meanwhile, a small team is being assembled for sales, which will be responsible for getting new lunchrooms/bakeries, any eating-places in other cities/region to join the portal site. This way the venture also works on expanding their market.

Because of the delay at the previous stage, the venture did not fulfill the expected target. From a new forecast, requested by the investor, the venture expects to fulfill the target in the next quarter or the next half year. This is caused by external issues the venture does not have control of it. The venture has already suggested to stabilize the existing market the venture already owns and to decrease the promotion by 20% of what the venture is spending at the moment. This is approved by the investor.

Risk

At this stage, the risk of losing the investment for the VC-firm drops. However, at this stage it often happens that new follow-up products are being developed. The risk of losing the investment is still decreasing. This may be because the venture rely its income on the existing product.

The Bridge/Pre-public Stage

In general this stage is the last stage of the venture capital financing process. The main goal of this stage is to achieve an exit vehicle for the investors and for the venture to go public. At this stage the venture achieves a certain amount of the market share. This gives the venture some opportunities like for example:

- Hostile take over
- Merger with other companies;
- Keeping away new competitors from approaching the market;
- Eliminate competitors.

Internally, the venture has to reposition the product and see where the product is positioned and if it is possible to attract new Market segmentation. This is also the phase to introduce the follow-up product/services to attract new clients and markets.

As we already mentioned, this is the final stage of the process. But most of the time, there will be an additional continuation stage involved between the third stage and the bridge/pre-public stage. However, there are limited circumstances known where investors made a very successful initial



market impact might be able to move from the third stage directly to the exit stage. Most of the time the venture fails to achieves some of the important benchmarks the VC-firms aimed.

Example

Now the site is running smoothly, the venture is thinking about taking over the competitors' website happen.nl. The site is promoting restaurants and is also doing business in online ordering food. This proposal is being protested by the investor, because it may cost a lot of the ventures' capital. The investor suggests a merge instead.

To settle down their differences, the venture requested an external party to investigate into the case. The result of the investigation was a take-over. After reading the investigation, the investor agrees to it and happen.nl is being taken over by the venture. With the take-over of a competitor, the venture has expanded its' services.

Seeing the ventures' result, the investor comes to the conclusion that the venture still have not reach the target that was expected, but seeing how the business is progressing, the investor decides to extend its' investment for another year.

Risk

At this final stage, the risk of losing the investment still exists. However, compared with the seed-stage it is far lower.

Sources of Venture Capital

In the past few years, the number of venture capital firms has grown significantly. Today, there are various available sources that may be general or specialists.

The sources are:

Independent Private Funds

These are the traditional sources, still important but not dominant. These may be merchant bankers who have sufficient funds to risk.

The private venture capital funds make investments mainly by thoroughly screening the business plan. In fact, the expertise of the management team leads to specialisation in a particular stage of venture investing.

Clearing Bank Captive Funds

These funds are generally established by commercial banks to invest in businesses which do not meet their loan criteria. They are managed by the Bank's venture investment management teams.



Captive Institutional Funds

In the late 1960s and early 1970s, a large number of institutions like insurance companies began investing in venture capital business.

Private Foundation Fund

These are family owned funds, comprising a small management team of fulltime venture capitalists.

Indian Experience

The Indian experience in venture capital started very early. When many of the agency houses, like Tata & Sons, and Industrial Credit and Investment Corporation of India (ICICI) acted as venture capitalists and provided both finance and management skills to risky projects.

During the post-independence period, venture capital financing was started by term-lending institutions like Industrial Finance Corporation of India (IFCI), which promoted a scheme called 'Risk Capital', and Industrial Development Bank of India (IDBI), which launched 'Seed Capital' Scheme as well as state level institutions like SFCs & SIDCs.

However, they supported only proven and sound technology and not hi-tech enterprises which had unproven technology.

Companies set up by all India Development Finance Institutions (AIDFI) for providing Venture Capital Funding

1. Risk Capital & Technology Finance Corporation Ltd. (RCTFC) in 1988
2. Scheme of Technology Finance & Development in 1989
3. Venture Capital Fund Scheme (VECAUS III) set up by UTI in association with IFCI
4. IDBI - Venture Capital Fund Scheme (VCF) in 1987-88
5. Technology Development and Information Company of India Ltd (TDICI)
6. Small Industries Development Bank of India (SIDBI)

Out of these six, TDICI & SIDBI Venture Capital Division, are more active in providing venture capital funding to new start-ups. We shall talk more about these two.

Technology Development and Information Company of India Ltd (TDICI)

TDICI is the country's first Venture Capital Company (VCC) set up as a joint stock company. It is a company incorporated in 1988 by ICICI and Unit Trust of India (UTI), the country's first and largest mutual fund. TDICI is based at Bangalore, its mission is "accelerating the technological development process in the country through provision of capital, financial and other support services."



TDICI's operations to achieve this mission include:

1. providing finance in the form of venture capital assistance to viable commercial, market-oriented ventures in small and medium sectors.
2. providing techno-managerial support services, technology information services and selective funding of R&D projects.

TDICI has thus been created to fill a gap in the country's financial system, viz. venture capital funding. This is why their activities include, apart from venture capital financing, technology information, consultancy as well as entrepreneur escort services like marketing, management, vendor development, etc. It does not, generally assist ventures which can obtain support from lending institutions.

The TDICI's revenue comes from management fees and it also gets a share in the profit of the firm. TDICI develops business, approves projects, sanctions financial assistance in stages, follows-up the projects to ensure a high success rate and also collects revenues from the projects through interest, charge on sale or sale of equity.

Technology Venture Finance Scheme of TDICI is designed to promote technological advancement in Indian industry through introduction of new technologies and innovative products. For this, it utilizes the technical expertise available in industry, academics and the research & development sector.

There are also companies promoted by State Financial Institutions in Andhra Pradesh and Gujarat.

Commercial banks like Canara Bank, State Bank of India (SBI) and India Investment Fund Ltd. (of ANZ Grindlays Bank) have also set up Venture Capital Funds.

Besides the above, companies in private sector have also taken up the task of funding entrepreneurs in risky ventures. viz Credit Capital Venture Fund (India) Ltd., Twentieth Century Venture Capital Corporation Ltd. etc.

The Small Industries Development Bank of India (SIDBI), set up its own venture Capital Fund (VCF) in 1992, and the Bank also participated in various other VCFs promoted by other public sector institutions and private companies.

Now SIDBI has shifted its focus to venture capital financing. The move follows the raising of the financing limit for the small scale industries (SSI) sector.

A Venture with an investment upto Rs. 1 crore in plant and machinery is eligible for the status of small scale industry. The earlier ceiling was Rs.60 lakh and then raised to three crore, and has again been brought down to Rs. 1 crore.

The nodal financial institution for the SSI sector is in the process of setting up a series of state level venture-capital funds (VCFs) in association with the state financial institutions (FIs) and



industry-specific funds with industry associations where they are willing to put in 50 per cent of the corpus.

In Andhra Pradesh, the fund will be initially of a size of Rs. 15 crore, with SIDBI putting in 50 per cent. The remaining will be contributed by the Andhra Pradesh Industrial Development Corporation, the Andhra Pradesh State Financial Corporation and an yet-to-be shortlisted institution.

In Karnataka, the initial Rs. 15 crore-fund will have participation from SIDBI, KSFC, KSIDC and National Association of Software & Service (NASSCOM). In Tamil Nadu, the initial Rs.30 crore fund will have an equal participation from TIDCO, IL & FS and SIDBI. To start with, SIDBI will launch industry - specific venture funds in software, auto-ancillaries and agro-processing. One auto-ancillary VCF from SIDBI is already being managed by IL & FS. SIDBI and the states associated with VCFs have taken a special interest in the software sector for the deployment of venture capital. Some states like Karnataka, where the software industry is flourishing, are trying to rope in leading firms like Infosys Technology and Satyam Computers to participate in the software sector-specific venture fund.

Venture Capitalists, in the developed world, have made megabucks on the Apples & Microsofts. But in India they have, by and large, a staid existence; they could not realise much from their investments. Lack of regulatory framework and the difficulty in raising domestic funds pose major hurdles to the industry. But, says the CEO of Gujarat Venture Fund, "now the growing awareness about the industry should change things for the better."

Over the years, venture funds have witnessed a change in dimension. Before the reforms, there were a dozen odd players, most of them from the financial institutions. To-day about two-third of the venture capitalists constitute international funds. Most of the money has come from Non Resident Indians (NRIs) and private and foreign banks etc. But Mr. Varshney, CEO of Gujarat Venture Fund sees tremendous opportunities if the government relaxes the norms for the industry.

Conclusion

In conclusion, we would like to make some observations, as far as Venture Capital Companies (VCCs) are concerned. The VCCs should be able to take quick decisions, identify and appraise projects quickly, provide good management assistance and systematically monitor the projects. They must also take steps to train their personnel for assisting entrepreneurs.

Moreover, in the venture capital business, investor-management relationship is critically important for success of venture capital assisted companies. The very nature of venture financing demands that the financier should be an integral part of the venture and has to have an active say in the management. Entrepreneurs should be assured that venture capitalist would retire only as and when the project is commercially established and becomes profitable.



Incubators

What are incubators?

Incubators are mostly non-profit entities that provide value added advisory, informational and certain support infrastructure which includes productive office environment, finance and complementary resources. Incubators are mostly promoted by government or professional organisations seeking to develop small enterprises in a particular area. Sometimes venture capital funds also have their own incubators and companies also set up in-house incubators. Incubators support the entrepreneur in the pre-venture capital stage, that is, when he/she wants to develop the idea to a viable commercial proposition which could be financed and supported by a venture capitalist.

One such incubator is the **Technology Business Incubator of Department of Science and Technology (DST), National Science and Technology Entrepreneurship Development Board (NSTEDB), Government of India.**

The need for instruments such as TBI has been recognised the world over for initiating technology led and knowledge driven enterprises. Studies also show that such mechanisms help not only in the growth of technology based new enterprises but also in improving their survival rate substantially (from 30 per cent to over 70 per cent). TBIs also facilitate speedy commercialisation of research outputs. The TBIs usually provide following types of services:-

- Market survey/ marketing assistance,
- Business planning and training,
- Organising management/ technical assistance,
- Assistance in obtaining statutory approvals,
- Information dissemination on product ideas/technologies,
- Syndicating finances,
- Arranging legal and IPR services,
- Using facilities of the Host Institute (HI) at nominal charges,
- Work space for a limited period
- Common facilities of TBI such as communication, conference, computers.

Thus, the TBIs besides providing a host of services to new enterprises (and also to existing SMEs in the region) also facilitate an atmosphere congenial for their survival and growth. The essential feature of a TBI is that the tenant companies leave the incubator space within 2-3 years.

Objectives

TBIs are promoted to achieve the following objectives:

- Creation of technology based new enterprises,
- Creating value added jobs & services,
- Facilitating transfer of technology,
- Fostering the entrepreneurial spirit,
- Speedy commercialisation of R&D output,



- Specialised services to existing SMEs.

Criteria for selection of location

Ideally a TBI should be located near a source of technology and knowledge i.e. around R&D Institutions/Academic Institutions or it should have strong links with such institutions to ensure optimal use of the already existing expertise and facilities thus keeping the cost of the TBI on lower side. Locating TBIs in such location could also reduce time lag between technology development and its commercialisation. Further, as the success of a TBI largely depends on its location and management besides quality of tenant enterprises, following aspects relating to the HI need to be kept in view while selecting location of the TBI:

- R&D track record and subsequent commercialisation of R&D output,
- Dedicated team of R&D persons,
- Industrial milieu in the region,
- Proximity to other R&D/academic institutions,
- Infrastructure, facilities and expertise available,
- Strong commitment and willingness of the HI.

Thrust Areas

Each TBI would focus on not more than 2-3 thrust areas. The thrust areas for a TBI would be identified based on the following:

- Expertise and facilities available in the HI,
- Track record of the HI in the chosen areas,
- Industrial climate in the region,
- Market potential/demand in the region.

To begin with, TBIs are proposed to be promoted in following selected thrust areas which have potential for faster growth:

- Information & Communication Technology (ICT)
- Application of bio-technology
- New materials including nano materials
- Instrumentation and maintenance
- Agriculture and allied fields
- Garments and fashion technology
- Services

Facilities required

The TBIs should mainly draw upon the existing facilities available in the HI including land and building. However, certain essential facilities, which need to be created in a TBI are given below:



- Modern work space,
- Communication facilities,
- Computing facilities,
- Vital equipment needed in identified area
- Library & information centre
- Training and conference facilities



UNIT

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Franchising

Contents

Chapter IV

1. What is Franchise
2. Major Factors influencing franchising
3. Location of franchise
4. Advantages and Disadvantages of franchising
5. Responsibilities of a franchisor and a franchisee
6. Franchise Tips

The aim of this chapter is to:

- acquaint you with 'franchise', its advantages and disadvantages and the roles of franchisor & franchisee

Objectives:

On completion of this chapter, you will be able to:

- what a franchise is
- factors influencing franchising
- importance of location for a franchise operation
- responsibilities of a franchisor and a franchisee
- advantages & disadvantages of a franchise operation
- franchise tips



One of the options for people like you, who want to be on their own in business, is franchising. You can get a franchise from a large store, food & food processing chain, service enterprise and be in business. Of course, you have to abide by the norms of franchising, and have some money and other resources of your own.

What is Franchise?

A franchise is a system of distribution that enables the supplier (called the franchisor) to arrange for a dealer (called the franchisee) to handle a specific product or service under certain mutually agreed upon conditions.

"Franchising is just one word to describe a wealth of varying business relationships some big, some small, some complex, some simple, some highly successful, some disastrous" say Alan & Deborah Fowler.

The franchising boom which started two or three decades back exploded in the 1990s. Franchises with their familiar trademarks, systematic business formats, and global marketing power help to make the world an even smaller space.

Whatever the type of franchise operation, two terms remain common -- that of franchisor and franchisee. The 'franchisor' is almost always a company which has developed and thoroughly tested its business methods and has decided to increase the size of the business by offering individuals, the 'franchisees' i.e. the right to trade under its business name. The individuals concerned pay a fee, not only for the right to trade under the name of the 'franchisor', but also in order to benefit from his expertise. The franchisee can be a sole proprietorship, partnership or a private company. Mostly franchisees are people who wish to run their own business, but recognise the benefits of doing so under an established name. They are therefore prepared to invest in the franchisor in order to acquire this advantage.

Franchising

What is franchising? It is just one word to describe a host of varying business relationships – some big, some small, some complex, some very simple, some highly successful, some not so.

Franchising in its original form is referred to by any one of three names: a first generation franchise, a manufacturer's franchise or a product franchise.

An example of this is a retailer, who stocks the goods of only one company – say 'Raymond'.

The newer type of franchise, is referred to as a second generation franchise or a business format franchise. In this kind of franchise, a well established company offers an individual the opportunity to trade under the corporate brand name and image. It also provides well-proven know-how, a marketing programme, training & development facilities, and bulk-buying and other assistance, where applicable. Above all, ongoing relationship between the company and individual should exist, a continual feeding of advice, support & guidance.

We can say that the relationship is all about setting up an individual in a successful business.



Franchisor/Franchisee

The franchisor is almost always a company which has developed its business methods and has decided to increase the size of the business by offering individual, the franchisee, the right to trade under its business name. The franchisor can be a sole trader, a partnership or a private company. Mostly franchisees are people who wish to run their business, but would like to have the benefits of doing so under an established trade name.

There are plenty of myths and stories about franchisees parting with their money & never seeing the franchisor again. Potentially they are the obvious targets of fraud. But the franchisor also needs protection.

The other myth is that people tend to think that becoming a franchisee is an easy way to run own business. This is also not true. A franchisee is totally responsible for running his/her franchise, it is upto him/her to ensure that the business succeeds.

Major Factors Influencing Franchising

According to experts, six major factors will influence the growth and expansion of franchising:

1. A leveling off of sales growth among franchise outlets in the traditional fields such as fast food, hotels, bakeries, greeting cards & gift shops, etc.
2. Continuing rapid growth and expansion of service-type businesses, e.g. child care, business aids and services etc.
3. Conversion of independent businesses to franchises - like shirt brands
4. Globalisation of franchising - franchise companies in the United States will continue to expand overseas, e.g. McDonald's, Pizza Hut, Kentucky Fried Chicken, in India.
5. An increasingly mature and diversified franchise company

There are two types of franchising arrangements:

1. Franchising of a product or service - In this type of franchising, the franchisee receives a product from the franchisor and sells it through a wholesale or retail outlet. If it is a service, he/she agrees to provide the service from own premises with a licence from the franchisor for using the trade name.

2) Franchising of an entire business enterprise - Here the franchisee operates under the trade name of the franchisor in a particular area mutually agreed upon, e.g. McDonald's in Delhi, Mumbai, Bangalore, etc.

In these types of cases, the business operation, appearance of the establishment, merchandise and even the operating procedures and service are standardised to a high degree.



Franchising is a business relationship based on legal structure. The franchise relationship begins when the franchisee is recruited. Contrary to popular belief, a franchisor cannot ‘Sell’ a franchise to a candidate, he/she can only grant a licence. If the franchisee wants to leave the business, he/she cannot sell the franchise licence; the franchise licence can be transferred if the franchisor approves of the transfer. The franchisee can however enter into a separate transaction to sell own assets.

It should be remembered that the market, the brand name, operating system and support system are owned by the franchisor. But looking at franchising from franchisee’s view point, it is one of several strategies available to build a career in business.

It is also important that for a franchisor, marketing, advertising and public relations play an important role in the development and growth of a franchising programme. These three allow a franchisor to position his/her franchising programme to reach the targeted franchisee. The marketing strategies selected must be focused and aggressive, the advertising material and placement must be target-oriented and exciting and the public relations programme, professional and efficient.

Besides, the more reputable franchisors like McDonald’s, Pizza Hut, Pantaloons etc in India are simply not prepared to grant a franchise to anyone just because that person happens to have the right amount of money.

The money/finance required by you as a franchisee depends on the size of the franchisor’s business & varies from company to company. Before looking in to work out exactly has much money you have available to put into the franchise.

Location – One aspect of buying a franchise involves securing a territory. Some companies are quite specific about the towns/cities in which they are prepared service a franchisee. Others merely indicate that they are looking for franchisees in a particular area or areas.

Catering/Fast Food – In India most of the franchises are available in fast food, e.g. Pizza Hut, McDonald’s etc. and Swati in Ahmedabad.

Shop-based Services – These are services which need shop premises from which to trade, e.g. Raymond’s, Garden Silk Mills etc.

There are three particular circumstances in which becoming a franchisee is definitely attractive:

1. If you have a recognised skill or trade, but little or commercial experience, then taking up a franchise could put you successfully and safely in your business on your own.
2. If you have the aptitude or inclination to run a particular type of business of which you have had no experience, then taking up a franchise could be the way to acquire that experience profitably.
3. If you have the desire to run your own business, have some capital available but don’t know what to do, or how to go about it, then franchise is the answer.



Advantages and Disadvantages of Franchising

There are advantages and disadvantages of franchising.

