Chapter : 12

Production & Marketing

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[A] Production in Small Business

The management of business processes that create physical goods is called production management. Management of processes that mainly create services may be called operations management. Both production and operations management are concerned with product design, inspection and quality control, the improvement of work methods and the maintenance of facilities. Production management decisions must be suitable to the business process being carried on. The industrial processes are extractive, analytical, fabrication, synthesis, and assembly. Some non-manufacturing processes are warehousing, retailing and wholesaling, transportation, and direct service operations.

12.1 Product Development

The word product focuses on the physical or functional characteristics of a good or service. In its broader view, product means physical or functional attributes capable of satisfying certain want of customers. That means product must be wanted in the market i.e. production is not for the purpose of production only- it is for sales. As such, small entrepreneur must take reasonable care to select the right product which will be demanded by the target clients. He should follow some steps in developing the product. These are :

1. Explore idea
2. Survey needs
3. Plan product
4. Establish price
5. Assess feasibility
6. Make prototype
7. Determine package
8. Produce limited quantities
9. Produce product
10. Merchandise product
11. Re-evaluate and research constantly
12. Test product
13. Test market

12.2 Production flow Process

Production process may continuous as well as intermittent. This may be seen from the figure as under:



Figure 12-A : Showing Continuous Production

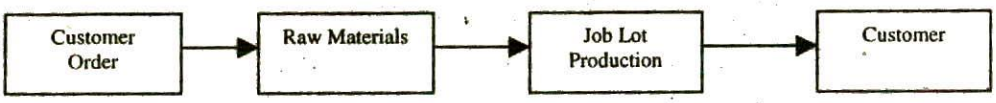


Figure – 12B: Showing Intermittent Production

In case of continuous production process, regular manufacturing of produces goes on till the manufacturer thinks otherwise or any uncontrollable events halt the process. Here, the specifications, quality standard and contents remain the same. Prices of such products changes for zones considering place movement factors. On the other hand, in case of intermittent production process, specifications, quality standard and contents vary with orders. An order is served, the production process is stopped. It again starts if another order is accepted.

12.3 Production Elements & Plan

Converting inputs into outputs requires some characteristic elements Before starting production of anything the small business entrepreneur or the manager to whom the responsibility is entrusted should proceed carefully following a plan prepared earlier. How can the production methodology used by industrial firms be applied to all types of small businesses? The processes of changing inputs to outputs have some characteristics which are common to all situations, and have the following common elements:

1. Systems to transform the input as to form, place, or time.
2. A sequence of steps or operations to convert the inputs into outputs.
3. Some time frame in which the work is to be done.
4. Instructions to identify the work to be performed and the units being produced.
5. Special skills and often tools, machinery, or equipment to make the transformation or conversion.

Some alternative *production plans* (PP) which you may consider are :

PP-1. Produce what is demanded by your customers at the time they need the goods.

PP-2. Produce at a constant level equal to the average monthly demand for the year. Inventories will increase when the volume of demand is lower than the production volume, and will decrease when demand is higher.

PP-3. Produce complementary products which balance out increases and decreases in the volur of demand for individual products. The sum of the monthly demands should result in a c· ·stant production level.

PP-4. Subcontract production which is in excess of a certain level.

PP-5. Decide not to expand production to meet demand.

PP-6. Have special sales inducements, perhaps extra advertising and lower prices, when your sales volume is expected to be low.

Examples of Production Systems

Production process differs depending on the type of product or service. We have presented below the examples of a wholesale trade, retail service, needle trade, and that of a laundry:

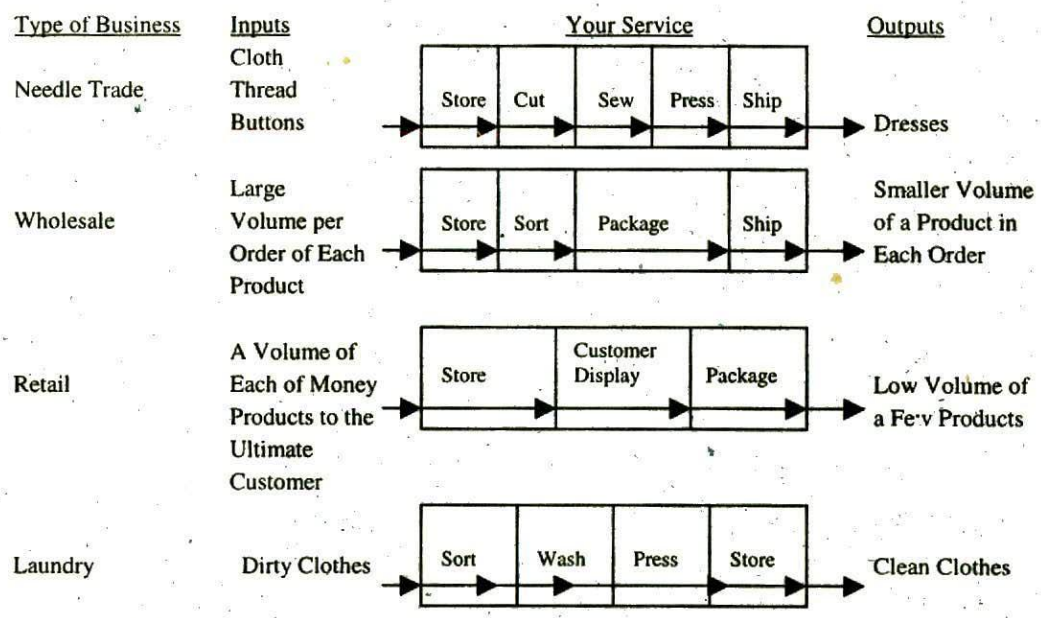


Figure 12-C: Showing Production Processing of Different Types of Products/ Services

It can be gauged from the above that steps of production/service are not uniform. These vary according to the line of activity and the mode of production. The personnel involved and the techniques used determine the number of steps to be used in the processes of production.

12.4 Production Control Process

Small entrepreneur needs to proceed producing a product or rendering a service following the functions as under:

Customers Order	
Planning	Determining what machinery, employees, raw materials, supplies, and other resources are needed to produce the customer's order
Follow-up	Checking each work station to determine if the work was accomplished and rescheduling if it was not completed
Routing	Determining the sequence of production operations through which the work must progress.
	Determining when operations will start and stop at each work station
	Issuing orders to each work station telling them when to start on the order

If an order is accepted for profit after carefully assessing the cost- benefit of the same, the small business owner plans for the inputs both variable & fixed, makes a sequence of processing the order, and finally in order to save rejections checks the work till the product / service is delivered.

12.5 Production Materials Management

The purchase, movement, use, and storage of production materials are fundamental management concerns in any manufacturing process. The basic task of production materials management is to determine at what rate and in what sequence workers and equipment will be used to convert materials into goods to fill sales orders. Production managers try to make the best use of facilities and money through careful scheduling of the sequence and timing of work and through the efficient control of buying, using, and storing materials.

The most commonly recognized functions in production materials management are:

(a) planning and scheduling of the production function,
(b) controlling the inventory of materials and finished goods,
(c) purchasing materials, equipment, and supplies, and
(d) moving and storing materials and finished products within the production plant.

Inspection and Quality Control

The main goal of inspection and quality control is to insure that products going out to consumers meet specifications. With physical goods, quality control tries to make sure that products conform to established standards for size, shape, weight, durability and strength, color, texture, taste, or any other characteristics that are important to the product's function. Quality control for services measures effectiveness, timeliness, and other indications of acceptable performance.

Work Methods Improvement

One way to increase profits is to produce more goods or services by using facilities and workers as efficiently as possible. For this reason, much thought has been given to how workers and machinery can be made more productive. Three major approaches have been used :

- *Job design and redesign* concentrates on getting the most out of the work that people do. It tries to minimize the effort and time needed the perform a certain activity. Work effectiveness has often been improved as a result of ***time and motion studies.*** These studies record every physical movement made by a production movement made a production worker when doing a job and the length of time taken by each movement. This information is then used to choose the best layout for the work facility to train workers to eliminate wasted effort.
- *Work simplification* employs both job and process redesign to make work methods as orderly and simple as possible. Standard procedures reduce the effort needed for day-to-day activities allow personnel to devote more time and energy to handling exceptional situations effectively, and make job training easier. Work simplification often requires considering departments, divisions, or the whole company as systems.
- *Process redesign* concentrates more on the methods and equipment used than on the activities of workers. Its goal is to increase production efficiency by studying and improving the manufacturing process. his is usually the concern of manufacturing or industrial engineers. They might change the sequence in which operations are carried out, substitute a different kind of machine for one presently used, move storage areas, changes the physical layout of the production line, introduce new equipment for moving materials between machines, or make other changes that would improve production.

Maintenance and house keeping

Maintaining modern equipment is a complex specialty of plant engineering. Through maintenance usually has three requirement:

(a) timely and reliable repair procedures must be available
(b) back-up or substitute equipment should be kept ready for critical operations, and
(c) routine preventive maintenance schedules must be established and followed to minimize equipment failure

Management of production and operations includes product design, production materials management, inspection and quality control, work methods improvement, and maintenance and housekeeping. The physical layout of business facilities must be designed to promote the orderly flow of materials and activities and to aid in the smooth interaction of different parts of the business process. Production management must, in addition, find effective ways to plan and control the use of physical materials in the manufacturing process. Many of the concerns of non-manufacturing operations, such as retail stores, are similar to those of manufacturers.

[B] Marketing in Small Business

Marketing is the total movement of goods and services from the original producer to the ultimate consumer. This involves many agencies, or stops, along the way. Each segment is concerned with the main marketing function-planning, buying, and selling, as well as the subsidiary functions, such as accounting and transportation. The marketing manager should establish a basic philosophy that relates all company policies and activities toward meeting the needs of the prospective buyer. Increased knowledge of the consumer's atmosphere and environment can be achieved through researching and surveying the general market area. To keep up with the dynamics of new products and services becoming available, it is essential for the marketing manager to be constantly searching for that ever-elusive, but ideally just right, proper mix of the four marketing Ps- product, place, promotion, and price.

The market or trading area for a particular firm is the area that it seeks to serve with its products or services. From the buyer's point of view, it is the area within which the buyer knows he or she can find desired goods and services at desirable prices.

12.6 Marketing Process & Functions

The marketing process is continuous. It should start with the end result desired and permeate the entire organization. Customers are the king, they should remain satisfied with the service or product offered to them. The knowledge of the people, market and buyer- behavior should be the basis designing marketing philosophy. Strategies be chosen & pursued considering the prevailing environment with the sole objective of wining the consumers. The marketing processes are :

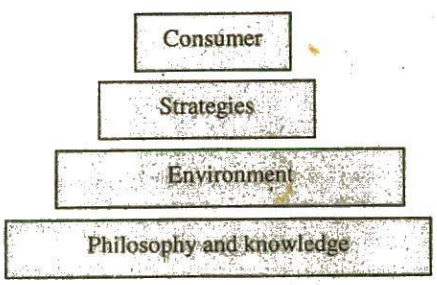


Figure 12-D: Showing Marketing Processes

Marketing Functions

The success of a company's personal selling campaigns depends on effective sales management. For an organization that uses personal selling, selling costs will be an important part of total costs. Costs of maintaining a sales force are often higher than advertising or any other marketing activity. Sales management receives great emphasis, therefore, in any successful company.

Many of the sales management tasks center on personnel matters because effective selling depends on the skills of the sales force. Recruiting, training, and motivating salespeople are the basic goals. Developing, the sales force takes place within the normal managerial cycle of planning, organizing, directing, and controlling:

- *Planing*. Mangers must analyze sales problems and opportunities. Specific planned goals (or forecasts) are usually stated in the form of sales quotas for individual salespeople and targets for

the whole operation. Planning also often involves the uncovering of new markets and helping to plan new products.

- *Organizing.* The three most common ways of allocating tasks and managerial responsibilities in a sales organization are by geography, product type, or type of customer. These forms of organization are often combined. A sales force organized along geographical lies will assign to managers responsibility for sales in specific states or regions in the total sales area. A large company with two brand-name detergents and three kinds of hand soap might also be assigned different sales manages and sales forces.
- *Directing.* This includes the assignment of personnel to sales areas, specific customers, or prospects. Probably the single most important aspect of directing is providing motivation. Personal selling is a difficult and often frustrating job. A manager who can maintain the perseverance and positive attitude of the sales force has taken an important step toward success.
- *Controlling.* The recording of information on sales and customers, especially in periodic sales reports, is the basic tool of control. The most important control evaluations are (a) comparing actual sales with quotas and (b) comparing selling costs with projected sales costs.