The advantages are:

A franchisee invests in a company's brand name which creates customers and uses the operating and the support system of the franchisor in the hope of obtaining a return on investment. The investment is returned to him/her in the following ways:

- Training and guidance is provided by the franchisor
- Brand name appeal of the franchisor helps
- Already existing awareness of the product or service offered by a franchisee can mean success
- A proven track record of the franchisor indicates the potential for success
- The financial assistance, either direct or indirect, can be secured from the franchisor

The disadvantages are:

- Franchise fees can be very high if the franchisor is large and successful
- Control exercised by the franchisor on the franchisee is strong
- In some cases, the franchisee may find the profit projections of the franchisor overoptimistic

Advantages and Disadvantages of Being a Franchisor

The Advantages are:

1. The most obvious advantage is that you can achieve a rapid growth rate for your business, without putting in a large amount of capital.
2. It is far easier to expand into areas where you have no knowledge, as you can utilize the franchisees' local knowledge and experience.
3. It is better to give a franchise, rather than open your branches; as the franchisee will work more diligently as it would be his/her business too.
4. Though you help the franchisee to train his/her staff, you avoid day-to-day staffing problems.
5. Giving more franchises will enable you to negotiate good bulk-buying terms.

But there are Disadvantages too:

1. The fact that your franchisee is operating an independent business can work against you. If he/she is successful, he/she can have a tendency to become too independent.
2. When you set up a franchise operation, you effectively hand over the reputation of your business to him. You must be confident that at all times he is performing in the way in which you would like your company to operate.



3. In contrast to successful franchisees there are, sometimes, failures too and unless the franchisee is in breach of contract, you are struck with him/her. And, you lose good business.

Training – All good franchisors provide training, both for you and where relevant, for your staff. This should be a continuing process, updating all the time as to new products or services are available.

Promotion and Advertising Support – As part of the package, the franchisor should give you promotional help, not only at the launch of your business, but on a continuing basis.

Moral Support – This might not appear very important, but it is just as vital. The good franchisor should be available at all times to help you. Most franchisors arrange regular meetings between their franchisees, which result in a vital exchange of views.

Are You Really Your Own Boss?

Why do you want to go into business anyway? Surely it's because you want to run your own show. A good franchisor looks after his franchisees & this inevitably leads to a degree of interference. The franchisor does not want to run your business 'your' way; it has to be run 'his' way.

How to Thoroughly Check Out Your Proposed Franchisor

Buying a franchise is not like buying a new car, refrigerator or other household gadgets. What you must really do is to get to know your franchisor. You must find out everything there is to know about him, and it is your right to do so.

First of all, ask him general questions about his business.

Evaluating a Franchise Operation

After knowing all this, the question any potential franchisee like you would ask, is, "how do I evaluate a franchise operation?" Following are the golden rules:

- Find out about the franchising opportunities through newspapers and trade publications.
- Investigate the franchisor to get as much information as you can, on him/her
- Remember that no reputable franchisor licences a franchise without ensuring that the licensee (franchisee) is capable of operating it successfully.
- Seek professional help to understand the terms of the franchise agreement to find about any penalty or restrictive clauses limiting what you the franchisee can do.
- Examine the franchise fee.
- Learn about the percentage of gross revenue that has to be paid to the franchisor.
- The type and extent of training that will be provided by the franchisor.
- The territorial limits of the franchise
- The degree of control the franchisor will have over operations including price, performance standards, etc.



Before we conclude, the responsibilities of a franchisee and a franchisor must be clearly understood.

The Franchisee's responsibilities:

1. Make a financial investment in the operation
2. Obtain and maintain a standardized inventory and/or equipment package that is usually purchased from the franchisor
3. Maintain a specified quality of performance
4. Follow the specific operating procedures and promotional efforts of the franchisor
5. Pay a franchise fee as well as a percentage of the gross revenues.
6. Engage in a continuing business relationship.

In turn, the franchisor provides the following types of benefits and assistance.

The Franchisor's responsibilities:

1. The company name. For example, if someone bought a 'Pizza Hut' franchise, he/she could use this name outside the unit. This would provide the business with a drawing power. A well-known name, such as 'Pizza Hut' ensures higher sales than an unknown name, such as Choice's Pizzas.
2. Identifying symbols, logos, designs, and facilities. For example, all McDonald's units have the same identifying golden arches outside. Likewise, the facilities all look the same inside.
3. Professional management training for each independent unit's staff.
4. Sale of specific merchandise necessary for the unit's operation at wholesale prices. Usually provided is all of the equipment to run the operation as well as the food or materials needed for the final product.
5. Financial assistance, if needed, to help the unit in any way possible.
6. Continuing aid and guidance from the franchisor, who wants to ensure that everything is being done in accordance with the contract.

So, you can think of this option of franchise while moving out on your own. But one word of advice before you decide to take up a franchise:

It is but natural that before taking up a franchise, you would have doubts or concerns. For example, you would wonder, "What am I actually buying, and will I get my money back if things go wrong? Here are the answers

Failure

Suppose your franchise business does not work out: perhaps sales are not like those projected by the franchisor. Perhaps you do not like the business or you are forced to give it up, what happens to the franchise fee you paid? The answer is you could lose it.



Success

If you built up your own successful business, you would have two profits -an annual trading or manufacturing profit and a capital profit, i.e., profit on the capital you invested, which would include goodwill.

This does not happen with a franchise operation, because the goodwill is not yours. Besides, most franchise agreements are for a limited period, though they can be renewed with both the franchisor's and the franchisee's wish. So, it so works out that you do not purchase a franchise, you rent it.

How to set up your business

Like any businessperson, you, as a franchisee, have a choice as to how you operate your business. Some small entrepreneurs start out as traders, & only form a company when the business is established. This approach wouldn't to for a franchisee, because you have to form a contractual relationship with the franchisor, before you can even start trading.

Financing the Business & Keeping it Under Control

Let us first look at the start-up costs. Some of the following will apply to you:

- Franchise fee
- Purchase of property
- Building work
- Shop fitting
- Equipment
- Vehicles
- Working capital
- Legal fees

The franchisor will put a figure to all these costs, with the exception of working capital.

Once you have satisfied yourself regarding the start-up costs, turn your attention to the trading projections, e.g.: Sales, Gross Profit, Overheads

Make a forecast of cash needed, sales, cost of sales, overheads & capital expenditure.

Marketing

Marketing is a two-tier process. Research & assess your market. You need to checkout where you stand in the marketplace.

Managing Quality Control in a Franchising Operation

Quality in a franchising operation is achieved through performance in the execution of duties and responsibilities. It is defined as:



- Doing the right thing
- Doing it the right way
- Doing it right the first time
- Doing it on time

The cost of quality is the cumulative cost of building a good product or service balanced with the cost of making mistakes.

One must remember the following:

1. Understand the customer's needs
2. Understand the customer's expectations
3. Deliver the right product
4. Treat the customer with integrity, courtesy and respect.

Recent Trends in Franchising

Franchising has now really caught up in India. Some examples are:

1. Swarosky, an Austrian crystal major, plans to add 40 or more outlets in India to the existing 31, in the next two years.
2. Reliance Industries Ltd. will have 1500 of its 2000 new retail outlets, to be opened by Dec. 2006, run by franchise partners.
3. Amalgamated Bean Coffee Trading Company Ltd. (ABCTCL), who have 200 'Café Coffee Day' have plans to increase the number to 550 by the end of 2007.
4. Trent, a retail chain which belongs to the Tata Group have 'Westside' a apparel-retailing venture, 16 stores in the country.

Ensuring Franchise Success

You have secured your dream franchise. And you are already dreaming about the money that will roll in.

Securing the franchise and setting up the business is just the beginning. Once the business is operational, to make it a success you need to ensure smooth operations, manage finances, and also manage your relations with the franchisor.

To ensure all this, you should follow a few practices, some of this include:

- **Customers**: They are the primary reason behind the existence of your business. Ensure that they get quality service. Treat them with a smile and they'll keep coming back to you.
- **Employees**: Hire the best available talent, pay them fair wages, treat them with respect & provide good training.
- **Franchisor**: Keep your communication channels open with them. Listen to what the franchisor has to say about the business. Share your ideas with them. Work towards a win-win relationship. Also keep in touch with other franchisees of the same system to share & learn.



- Involvement: Be involved in the business, if you should be hands-on in the business, your employees will be able to translate your vision into actual delivery to customers.
- Energy: Infuse (put in) energy in your business operations on a daily basis.
- Family: Keep your spouse and children updated the way business is going. If possible, involve them in the operations.
- Finances: Ensure you have access to enough working capital. Also, keep a check on expenses, revenue, cash flows on a regular basis.
- Systems: Follow the comprehensive manual given by your franchisor, follow the same when running your franchise operation. Also develop systems of your own to manage your personal involvement in the business.



14 Fast Franchise Financial Tips

1. Talk to your franchisor before searching for outside financing; get approved or pre-qualified.
2. The most common source of start-up capital is friends and family.
3. Seek out lenders that understand not just small business but franchising as well.
4. Be totally honest and upfront with lenders. Hide nothing. Be prepared to explain everything.
5. Neatness counts. Fill out your credit and loan applications clearly. Typed in better.
6. Don't weigh down your loan applications with attached documents.
7. Don't exhaust your liquidity by paying off outstanding debts before filling a loan application. Lenders want you to have capital available.
8. If you lack liquidity, find a partner with money.
9. Consider equipment leasing to conserve start-up capital and improve the appearance of your balance sheet.
10. Keep debts and expenses to a minimum. Many business owners take on too much debt, forgetting that cash flow must pay the debt.
11. Consider buying used equipment, furniture, vehicles, etc.
12. Let your fingers do the walking on the Internet before wasting time, energy, gas and phone calls. You'll find useful information. Some sites even allow you to file loan applications online.
13. Don't overlook angel investors and venture capitalists. Many have cooled to the high-tech sector and are seeking alternative investments.
14. Avoid dipping into your retirement money or your kids' college funds. Any start-up, even a franchise, is a risk.



UNIT

11

Total Quality Management

Concept

Chapter V

1. Concept of TQM
2. Importance of TQM for Small Entrepreneurs
3. Benefits of TQM
4. Concept for applying TQM
5. Improvement process in TQM
6. TQM Implementation
7. Issues in TQM

The aim of this chapter is to:

- give you an understanding of TQM and its importance for a small entrepreneur

Objectives:

On completion of this chapter, you will be able to:

- what TQM is
- need of TQM in Small Business
- benefits of TQM
- how to implement TQM
- issues involved in TQM
- various TQM Models



Concept of Total Quality Management (TQM)

Globalisation of the economy and transformation of the seller's market in India into buyer's market, where the customer is the king, has made TQM all the more important for all entrepreneurs like you.

As Gandhiji said:

A customer is the most important person, s/he is not dependent on us, but we are dependent on him/her. S/he is the purpose of our work. S/he is not an outsider in our domain, but a part of it. We are not doing him/her a favour by servicing him/her, s/he is doing us a favour as s/he provides us an opportunity to serve him/her.

TQM tells the way to be 'honest' with your customer is by becoming quality conscious.

Everyone, including you, wants to become a world class entrepreneur. And a business becomes world class not on the basis of a large customer base or your scale of operations, but by the fact, how well you serve your customer.

In the long run, this is what gives you a competitive advantage and the capability to sustain your business.

First, let us see what we mean by 'Quality'. Quality, for a product or service has two aspects, which together make for an appropriation of the term. The first aspect relates to the features and attributes of the product/service. These ensure that the product/service meets the need of its users. The second aspect concerns the absence of deficiencies in the product.

The users of products – customers – are satisfied by a product only if it meets their expectations through its attributes. For example, if a customer asks for a ballpen and gets one that writes neatly, and is durable, he/she is likely to be satisfied.

Product satisfaction, therefore, has to do with the extent to which its features & attributes contribute toward making the product worthwhile for the customer.

Importance of TQM for Small Entrepreneurs

Small scale industries and their operations are no exceptions to TQM implementation. It has been found that TQM, in case of these industries and typical small scale activities, has achieved significant results. Customer satisfaction has been more vocally expressed. Communication, feedback and improvement efforts have been more direct when compared to the experience of larger organisations. In the absence of organisational structure, assigning of responsibility is more difficult during actual operation.

Total Quality Management means improvement not only in one area, but all areas including:



1. Product
2. Service
3. Customer Satisfaction

How can you bring about these improvements?

This can be done by improving upon traditional policies of management. Your total organisation should become quality driven. Everyone in your unit should take part in maintaining total quality in the unit.

The process of TQM, you have to bear in mind, emphasises: quality as needed by customer, employee involvement, continuous improvement and decisions based on facts, data and their analysis.

You have to first concentrate on improving quality, and then look into cost, volume and productivity. The improvement in price, performance and services follows automatically. Otherwise, there are chances of your business going out of the race in the customer driven market. The potential customer can be from anywhere, but the only relationship that can effectively survive between you and your customer is of 'Standardized Quality'.

How did TQM Start?

Total Quality Management is an approach to the art of management that originated in Japanese industry in the 1950's and has become steadily more popular in the West since the early 1980's.

Total Quality is a description of the culture, attitude and organization of a company that aims to provide, and continue to provide, its customers with products and services that satisfy their needs. The culture requires quality in all aspects of the company's operations, with things being done right first time, and defects and waste eradicated from operations.

Ways to implement TQM

- if you want to be a first-rate entrepreneur and company, don't focus on the second-rate companies who can't handle TQM, look at the world-class entrepreneurs and companies that have adopted it
- the most effective way to spend TQM introduction funds is by training top management, people involved in new product development, and people involved with customers

Important aspects of TQM include customer-driven quality, top management leadership and commitment, continuous improvement, fast response, actions based on facts, employee participation, and a TQM culture.

TQM should be a mix of management techniques, existing improvement efforts and technical tools with a disciplined approach focused on continual process improvement. All these activities have goal-increased customer/user satisfaction. It is a culture where tools, techniques and training, continuous improvement of organisational processes result in high quality products/services.



Benefits Of Total Quality Management (TQM)

1. Increased customer satisfaction and loyalty
2. Gain a competitive advantage and longer market share
3. Reduction of Non Value Added steps throughout the organization
4. Streamlining of cycle and response times
5. Elimination of scrap, water, defects and errors
6. Increase in employee involvement, dedication and loyalty
7. Enhanced knowledge of customer requirement
8. Defined customer satisfaction issues
9. Higher quality of products and services
10. Team Work
11. Standardized recommended award amounts
12. Information sharing
13. Employee involvement in process improvement
14. Modified budget submission process
15. Examination of the strategic planning process
16. Centre of Expertise in the dissemination of information regarding quality

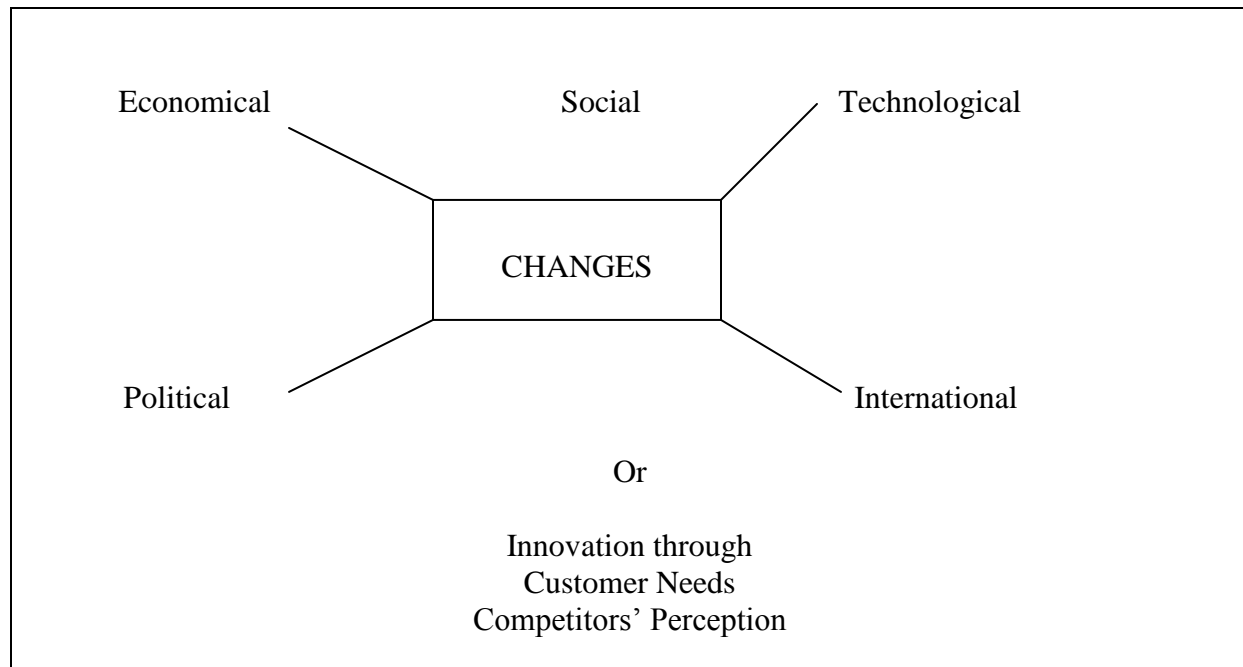
Need For Total Quality Management (TQM)

1. Rising customer satisfaction
2. Increasing competitive pressure and competitive position of organization
3. Internal pressure for improvement
4. Low value addition in existing methods
5. To get the best from people
6. Changing perception of vendors and customers
7. Manager and work-force perception
8. Organisational priorities for improvement
9. To survive

The following figure will give you an idea of the new economic era;



The New Economic Era



Concepts for Applying Total Quality Management (TQM)

Why do you need TQM?

Quality losses prompt the managers to use TQM

This raises another question.

What is quality loss?

Quality loss is caused by an entrepreneur's failure to utilise most effectively and efficiently the potential of the human, financial and material resources in a process.

For example:

1. Loss of customer satisfaction
2. Loss of opportunity to add more value to :
 - a) The customer
 - b) Your organization
 - c) Society
3. Loss due to waste or misuse of resources like :
 - a) People's health
 - b) Property damage
 - c) Process interruption



What is Essential for TQM?

1. Commitment:

As we mentioned earlier, every person from your unit, every function and process must be involved with full commitment to meet the needs of your customer. Devotion and accountability required in every person and for every function and process should be regarded as important.

2. Customer Satisfaction

Your prime objective should be understanding and satisfying customer needs and expectations.

3. Participation by all

The total strength and abilities of all members of your unit, including the workers should have an effect of co-operation and togetherness.

4. Process Measurements

All the activities of your business/industry should be evaluated and measured.

5. Problem Identification

You should have a provision for identification and solution of existing and potential problems on a continuous basis.

6. Personal Accountability

Individual responsibility and authority should be recognised by you and your personnel and accepted by all.

7. Personal Development

You and your personnel should, at all levels, be continuously appraised and necessary training for development must be undergone/provided.

TQM is a structured system for satisfying both internal (members of your organisation) and external customers by integrating the business environment, continuous improvement and breakthrough, with development, improvement and maintenance cycle while changing the organisational outline.

Describing TQM as a structured system means that it is a strategy aimed at satisfying the needs and wants of customers (internal as well as external) and suppliers through daily management.