A comprehensive marketing process & functions is depicted in the following figure:

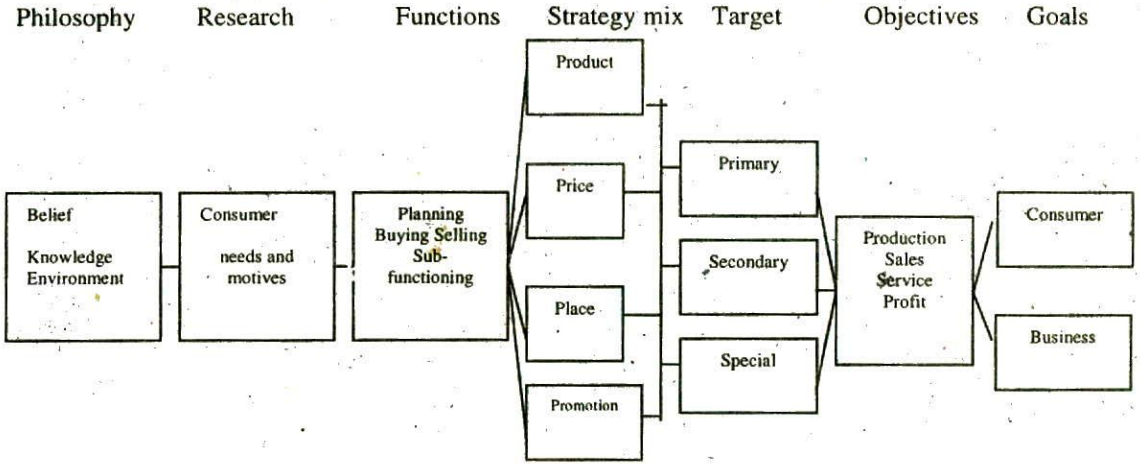


Figure-12E : Showing Integrated Marketing Functions

In the figure above, it is shown that marketing functions are preceded by philosophies and the discharge of it is followed by four Ps as principles in order to win the consumers & business through increased production, sales, service & profit. To be effective, marketing personnel should be strategic enough to understand the needs & expectations of the buyers at large.

12.7 Marketing Research

Like any other social research, an well thought out market research must have four facets:

[i] Selection of Problem Areas;
[ii] Sources of Marketing Information;
[iii] Steps to be Covered; and
[iv] Research Based Marketing Decisions.

[i] Selection of problem Areas: The problem areas vary depending on the nature of business. The problems of grocery shops and those of light engineering workshops are naturally different. However, marketing research may be easily designed and developed by any small business owner to adequately research the following:

1. Competitive products and brands	7. Packaging
2. Channel of distribution	8. Promotion
3. Consumer behavior	9. New products
4. Consumer attitudes	10. Product planning
5. Sales analysis	11. Geographical preferences.
6. Pricing	

[ii] Sources of Marketing Information

Reliable information are essential in order to generate ideas, products & to promote sales for the new products. There are organized public as well as non-governmental private sources of such information. These information may be primary as well as secondary. The various types useful information obtainable from these sources are:

	TYPES OF INFORMATION OBTAINABLE	GOVERMENTAL SOURCES
SECONDARY	Count of individuals, socioeconomic characteristics. Count of dwelling, age of structures, information on occupants. Retail, wholesale, service business. Number of manufactures, quantities produced. Details on more than sixty minerals industries. State and local governments, employees. Births, deaths, marriage, etc. SBA data and helps to business. Books, periodicals, agencies' reports. Depts. of Agriculture, Commerce, Labor and other agencies.	Census of population, Housing, Business, Manufactures, Agriculture, Mining, Governments, Registration Data, Small Business, Adminis-tration Government Printing Office. Other Governmental Sources.
	Reports of data and findings, some original research. How-to information. Historical data. Dissertations, studies, monographs, experiments. Data and current events pertaining to particular industries. Commercially gathered data, e.g. share of market information, special studies.	**NONGOVERMENTAL SOURCES** Periodicals. Books and Texts. Original Studies. Trade Press. Trade Associations. General Business Press. marketing Research Firms.
PRIMARY	Opinion studies, product usage studies, preference studies, concept testing. Company records, sales trends, individual salesmen's performance. Customer behavior patterns, reactions. choices. How changes in some areas affect customer behavior. Testing of products, sales methods, other variables.	Surveys, questionnaires by means of personal, mail, or telephone approaches. Data from within the firm. Certain external data. Observation, Experiments. Panel studies. Test marketing.

[iii] Procedure for making a market survey

The procedure will vary from factory to wholesaler to retailer. For retailing, the steps should include the following:

1. Determining the limits of the market or trading area.
2. Study the population within this area to determine its potential sales characteristics.

3. Determine the level of income & purchasing power of the area.
4. Determine the present sales volume of the type of goods or services you propose to offer.
5. Estimate what proportion of the total sales volume you can reasonably obtain.

[iv] Research Based Marketing Decisions

Identification of the marketing problem & its clear cut statement without any ambiguity is the first and foremost task of marketing research. Many experts say good statement of the problem is half of the research. Then comes the step of collecting relevant appropriate data from all possible sources, primary, secondary, recorded, opinionated, documented, behavioral, environmental and the like. Such data collected may be from internal as also from external sources. The data collected be analyzed using right tools & techniques in order to arrive at a conclusion. The conclusions so arrived will logically enable the researcher make pinpointed recommendation to solve problem for which the research work has been undertaken.

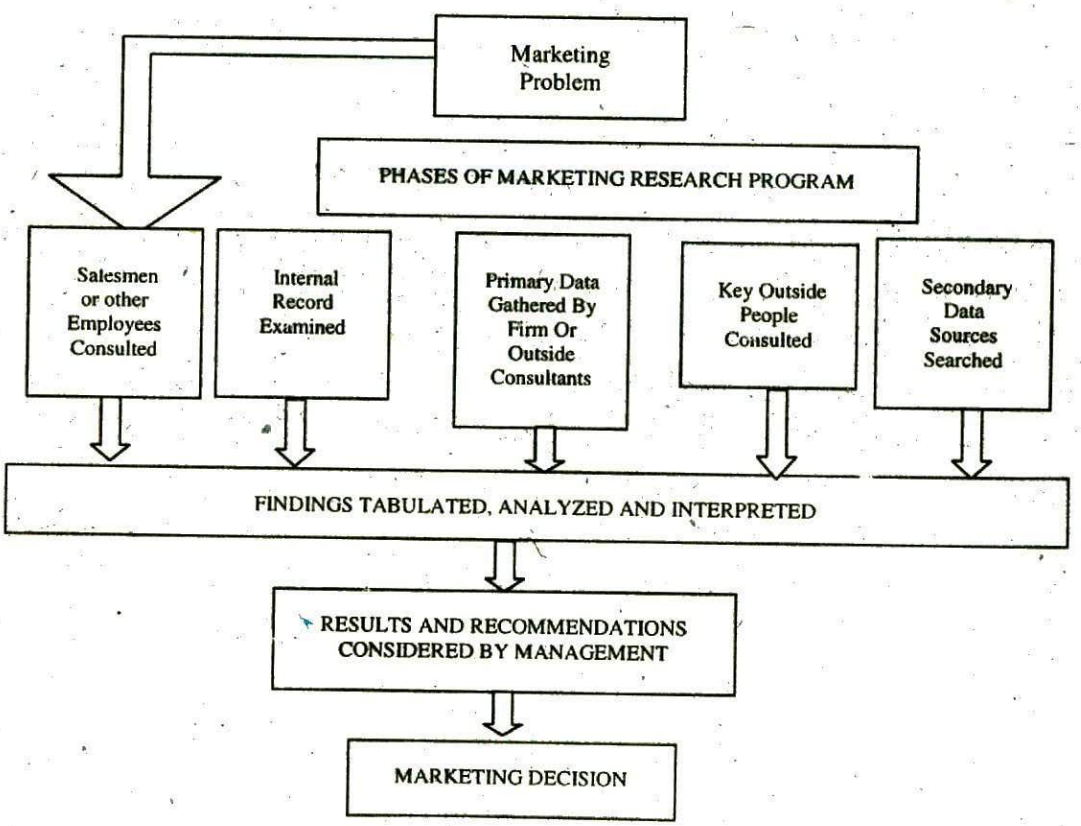


Figure-12E : Showing Stages of Marketing Research

The small entrepreneur thus on the basis of logical recommendations as advanced by the marketing researcher can attempt to take decision, may with some adjustment of qualitative variables which so far was not known to the marketing researcher.

12.8 Product Promotions and Advertisement

Product promotions and advertisements are essential to make the new products known to the people. It is also essential to popularize the existing products. Promotions can be done following direct as well as indirect methods. While advertisements can be through personal contract, the use of technology and innovations have made advertisements far reaching and more influencing. These are discussed here in three parts: product promotions, advertising media; and test of effectiveness of the advertisement.

A. Product Promotions

Direct promotional methods	Indirect promotional methods
1. Advertising	1. Customer relations
2. Publicity	2. Customer services
3. Personal selling	3. Public relations
4. Displays	4. Product styling and packaging
3. Special event sales	5. Community goodwill
4. Manufacture's aids	

B. Advertising Media

The types of media generally used in advertising are:

1. Television	7. Specialty advertising (distribution of such items as matchbooks, pencils, calendars, blotters, gummed labels, telephone pads, shopping bags)
2. Newspapers	8. Public transportation
3. Magazines	9. Direct mail, Web page
4. Radio	10. Other media (catalog, samples, handouts, leaflets, etc.)
5. Outdoor billboards	
6. Yellow pages	

Advantages and Disadvantages of the Major Advertising Media

Media	Advantages	Disadvantages
Television	Advertisements can be lively and persuasive.	Costs may be too high for small advertisers.
	Network television reaches a large national market.	Advertisements must be prepared far in advance and are difficult and expensive to change.
	Local stations reach specific local markets.	
	Advertisements can be repeated frequently.	Precise market segmentation usually cannot be achieved.
Newspapers	Reach very large proportions of local markets.	Read quickly.
	Cost per thousand people reached often relatively low.	Difficult to reach national audience.
	Advertisements may be revised until day before publication.	Market segmentation is not as precise as with some other media.
	Special interest sections may be able to reach market segments.	
Magazines	Suitable for reaching national market. Can provide very precise market segmentation.	Advertisements must be prepared up to three months in advance and cannot easily be changed afterwards.

Media	Advantages	Disadvantages
	Read more carefully than newspapers and advertisements are more prominent.	Cannot reach specific local markets as easily as newspapers.
		Do not reach as large a national market as television networks.
		Advertisements are only published once a week or once a month.
Radio	Similar to television.	Advertisements are easily lost in program content.
	Costs may be lower.	
	Exposure to local markets is often very good.	Network radio does not reach the large national market of television networks.
Direct mail	Directly solicits orders.	Cost-per sale can be high.
	Precise market segments can be reached.	Maintaining current and accurate mailing lists are difficult.
	Can be used locally, regionally, or nationally.	
	Can be used by any size and type of business	Hard to project high-quality image.
Outdoor	In areas of high traffic, billboards can effectively repeat simple sales messages.	Not suitable for many products. Some objections on the ground of taste.
		Difficult to keep messages up-to-date

C. Test of Effectiveness of the Advertisement

A good advertisement style selects the correct audience, identifies the store, and expresses its personality. Before advertisement, carefully weigh the advantages and disadvantages of all advertising media. Whenever possible, every advertising program undertaken should be checked for its effectiveness. Some of the ways the small firm can do this are:

1. Advertise one item in one advertisement only. By having no references to the item on the sales floor, advertisement results can be identifying by counting the calls and requests.
2. Place identical advertisements with identifying marks in two separate publications. The reader is asked to bring the advertisement to the firm to obtain a special price or prize. Count how many advertisements come in from each source.
3. Omit a regular advertising project for intermittent periods and watch for any change in sales.
4. Check sales results when a new advertisement is placed.

Advertising is one of the most essential tools of sales promotion. To be effective, advertisement must attract attention, inform, and ask for action. In order to get maximum return from advertising costs, advertising should be continuous.

12.9 Pricing Products or Services

To a buyer, price is that which people have to forego in order to acquire a product or service. But to a seller price is the consideration of the product/ service that are delivered to the consumers. This price when exceeds cost brings profit to the seller and causes loss when offered at a price less than the cost incurred. It is therefore, very important to fix the price rationally – neither too low nor too high consequence of which may even throw the small businessperson out of the market. These are discussed here in four parts: factors affecting individual prices, selecting pricing approaches, justification of pricing at or below cost of production, and price determination and pricing goals.