Determining the needs and wants will allow you to continuously improve, develop and maintain quality, cost, timely delivery and morale of all involved. We would like to give you analyses of two improvement processes - Business Process Analysis and Functional Analysis and the steps required for the same.

Improvement Process

A process comprises activities that take an input, add value to it and result in output. In production, the result is hardware, in administration the result is software; decision-making.



Some of the steps commonly employed in the TQM approach are:

Business Plan Analysis

To begin with, you must:

1. Identify customer requirements
2. Prioritise them
3. Start with key requirements and follow up with a smaller number of requirement
4. Identify and list your business' processes
5. Make a flowchart of the way you actually do your business to comply with the requirement
6. Using the flowchart as a basis, identify and evaluate the delays, bottlenecks, and non-value added sub-processes
7. Use the flow chart as a basis for maintaining and expediting the progress towards goal
8. Identify problem/priority areas based on contribution to end results.

Functional Task Analysis

The important steps in the analysis are some basic questions, given underneath:

1. What is your enterprise's Mission? Responsibilities? Activities?
2. Who are your customers? Your suppliers? What do they require of you? Are your activities consistent with these expectations?
3. What do you require from your suppliers? Are their activities consistent with your requirements?

Total Quality Management (TQM) Implementation

How you can implement TQM?

1. Identify all quality problems and find solutions for them.
2. Establish quality assurance programmes for procurement of raw material, production and service after sales.
3. Ensure TQM to all functions and activities of your business.
4. Train all employees for awareness of and commitment to quality.
5. Link product design with process design to achieve the best possible quality.
6. Try to reduce overall costs of operation and simultaneously, add value to your product/service.
7. Use a 'Continual Improvement Programme' to have product and process uniformity.

Issues In Total Quality Management (TQM)

- * Procurability
- * Manufacturability



- * Maintainability
- * Reliability
- * Durability
- * Marketability

5 Ps. of Total Quality:

- * Product
- * Provision (of services)
- * Processes
- * People* Place (environment)

4 Fs. of Total Quality:

- * Friendly
- * Flexible
- * Faster
- * Focussed

Supplier Norms for TQM:

- * Price
- * Co-operation
- * Quality
- * Delivery
- * Technology
- * Management Competence
- * Financial Resources
- * Education
- * Safety Programmes
- * Environmental Controls



UNIT

11

Intellectual Property Rights, Patents, Copyrights, Trademarks, GATT and VAT

Contents

Chapter VI

Part I

1. Intellectual Property Rights (IPR)
2. Understanding Patents
3. Science & Technology in India and IPR
4. Patenting in India
5. Building IPR Management in Project working
6. Amendment to Patent Law

Part II

1. What is GATT
2. The Uruguay Round
3. Effect of GATT on SMEs
4. Positive Implication

The aim of this chapter is to:

- acquaint you with the basics of IPR, including Patents and the GATT agreement

Objectives:

On completion of this chapter, you will be able to:

- the basics of IPR
- patenting in India
- why IPR Management is important for you as SME entrepreneurs
- the GATT agreement
- effects and implication of GATT
- advantages and Disadvantages of GATT



Intellectual Property Rights (IPR)

The returns to knowledge, in an enterprise today, are more than the returns on land capital or labour. Knowledge here means not only inventive and innovative aspects of knowledge but also the knowledge in the minds of people. It is obvious that trust plays an important role in sharing that knowledge in the mind. But think of a situation when a large number of people lack this trust in the whole society! What will happen to the process of production, dissemination and application of knowledge?

In the past, healers, 'Vaidis' and other traditional experts kept their formulae secret, and if at all, shared them only with their sons or trusted disciples. Even to-day most people would like to keep such knowledge secret, except a few who would be really socially inclined and use their knowledge for wider use.

But when a society has to become competitively innovative, inventive and productive, there has to be collaborative learning. Members of the society should be able to learn from one another's ideas, inventions, improve upon these, and if possible, profit from these improvements. Patents emerged, among other things, to provide incentives to inventors to share their knowledge. In return, society allowed them (for a given period of time) to exclude others from commercially applying that knowledge for production. Intellectual Property Rights (IPRS) imply a social contract between the inventors and the society. And these can be conferred by the government.

In this era of shortening product life cycles and aggressive competition from the domestic as well as multi-national businesses, survival and growth require not only innovative ideas and inputs and access to large markets, but also measures to protect new products and technologies through appropriate Intellectual Property Rights (IPR). The General Agreement on Trade and Tariffs (GATT) made this clear in 1995 with the formation of the World Trade Organisation (WTO). They impressed upon the member countries that there was an urgent need to reassess their national laws on IPR, especially those related to the Trade Related Intellectual Property Rights (TRIPS). Copyrights, trademarks, industrial designs and patents etc. are the major branches of TRIPS.

Thus, any intellectual creation including product, process, a book or a work of art, logo, etc can be protected by these IPR tools.

To give you a few examples:

Patents	Process, products, apparatus capable of industrial application (period 14 & 7 years can be renewed)
Designs	Shapes and ornamentation (period 15 years subject to renewal)
Copyrights	Copyright does not require registration Copyright protects originality



Trade Secrets

An inventor has the option of keeping his/her invention as a trade secret. The transfer of trade secret is governed by the usual contract law, and no registration is required.

Plant Variety Act

Any plant variety which is distinctive, uniform and has stability can be protected.

You, the new entrepreneurs, are the people who, with your intellectual property potential properly harnessed, can contribute to industrial development.

What should you do?

- a) You, as small scale entrepreneurs of the next millennium, should take on more inventive activities
- b) Find out the strategic sectors in which acquiring and licensing of patents needs to be done and direct your activities accordingly.

Trademarks Words, signs and other marks used to distinguish goods (subject to renewal)

Copyrights Musical work, artistic work, literary work, e.g. books, plays, maps, photographs, computer software (valid for 60 years after author's death)

It might be mentioned here that the owner of a trade secret (method, formula, patterns) can recover damages resulting from the improper disclosure or use of his/her trade secret by another.

The most important from the above, for our purpose, is Patents

Understanding Patents

"A patent may be defined as a grant by a state to an inventor or to his assignee, giving exclusive rights to make, use, exercise and vend the invention for a limited period in exchange for disclosure in a patent specification."

The patent system has an economic basis and is an avenue for disclosure of new technology. It offers monopoly for a limited period and defines areas of monopoly which are new, with provisions in national laws to balance public versus private benefits.

In India, enforcement of patent rights is yet to gain the importance it deserves. Globally, patent related disputes and settlements are on the rise.

A case in point is that of semiconductor industry. A sum of 800 million dollars was exchanged in 1994 by way of licensing fees as compared to 300 million dollars in 1991.



Though India's copyright laws are on par with international laws, academic and business institutions do not yet exploit them fully.

The low patent awareness and concern together with a highly restricted patent regime and inadequate enforcement of patent rights in India have contributed to keeping patent-related activity at a negligible level in academics, industry and even legal circles.

The Hindu Business Line, Chennai reported in 1977 that Agricultural Products Export Development Authority (APEDA), India, won a suit against the U.S. Commodity firm, Rice Tech Inc. in Greece, which had filed for registration of Texmati, Kasmati and Jasmati trademarks on rice varieties claimed to be analogs of the Basmati variety grown in India.

Experts have always stated that products like Basmati rice, Darjeeling tea & Alphaso mangoes should be fiercely protected by India as Scotch whisky and champagne are protected by Scotland and France respectively.

What could Patents do?

- a) Help in giving a signal to society that invention matters in promoting innovation
- b) Provide individuals and organisations to invest in research and development so that return on investment can be increased
- c) Possibly improve the quality of products and services, avoid duplication, promote exchange of information
- d) Enable the inventor to stop others from commercially exploiting the invention for a given period of time
- e) Increase societal knowledge.

But do they really do so? Yes & No.

A majority of the patents granted are never actually applied or worked. A number of patents in some sectors remain in the records and data bases. It is not that they were granted by mistake; it only means that communication of these products or processes was not viable or the patentee could not invest the required amount.

Patents indicate how inventive a society is, or how much recognition it gives the inventions. Most developing countries argue that given the scale of investment required for developing a new drug or agricultural chemical is beyond them.

There are arguments in favour of and against product patents. It is felt that the leadership India has built in the field of drugs and chemical compounds will be lost. The other opinion is that Indian herbs and other drugs are reaching global markets where India still needs product patents.

Here, we also have to remember that even patented drugs are subject to price control Regulations and in the case of risk to public health; government can intervene to ensure the availability of the same at reasonable cost.



What can be patented?

You can patent any product, process or design which involves a novel inventive step that can be industrially applied.

For example, a known compound extracted or developed by known method but for new use can be patented for the purpose. But the use patents are not allowed in India just as product patents in agricultural and pharmaceutical sectors are not allowed. India has so far allowed only process patents in drugs and agricultural sector.

Science And Technology In India And IPR

Development of Science and technology is nothing new to India, it started at least 2500 years before Christ (BC) Innovative approaches to solve the mysteries of nature and putting them to use for the benefits of society are to be found in archives related to Vedic and Harappan Culture. But there was no concept like 'IPR'. With the British came Western education and growth of Science and technology made formal beginning Physical sciences like chemistry, physics, biology and mathematics started getting taught in school.

The basic elements of IPR were introduced in India with the framing of the Act on Protection of Inventions in 1856. Many such Acts came into being. The latest was in 1994. A Bill introduced in 1995 was rejected. This year (1999), a new Bill on Patent laws has been introduced, which is discussed later.

Similar acts were framed for designs, trademarks and copyrights

The national R&D policies and their implementation have influenced the development of IPR in India.

With India joining the WTO in 1995, as mentioned earlier, the Patent Act is being revised.

The formation of the WTO and India's liberalisation process have already contributed to increase in the filing of patents in India.

It is therefore, imperative that the entire process of patenting and its enforcement, including the charges to be introduced in the Indian Patents Act, should be appreciated by entrepreneurs like you, as well as scientists, educationists, etc.

Patenting in India

The relaxation of tariff barriers has facilitated entry of multinationals and flow of goods from various countries into India, and this has intensified competition for the indigenous business people. So, you have to make extra efforts to market your products and improve their quality. But, more than that you have to be inventive, be it new products, new processes, and strengthen and efficiently use the IPR system.



We are far behind the developed countries as far as filing of patents is concerned. Surprisingly 80% of the patents filed in India are by foreigners. Besides, there is a big gap between the number of patents filed and granted in India.

Before liberalisation came into being in 1991, the patent laws in India were over-protectionist, and this made the Indian industries & institutes smug or apathetic. There was non-awareness about application of the patent system and its significance among scientists/technologists. Other reasons for the low number of patent registrations were insufficient institutional infrastructure to support patenting and insufficient enforcement of patent rights.

What you, as new entrepreneurs, should be concerned about, is:

- a) as one technology is announced, often a successor with improved benefits is already realized.
- b) knowledge and patents have become necessary to establish market dominance.

Building IPR Management into Project Working

You have to remember that to incorporate IPR management and innovation strategy into your business policy requires:

- mapping prior knowledge ;
- identifying protected zones ;
- evaluating vulnerability of barriers raised via claims ;
- evolving bypasses ;
- formulating research proposals and work plans;
- competitive monitoring ;
- planning oppositions ; blocking moves ;
- collaboration if necessary

The Patents Act was further amended by the Patents (Amendment) Act, 2005

Application for Patents

Persons entitled to apply for patents-

An application for a patent for an invention may be any of the following persons :
(Subject to the provisions in section 134 of the Act)

- (a) By any person claiming to be the true and first inventor of the invention;
- (b) By any person being the assignee of the person claiming to be true & first inventor in respect of the right to make such application;
- (c) By the legal representative of any deceased person, who immediately before his death was entitled to make such an application



Form of application

- (i) Every application for a patent shall be for one invention only and shall be made in the prescribed form (Form 1 given at the end of this chapter) & filed in the patent office
 - (a) Every international application for a patent; as may be filed designating India shall be deemed to be an application under the Act, if a corresponding application has also been filed the Controller in India
- (ii) Where the application is made by virtue of an assignment of the right to apply for a patent; there shall be furnished with the application or within such period as may be prescribed after the filing of the application, proof of the right to make the application
- (iii) Every application shall state that the applicant is in possession of the invention and shall name the (person) claiming to be the first & true inventor, and where the person so claiming is not the applicant, the application shall contain a declaration that the applicant believes the person to be the first & true inventor (Form 3).

Provisional and complete specifications

Where an application for a patent accompanied by a provision specification (Form 2) a complete specification has to be filed within 12 months from the date of filing the application-

Controller General of Patents, Design and Trademarks

Every request for examination of an application for Patent, Trademark or Design is referred by the Controller to an examiner for making a report to him in respect of the following:

- (a) Whether the application, and the specification and other related documents are in accordance with the requirements of the Patent Act & Rules;
- (b) Whether there is any lawful ground of objection to the grant of the patent under this Act;
- (c) The result of investigation:
- (d) Any other prescribed matter

Depending on the report of the examiner to the Controller, the controller takes necessary action under the provisions of the Patent Act.

Grant of Patents

When an application for a patent has been found to be in order for grant of the patent and either –

- (a) The application has not been refused by the controller; or
- (b) The application has not been found to be in contravention of any of the provisions of this Act,

The patent is to be granted as early as possible to the applicant.



On the grant of the patent, the controller would publish the fact that the patent has been granted & other that the application, specification and other documents related to it, shall be open for public inspection.

General Agreement on Tariff and Trade (GATT)

What is GATT?

The General Agreement on Tariff and Trade (GATT) was established in 1947 as a contract between the governments of 23 nations, including India. Since then the membership of GATT has expanded to 177 countries. The members of the GATT are referred to as 'Contracting Parties (CPs)'. The GATT is meant to provide:

- i) a set of rules for orderly conduct of trade and
- ii) a process of trade liberalisation, by which investment, job creation and trade can be promoted

GATT functions in three ways:

- First, it formulates the rules which are agreed upon by all the CPs for governing the trade behaviour of its members
- Second, it acts as a forum for trade negotiations through which trade is liberalized and made more predictable
- Third, it operates as an international 'Court' in which the CPs could resolve their trade disputes.

GATT is governed by three fundamental principles, nondiscrimination, reciprocity and transparency. A corollary to nondiscrimination principle requires that once goods have entered a market, they must be treated no less favourably than equivalent domestically produced goods. The principle of reciprocity lays down that if one CP gives a trade concession to other, the latter has to reciprocate with an equivalent concession. Transparency (principle) prohibits a CP from protecting its industries through quantitative restrictions. If at all the domestic industries have to be protected, they should be protected through customs tariff.

The Uruguay Round

The Uruguay Round (8) was launched in September 1986 at Punta del Este, Uruguay. This Round, unlike the earlier rounds, had a long list of items to be negotiated. It concentrated on policies and transactions of the CPs. Three main bodies were set up to deal with the negotiating structure. The Trade Negotiation Committee to oversee the entire Round, the Group of negotiations on goods to look after all subjects except that of services and the group of Negotiations on Services. The original schedule of the Uruguay Round involved a mid-term review in December 1988, a framework for discussions on draft agreements at the Houston Summit in July, 1990 and the formal signing of agreement in December, 1990. However, things did not work out as per schedule and the CPs failed to reach any agreement by December, 1990. Seven rounds of multilateral trade negotiations (MTNs) were completed since GATT was created.

What were the reasons for this failure?



A number of reasons are being cited for this failure. The major ones are : i) the wide coverage and complexities of the issues involved; ii) the opposition from developing countries about the inclusion of and discussions on new issues under the purview of GATT; iii) the European Union's rejection of the U.S. proposal that all trade distorting subsidies affecting agricultural trade be eliminated within a specified time; and iv) halt of progress on the issue of integration of the textile and apparel sector into GATT.

The failure, to come to a conclusion by December, 1990, led to the document called 'Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations (DFA)', popularly called the 'Dunkel Proposal', as it was prepared by Arthur Dunkel, the then Director General of GATT. The Dunkel Proposal was put before the Trade Negotiations Committee of GATT on December 20, 1991. The document implied that no single element of DFA could be considered as agreed till all the proposals were accepted by the Contracting Parties.

Finally after extensive debates and negotiations, the DFA, with some minor changes was finally accepted by the CPs and thus the Uruguay Round was concluded in December, 1993.

Indian Developments

The provisions and nature of DFA gave rise to considerable controversy and debate in India. It was felt that its provisions could have serious, negative implications for the Indian economy.

However, signing of GATT 1994 accord ended the issue of acceptance by India. But the debate on the implications of DFA for the Indian industry and agriculture sectors continues.

Effect of GATT - 94 on SMEs

No study on how SMEs would be affected by the signing of GATT-94 has yet been made. There has been a concern about the survival and growth prospects of SMEs in the new scenario arising out of GATT-94.

General Implications of GATT '94

The broad implications, positive as well as negative, of GATT 94 are as under:

a) Positive Implications in general

There, besides, are some specific positive & negative implications as far as domestic technology capability, increased competition and impact on society and employment are concerned. They are as under:

- ii) Enable India to retain its MFN status with its attendant advantages
- iii) Increased access to international markets and export
- iv) Safeguard from unilateral actions of individual nations
- v) Increased R&D efforts



- vi) Increased inflow of foreign direct investment and access to better technology of foreign firms;
- vii) Increased opportunity for sub-contracting and job work. Increased competition and resultant gain in terms of efficiency and quality improvement
- viii) Increased employment and self-employment opportunities for professional and skilled workers

b) Domestic Technology Capability

Negative Implications:

The process patent system has enabled Indian entrepreneurs and scientists to develop simpler and more economical processes resulting in drastic cost reductions. The new patent regime would bring a halt to indigenous R&D efforts.

The Indian manufacturers can survive only by bringing about newer, better and more effective products. But they lack marketing networks abroad; besides, they cannot afford the very high costs of patent registration.

Positive Implications:

Indian companies are either not very good at R&D or they cannot afford the cost of R&D and hence the major proportion of the process patents have been granted to foreigners. Besides, more than 90% of the existing pharmaceuticals products in India is off-patent.

c) Increased Competition

Negative Implications:

The provision on compulsory licensing and working of the patent, longer period of patent protection and for treating MNCs at par with domestic companies, are likely to create monopolies.

Positive Implications:

Various agreements in GATT 1994 will result in increased competition due to expansion in the operations of the MNCs, and entry of technologically sound & dynamic domestic companies in industries (e.g. chemicals, computer software).

d) Impact on Society and Employment

Negative Implications:

The extremely high prices of new patented drugs will deprive the poor, middle class and even upper class of the benefits of new effective drugs.



The new Copyright Act and the proposed patent system would lead to unemployment and stagnation.

Positive Implications:

The high cost & high risk in developing new drugs justify some market exclusively for the inventor.

Implementation of the new Copyright Act will encourage entrepreneurs to write new softwares without the fear of being copied. This would result in more employment and self-employment opportunities, especially for professionals and skilled workers.

Phasing Out of MFA

Phasing out of MFA will remove restrictions on export of Indian textiles and garments to developed countries.

Integration of Agriculture into GATT

As is well known, prices of agricultural products, both in developing countries like India, and developed countries are usually distorted due to provision of domestic and export subsidies or ban on import of agricultural products.