A. Factors Affecting Individual Prices

The prices that any firm can charge for its merchandise are subject to many influences. Some or all of the following considerations may apply in a particular case:

1. Fair trade laws
2. Nationally advertised prices
3. Competitor price policies
4. Market strategy
5. Price lining
6. Target return pricing
7. Manufacturers' suggested prices
8. Type of merchandise handled
9. Policy on loss leaders
10. Seasonal nature of sales
11. Demand factor for certain products

B. Selecting Pricing Approaches

Selecting right pricing approach is very important for small business entrepreneurs. Selecting wrong approach may cause failure of the enterprise. There are three such approaches:

I. Competition- based approach;
II. Buyer – based approach, and
III. Cost- based approach

Each of the above approaches has its own situations and relative merits & demerits. The first one may be cost-plus or based on break-even analysis & target profit- seeking. The second one may on the buyers' perceived- value pricing while the third one be fixed observing price rates that are being charged currently by the competitors for similar products or services.

C. Justification of Pricing at or below Cost of Production

Usually, prices should be higher than the cost of production of the goods or services. But pricing at or below marginal cost may be considered desirable for a shorter period in certain special circumstances. The situations in which such prices are advisable include the following:

i. Making known the new products;
ii. Popularizing a product;
iii. Driving out weaker competitors;
iv. Saving from total loss of evaporating or perishable commodities;
v. Shifting / migrating to elsewhere;
vi. Wining foreign market; and
vii. Getting special lucrative governmental incentives likely to the declared on the sales volume.
viii. Raising sales volume of a better profitable joint or complementary products;
ix. Bringing the plant to full capacity utilization;
x. Providing work to the surplus workforce who can not be fired;
xi. Saving from likely total loss arising out of no demand resulting outdated fashion, etc;
xii. Taping better opportunity with long term advantage;

D. Price Determination and Pricing Goals

Steps in Price Determination	Pricing Goals
1. Research the competitive product offerings 2. Estimate the total market demand. 3. Calculate the available sales potential.	• The organization will maintain the highest price possible on a product, as long as the market share is held constant or is growing.

Steps in Price Determination	Pricing Goals
4. Determine the volume objective. 5. Set the company's or department's profit goals. 6. Select on appropriate price strategy. 7. Decide on the most effective distribution method. 8. Establish costs of promotion. 9. Anticipate the required discount structure. 10. Determine a specific list price.	• The organization will maintain prices at a level consistent with competitive activity and market acceptance. • The organization will maintain prices that reflect an adequate return on investment. • The organization will maintain prices according to prevailing market conditions except where a greater profit might be attained from a unique market opportunity.

Appropriate pricing is important to attract large number of customer and also to make reasonable profit. These two are seemingly conflicting, the small business entrepreneur must endeavor to reconcile and compromise between these two. It is because high prices with the objective of larger profit will reduce the number of buyers. On the other hand, lower prices may draw larger number of customer but may not bring profit to the enterprise. It is as such to be handled with care and caution.

12.10 Handling Inventory Problems

Management of the inventory is important because inventory involves blockage of huge funds. Inventory can not be of bulk nor it can be very slim. Because both the alternative has serious consequences. Inventory mostly occur for slow moving stocks cumulatively causing overstock as a problem to the small business man. These problem is viewed from two angles: avoiding being overstocked and liquidating slow-moving inventory.

A. Avoiding Being Overstocked

1. A model stock may be planned in units and then translate into financial terms or it may be planned in amount and then translated into units.
2. Both instinctive and controlled buying have advantages and disadvantages, but controlled buying, backed up by instinct and experience, is the best.
3. The six-month merchandise plan is the basis for controlled buying because it tells how much money one can spend in any given period.
4. Merchandise should be ordered according to the customers' rigidity factors.
5. Although model stocks never materialize, they are important because they permit the small business person to control buying, reduce buying errors, and maintain an effective open-to-buy position
6. Model stock planning gives customers the best possible merchandise assortments for the cost / price one plans to spend on inventory,
7. One should plan one's model stock *placing* as soon as possible after a season ends.
8. One should remember that model stocks are only *guides* to buying and should be revised when one sees the actual merchandise.

B. Liquidating slow-moving inventory

1. Make traffic obstacles of large display of the items.
2. Offer special discounts for quantity purchases.
3. Use specially colored price tags.
4. Offer "special of the day" items.
5. Advertise "close out items
6. Put specially colored lights on displays.
7. Offer two-for-one sales.
8. Place slow-moving goods next to best sellers.

It is wiser to avoid creating a disease rather than a disease is allowed to develop and made aggressive efforts to cure that. Small business entrepreneur should therefore remain careful not to allow filing up inventories rather making efforts to liquidate filed up inventories.

12.11 Credit as a Marketing Strategy

Credit means deferred payment. In business cash sales are welcome but the volume of sales will not be very big because customer do not always remain with cash. Credit undoubtedly increases the volume of sales. There are number of issues in connection with credit used with reference to increasing the volume of sales. These are discussed here in five parts: kinds of credit, advantages and disadvantages of giving credit, decision to sell for cash or credit, steps in granting credit, and controlling credit costs.

A. Kinds of Credit

There are two kinds of credit. Commercial credit is credit that an entrepreneur gives to other business; consumer credit is credit that an entrepreneur extends to individual customers.

Commercial Credit

In retailing or services, entrepreneurs often can choose whether to sell for cash or credit. In wholesaling or manufacturing, they rarely have that choice, mostly because:

- Buyers want to scan the delivered products before paying the seller.
- Buyers depend on the seller to deliver the product to locations far from the seller's site.
- Buyers need to have the purchase financed by the seller.

Consumer Credit

Especially vulnerable to financial loss are entrepreneurs who sell directly to individual customers on credit. To screen these customers, entrepreneurs should first settle two vital questions:

- Does the customer have a history of paying bills promptly?
- How much credit can the customer safely absorb?