Disadvantages:

India will not be able to meet the strict sanitary conditions imposed by GATT-1994 accord on agro-based products.

India will also have to follow TRIPS agreement on patent for agro-chemicals and provide protection into 'plant varieties'. This will result in a considerable rise in the cost of seeds, plant materials and agro-chemicals. In turn, these will make the final product uncompetitive in the international market.

Advantages:

Will help India substantially increase exports of agriculture and agro-processed products.

It is assumed that with reduction in domestic and export subsidies of developed countries, international prices of agro-processed products would go up considerably. Indian firms, therefore, can take advantage of this situation due to the competitive prices of their agro products.

So, you, our budding entrepreneurs, now have a general idea about the IPRs and GATT. If you need to know more about patents or any other IPR, you may refer to the Indian Patents Act, 1970, or consult an expert on these, to gain further information on the same.



Impact of Impending WTO Conditionalities

Removal of Quantitative Restrictions (QRs) and application of WTO conditionalities from 2005 and their impact on small enterprises is a matter of discussion these days. Some of the WTO provisions which could impact the SSI sector relate to provisions pertaining to intellectual property and patent rights, investment measures, sanitary measures, non tariff barriers and continuance of reservation, price and purchase preference, excise exemption, income tax relief etc. Direct tax benefits and subsidies, which are not compatible to WTO, will have to be faced out. The SSI sector will definitely be affected due to removal of subsidies/benefits, income tax exemptions, etc. The general impression is that most of SSI incentives are not against WTO rules and they can continue. Thus WTO conditionalities is a mixed basket, and some provisions, would definitely be adversely affecting the SSI sector in India. At the same time some other provisions will also help the SSI. What is needed is to take advantage of the positive provisions and for this; the immediate need is to have awareness of the provisions.

Value Added Tax (VAT)

All of us have to accept the fact that taxation is unavoidable. The majority meekly pays the taxman's share and prays for the best.

Having reconciled to taxation, we have to look for the best tax instrument for its collection without too much torture.

Definition of VAT

“VAT” is the tax levied on the actual value added by a firm or individual on goods and services purchased from others.” It is a tax on economic activity rather than on and products. Thus, VAT is applicable to producers, wholesalers and retailers.

An important feature of VAT is its flexibility to adapt to all socio-economic conditions. While introducing any kind of VAT, modification in the existing tax laws are necessary to give legal support for a smooth transition to the new system.

Variations of VAT

There are three major varieties of VAT: -

1. Consumption VAT
2. Income VAT, and
3. Gross product VAT

1. Consumption VAT

Consumption VAT is applicable to value addition on goods and services consumed.

2. Income VAT



Income VAT collects tax on all sales, but allows deduction only for the depreciation of capital goods.

3. Gross Product VAT

In this, deduction is not allowed even for the replacement of capital goods. Relief is given only for purchases of current consumption goods. The Value addition in the case of Gross Product VAT is much more than the aggregate of retail sales in a particular year.

There are a number of methods of computing VAT

Exemptions under VAT

General exemptions are given to essential goods consumed by low-income groups and also to export goods for achieving a beneficial foreign trade refine. Similarly, certain firms and sectors are excluded from the tax liability on account of low revenue potential compared to the cost of production or for any other compelling reason. For example, In India, it is not economical to collect taxes from cottage and small industries. It is also difficult to compute value addition particularly in case of some services like banking and insurance.

Tax exemption is generally granted to firms falling below a specified turnover limit stipulated as the tax threshold.

VAT Rates

Another advantage of VAT is that it can operate efficiently either with a single rate or with multiple rates.

Options for all Reasons

The best advantage of VAT is that it offers several options depending on the distribution of the powers of taxation and other constraints.

The retail VAT is a fully evolved tax, where the base is extended to all Value additions until the last transaction point.

Application of VAT in India

About 120 countries in the world comprising 80 per cent of human population are enjoying the benefits of VAT regime. But in India, many hurdles delay the implementation of a national VAT, although an attitude in favour of VAT is very much perceptible.

Many states have already passed Bills to adopt VAT in their tax regime. But the target set for the national switch over by April and June 2003 could not be achieved, as many states could not complete the formalities required for the transition.

VAT in India



VAT came into force in India on 1st April, 2006 in all the states excluding Tamilnadu and U.P.

Coverage of goods Under VAT

In general, all the goods, including declared goods will be covered under VAT, and will get benefit of input tax credit.

Goods outside VAT

The only few goods which will be outside VAT, will be liquor, lottery tickets, petrol, diesel, aviation turbine fuel and other meter spirit. These will continue to be taxed under the Sales Tax Act or any other State Act.

VAT on AED Items

VAT on Additional Excise Duty items (viz. sugar, textile and tobacco), will not be imposed for one year after the introduction of VAT. The position will be reviewed after one year; till then the existing arrangement will continue.

VAT Rates and Classification of Commodities

Under the VAT system, covering about 550 goods, there will be only two basic VAT rates of 4% and 12.5%, and a special VAT rate of 1% only for gold & silver ornaments etc. Under 4% VAT rate category, there will be the largest number of goods (about 270), common for all the States, comprising items of basic necessities such as medicines & drugs, all agricultural & industrial inputs, capital goods & declared goods. The remaining commodities, common for all the states, will fall under the rate of 12.5%.

Tax Payer's Identification Number (TIN)

TIN will consist of 11 digit numerals throughout the country. Two digits one for State Code and two more are check digits. The remaining seven digits will be used for unique identification of any dealer in the State.

Tax Invoice

This entire design of Vat with input tax credit is based on documentation of tax invoice, cash memo or bill.

Carrying Over of Tax Credit

If the tax credit exceeds the tax payable on sales in a month, the excess credit will be carried over to the end of the next financial year.

Computerisation



There is a misconception that VAT cannot be introduced in any State without the computerisation of all tax offices in that state. In reality, there is no basic relationship between the computers and VAT. The computers would only improve its efficiency in a big way.

Inter-State Tax Information Exchange System

A decision has been taken for duly phasing at Inter State sales tax and Central sales tax. A comprehensive Inter-State Tax information exchange system i.e. also being set up.

VAT Audit

Though Vat is supplied to be a self policing system, it cannot stop tax evasions. Fraudulent claims of Input Tax Credits on the basis of bogus invoices cannot be ruled out. To stop tax evasions under VAT system, VAT audits are necessary. All dealers are in general, expected to be audited at least once in five years.

Transition Provisions

All existing taxes such as turnover tax, surcharge, additional surcharge & Special Additional Tax (SAT) would be abolished.

Treatment of Incentives

Under the VAT system, the existing incentive schemes may be continued in the manner deemed appropriate after ensuring that VAT chain is not affected.

How to Compute VAT

There are two methods of Computation of VAT. They are as follows :

1. Addition method
2. Substraction method

1. Addition Method

In this method, the VAT is calculated using the following equation :

$$\text{Value Addition} = \text{Profit} + \text{Trade and manufacturing Expenses}$$

Example

Profit	Rs. 1,00,000
Shop rent	Rs. 1,20,000
Salaries	Rs. 1,50,000
Electricity charges	Rs. 80,000



Value Addition Rs. 4,50,000

If the VAT Percentage is 10%

$$\text{VAT} = \frac{\text{Value Addition} \times \text{Tax percentage}}{100}$$

So, here V.A. Rs. 4,50,000/-
Tax percentage = 10%

Therefore, V.A. $\frac{=4,50,000 \times 10}{100}$ =Rs. 45,000/-

2. Substraction method

$$\text{Value Addition} = \text{Sales Price} - \text{Purchase Price}$$

Example,

Sale Price Rs. 700/-
Purchase Price Rs. 500/-

$$\begin{aligned} \text{Value addition} &= \text{Sale Price} - \text{Purchase Price} \\ &= 700 - 500 \\ &= \text{Rs. 200} \end{aligned}$$

Tax percentage= 5%

$$\begin{aligned} \text{VAT} &= \text{Value Addition} \times \text{Tax Percentage} \\ &= \frac{200}{100} \times 5 \\ &= \text{Rs. 10/-} \end{aligned}$$

Final Form of Calculating VAT

In view of the impracticable methods. The following equation can be more meaningful.

$$\text{VAT} = \text{Tax Payable on Sale} - \text{Tax Paid on Purchase}$$

The above equation is the single most important equation in the whole Scheme of VAT. It can also be written more conveniently as :



VAT = Tax Collected on Sale – Tax Paid on Purchase

ISO 9000

What is ISO 9000?

ISO 9000 is the child of the International Organization for Standardisation (ISO). Based in Geneva, Switzerland, ISO is a consortium of virtually all the world's industrialised nations. The group's mission is to develop industrial standards that facilitate international trade. India is represented on ISO by the Bureau of International Standards (BIS) founded after independence.

'ISO 9000 is not a product standard, but a quality system standard'. It applies not to products or services, but to the process which creates them.

To achieve this, ISO 9000 refrains, to a great extent from laying down specific methods, practices & techniques.

ISO 9000 quality system provides confidence that the output of the process will meet customer expectations and requirements. It aims at providing that confidence to:

- The customers directly
- The customers indirectly (via third-party assessments & quality system registration)
- Company management and staff

ISO 9000 does this by requiring that every business activity affecting be conducted in a three-part, never ending cycle: planning, control and documentation.

- Activities affecting quality must be planned to ensure that goals, authority and responsibility are defined and understood.
- Activities affecting quality must be controlled to ensure that specified requirements are met, problems are anticipated and avoided, and corrective actions are planned and carried out.
- Activities affecting quality must-be documented to ensure understanding of quality objectives and methods, smooth interaction within the organization, feedback for the planning cycle and objective evidence of quality system performance for those who require it, such as customers or third-party assessors.
- ISO 9000 is not new, it is good, common business sense in easily adapted form -

A firm can register to ISO 9000

Bureau of Indian Standards (BIS)



BIS, the National Standards Body of India, is a statutory body set up under the Bureau of Indian Standards Act, 1986. The Bureau is a corporate body and responsible for laying down policy guidelines for BIS. It comprises of members representing the Industry, Consumer Organisations, Scientific and Research Institutes Professional Bodies, Technical Institutions, Central ministries, State governments and members of Parliament.

Standards Formulation

Indian standards are formulated keeping in view national priorities, programmes for industrial development, technological needs, export promotion, consumer welfare, health, safety, etc.,. So far over 17000 standards have been formulated in different technology one as.

Certification

Product Certification

The product certification scheme is basically voluntary in nature and aims at providing quality, safety and dependability to the ultimate customer. Conformity is ensured by regular surveillance of the license holder's performance by surprise inspections, and testing samples.

Eco mark

The government of India had instituted a scheme in February, 1991 known as Eco mark scheme for labelling environment friendly products.

Quality management Systems certification (ISO 9000)

BIS is authorised to operate Quality Systems Certification in India. It has adopted ISO 9000 series of standards as ISO 9000 series Indian Standards and aligned the procedure for operation of Quality Systems Certification, based on international criteria.

EMS Certification

With the growing concern for environment friendly industrial activity, ISO 14000 series of standards have been developed. BIS, after adoption of there standards as national standards, has launched Environment Management System (EMS) Certification (IS/ISO: 14001).

Laboratory Testing, Calibration and Management

The Bureau has a chain of laboratories located in different parts of the country for conformity testing of certified products and samples offered by applications for grant of license which is an essential feature of BIS Certification System.

Standards Promotion

For a adoption of Indian Standards by the industry, organised purchaser, statutory bodies and universities, BIS has formulated a plan which emphasizes on:



- Development of Complementary level of standardisation, namely, company standardisation and association level standardisation
- Effective implementation of standards through sectorial committees.
- State Level Committees on Standardisation and Quality Systems
- Use of Indian Standards in legislation
- Bulk public purchases based on standards and standard market products
- Use of standards in education systems
- Identified media campaign to create awareness.

International Cooperation

BIS, as a founder member of ISO, continues to take part in international standardisation.

BIS and Consumers

Service to consumers and creating quality consciousness among them. BIS has set up a consumer Affairs and achievements Dept. at headquarters.

The Bureau has offices in Mumbai, Pune, Nagpur etc. for the Western Region.

How ISO 9000 is Applied

There are two broad ways to apply the ISO 9000 Quality system standard. One way is implement it for quality management purposes. The other way is to obtain certification, or registration to the ISO 9000 quality system standard.

Registration is awarded by an accredited third-party registration body after it satisfies itself, by reviewing documentation and conducting on-site assignments, that the firm's quality system conforms to the ISO 9000 standards.

Benefits of ISO 9000

For many firms, the answer is obvious. They know for a fact that, without ISO 9000, they will lose business; for example:

- The European Community (EC) makes ISO 9000 registration mandatory for firms in their European Community market place
- Your biggest customer requires ISO 9000 of all suppliers
- Your major competitor has adopted ISO 9000

To a great extent, the benefits are determined by the way the standard is applied. The structure of ISO 9000 itself acknowledges this:

- Quality management purposes, in which the facility adopts the standard as a blueprint for internal quality system



- Contractual purposes, in which a demonstrated quality system is a condition of a contract with customer.
- Access to markets in India & outside it.

Form 1
THE PATENTS ACT, 1970
(39 of 1970)
&
THE PATENTS RULES, 2003
Application for grant of patent
[See sections 7,54 &135 and rule 20 (1)]

(For office use only)

Application No.:

Filing Date:

Amount of Fee Paid:

CBR NO.:

Signature:

1. Applicant(s)				
Name	Nationality	Address		
2. Inventor(s)				
Name	Nationality	Address		
3. Title of the invention				
4. Address for correspondence applicant/ authorized patent agent in India				
		Telephone No. Fax NO. Mobile No. E-mail		
5. Priority particulars of the application(s) filed in convention country				
Country Number	Application	Filing Date	Name of the Applicant	Title of the Invention



6. Particulars for filing Patent Cooperation Treaty (PCT) national phase application

International application number	International filing date as allotted by The receiving office
----------------------------------	--

7. Particulars for filing divisional application

Original (first) application number	Date of filing of original (first) application
-------------------------------------	--

8. Particulars for filing patent of addition

Main application/Patent Number	Date of filing of main application
--------------------------------	------------------------------------

9. Declaration:

(i) Declaration by the inventor (s)

I/We, the above named inventor(s) is/are the true & first inventor(s) for this invention and declare that the application(s) herein is/are my/our assignee or legal representative.

- (a) Date
- (b) Signature
- (c) Name(s)

(ii) Declaration by the applicant(s) in the convention country

I/We, the applicant(s) in the convention country declare that the applicant(s) herein is/are my/our assignee or legal representative.

- (a) Date
- (b) Signature(s)
- (c) Name(s) of the signatory

(ii) Declaration by the applicant(s):

I/We, the applicant(s) hereby declare(s) that: -

- ◆ I am/We are in possession of the above-mentioned invention
- ◆ The provisional/complete specification relating to the invention is filed with this application.
- ◆ The invention as disclosed in the specification uses the biological material from India and the necessary permission from the competent authority shall be submitted by me/us before the grant of patent to me/us.
- ◆ There is no lawful ground of objection to the grant of the Patent to me/us.
- ◆ I am/We are the assignee or legal representative of true & first inventors.
- ◆ The application or each of the applications, particulars of which are given in Para 5 was the first application in convention country/countries in respect of my/our invention.
- ◆ I/We claim the priority from the above mentioned application(s) filed in convention country/countries and state that no application for protection in respect of the invention had been in a convention country before that date by me/us or by any person from which I/We derive the title.



- ◆ My/our application in India is based on International application under Patent Cooperation Treaty (PCT) as mentioned in Para-6.
The application is divided out of my / our application particulars of which are given in Para-7 and pray that this application may be treated as deemed to have been filed onunder section 16 of the Act.
- ◆ The said invention is an improvement in or modification of the invention particulars of which are given in Para-8

10. Following are the attachments with the application:

- (a) Provisional specification / Complete specification
- (b) Complete specification (in conformation with the international application) / as amended before the International Preliminary Examination Authority (IPEA), as applicable (2 copies), No. of pages.....No. of claims.....
- (c) Drawings (in conformation with the international application)/as amended before the International Preliminary Examination Authority (IPEA), as applicable (2 copies), No. of sheets.....
- (d) Priority documents
- (e) Translation of priority document/specification/International Search Report
- (f) Statement and undertaking on Form 3
- (g) Power of Authority
- (h) Declaration of inventorship on Form 5
- (i) Sequence listing in electronic form
- (j)

Fee Rs.in Cash./Cheque/Bank Draft bearing No.

Date onBank.

I / We hereby that to the best of my / our knowledge, information and belief the fact and matters stated herein are correct and I /We request that a patent may be granted to me / us for the said invention.

Dated thisday of20.....

Signature:

Name:

To, The Controller of Patent

The Patent Office, at

Note: - Repeat boxes in case of more than one entry.

*To be signed by the applicant(s) or by authorized registered patent agent otherwise where mentioned.

Tick () / cross (X) whichever is applicable / not applicable in declaration in Para 9.

*Name of the inventor and applicant should be given in full, family name in the beginning.

*Complete address of the inventor and applicant should be given stating the postal index No. / code, State and country. *Strike out the column which is / are not applicable* For fee: See First Schedule



FORM 2
THE PATENT ACT, 1970
(39 OF 1970)
&
THE PATENTS RULES, 2003
Provisional / complete specification
(See section 10 and rule 13)

-
1. Title of the invention
-
2. Applicant(s)
(a) Name:
(b) Nationality:
(c) Address:
-
3. Preamble to the description
- | | |
|---|--|
| Provisional | complete |
| The following specification describes the invention | The following specification particularly describes the invention and the manner in which is to be performed. |
-
4. Description (Description shall start from next page.)
-
5. Claims (not applicable for provisional specification. Claims should start with the preamble-
“I/We claim” on separate page)
-
6. Date and Signature (to be given at the end of last page of specification)
-
7. Abstract of the invention (to be given along with complete specification on separate page)
-

Note: -

- *Repeat boxes in case of more than one entry.
- *To be signed by the applicant(s) or by authorised registered patent agent.
- *Name of the applicant should be given in full, family name in the beginning
- *Complete address of the applicant should be given stating the postal index No./code, State and country.
- *Strike out the column which is / are not applicable.



FORM 3
THE PATENTS ACT, 1970
 (39 of 1970)
 &
THE PATENTS RULES, 2003
Statement and undertaking under section 8

(See section 8, rule 12)

1. Name of the applicant(s). I / We

hereby declare:

2. Name, address and Nationality of the joint applicant: (i) that I/We who have made this application for the same/substantially the same invention outside India.

Or

(ii) that I/We who have made this application No.datedalone / jointly with, made for the same / substantially same invention, application(s) for patent in the other countries, the particulars of which are given below:

Name of the country	Date of application	Application No.	Status of the application	Date of publication	Date of grant

3. Name and address of the assignee (iii) that the rights in the application(s) has/have been assigned to.

.....
 that I / We undertake that upto the date of grant of the patent, by the Controller, I/We would keep him informed in writing the details regarding corresponding applications for patents filed outside India within three months from the date of filing such application.

4. To be signed by the applicant or his authorised registered patent agent. Dated thisday of20

5. Name of the natural person who has signed.. Signature

(.....)
 To
 The Controller of Patents,
 The Patent office, At.....

Note: Strike out whichever is not applicable.



UNIT

11

Strategic Planning

Contents

Chapter VII

1. Barriers to planning in Small Business
2. Strategies Planning Approach
 - Analysis Phase
 - Action Phase
3. Environmental Analysis and Internal Analysis
4. Distinctive Competencies and Competitive Weaknesses
5. Mission and Strategies Posture
6. Strategic Plan Preparation

The aim of this chapter is to:

- bring home to you the importance of planning especially strategic planning for a small scale entrepreneurs

Objectives:

On completion of this chapter, you will be able to:

- strategic planning
- barriers to planning
- strategic Planning Approach
- format of a strategic plan





Why does an individual enter the world of small business? To earn money? - That is not the only reason. Starting on one's own, being independent, risking personal funds, working long hours and planning business strategies are all part of the challenge and excitement of being an entrepreneur.

A large number of small businesses are started every year, many just struggle and survive, and quite a few fail within the first five years.

Although small businesses encounter difficulties for various reasons, there are certain consistent factors; a vast majority of entrepreneur owner-managers suffer due to their lack of foresight. They fail because they do not keep up with the market trends, the changing tastes and preferences of consumers. They also fail because they do not have clear goals and support activities.

To put it in simple terms, they fail because they are either unable to or unwilling to focus on strategic planning.

As Ramesh Chopra, a small entrepreneur, manufacturing small nuts and bolts, says, 'my business became profitable and doubled in size after five years. But the growth was unplanned; I could not really handle the growth. There were too few people to delegate work to, it was a painful experience. I had heard about something called strategic planning and decided to talk to a consultant about it. Today I follow his advice and am in a position to take a more disciplined approach. We know where we are going and how we are going to get there'.

Barriers to Planning in Small Business

As mentioned earlier, though planning is very valuable to entrepreneurs, most of them do not plan. What are the reasons ? More often than not, they are based on misconceptions.

First, small entrepreneurs generally feel that planning - especially strategic planning - is for large businesses, but unnecessary for small entrepreneurs. Bear in mind, this is wrong and dangerous thinking. In fact, planning is more critical for small entrepreneurs than for large businesses.

Second, some entrepreneurs think that since small business is short-term oriented, it is a futile exercise to plan for future. You must, however, understand that planning is necessary to take advantage of opportunities and defend against adverse changes and demands.

Third, many small entrepreneurs are of the opinion that formal planning limits the flexibility of their firms.

It is true that flexibility or the capacity to respond quickly and adapt to changing environment gives a competitive edge to small entrepreneurs like you. But, the view that planning restricts flexibility is based on a misunderstanding of the nature of 'Strategic Planning'.



Changes in the level and quality of planning leads to better overall performance of your enterprise. Understand that strategic planning is a change oriented process. If you react to changes in the environment, the changes cannot affect your business operation.

Besides, a strategic plan gives a formal direction to your business. It helps you to know and determine where your business is going.

Planning Horizon

Planning horizon is the time required to implement a major strategic change. Planning can be long-term planning, medium-term planning and short-term planning. Long-term planning refers to any period beyond the next five years; Medium-term plan is for a period of three years and Short-term plans are generally for one year or less. Planning also requires a vision

The Need for Vision

What is vision?

Vision means a glimpse into some desirable and possible future for your business. To pursue and realise your vision, you have to overcome significant hardships, possess a drive and commitment to hardwork. You should also have the ability to focus on the market and collect the resources necessary to not merely launch but also to expand your venture. Now you can realise why vision and dedication are important for you to succeed as small entrepreneurs.

What is the process required for Strategic planning?

Strategic planning is long-range planning. It is concerned with decisions that have enduring effects that are difficult to reverse. It is a creative process; you can create a ‘character’ by choosing sound objectives and strategy that enable your firm to acquire uniqueness.

Strategy planning is different from operational planning. The following figure shows the difference:

Focus	Operational Planning	Strategic Planning
Objectives	Present profits	Future profits
Constraints	Present Resources Environment	Resources Future Environment
Rewards	Efficiency, Stability	Development Of Future Potential
Information	Present business	Future Opportunities
Organisation	Stable	Entrepreneurial/flexible
Entrepreneurship	Conservative	Inspires radical change
Problem-solving	Reacts, Relies on past experience, Low Risk	Anticipates, Finds new approaches, High Risk

Characteristics of strategic planning

Strategic planning involves identifying the long-term objectives and determining the action plan for your firm:

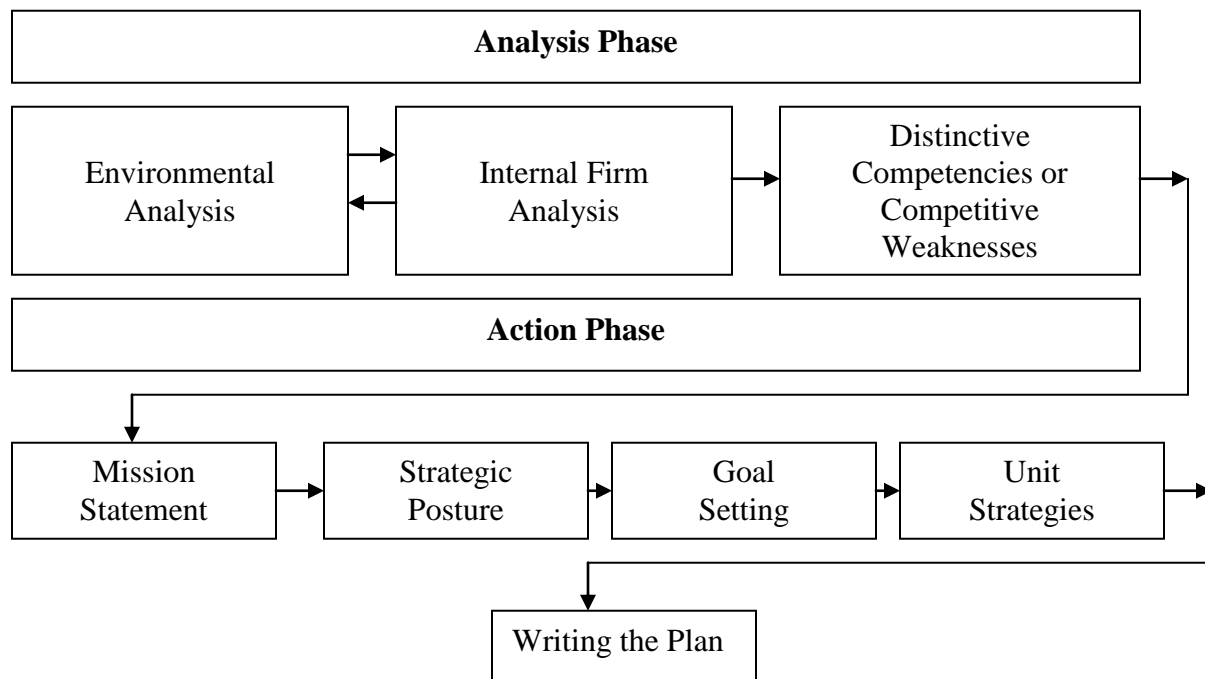
- It deals with basic questions like ‘What business are we in and what business we ought to be in? Who are our customers and who should they be?’
- It provides guidance and boundaries for operational planning.



- It involves a longer time frame than other types of planning.
- It provides a sense of coherence and momentum to your firm's actions and decisions over time.

Figure 1

Small Business Strategic Planning Approach



Environmental and internal analyses enable you to know both your special competencies and relative competitive weaknesses. With this information you can realise and take advantage of evolving competitive opportunities. After these data have been analysed and evaluated, you can embark on the action phase of strategic planning, and make a working plan to guide the activities of your enterprise.

The first steps in the action phase determine the mission of your business and its strategic posture. Once you have a clear understanding of the firm's mission and overall strategic posture in mind, you can focus on specific goals for the business; goals which are achievable and measurable for the business as a whole and for operational activities.

Strategies bring life to the goals. We would like to give you a few ideas on the various analyses needed to be done.

Environmental Analysis



Small businesses and small entrepreneurs must be particularly sensitive to environmental influences. There are two important reasons for this.

First, if a small firm is responsive to environmental issues, it gains considerable competitive strength. The firm can, thus, stay closer to the customer by being sensitive to customer preferences.

Second, small businesses are vulnerable to environmental influences. Misreading of a critical environmental trend may affect a large firm adversely, but a similar mistake may destroy a small business.

Therefore, a careful study of environmental influences and changes is essential.

Strategic Plan Format

- I. The nature of the business:
 - A. Description of the business
 - B. Industry characteristics
 - C. Competition
 - D. Location description
 - E. Distinctive competencies

- II. Mission Statement
 - A. Produce line or services provided
 - B. Philosophy of the business

- III. Posture and goals
 - A. Strategic posture
 - B. Company – level goals:
 - 1) Horizon goals
 - 2) Near-term goals

- IV. Unit – level goals & Strategies
 - A. Marketing
 - 1) Target market
 - 2) Product-line strategy
 - 3) Pricing strategy
 - 4) Distribution strategy
 - 5) Promotion strategy
 - 6) Service strategy
 - B. Production
 - 1) Location in distribution channel
 - 2) Make-or-buy decisions
 - 3) Lease/purchase equipment
 - 4) Sourcing strategy
 - 5) Production methods
 - C. Human Resource
 - 1) Employment strategy



- 2) Promotion from within versus hiring from outside
- 3) Wages/salary/benefits

D. Financial

- 1) Debt/equity strategy
- 2) Capital sourcing strategy
- 3) Growth/stability strategy
- 4) Financial projections

V. Target-goals & target-action plan

Figure 2 explains what we mean by Macro Environment & Industry Environment

Figure 2



Internal Analysis

Internal analysis is crucial for at least two reasons. An entrepreneur-manager generally relies on his/her personal opinion or 'hunch' feel to assess the internal condition of his/her business. But, this kind of biased view may result in an unrealistic perspective of the capacity, potential as well as areas of concern of your business. Hunches--intuitions are fine, but essentially, internal analysis reveals whether the business has the means to deal with the environmental opportunities and threats. And, this is critical as you get to know the internal strengths and weaknesses of your business.

Figure 3 will help you by giving you a profile of Internal Analysis



Figure 3

Internal Analysis Profile

Internal Resource	Strong Weakness	Slight Weakness	Neutral	Slight Strength	Strong Strength
Financial Resources					
Overall Performance					
Ability to Raise Capital					
Cash Position					
Marketing Resources					
Market Performance					
Knowledge of Markets					
Location					
Product					
Advertising & Promotion					
Price					
Image					
Distribution					
Operational Resources					
Production Facilities					
Access to Suppliers					
Inventory Control					
Quality Control					
Organisational Structure					
Human Resources					
Number of Employees					
Relevance of skills					
Morale					
Compensation					

Here is a caselet that will give you an idea about the importance and impact of strategic planning and analysis.



Saha Electronics

Saha electronics sets forth a strategic plan for the business at the beginning of each fiscal year. The plan specifies aspects of the environment, presents an assessment of internal strengths and weaknesses, and clearly lays out the firm's goals. A strategy for the year is then presented to be used to achieve the firm's goals.

This plan is not filed away. Rather, it is a working document, referenced and reexamined regularly. Sushil Saha feels that such checks are critical and encourages quarterly reviews.

During these progress checks, Saha compares both the internal analysis and the external assessment in the plan to the current situation. If necessary, the plans may be changed. The important thing, according to Saha, is that this process allows the business to 'note where we have been and how far we have to go to attain either the goals we have set for ourselves or the new goals that have developed since the plans were made'.

How Do You Recognise Distinctive/Special Competencies & Competitive weaknesses

What do we mean by 'Distinctive Competency?'

Distinctive competency is any area, factor or consideration that gives your business a real competitive edge. These distinctive competencies are what distinguish you and your firm from your competitors. It means that these are the areas where you do better than anyone else.

Distinctive competencies appear in two ways. First, the competency may be a part of your firm's operations. These competencies may be the result of your firm's mission or managerial operations. Second, if there is none, then they need to be developed and nurtured.

The areas of distinctive competencies for a small business are:

Quality	Strong Customer
Service	Orientation
Location	Reputation and Image
Finding a Special Niche	Personnel Price
Flexibility and Adaptability	

Determination or recognition of your firm's distinctive competency or competencies is one of the crucial events of the analysis phase of strategic planning.

Competitive Weaknesses

While a careful and thorough environmental and internal analysis enable you to identify your areas of distinctive competency, they also show the areas of competitive weakness.



What do we mean by competitive weakness?

A competitive weakness is an area of vulnerability, an area where your competitors are better than you are.

Once you have recognised your weakness, it would help you in the strategy process, as you can try to minimise or overcome the area/s of competitive weakness.

Define the Firm's Mission and Strategic Posture

Our advice to you is not to ignore this part of the planning process as some entrepreneurs do. Do not make the mistake of telling yourselves that you already know where your firm is heading. Deciding your firm's mission and strategy provide a focus to your activities.

Mission Statement

What is a 'Mission Statement'?

A Mission Statement is a concise statement of the general nature and direction of your firm. You should carefully write down the aim, scope and direction of your business. This statement becomes an outline of what your business will do and what it will be.

A mission statement is valuable for two reasons. First, it is a communication both inside and outside the firm. Second, is the commitment you have to the mission, once it is written down.

It also has two major elements:

1. The nature of your business, and
2. Your firm's basic philosophy

It is also important to develop your firm's strategic posture.

'Strategic Posture' is a general indication of how your business will behave in its attempt to achieve its overall mission and secure a competitive advantage. Often small entrepreneurs do not give any specific attention to a strategic posture, but focus on short-term goals and operational decisions. Short-term goals and operations are all right, but you should not, to succeed and be competitive, forget your strategic posture.

Setting goals

You have to determine and set specific goals for your business.

Benefits of specific goals – Only if you have a specific goal to strive for, do you take the actions necessary to achieve it.

Once a goal is set, performance can be measured in terms of that goal. Thus, a goal is simultaneously a planning tool and a control.



Goals also motivate employees. They know what the owner expected & have a good sense of what is likely to happen.

First, goal statements should be phrased in terms of outcomes or results rather than actions.

Second, goal statements should be clear, specific and if possible, measurable.

Third, effective goal statements should be challenging, yet realistic.

How Are Goals Created?

The focus of goals may change from time to time. Suppose, for example, that sales have increased as planned over the past several years, but costs have risen dramatically. The next goal may focus on cost-containment.

Goal Priorities

Prioritising goals is particularly important in product development. If your firm has a number of products that could be marketed, we may decide that products A & B will receive attention next year & products C & D the following year.

Target Action Plans

But, still the planning has not been accomplished. A target action plan forces you to go beyond only planning.

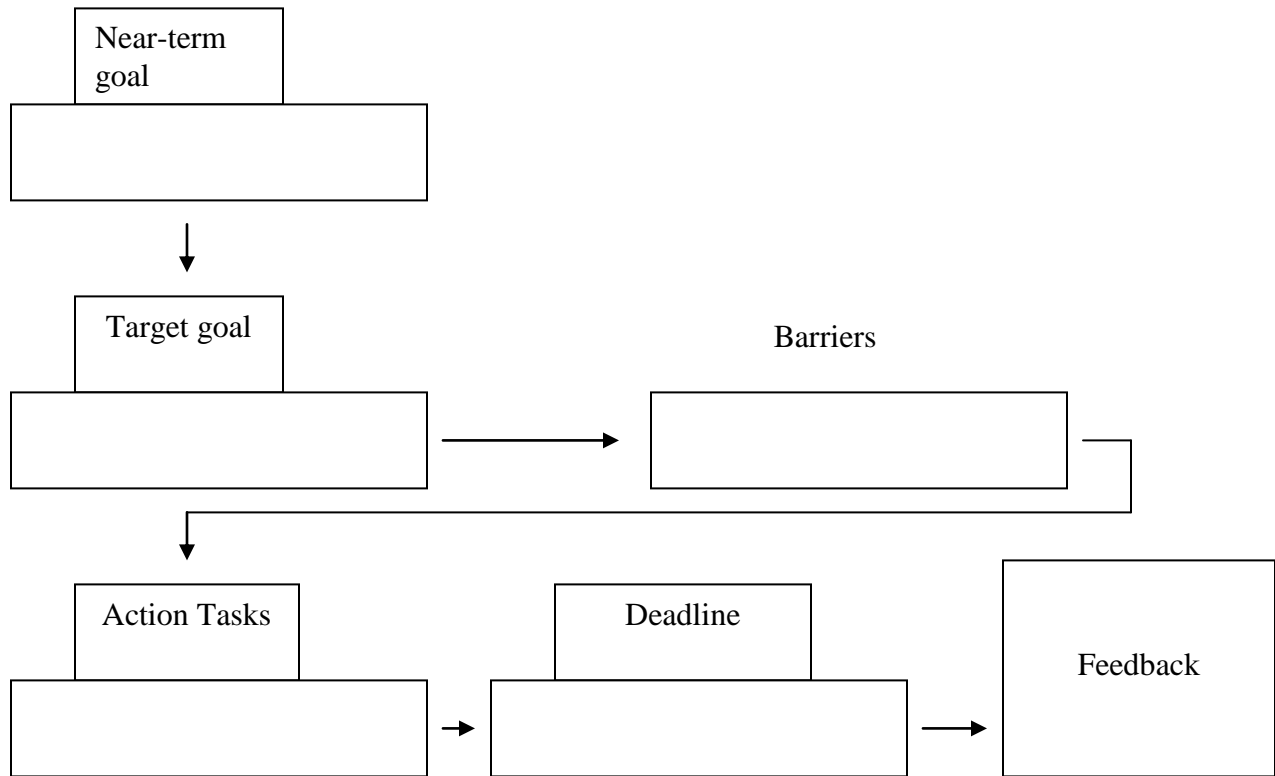
The first step on the target action plan is to restate the target goal in clear precise, objective & result-oriented terms.

Barriers

You must also overcome the barriers or obstacles in the path to the target goal. These relate to human resources, other resources, and time. There are three types of barriers: (1) Insurmountable barriers, (2) barriers that can be overcome but with concerted effort, and (3) barriers that can be overcome.



Figure
Target Action Plan



Action Tasks – are the specific tasks that must be completed if target goals are to be achieved.

Deadlines – it is important to establish deadlines, or completion dates, for each task in the sequence. These deadlines must be real. Deadlines should also be meaningful.

Feedback – Some method of getting feedback should be determined in order to evaluate whether a task has been completed or is progressing as required. This gives you a solid feel in the success of the task.

Figure 5 will give you an idea of the components of the plan.