B. Advantages and Disadvantages of Giving Credit

Advantages	Disadvantages
❖ Credit customers are likely to become repeat customers. ❖ Credit enables customer to buy products or services they might otherwise have to do without. ❖ Credit customers tend to overspend ❖ Credit customers tend to buy products of higher quality. ❖ Credit is a convenience to customers who dislike carrying cash. ❖ Credit customers pay less attention to prices. ❖ Credit sales require less selling effort.	❖ Credit forces entrepreneurs to finance their customers, thus tying up money in accounts receivable. ❖ The privilege of returning products. ❖ Credit may obligate entrepreneurs to borrow and repay with interest ❖ Credit adds to the cost of doing business because of investigations and the book-keeping needed to keep records, bill customers, and collect payment. ❖ Credit refusal may cause ill will. ❖ Credit customers are more likely to abuse

C. The Decision to Sell for Cash or Credit

Nearly all small businesses can sell on credit if they wish, and so the entrepreneur must decide whether to sell for cash or on credit. In some cases this is reduced to the question, "Can granting of credit to

customers be avoided?" Credit selling is standard trade practice in many lines of business, and in other businesses credit-selling competitors will always outsell the cash-selling firm.

It should be obvious that most manufacturers and wholesalers – one exception being the small group of cash-and-carry wholesalers – must extend credit to customers. Even in retailing, the trend is toward more credit sales, so that pressure to extend credit to customers is increasing.

Factors That Affect the Decision

Numerous factors bear on the decision concerning credit extension. The seller always hopes to increase profits by credit sales, but each firm must also consider its own particular circumstances and environment.

Type of Business. Retailers of durable goods, for example, typically grant credit more freely than small grocers who sell perishables. Indeed, most consumers find it necessary to buy big-ticket items on an installment basis: the product' life makes installment selling possible.

i. Availability of Adequate Working Capital. There is no denying the fact that credit sales increase the amount of working capital needed. Money that the business has tied up in open-credit and installment accounts cannot be used to pay business expenses

ii. Credit Policy of Competitors. Unless a firm offers some compensating advantage, it is expected to be as generous as its competitors in extending credit. Wholesale companies and retail furniture stores are businesses that face stiff competition from credit sellers.

Income level of Customers. The income level of customers is a significant factor in determining a retailer's credit policy. Consider, for example, a corner drugstore adjacent to a city high school; high school students are typically unsatisfactory credit customers because of their lack of maturity and income.

iii. The Four Credit Questions.

In evaluating the credit standing of applicants, the entrepreneur must answer the following questions:

1. Can the buyer pay as promised?
2. If not, can the buyer be forced to pay?
3. Will the buyer pay.
4. If so, when will the buyer pay?

D. Steps in Granting Credit:

1 Have the applicant for consumer credit fill out a credit application that calls for such basic information as name, address, age, present and past employment, length of employment, salary, home ownership details, past credit extended, payments now being made on other accounts, bank accounts, family status including dependents, and other asset information. Applicants for trade credit should submit their companies' official statements.

2. Check the applicant's credit record with local credit bureau and other credit agencies. Find out what limits were placed on the applicant's credit by other firms. Remember, you are always looking for evidence of the applicant's possession of the "five C's of credit" –character, capital, collateral, capacity, and conditions. Trade-credit applicants are checked by credit bureaus and/or by Dun & Bradstreet, a general trade-credit agency.

3. Based on independent investigation plus confirmation of information or the application, determine the limit of credit you feel can safely be granted. If the applicant is a high risk, the decision must be to deny any credit at all. If the applicant is worthy of credit, compare the amount of the desired merchandise purchase with the limit you have set. This will determine whether the applicant should be granted credit on an installment-loan basis, a revolving-account basis, a budget-account basis, or an open account.

4. Discuss your decision with all applicants. Explain the reasons for the decision if asked. Support your decision by explaining that applicants' payments must be in line with their available income. If credit is denied, explain that you are protecting them from getting too far into debt.
5. Follow up on new credit account regularly. This can be done even before an aging of accounts receivable (to be explained later in this chapter) is made. When payments are delinquent and notices and other steps taken have been ignored, it may be necessary to exercise right of repossession if it is available. If all has worked out well, it is desirable to inform the customer that better credit terms can be arranged in the future.
6. Avoid any form of discrimination as to race, sex, age, color, religion, or minority status in processing application for credit.

E. Controlling Credit Costs

If a business firm extends credit to customers, increased expenses are almost inevitable. The following direct costs are related to credit sales:

1. Credit investigations;
2. Collection costs,
3. Bad debts.
4. Book-keeping and billing costs; and
5. Cost of funds tied up in accounts receivable;

Increased bookkeeping expenses are usually the greatest of these, but each adds something to the total expenses of any firm with a substantial credit business. Aggressive efforts be made to ensure timely payments for the credit sales. Selective credit sanctions and regular follow-up will surely improve collections and minimize bad debts. Thus, credit costs can be managed to a reasonable level.

12.12 Ways to Enter a Global Market

There are many ways for small business entrepreneurs to enter global markets. In the following chart, some of these approaches are depicted. Some of the ways are :

- **100 percent ownership** Total investment in, say, a manufacturing plant abroad represents the strongest commitment that an entrepreneur can make. This kind of investment suggest that a country is politically stable and is open to investment by entrepreneurs from other countries.
- **Joint ventures** This approach makes sense for entrepreneurs who lack the expertise ad money to enter a global market. Normally, ownership is shared equally with a local company.
- **Exporting** This is the entrepreneur's most popular method for market entry abroad. It is both the least expensive and the least involved, mostly because responsibility for marketing is left to another company, either domestic for foreign.
- **Lincensing** If entrepreneur's want to avoid the risks of producing and marketing products in another country, and still benefit, they might consider licensing. The danger here is that entrepreneurs risk losing control over product quality.

Finding Foreign Markets

The small business exporter can distribute products through direct selling or indirect selling methods, depending upon the type of products to be sold, the customer's requirements, and the types of regulations in use in the country where the products are to be sent. Through review of both foreign and existing regulations can be initiated at the local Department of Commerce office.

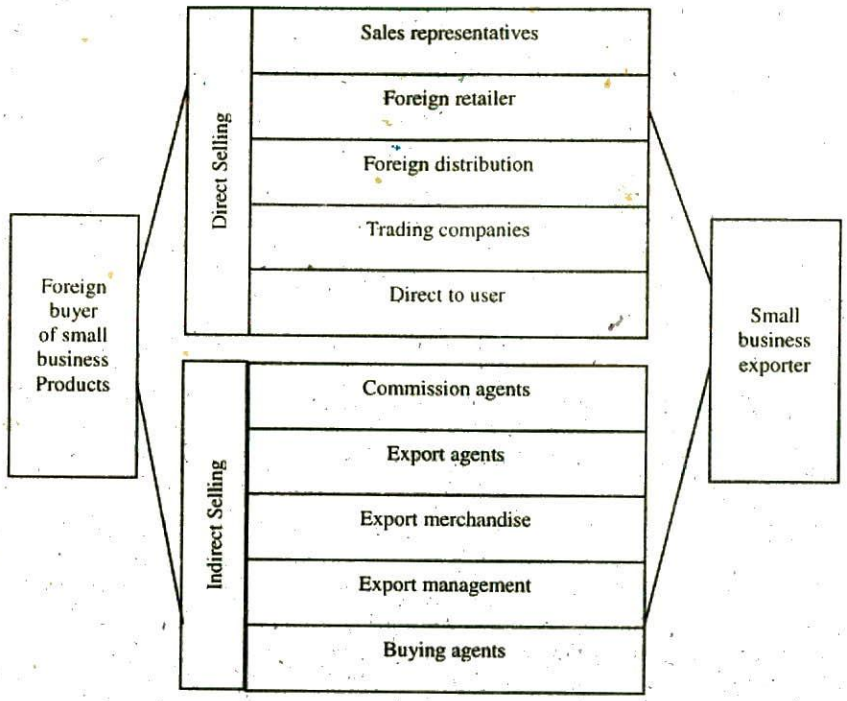


Figure-12F: Showing Various Direct & Indirect Ways of Finding Foreign Markets

Securing Payments for Export Sales

There are at least six different methods used in securing payment for export sales. A brief word of explanation for each is appropriate here.

1. Letters of Credit. This is the traditional method for handling foreign shipments. The letter of credit is issued by a bank at the buyer's request in favor of the seller. It promises to pay the received.
2. Sight Drafts, Whoever the seller wishes to retain control of the goods, or title thereto, shipment is make of a negotiable bill of lading.
3. Open Accounts Receivable. If selling to buyers of unquestioned integrity some exporters sell to foreign accounts just as they do for preferred customers in this country.
4. Cash in Advance. This happy state of affairs is seldom available to exporters. Buyers usually object to this method because their capital is unavailable until the merchandise is received and resold. Small sales are still made this way in many cases.
5. Time Drafts, These drafts operate in the same manner as sight drafts excepts that they are drawn for thirty, sixty, or ninety days in the future.
6. Consignment Sales, Such sales operate the same for export as or domestic sales. The merchandise is delivered to the buyer buy title is retained by the seller.

It can be noted that factoring firms exist which specialize in collecting foreign accounts receivable. This method is not recommended in most cases, not only because of the fees involved buy the maintenance of customer goodwill.

12.13 Customer is Everything-Axiom.

A customer is one who comes into your store for the purpose of buying merchandise. *A consumer* is one who uses the item purchased. For example, a woman buys a shirt for her husband. She is the customer and her husband is the consumer.

It depends on your point of view. Yes, the customer is everything axiom is correct from your employees' points of view. Pleasing customers (solving their problems) must be their primary goal, no matter who they are or in which department they work. From the telephone operator to the shipping clerk to the account executive:

Every small business employee's number one goal should be to solve their customer's problem.

Not so, however, for the small business owner. To him (or her) the customer is, while certainly important, by no means everything. What is everything is the company's employees. That's because, without employees (good ones, anyway), there would be no customers (good ones, anyway). Thus:

Every small business owner's umber one goal should be to solve his or her employees' problems.

Once the employees' problems are solved everything else is downhill. An employee whose problems have been solved is a contented and committed employee. Contented and committed employees create and manufacture crackerjack services and extraordinary products, which in turn beget contented and committed customers. And that's how the employee is everything axiom works every time.

Think about it. Which would you rather have when starting a business? Good employees or good customers?

Why, good employees, of course. That's because, without good employees, you'll never be able to fine, much less keep, good customers. Start a company with poor employees and whatever good customers you do encounter will soon be heading for the exits. Start a company with good employees and whatever good customers you encounter will soon be beating a path to your door.

What does this customer is everything axiom really mean? It means that the more employees you have, the more time you must spend with them, solving their problems. That time spent should include the four steps previously discussed, which are: (1) hiring, (2) training, (3) motivating, and (4) replacing when necessary.

The result? The time you spend hiring and replacing employees will solve your problems, while the time you spend training and motivating them will solve both yours and theirs.

Customers are considered real owner of the business of which goods & services they buy to use. All the very successful businesses never fail to remember this. Zytec, a big US company got the following statements in recognition of the customers:

Zytec's Customer Statement

CUSTOMERS are the most important

CUSTOMERS are not dependent on us, We are dependent

CUSTOMERS are not an interruption of our work – they are the purpose it.

CUSTOMERS are not outsiders to our business. They are the most important part of it.

CUSTOMERS are not just names or numbers. They are people with feelings and emotions like our own.

CUSTOMERS are not people to argue with. No one wins in a business argument.

CUSTOMERS are not people who bring us their needs. It is our job to satisfy them, and to do so profitably for them and for ourselves.

12.14 Facing Consumer Movements

Because of aggressive selling strategies seller of different commodities unitedly adopt pricing and other policies. This has adversely affected the interest of the millions of consumers who subsequently started raising voices. In response to the voices of the consumers government from time to time has promulgated a series of acts, ordinances and regulations to protect the interest of the consumers. Besides, consumers themselves formed forums and associations to negotiate their interests with the seller of the commodities. These have restricted the actions – at –will of the sellers. These are

1. Sellers freedom to operate as an independent merchant is being continuously reduced by various central, state, and local laws, as well as by the activities of consumer activists.
2. Sellers should develop a method of keeping current with every law that affects your business.
3. Because many of these laws are difficult to understand, when necessary and before taking any action, seek the advice of a lawyer, accountant, tax consultant, or sellers trade association.
4. Develop an information system that will deep sellers up-to-date with changing consumer interests and whenever these are appropriate, use them to increase sellers store's sales and goodwill.
5. Try to build a good rapport with the customers, particularly with their leaders.
6. Join and become active in consumer movements.
7. The suggestions advanced above if sincerely observed, the sellers will not find it difficult to increase their sales keeping their customers satisfied.
8. Since consumerism is here to stay, learn how to cope with the movement and with individual consumerists.
9. The best way to do this is to accept the movement and plan how to use it to increase sales and customer goodwill.
10. Keep current on all central, state, and local laws that protect consumers and, when necessary, consult a lawyer, or sellers trade association before taking any action.