Figure 5

Strategic Plan

I. Nature of the Business

- A. Description of the business
- B. Industry characteristics
- C. Competition
- D. Location description
- E. Distinctive competencies

II. Mission Statement

- A. Product line or services provided
- B. Philosophy of the business

III. Posture and Goals

- A. Marketing
 - 1. Target market
 - 2. Product line strategy
 - 3. Pricing strategy
 - 4. Distribution strategy
 - 5. Promotion strategy
 - 6. Service strategy
- B. Operations
 - 1. Location in distribution channel
 - 2. Make-or-buy decisions
 - 3. Lease/purchase of equipment
 - 4. Sourcing strategy
 - 5. Production methods
- C. Human Resources
 - 1. Employment strategy
 - 2. Promote from within versus hiring outside managers
 - 3. Wage/salary/benefit strategy
- D. Financial
 - 1. Debt/equity strategy
 - 2. Capital sourcing strategy
 - 3. Growth/stability strategy
 - 4. Financial projections

IV. Target Goals and Target Action Plan



UNIT

11

Information Technology & New Modes of Communication

Contents

Chapter VIII

1. What is Information Technology
2. Computer Technology
3. Communication Technology
4. Applications of IT
5. E-Commerce
6. Advantages of IT
7. Relevance of Information Systems for Small Entrepreneurs

The aim of this chapter is to:

- help you learn about Information Technology, its applications and modern systems of communication

Objectives:

On completion of this chapter, you will be able to:

- information Technology
- major categories of Information Technology
- computer hardware & software
- modern communication systems
- various applications of Information Technology
- advantages of IT
- role of information system and its relevance for small entrepreneurs



What is Information Technology (IT)?

Today, Information Technology (IT) has become the buzzword all over the world. The growth of Indian IT industry in the last 10 years has been remarkable. IT sector has proved to be the fastest growing segment of the Indian Industry. India's potential as a software superpower is in no doubt. A wide-range of IT-enabled services and business process outsourcing enterprises has come up in the last few years. The Nasscomm-McKinsey report projects the annual revenue of Indian IT industry, in 2008 at US\$ 87 Billion. And you, as entrepreneurs of to-morrow, should not merely know about the IT industry, but also learn about it and consider using it for your enterprise.

The technology that helps in processing of information in an electronic form, has dominated the latter part of the 20th century and will continue to dominate in the 21st century too.

Information technologies could and do play a role in improving the lives of people, profits of companies and changing the society by improving communication, economic opportunities and education.

With globalisation of economy, use of IT makes collaboration with individuals, organisations and groups, swift and easy. People, organisations, assets and ideas are interconnected with information and communication technologies that shatter the geographical boundaries by developing a 'virtual' workplace.

IT is the vital resource for global development, and the developed nations are already taking most advantage of it. India, as well as other developing countries, are now waking up to the importance of IT and concentrating on IT based industrial development. With Enactment of Information Technology Act in the year 2000, India joined a select group of nations that has legislature in this arena.

You must have read that India wants to be a 'Superpower' in IT sector in the 2000s.

But what do we really mean by Information Technology?

IT is a mix of computer and communication technologies and is mainly used for processing, storing and retrieving and disseminating information in multimedia format (text, graphics, video & sound).

Components of IT

IT has three major components:

1. Computer Technologies
2. Communication Technologies
3. People



Computer Technology

As all of you know, an advanced electronic technology, which basically helps in processing information or data in an electronic form is called Computer Technology. And the device that carries out the operation is known as 'Computer'.

This has two major parts:

1. Computer Hardware
2. Computer Software

1. Computer Hardware - All mechanical, electrical and electronic physical components of a computer system are known as Computer 'Hardware'. For example, the monitor, central processing unit and the keyboard.

2. Computer Software - Computer software is the set of computer programmes, which would carry out particular computer based applications. Computer programme is a series of instructions given to a computer to perform a particular task. A fully documented programme, or a set of programmes, designed to perform a particular task is called a 'Software Package'.

Software Packages are broadly classified as under:

i) Operating Systems: These systems are used to execute the computer application and manage the system.

ii) Application Software: These software packages are used to perform a particular application, such as word-processing, database management, information system management, etc (MS-Office, Oracle, Foxpro, etc).

iii) Utility Software: This is used for a specific utility like virus checking, disk management, etc (e.g. Nash, NC, Red Alert).

iv) Communication Software: For on-line communication and surfing through the internet and for mailing, special software are required. The software used for working on internet is called a Browser (e.g. Internet Explorer, Netscape). Whereas, e-mail software are termed as mail clients (Ex. Outlook Express, IncrediMail).

Communications Technologies

The technology that helps to communicate data or information (in the multimedia format) in analog as well as digital mode is called 'Communication Technology'. Communication Technology includes telecommunications, satellite technologies, Internet based technologies and computer networking.



People

The third component of IT are the people - the professionals who specialise in the field of IT. In fact, the utility of IT will largely depend on the abilities of these professionals. The organisation that create, package and market IT based products and systems must have people who have a high level of technical education and expertise.

Applications of IT

World over IT is used for a wide variety of applications ranging from simple data processing to complex business and industry information systems, management and e-commerce and e-learning.

The sector specific IT applications are classified as under:

E-Commerce

Electronic commerce or e-commerce is nothing but selling products and marketing services electronically. As businesses, trading and industries in India are progressing towards globalisation, going national and international, e-commerce networks are emerging. These kinds of networks have a wide variety of electronic applications. For example, if you want to purchase your card electronically or order your raw material and maintain your inventories electronically or even book an air ticket and make the payment electronically, you can do it. With e-commerce, the productivity of your business, whether in India or a foreign country, will improve. It will be easier for you to trade internationally. Of course, in India, we have a long way to go as e-commerce is still in the initial stage. But do not forget that there is a huge scope in e-commerce for business creation.

Manufacturing

Manufacturing activities are no longer what they used to be. Manufacturers, all over the world, have been using IT application in manufacturing. Computer Aided Manufacturing (CAM) and Computer Aided Design (CAD) are two important technologies that are widely applied in the process. Product specifications, fabrication industries, quality control and auditing, inventory data, customer information and feedback are maintained by computerized business information systems. These systems are more and more used by large and medium scale companies, though small entrepreneurs still have to adopt them in a big way.

Telecommunications

Modern day telecommunication is, to a large extent, by computerised systems. In areas like telephones, long-distance data transmissions, mobile telephones and Internet, IT forms the basis of communication.



Transport

IT is also plays a vital role in all modes of transport like air, surface & sea. IT applications in transportation are focussed in the following areas:

1. Performance Improvement
2. Transportation Safety
3. Travel Booking and Communications

In India we generally have manual and semi-automatic method for the above. But if we supplement it with IT, it would dramatically improve transportation service cost, safety and efficiency.

Financial Sector

You can understand that the financial sector is one of the largest markets for IT based applications. In fact, this has been one of the earliest sectors to adopt information technology. In many countries, financial applications have led to the development of a large local market for information technology. Effective use of IT in the banking sector would help them in increased income, keeping track of daily bank transactions, management of investment portfolios and their assessment, allocation of resources, control on accounting and improving the quality of service.

IT application would also enhance (increase) services through credit cards, Automatic Teller Machines (ATM), electronic fund transfer, foreign exchange and treasury management. All major financial institutions and banks in India are using IT based systems.

Academic Sector

The education system, all over the world, has undergone a complete change and uses IT technology to impart education to students. IT is changing the ways in which teachers instruct and students learn. New applications of IT have been developed to increase learning for students of all ages and grade levels, and to make teachers and schools more productive and effective. There are also a variety of learning programmes based on software with specially equipped computers which can provide hands-on learning, with emphasis on problem solving, creativity, etc.

Some of the developed countries like the USA, U.K., Japan and Canada have even launched 'Virtual Schools' (On-line schools), many other countries are also working in this direction. In India too, IITs & IIMs are in the process of providing On-line education.

Science and Technology

IT has also played an important role in all kinds of innovations and technological development in science & technology, especially in the R & D laboratories and higher education institutes all over the world. The important areas where IT would make major contribution are, research process control, analysis, design and documentation.



Healthcare

Healthcare is another important area where IT can play a crucial role, - IT applications in this sector would limit the cost of treatment, and access to good healthcare and healthcare information would be available to the public. For example, community healthcare information networks can allow patients to consult with physicians and specialists at regional and national centres. Advanced computer networks would enable high-speed transmission of critical medical images, such as X rays & scans. Computer Aided instruments are today used in major surgeries.

Home Entertainment & Mass Communication

It is already a major player in television programmes, movie making and broadcasting. VCDs are becoming popular. Leading commercial television channels are already on the Internet and offering web based services.

Advantages Of IT

Application of IT in various sectors offers many advantages. The important advantages are as under:

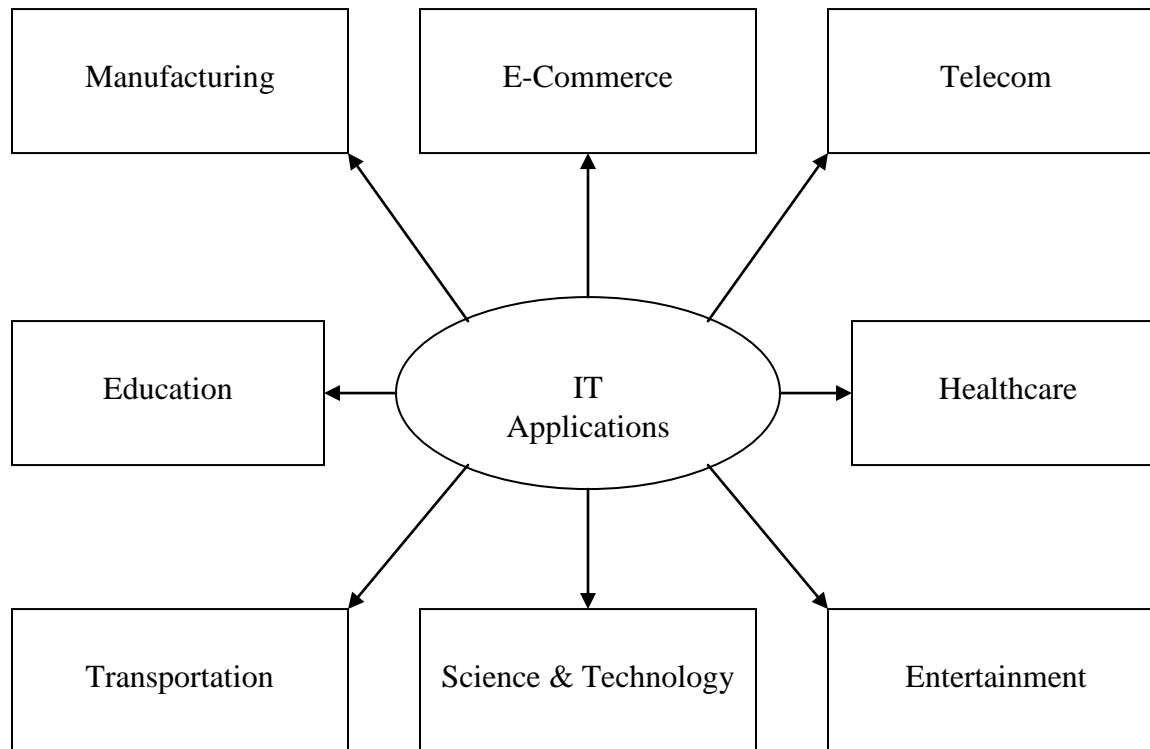
IT applications would:

- save manpower
- eliminate human errors
- enable faster communication & exchange of ideas
- avoid duplication efforts
- improve quality
- enable total automation
- improve the way of working
- increase productivity
- create & expand markets
- grow the economy

Looking to the IT revolution taking place all over the world and the above applications and advantages of IT, we would like to tell you, the potential new entrepreneurs of the next millenium, that this is the right time for you to venture into IT based businesses. The IT policy of the government is aimed at encouraging you towards IT based businesses. For example, the Indian software industry has a lot of potential, and is one of the major powers of the world. Developing software for the manufacturing and service industries, and the financial sector would earn good fruits for you at the domestic as well as international level.



Major Areas of IT Applications



Relevance of Information Systems for the New Breed of Small Entrepreneurs

As you have learnt, 'Information Seeking' is one of the competencies of successful entrepreneurs. And, information is a must for the growth of your enterprise and having a competitive edge.

Why IT is relevant for you?

Business was initially considered locally; the area of business was small. An entrepreneur, therefore, had to focus on a particular set of customers. But then came liberalisation in 1991, and everything changed. Competition has increased, and the customer has a wide choice. From a small entrepreneur, or a large company, everyone wants to capture new markets or strengthen the hold on existing market. To survive now, you have to have low overheads and at the same time offer quality goods and services globally. And this requires a closer monitoring and control on your operations.

To put it briefly:

1. Globalisation has created new avenues or markets for business and services. Online Business is gaining momentum.
2. There is a rise of knowledge based society or knowledge-based economy.
3. Enterprises are transformed as a result.



What is Information System (IS)?

Information System (IS) is a set of interrelated components that collect, process, store and distribute information to support decision-making and control in an organisation.

IS could be manual or computer based. Since computers are capable of storing a large amount of data in smaller area, computer based information systems are more useful and popular. An IS will use the hardware and software to produce the information of a particular enterprise. IS thus provides solutions to tackle challenges of modern business.

How the Information Systems can be used?

The systems can be used by you in the following manner:

Operational Level: Used for operation management, to keep track of sales, receipts, inventory, cash flows, resources, etc. as well as for routine task management.

Knowledge Level: Integrate new knowledge and lower the flow of paper work, R&D, word processing, e-mail, Internet, etc.

Management Level: Monitoring, controlling, decision-making and administrative activities.

Strategic Level: For long range planning for product/s, new markets, cost, competition etc.

Strategic Role of IS

IS can be used for competitive advantages:

1. Product differentiation:

Develop unique products & services difficult to replicate

2. Focussed differentiation:

Develop products & services for specific profitable markets. This reduces competition in that segment and discourages new entrants.

3. Tight linkages between customers and suppliers:

For example:

Coke outlets are seen everywhere. Even if a customer wants to change, it costs high

Or

You offer credit facilities etc. to hold on to a customer

Or

Electronic markets Desktop Shopping



4. Cuts down costs:

- Airlines use IS to realise higher fares for last minute executives. They also offer Online booking at discounted prices.
- Firms use IS to maintain minimum inventory, control item consumption and wastage, etc.

So, you all, potential and new entrepreneurs, be entrepreneurs of the new century, make use of Information Technology to become competitive, quality conscious entrepreneurs, not merely to survive but also to grow.



UNIT

11

Environment & Pollution Control

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The aim of this chapter is to:

- Various types of pollution
- The Acts for prevention & control of water & air pollution & environment protection
- Powers & functions of Pollution Control Boards

Objectives:

On completion of this chapter, you will be able to:

- The need for pollution control and environment pollution
- Measures taken for prevention and control of pollution and environment protection



Environment & Pollution Control

As we all know, Man and Nature complement each other, live close together and depend on each other in various ways. But now with technology and its advances, and increase in population, the ecological system has been disturbed. This has resulted in various types of pollution like air, water, land and noise.

What is water pollution?

1. Water Pollution:

It means contamination of water or any alteration in the physical, chemical or biological properties of water or due discharge of any sewage or industrial effluent or any other liquid. Gas or solid substance in water renders such water harmful or injurious to public health or safety or to domestic, commercial, agricultural or legitimate uses or to the life of animals, marine life or plants.

Water Pollution occurs due to the presence of dissolved inorganic materials, organic materials like fats, carbohydrates and other substances found in domestic and industrial waters. Physical factors such as turbidity, colour, temperature of effluent, associating radio activity, etc. are also responsible for water pollution

The Central Government has appointed a Central Board to regulate Water pollution, and so have the State Governments.

2. Air Pollution:

Apart from natural causes, pollution of air occurs due to increased industrialisation and urbanisation. Thousands of tonnes of dust, sand and obnoxious gases are carried from one place to another by wind, cyclones, volcanic eruptions and forest fires. The contribution of winds and storms to the load in the air is rather high in our country because of its soil properties, deforestation and climatic conditions. The problem of pollution, however, is both natural and man-made, and is further increased by poor town planning and random urbanisation.

Pollution of air occurs from process industries such as sulphuric acid plants, cement plants, foundaries, plastic industries, etc.

3. Land Pollution:

The greatest land pollution occurs due to urbanisation and large population. Garbage, waste paper, packing materials and rejects from households and industries form solid wastes. These need to be collected from scattered localities and disposed off.

4. Noise Pollution:

Noise has recently been recognised as a pollutant. It is most widespread and a menace in thickly populated areas. There is considerable medical evidence that it affects speech, hearing and the general health and behaviour of people exposed to it over long periods of time.



The best way to control noise is at the source, by proper choice of equipment and proper layout. Similar measures hold good for community noise.

You are going to be the new entrepreneurs of tomorrow-of this new millennium, and in the present business environment, you cannot ignore the physical environment in conducting your day to day business activities. Experts and environmentalists blame industries for most of the health problems among people. Apart from human beings, pollution is also considered to be responsible for endangering the existence of some animals, and marine and plant life.

Alarmed by this, in 1991, world leaders gathered in Brazil, to deliberate on the grave environmental threats due to industrial pollution. The result of this meeting was a plan document called 'the Agenda 21'. Agenda 21 is the document by which, all the countries which signed the document, decided and promised to reduce the pollution levels to a level which would not harm any living being in the world.

To give you an example of the gravity of the pollution problem; it is predicted that countries like Maldives will be submerged by the year 2025 due to rising of water levels, in turn due to the melting of ice caps in the Antarctica. And what is responsible for the melting ? Global warming, which again happens because of thinning of the ozone layer. And the Ozone layer is thinned, due to high level of industrial pollution.

As we mentioned earlier, industrial pollution has been the cause for health problems of human beings, extinction of animal and marine life and threats to monuments like the Taj Mahal and other heritage sites. The threat of pollution has reached such alarming proportions that governments in various countries have enacted strict laws to control and manage the pollution problem.

You must have read in newspapers that in India, the government ordered closing down of very profitable and successful companies, because they did not adhere to the environmental pollution norms. And, this is happening all over the world. You must note that in our country, the financial institutions do not finance industrial units unless they have a No Objection Certificate from the Pollution Control Board.

To put it in simple language, 'Pollution' can be defined to mean "presence of wrong matter in wrong quantity and at wrong place, e.g., storage of large quantity of industrial gas, i.e. leakage. To prevent and control the various factors contributing to increased pollution, the central government has passed various legislations from time to time viz. Water Act (Prevention & Control of Pollution), 1974, Air (Prevention and Control of Pollution) Act, 1981 and the Environment Protection Act, 1986.

Water (Prevention & Control Of Pollution) Act, 1974

Objective of this act

- Passed for maintaining or restoring the purity of water resources of the country
- Prevention & Control of Water Pollution
- Establishment of Boards for the points mentioned above



- Assigning power to such Boards

To regulate water pollution, the Central Government has appointed Central Board. The State Governments have also appointed similar Boards.

Powers & Functions Of Central Boards

Main function is to promote cleanliness of streams and wells in different areas of the state by

- Advising Central Govt.
- Coordinating activities of State Boards
- Providing technical assistance to State Boards
- Conducting programs, seminars, and publishing data
- Laying down standards

Functions of the State Board

- Investigation and research relating to cases of water pollution and prevention
- Inspection of sewage/trade effluents
- Evolve reliable and economical methods of treatment
- Establish laboratories for checking the level of water pollution and reasons thereof

Prevention & Control Of Water Pollution

- Declaring Water Pollution Prevention & Control area and modifying the same.
- Charge and curb any person abstracting water in more quantity from any stream or well.
- Controlling or directing discharge of sewage or track effluent into such streams or wells
- Power to take samples of effluents
- Power of Entry & Inspection
- Performing functions of the board as defined in the act.
- Prohibition of use of stream or well for Disposal of Polluting Matter.

If a person fails to comply with any conditions of the Board, the Board issues a notice to the guilty person regarding the pollution and orders him/her to rectify the problem within a prescribed time limit (30 days in most cases). If the problem is not rectified within the prescribed time limit, the Board levies an appropriate penalty along with interest.

Furnishing information to State Board and other agencies

- If water is polluted due to accident or any other reason, Board should be informed.
- The board has power to approach court in case of violation of any standards after giving notice to a particular person.
- The board can give directions of closure of an offending industry.



Penalties & Procedures

Penalties are levied only if the Board receives information on the contravention of the following points:

- Information about abstraction of water or discharge of effluents.
- Information regarding construction, installation or one of any establishment of or any disposal system.
- Failure to restraint from discharging poisonous and polluting matter.

Offences by Companies

The person incharge of the industrial unit and the company are jointly responsible and if charged of the offence are liable for penalties, if proved. However charges against individuals are taken back if they can prove that a particular offence was committed without their knowledge of the crime being committed by the company.

Air (Prevention & Control Of Pollution) Act 1981

Any solid, liquid or gas substance including noise present in atmosphere tend to be injurious to human beings or other living creatures or plants/property/environment.

Functions of Central Board

The functions of the Central Board as per the Air Act, 1981 is similar to the functions of the Central Board constituted under the Water Act, 1974. The broad areas are to:

- advise Central Government
- organise seminars, training programmes, collect, compile and publish data relating to air pollution.
- lay down standards for quality of air.

State Pollution Control Boards also perform functions to that of the State Board as per the Water Act, 1974.

Measures For Prevention And Control Of Air Pollution

- Declaration of Air Pollution Control Area (APCA).
- Decision to be taken as to which fuel may cause pollution
- No appliance other than approved ones can be in the premises situated in an air pollution control area.
- Prohibiting burning of material which may cause pollution

Under Motor Vehicle Act, 1939, standards for emission of air pollutants from automobiles are laid down by State Board. Recently, the state governments have started enforcing these standards more vigorously. For example, it is now compulsory for vehicles to have Pollution Under



Control Certificate (PUC). The cars that are now manufactured in India are required to satisfy European Union (E.U.) norms. The already existing cars have to get catalytic converters attached to their exhausts.

Restrictions on use of certain Industrial Plants

- Permission is required for industrial plant in air pollution control area.
- With prescribed form alongwith prescribed fee

If any area is declared as APCA, the Industrial unit is required to take permission for setting up a factory within 3 months after declaration.

- Control equipment cannot be changed without permission.
- Chimney should be erected if required and the same should be of the height specified under the APCA.
- Any of the conditions set by Board may vary due to technology improvements.
- If transfer of Industrial Plant takes place to other person, then the new person has to comply with rules act.
- No industry can discharge air pollution in excess of standards laid down.
- Board can make application to court for restraining persons from causing air pollution:
 - Application to a court not inferior to that of a Metropolitan Magistrate or Judicial Magistrate of First Class.
 - All expenses incurred by Board in implementing the directions of the court, are recoverable from the person concerned.

You may furnish information to State Board and other agencies regarding emissions of the unit so that Board helps you to take some remedial measures in your industrial unit.

Powers of Board

- Power of Entry and inspection for performing functions of State Board.
- Examining and inspecting any control equipment, industrial plant, record, register, document or any material object for conducting a search.
- Power to obtain information
- Type of air pollutants emitted into atmosphere and its level
- Power to take samples
- Report of analysis is to be submitted in triplicate copy.

The Environment (Protection) Act, 1986

Environment includes water, air and land and inter-relationship which exists between water, air and land and human beings, other living creatures, plants micro-organisms and property.



Scope & Scheme of this act

This act fixes responsibility on persons carrying on industrial operations or handling hazardous substances to comply with certain safeguards for the prevention, control and abatement of environmental pollution to furnish information to the authorities.

Central Government has been granted general power under the Act for taking necessary measures for protecting the quality of environment and for laying down safeguards for prevention of accidents and handling hazardous substances.

Under this act, Central Government has powers to make rules regarding following matters:

- standards of quality of air, water or soil
- maximum permissible limit of concentration of various environmental pollutants
- procedures & safeguards for handling hazardous substances
- power to appoint officers for supervision, direction & control
- power to issue direction for withdrawal of prohibition.
- power to enter, inspect, take samples etc.

Central Govt. has established environmental laboratories and has accorded recognition to some private laboratories to carry out certain functions under the Act.

Environmental Clearances & Location Of Industries

* Central Govt. may prohibit or restrict the location of industry on considering factors such as quality of environment, maximum allowable limits of concentration, likely commission or discharge from proposed industry.

* Also restriction on mining operations, cutting of trees, grazing by cattle in certain areas, construction of any clusters of dwelling units, farms, houses, roads, etc.

* No industrial project can be set up or expanded unless it has been accorded environmental clearance by Central or State Government.

Environmental Audit

It is mandatory for every person carrying on an industry under section 25 of Water Act/Section 5 of Air Act/both/Hazardous Waste Management Rules to submit an environmental audit report every year on or before May 15th.



UNIT

11

Service Sector, Marketing & Management

Contents

Chapter X

1. Importance of Service Sector
2. Characteristics of Services
3. Developing a Service
4. Difference between marketing of goods and Services
5. Marketing mix and Strategies
6. Selling of Services

The aim of this chapter is to acquaint you with:

- The characteristics of services & marketing of services

Objectives:

On completing this chapter you will be able to know about:

- Importance of the Service Sector
- Characteristics of services
- Delivery of services
- Marketing strategies and marketing of services



Services – Management, Marketing and Opportunities:

Introduction:

There are three economy sectors- manufacturing economy, agricultural economy and service industry economy. The service industry has always been a vital component of all economies. And it has become more so these days – especially since the 1990s.

In India, the service industry is considered as being crucial to the economy. The industry has undergone a sea change in India, what with developments all over the world. The Cell Phone, paging services, satellite communication, software, the internet, Credit Cards and education are some of the areas in which growth has been high and fast.

With liberalization, globalization and deregulation, competition has become intense all over the world, and not merely in India. It also means that the market for business has become international. Services like hotels, tourisms, banking, insurance, software communications, will have customers, people and organisation all over the world, `the era of knowledge – based competition is upon us', as Parvinder Singh, late Chairman of Ranbaxy Laboratories said.

The quality of service is determined by its process. Service is rendered by people to people or organisations; quality is the outcome of process. People manage these process. The focus is thus on people.

The service industry is composed of diverse businesses, and the attitudes of clients/customers are also diverse.

If we compare the market place of any town or city with that of the old days, the difference will be obvious.

A large number of boutiques, hair dressers, travel and tour operators, telephone booths, Xerox shops, computer classes, cyber cafes, course services and fast food joints etc. crowd the place now.

The delivery services of restaurants, fast food joints, chemists and even grocers, vegetable fruits stalls etc. have made purchasing more convenient.

What is service?

Economic activities are broadly classified into five groups, one is agriculture and mining, second includes manufacturing and food processing, the third sector deals with ancillary and support services.

The service sector can be divided into four categories :

- Production services, such as repairs, maintenance and transportation of goods;
- Business services like banking, insurance, advertising, accountancy, finance, market research, credit cards, software, business centers etc.



- Consumer services such as healthcare, travel, leisure, beauty care, entertainment, information, education, consultancy, food provision and delivery etc.

The service business ranges from:

- Big hotel chains to wayside “Dhabas” and food stalls
- Airlines and shipping companies, to lorries, taxis and buses in the transport segment
- Multifacility business centers with satellite linkages to a single machine Xerox facility
- Big multidisciplinary hospitals to diagnostic centers, to family physicians
- Advisors and consultants on business and finance, interior decoration to a single man and an internet connection.

Value addition

You go to a restaurant to eat, but eating is not the only purpose of the visit; you might be celebrating an event like birthday, anniversary or promotion or negotiating a business deal. The sense of justification at the end does not merely depend on the quality of the good but also on the service, the ambience of the place and courtesy shown by the staff. These constitute service and determine whether you will go there again. Same is true for other services too.

The Distinguishing Characteristics :

You have to remember that the nature of service is very different from the nature of goods. Therefore the methods and principles of the management of services have to be different in various aspects.

Intangibility :

Goods are tangible i.e. they can be seen, felt or tasted. Services do not have any of these attributes. One cannot see, feel, smell, touch or measure a service. It can only be experienced from the effect it has on the person receiving the service. Take for example, a doctor who examines a patient and makes a diagnosis and prescribes treatment. Do we pay him for doing things like tapping on the chest, looking inside to throat or reading instruction or reports ? No, he is paid for his knowledge, experience, and the training he has undergone, which make him capable. And, if the patient is cured, the effect of the service rendered by the doctor is considered good.

Inseparability :

In a restaurant, one of the factors that constitute service, that is providing customer satisfaction, is the courtesy shown by the waiter. Here, the behaviour of the waiter with the customer is important. It is shown by the waiter and perceived by the customer simultaneously. There is no gap in time between either the production and consumption of service. They are not, and cannot be separated. This means that one cannot manufacture a service somewhere and transport it to the customer at some other time or place. Secondly, in a service, the sales are direct.



Heterogeneity :

Both production and consumption of service are being experienced by human beings, the service cannot be of consistent quality; what may be “good” for one, may not be so far another. In a classroom, the quality of teaching can be as varied as the students in the class. So, standardization is difficult. Each customer requires a different kind of service.

Perishability :

Goods can be stocked, even perishable ones for atleast some time, but the supply of service cannot be stored. For example, the time of a beauty parlour will parish if not used in time.

Other features :

Services are performed by people. But the services are not always low-tech. Computers are high-tech, so are their maintenance and repair. Service industry has a high labour impact, but not necessarily high labour content.

Distinction between goods and services :

Goods	Services
Are manufactured	Are performed
Are tangible	Are intangible
Barriers to entry could be high	Are generally low
Are produced and consumed later	Are produced and consumed with customer participation
Can be sampled before purchase	Cannot be sampled before purchase
Can be stocked and sold later	Cannot be stocked and sold later
Purchaser acquires full rights to use them	Purchaser has limited rights to use them
Ownership can be transferred	Ownership is not transferred

A service is not produced. It is performed. It is not a physical entity, it is generally made up of a number of intangible elements. To give an example, in the case of a dealer in computers, the hardware and software both are important. But his distinctiveness would be in areas where he could be of help to the customer, his availability in the event of problems, the reliability of the information given by him.



Developing a Service :

The steps involved in developing a service are:

- determining what the customer values as benefit
- determining which of these benefits could be offered
- deciding on the precise service offer
- deciding on arrangements for delivering of the service.

Benefit Concept :

The service product has to provide benefits to the customer. One needs to be clear on who the customer is and what his needs are. The expectations (or needs) of the customer include a number of functional and psychological aspects. For example, the needs of a traveler on business are different from those of one traveling on holiday with his family. In the second case, the needs of the family become more important.

Service concept :

The benefits offered by a restaurant may vary in the kinds of food it offers, their rates, courtesy, the waiting area, comfort of seating, exclusiveness and so on. Variations in service may be in terms of (a) seating facility (b) waiter service or self service (c) delivery of food to a customer's workplace or home – these choices are to be made keeping in mind :

- the market segment proposed to be served
- the resources one has.

Delivery system :

Once the choices about the offer are made, the proposed service must be delivered consistently, all the time. The delivery system is probably the most important part. Services are delivered :

- by people
- using equipment and other physical facilities
- through systems.

All these have to be properly organised. The arrangement whereby the service is offered or sold by one but effectively rendered by another, is similar to the arrangements in manufacturing, where products are made in different places and sold under different names.

A person who provides a service, has to decide on the core service, as well as other related services he/she would like to provide. For example, if you are in the business of providing laundry services, you can also include along with the washing, ironing etc., minor repairs like darning, stitching on of buttons, redoing stitches that are coming undone and so on.

Guarantee :



Service is intangible. The customer does not know what he/she is getting, until after the service has been bought, performed and experienced. He/she might have expectations about the service they are buying; yet there is an uncertainty about whether the service will match the expectations.

However, if you want to go in for service industry performance is important. You cannot get away with clichés like 'to err is human', 'mistakes will occur', etc.

Delivery of service :

In services the delivery of service is an internal part. And to ensure proper and timely delivery, the equipment, people and system have to be in place, trained and ready to perform. These arrangements indicate preparedness and readiness to do the service.

Equipment facilitates the performance of service, but does not ensure it. For example, the inquiry service, say of the telecom department, will not be satisfactory if the recording machine is not functioning properly, or if there is a very long wait before being connected to the machine.

'Systems' refer to the arrangements for the flow of information and/or material to the places where the service is being delivered. For example, if a car is given for servicing or repairs to a garage, the jobs to be done as per the owner's complaints have to be conveyed to the persons who have to do the job. To put it briefly, the service provider should try to make their services customer – friendly.

The system in a garage mentioned above will include ways to :

- receive and record complaints of customers
- assign persons to inspect and determine the nature of repairs to be done.
- collection from customer's premises, if needed, and deliver it back
- make estimate of cost and time required to complete the job and inform the customer about cost – the estimate and the delivery schedule.

As the service is rendered by people to people, consistent standards are difficult to maintain. However, your delivery system should try to ensure that, no matter who delivers it, the service is carried out :

- at promised levels.
- beyond expectations
- without being asked
- consistently without flair
- at increasingly high levels.

Complaints :

As a service provider, you can pick up a lot of information on customer needs, expectations and experiences if you are sensitive enough, even if the comments and complaints are not expressed. It has been found that generally very few customers complain, they just go to



another service provider. But if you are a good service provider you should not try to interpret the complaint as an accusation against you. You should not try to

- explain away the failure
- consider the customer's demand as unreasonable
- look for a person who can be faulted.

Knowing the Customer

Who is a Customer :

A customer is one who buys. The customer of an educational institution is the student, for example.

The Buying Process

A customer buys because he/she wants to satisfy a need. Therefore, before buying, they have to;

- become aware of the need to be satisfied
- want the need to be satisfied
- search for alternatives that can give them what they want
- consider the advantages, disadvantages, cost, benefit etc. of each of the alternatives
- compare the data
- evaluate the best.

Needs :

Needs are not always uniform. A hungry person needs food. But for one person the need may be a simple meal just to satisfy his hunger, for the other it may be rich fare, or a quick bite of some junk food.

Needs and Wants :

Very often people are not even aware of some needs, because the possibility of satisfying such needs is not known. Take for example, mobile phones, did we miss them till they came into being? Now there are people who confess that they cannot live without them. The need for 24 hour entertainment and news was not felt till cable T.V. was established. Needs may be satisfied in different ways. You might want to buy a car because of a need for: (a) transport, (b) status. You go out to purchase something when a want has arisen.



Search In Alternatives :

If the want for a car or a microwave has arisen, to meet the need of keeping up with the Desais, you have many options to choose from. To know these options is the next step in the buying process. So you look around, ask friends, study literature.

Comparison of alternatives :

Then you compare the alternatives and evaluate each. At this stage your personal preferences play a major role Evaluations are made on the basis of criteria of the buyer. Some might prefer lower cost, some external appearance and so on.

Perception :

Besides, perception is very important in understanding customer behaviour. One person may look at an abstract painting and find it beautiful. For another it might be just daubing of paint. So the beauty is not in the painting but in the mind.

Perception influences our observations and judgments, we look at a stranger's face and behaviour and form opinion about his personality. We perceive all politicians as corrupt. But our perceptions are not always correct. – It is because of differences in perception that people :

- do not see facts / data the same way
- are not objective about observations and judgment
- become prejudiced or biased
- have preconceived notions.

Buying Services :

Buying service is different from buying goods. There are certain specifications and performance capability which enable you to make a buying decision. In the case of services, there are no specifications, no hand data. The service product features are intangible. The choice from alternatives has to rely on:

- reputation (read/heard)
- earlier experience.

The reputation of the quality of service offered is a major influencing factor in the decision to buy a service.

Experience is what you had got on previous occasion. If your experience has been satisfactory, you tend to seek it again. If the experience has been unsatisfactory, then you avoid that experience. The reputation would not have any influence.

Satisfaction v/s. expectation :



When you buy a service, there is an expectation about the nature and quality of the service, based on :

- what you experienced the previous time
- what you need now
- what you have heard from others or seen in advertisements, or what one has been made to believe by the salesperson.

The service is experience after the purchase. The experience is a perception of the actual service rendered. If the perception of experience is better than the expectation, the service is evaluated as satisfactory. Thus, the same kind of service may satisfy some customers and dissatisfy some others, depending on their (1) perception of the experience and (2) the expectations.

For example, you feel that to eat in a popular restaurant, one has to wait in a queue for half an hour, and if when you go there you have to wait only for 10 minutes, you are relieved and satisfied.

Therefore, as a service provider you should:

- keep down expectations
- keep promises and
- enhance perceptions of experience.

So you, as a service provider, do not claim more than what you can deliver. Better be modest before the service, and prepare the customers for the problems they may face. Besides, keep your promises, see to it that the actual performance matches the promises. Not doing what is promised is far more dissatisfying than not doing as per customer expectations.

Enhance perceptions of experience :

Customers may not notice services rendered well, but they will notice one thing that is not done well. Errors and failures are immediately noticed. Twenty four hour supply of water is not taken note of, but let the supply become irregular, immediately people start complaining.

Significant Wants :

Studies have shown that there are certain wants of customers which, if satisfied, heighten the perception of 'good' service. They are :

- recognition
- accurate information
- assurance of quality
- reliability or credibility
- ease of access.

Recognition :



You cannot perceive good service if you feel that you have been ignored.

Accurate information

Do not ever give wrong information. Wrong information unnecessarily creates a lot of problems. When accurate information is expected and then received, there is no great satisfaction; but when it is not received, there is great dissatisfaction.

Assurance of quality

To the customer quality is in terms of those intangible needs for which he/she buys the services.

Reliability on credibility :

This refers to trustworthiness. You must create trust in your customers. Services are bought before they are experienced. But there is a certain amount of trust that the service that is bought will be of the expected standard. If that does not happen, there is a serious lack of satisfaction.

Ease of Access

The service has to be accessible. Accessibility means location, phone facility, hours of operation and such other facilities. That is how the fax, internet, e-mail, LANs, etc. function well.

Access is better if there are less :

- forms to fill
- people to meet
- distances to travel
- delays in getting results
- procedures
- laws to understand.

Ten Factors of Perception of Quality :

Some experts have identified 10 factors that significantly influence perceptions of quality in service. Perhaps these might help you when you decide to provide a service. There are:

- Responsiveness : Here responsiveness means willingness to serve. This is reflected in the behaviour of the service provider or his/her personnel in contact with the customer;
- Competence : Refers to the level of knowledge and skill of the person in contact with the customer, where it is you or your personnel;
- Courtesy : Is politeness and respect shown during the interaction with the customer;
- Credibility : Refers to the trustworthiness of the person in contact;



- Sensitivity : Is the ability of the individual to recognize and understand the customer's feelings and needs;
- Access : Has already been explained earlier;
- Security : Security here means, safety, privacy, confidentiality;
- Appearance : This also has been dealt here;
- Reliability : Refers to the consistency of performance;

An experience raises expectations. If the subsequent experience is not as per the customer's expectations, it is an adverse experience.

- Communication : Refers to the extent to which the customer is being informed on matters relevant to the service.

Marketing of services :

Introduction :

Before looking at the adaptations to marketing strategies and technics that may be required, we can have a book at the meaning of marketing and the status of marketing in the service sector.

What is marketing :

Marketing is 'the way an organisation matches its own human, financial and physical resources with the needs and wants of the customers.'

The marketing concept – is to create, to win and to keep a customer. To do this the organisation has to create, produce and deliver goods/services that people want and value. The organisation has to clarify the strategies it may employ to achieve such purposes and it requires plans for their achievements. The status of marketing in the Service Sector.

Marketing is concerned with the study of needs, desires and buying habits of customers. A marketer has to ask and get answers to questions like, what people buy, when they buy, why they buy, how much they buy, at a given time or over a period, and at what price, from where etc.

Marketing concepts are developed on the basis that the customer is the centre of all organizational activities. To win & keep the customer is the purpose of the organization's existence.

Marketing of Ideas

Marketing has relevance beyond the sale of goods and services. People do not buy products, they 'buy' only ideas and concepts. LPG has value because of its convenience, ease of operation and clean cooking; and all this is in the minds of the users.



As a marketer you should have marketing orientation and not product orientation or cost cutting orientation or large turnover orientation. Your focus has to be on needs and interest of the buyer, customer satisfaction, and appeal to the customers.

As a marketer, you have to know your market; the existing or potential customers. A good example is that of a hotel. The customers of a hotel include users of its hall for conferences, seminars, personal celebrations like birthdays and marriages, users of the space in the shopping mall, users of restaurants, users of rooms, and users of other facilities like health club, swimming pools etc.

These users are using different services on offer. And they are all different in terms of occupation, age, economic position, lifestyle etc., unless they use the same service, in which case there may be similarities.

So what you need is to segment his/her market on the basis of characteristics like:

- geographic
- demographic, like family size, age, religion, sex, income, occupation, education
- psychographics – like lifestyle, value systems, personality types
- behaviour etc.

This will provide data on :

- customer profile
- end users v/s. intermediaries
- preferences
- relative buying size
- loyalty to other service provider

As you very well know, no one marketer can cater to the entire market. So you have to select a segment, which suits your objectives and resources.

The marketing mix

Marketing concepts were developed originally for tangible customer goods. The main elements of a marketing performance are the four 'Ps' – that is product, place, price and promotion. A marketer can mix these four in different ways for maximum effectiveness.

Price :

includes basic price, discount, credit , delivery terms.

Place:

includes retailers, wholesalers, transportation, inventory levels etc.

Promotion :

includes advertising, publicity etc.



In the case of services, three additional points have been added to the marketing mix. These are people, process and physical factors. People, thus, are an integral part of service. The process of performing the service is like the process of production of goods, but in the service business, the process is in operation at the time of consumption by the customer. Services are generally rendered on the premises of the service provider or occasionally on the customer's premises.

Each of these seven elements in the marketing mix is important and has an influence on the customer.

Price :

Price has several meanings in the service business. One buys a 'ticket' for a cinema, pays for a membership to the club, 'charges' to a beautician etc. All these are prices for services rendered.

The price of a service may vary according to :

- season
- location
- frequency of use
- volume (prices going down with volumes)
- purpose of use
- status of user – etc.

Place :

In the case of services, place relates to access and delivery procedures, these are integral to the service itself. The Internet has made distribution of information across the world easier than taking a file out of your cupboard. Distribution has the following functions :

- to provide access to what is on offer
- to provide advice and purchase assistance
- to provide ancillary services
- to supplement promotional activities.

Promotion :

Promotion refers to communication. It aims to:

- inform prospective customers about the service
- persuade prospective customers to try the service
- generate interest in the service.

You can promote your service/s through advertisements, flyers, direct mail, publicity, personal selling, sales promotion and public relations.



Advertisement :-

If you can pay for it with the availability of the internet for commercial purposes, which as against 'reach' of an advertisement, provides 'richness' and interactivity.

Publicity – is more credible than advertisement. Publicity can be done through :-

- press release
- press conference
- presentations
- informal briefings.

But, remember, in the case of services, the most effective form of publicity is word of mouth.

Public Relations – refers to the deliberate, planned and sustained efforts, made with a view to establishing and maintaining relationship with the public.

Personal selling – is part of the promotional efforts. The information required to make decisions regarding choice of a service is very difficult as the nature of the service is not known till after the purchase. A service, being intangible, creates uncertainties in the mind of the purchaser. If you are an effective salesman, you can obtain feedback about the experience and satisfaction after the service, strengthen the perceptions about the service, provide reassurance etc.

Sales Promotion – is aimed at inducing the customer to buy.

Process – The delivery system is the process by which the service is rendered. The process is of four kinds; management process, resource process, the third is the service product and the fourth deals with assessments, corrective actions, audit, etc.

The Service Product:

Service products are bought and used for the benefits they offer, for the needs they fulfill and not for themselves.

You have to analyse your service product at your levels. These are:

- 1) the consumer benefit;
- 2) the service concept;
- 3) the service offer;
- 4) the service delivery system.

1) **The Consumer Benefit Concept:**

This terminology is used by an expert. He says that it is only from the idea of consumer benefit that the service can be defined. For example, a customer gets from a restaurant and its facilities



and amenities a particular mixture of the possibilities offered in terms of food, drink, service, atmosphere and so on.

2) **The Service Concept:**

The service concept is the definition of the general benefits you offer based on customer benefits sought. It helps consumer the questions:

What business are we in ?

What needs and wants do we attempt to meet ?

3) **The Service Offer:**

The service offer is concerned with giving more specific and detailed shape to the basic service concept.

Management of service offer is concerned with making decisions and thinking of the implications of action affecting three components. These are;

- 1) Service elements
- 2) Service Forms
- 3) Service Levels
- 4) The Service Delivery System

Market Research

For planning marketing activities, it is necessary to identify the various characteristics of the market. The process of collecting information about the market and its characteristics is the field of market research.

Market research for services may be about :

- market size, growth of market, competition
- consumers, their profile, their habits, preferences, expectations, perceptions
- promotion and sales research- etc.

In the case of services, the data you have to collect and evaluate is more abstract and quantitative than in the case of tangible goods.

Capturing qualitative data needs very sophisticated and sensitive instruments like;

- the use of focus groups
- individual interviews
- trade-off or forced choice questions to determine relative values.

Marketing Strategies

Strategic planning for marketing would cover all marketing activities, including;



- setting marketing objectives
- formulating marketing targets and programmes
- formulating detailed activities to execute the programmes
- determining cost and revenue- etc.

Planning begins with information about the environment, which you have to obtain through market research and other sources. This information should then be analysed to determine social- fiscal and economic trends and then related to your business.

Opportunities would be revealed if you define your business in the broadest possible terms.

It is also necessary to carefully examine your own strengths/ weaknesses. While opportunities and threats are in the extended environment, strengths and weaknesses are within you. These strengths help you to exploit opportunities and avoid threats.

Strategy – Marketing strategy includes determination of –

- marketing objectives – anticipation of
- target segment and preparation for
- marketing mix, and uncontrollable factors.

Strategies have to be :

- clear and identifiable
- consistent with the service provider's skills and resources
- within acceptable risk limits
- able to exploit environmental opportunities.

You have to choose your own strategy.

Use of marketing Research in the Service Sector

No reliable figures are available which give an accurate picture of marketing research in the service sector. The following table attempts to list the activities :

Table

- Study of why people buy services
- Study who are the key influences buying the services offered
- Define firm's image among customers and the general public
- Study profit trends by service categories, customer categories or market.
- Evaluate customers' needs or wants.

These data confirm that some service providers devote considerable time and efforts to marketing research activities.



A small study of service organization conducted in the United Kingdom showed that marketing research was being undertaken on wide range of problems, including.

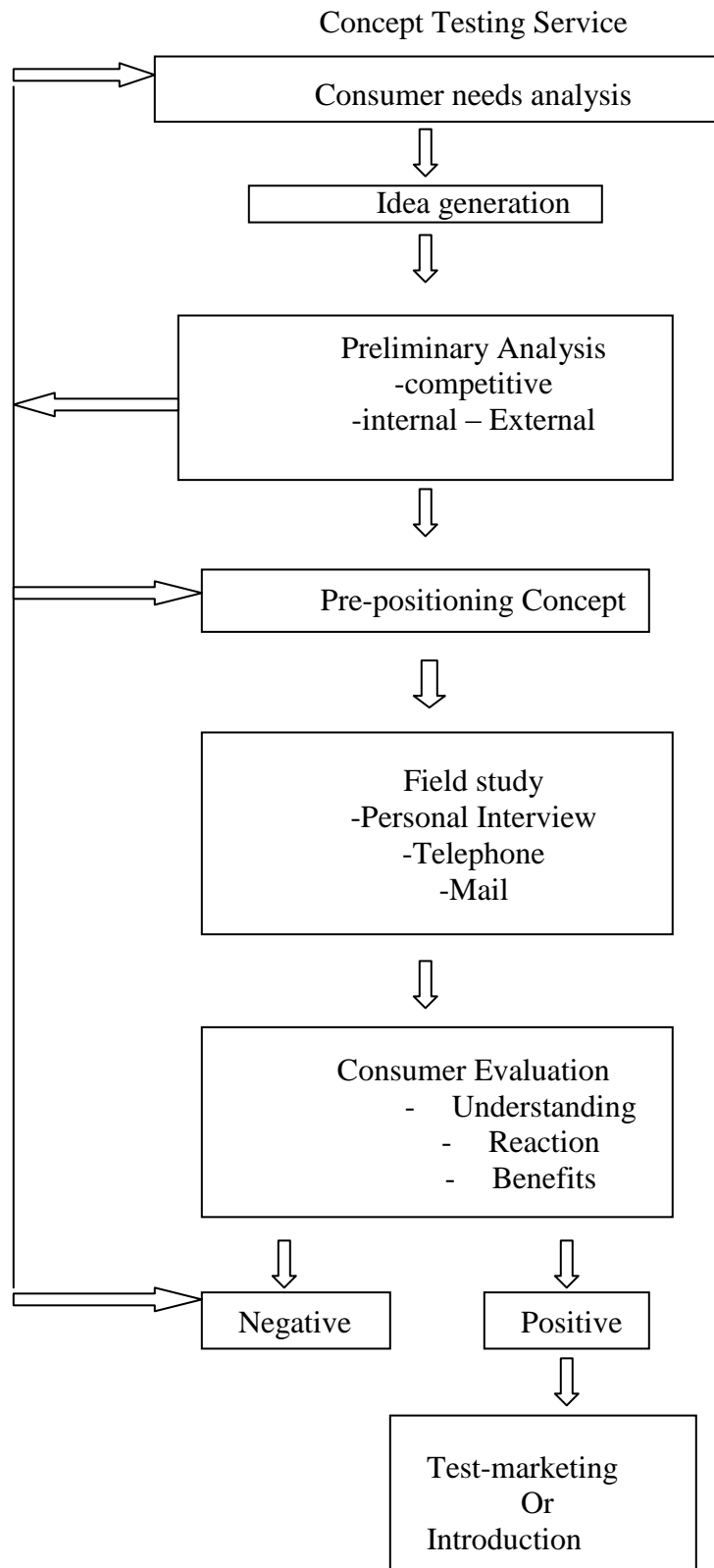
- how consumers choose between competing service providers
- how the buying decision is made for a particular service
- use of information in service choice
- price elasticity
- service product study
- study of different forms of advertising
- study of effectiveness of different forms of advertising
- service quality checks
- market share study
- satisfaction with service survey.

Difference between Marketing Research for Services and for Products

Inspite of considerable similarities between marketing research for services and for products, there are a number of differences between marketing research for services and for products. Some of these differences are;

- a) attitudes of services providers towards marketing research
- b) quality of secondary sources on services;
- c) problems deriving from the characteristics of services;
- d) problems in researching new services.

One suggested framework for concept testing a service which outlines the steps is shown in the figure below :





The above figure shows that concept testing goes through a number of steps.

Difference in Promoting Services

There are many similarities in promotion of goods and services. The similarities are:

- the role of promotion in marketing
- the problem of creating effective promotions
- the broad methods and media available for promotional efforts
- the institutions available to assist with promotions.

The differences are of two kinds due to the characteristics of (a) service industries (b) services.

(a) Differences due to Characteristics of Service Industries.

Service industries are very heterogeneous. Some service industries are product oriented, many service organizations may be small in scale, use of certain forms of promotion may be regarded as inappropriate, many service organizations may not need to promote their services extensively because of their inability to cope with large workloads. And, the nature of the service may itself limit the use of certain promotional methods.

(b) Differences due to Characteristics of Services.

These differences are due to:

1. consumer attitudes
2. needs and motives for purchase
3. buying process.

The attitudes of customers influence purchase decisions. Two dimensions of this attitude are:

- a) services are perceived as being more personal than goods.
- b) consumers are sometimes less satisfied with purchases of service.

Needs and Motives for purchase

Needs and Motives for the purchase of goods and services are the same, viz. satisfaction of needs and wants.

Buying Process : The difference between goods and services are more evident in the buying process. So far as services are considered, it is difficult for buyers to evaluate quality and value. Consumers are more likely to be influenced by the experiences of others, such as friends and relatives.

Guidelines for Promoting Services

Advertising by service providers is not new. A major difficulty with service advertising is that of communicating the range, depth, quality and level of services. You have to use clean and



unambiguous message emphasizing the benefits of services. Be sure to promise only what you can deliver, build on word of mouth communications, provide tangible clues.

Consumers of services are subject to doubts about the soundness of their purchases. It would be helpful if during the buying process the customers are given personal services.

The principles, procedures and methods of personal selling are similar for services as for goods.

Table 9.1

Differences between Selling Goods and Services

Consumers purchase perception of services

Findings

Customers view services as having less consistent quality than goods Services purchases have higher risks than goods purchases

Services purchasing is a less pleasant buying experience

Services are bought with greater consideration given to the particular seller

Perception of the service company is an important factor when deciding to buy a service.

Consumers purchase behaviour with services

Findings

Customers may do less price comparisons with services

Customers give great consideration to the particular seller of services

Customers are likely to be less influenced by advertising and more influenced by personal recommendations.

Personal selling of services

Findings

Customer involvement is greater in purchasing services

Customer satisfaction is influenced by the salesperson's attitude and personality

Salespeople may have to spend more time reducing customer uncertainty about purchase.

Source : Adapted from George, W.R. and Myers, T.A. 'Life Underwriters Perceptions of differences in Selling Goods and Services', CLU Journal, April 1981, pp. 44-9

Therefore, there are a number of guidelines which may be used for service selling.

a) Develop Personal Relationship with Customers:

Good personal contacts between you and your customers can lead to mutual satisfaction. The image of personal attention and interest that you may try to convey through your advertisements has to be supported by real personal interest and attention during the provision of service.

b) Adopt a Professional Orientation



The customer must have confidence in your ability to deliver the expected results. A professional approach to business can help in this.

c) **Use Indirect Selling**

There are three general forms of indirect selling:

- 1) create demand by measures like promoting and selling related goods and services (if possible) and helping customers use existing services more effectively and efficiently.
- 2) Use references, testimonials and opinion leaders in the customer choice process, e.g. those of travel agents, management consultants etc.
- 3) Self selling- This practice is common in the field of professional services where more direct forms of selling may not be approved, e.g. by involvement in community affairs, attending conferences and courses.

Sales Promotion

Methods of Distributing Services.

A distribution channel for our purpose is the firms involved in moving a service from producer to consumer. Generally, of course, direct sale of services is more common in some services (e.g. professional services); but many service channels have one or more intermediaries. Some of those intermediaries assume ownership risks.

Some perform roles that enable physical movement (e.g. transportation)

The distribution channels of services include:

- a) direct Sale
- b) sale through intermediary.

a) **Direct Sale**

Direct sale may be chosen by you as a distribution method through choice or because there is no separation between the service and the provider of the service. When direct sale is selected through choice, it may be because you expect to derive some advantages from it, such as :

- a) maintaining better control over how the service is provided or performed.
- b) obtaining direct feedback from customers or their needs etc.

However, when direct sale is made when there is no separation between the service and the provider i.e. you (e.g. legal services, household services), then you may face problems, like :



- expanding the business and coping with high workloads where the services of a particular individual may be in demand (e.g. a lawyer)
- sometimes it means limited geographic market coverage.

Direct sale may, of course, be accomplished by the customer going to the sales provider (e. g. A hairdresser) or by the provider going to the customer (e.g. a plumber, electrician etc.)

Service Channel Development

There are two ways in which service channels develop:

- 1) Independent Service Channels;
- 2) Combined Service Channels.

1) Independent Service Channels

Independent Service Channels fulfill a specific need and are not necessarily associated with another product or service. Thus, a consulting company or a travel agent is not linked with any other company.

2) Combined Service Channels

Combined Service Channels emerge when the service is integrated with a channel that distributes a product. Combined channel can arise through:

- a) Combination by Acquisition – e.g. finance for consumer durable purchase;
- b) Combination through concessions – where the service may be offered and operated within the facilities of another firm and you pay either rent or some percentage of their sales to the firm granting the concession;
- c) Combination through a Tie in Agreement- where two or more independent companies come to some agreement to co-operate in the marketing of service.

Innovations in methods of Distributing Services

They cover new service developments and new service institutions. The examples are :

- 1) The growth of rental services e.g. car, furniture, A.C. etc;
- 2) The growth of franchising e.g. Macdonald's, Pizza Hut;
- 3) The growth of service integration e.g. hotels, car rental, recreation resorts etc.;
- 4) Quasi – retailing e.g. driving schools, restaurants etc.

Location

Services, according to an expert, are classified by location in three ways:

- 1) Location may be irrelevant- where the customer is.
- 2) Services may be concentrated-depends on status of customers.
- 3) Services may be dispensed based on intensity of demand e.g. consultants etc.



People and Services

There are two groups of people who have an impact upon the `selling` of services:

- 1) Service personnel
- 2) Customers.

1) Service Personnel

Service personnel are those who provide an organization's services to customers. The importance of service personnel cannot be overlooked, as in the absence of tangible products, the customer will form an impression of the organisation from the behaviour and attitudes of its staff. They can be bus drivers, librarians, chefs in restaurants, clerks in car-hire companies, waiters etc. They are the people who are in contact with the customers. It is crucial therefore that these personnel perform their job, effectively and efficiently.

2) Customers

Another factor which may influence the marketing of services is the relationships between customers. A customer's perception of the quality of a service may be formed and influenced by other customers as well as by the service personnel. Customers may talk to other customers and discuss the quality.

Careful Selection and Training of Service Personnel

It is, therefore, important that service personnel, whom you may hire to cater to customers should be carefully selected and trained. Besides, there should be a clear understanding of the job by the personnel. The training and development programmes have to be tailored to the needs of the service being provided.



NOTE