12.15 Likings and Dislikings of the Shoppers

Detailing or maintaining show room by the manufacturer is profitable. But the sales team in these shops should be aware about the likings and dislikings of the potential customers who visit their shops. It should be remembered that not every visitor coming to the shop will become buyer but sales team must endeavor to motivate them in such a way that they will be happy to buy. Here under are presented the likings and dislikings of the shoppers visiting the shops. These are to be taken care of by the sales force in the shops:

What Shoppers Like	What Shoppers Dislike
1. Price/value relationship	1. Limited assortment of merchandise
2. Store specialization	2. Too much pressure to buy
3. Quality of merchandise	3. False promises about delivery
4. Salesclerk service (availability, competence, congeniality, etc.)	4. Carelessly wrapped parcels
5. Credit and billing policies	5. Being told that they are hard to fit or hard to please
6. Store layout and atmosphere	6. Overheated, underheated, and poorly ventilated stores
7. Merchandise displays	7. Dark or poorly lighted stores
8. Suitability of advertising	8. Evidence of poor or careless housekeeping
9. Store location	

What Shoppers Like	What Shoppers Dislike
10. Variety and assortment	9. Lack of courtesy
11. Guarantee, exchange, and adjustment policies	10. Idlers inside or outside the store
12. Customer habit or routine	11. Mistakes made by and indifference in attitude of salespeople
13. Legitimacy of sales	12. Prices out of line with what the *customer* thinks is fair value
14. Other convenience factors (delivery, parking, store hours, etc.)	13. Long waits for service, change, or parcels

12.16 How to Become a Successful Retailer

Small business owner or his appointed seller keep themselves busy in disposing of their products under sale. Larger the volume of sale more successful is the entrepreneur or his appointed sellers. To become a successful retail seller one entrepreneur or his appointed sales man should:

1. To be a successful retailer, he should have (a) a genuine liking for people, (b) a special empathy for those in the customer segment he seeks to serve, (c) retail imagination, vision, and initiative, (d) merchandise knowledge, (e) overall retail experience, (f) physical, emotional, and mental stamina, (g) common sense, (h) managerial and executive ability, and courage.
2. Further, he must also (a) like the retail business and his store and (b) like being a merchant in the particular consumer category he is serving.
3. Successful retailers need not have all these qualifications, but they must at least have 1(a), 1(b), and 2(a), and 2(b) above.
4. As he grows, he should perform only those retail functions that are most important and come easiest to him. Specialists may be hired for the other functions, but in the long run, a business can only be as big as its owner's ability to organize and control every aspect of his business.
5. He must also be (a) willing to work hard, (b) willing to take risks, (c) figure-minded, and (d) flexible.

12.17 Summing Up

Production managers must attempt in a planned way to make the best use of facilities and money through careful scheduling of the sequence of each of the process. The most commonly recognized functions in production materials management are:[a]planning and scheduling of the production function,[b]purchasing materials equipment, and supplies, [c] controlling the inventory of materials and finished goods, and moving and [d]storing materials and finished products within the production plant. Work Methods Improvement includes job design and redesign, process redesign and work simplification.

The marketing manager or the owner – manager of small firms should establish a basic philosophy that relates to the business policies and activities toward meeting the needs of the prospective buyer. Increased knowledge of the consumers' atmosphere and environment can be achieved through researching and surveying the general market area and the buying behavior of the existing as well as potential customers. It is essential for the marketing manager to be constantly searching for the dynamics of new products and services in addition to the proper mix of the four marketing Ps-product, place, promotion, and price.

Customers are considered the real owner of the business of which goods & services they buy to use. All the very successful businesses never fail to remember this. Small businesses may resort to different channels of distribution- agencies, wholesaling, direct retailing. Almost 3/4th of the small businesses make either direct retailing or distribute through retail stores. To be a successful retailer one should have (a) a genuine liking for people, (b) a special empathy for those in the customer segment you seek to serve, (c) retail imagination, vision,

and initiative, (d) merchandise knowledge, (e) overall retail experience, (f) physical, emotional, and mental stamina, (g) common sense, (h) managerial and executive ability, and courage.

Credit sales increase the volume of sales. But the persons to whom credits to be allowed must be reliable. The four credit questions need be examined to locate such persons: can the buyer pay as promised?, will the buyer pay at all?, if so, when will the buyer pay?, and if not, can the buyer be forced to pay?

The small business exporter can distribute products through direct selling or indirect selling methods, depending upon the type of products to be sold, the customers' requirements, and the types of regulations in use in the country where the products are to be sent.

Model Questions

Broad Questions

1. What do you mean by production management? "Production methodology used by industrial firms can better be applied to all types of small business" – Explain.
2. What functions are maintained by production materials management? Differentiate between "continuous production" and "intermittent production".
3. What do you mean by marketing? Describe the marketing process.
4. What is meant by marketing research? Indicate the sources of marketing information in small business. What are the steps of marketing research?
5. Do you think that " The customer is everything?" Justify your opinion, if yes.
   What procedures should be taken for preparing a market survey?
6. "Today more than anything customer is the boss" – Justify. Delineate the different kinds of advertising media. Mention the facilities and pitfalls of the major advertising media.
7. Commercial credit is credit that an entrepreneur gives to other business" – explain elaborately. What factors influence the decision whether to sell on cash or on credit?
8. What steps should be followed in granting credit? Hint the basic elements in the marketing credit.
9. Describe the likings and dislikings of shoppers. In what ways you can enter the global market?
10. Delineate the various methods used in securing payment for expert sells. How can you cope with Garment Legislation and consumer movements?
11. What types of useful research information might be gathered from the sales records of a small departmental store?
12. Define the terms "marketing" and "management" in relation to each other.
13. What is the purpose of marketing? Give an example of its use by a local entrepreneur.
14. How do the marketing channels for services differ from those for products? Give an example.
15. Develop an information system that will keep you up-to-date with the changing consumer interests and whenever these are appropriate, use them to increase your store's sales and goodwill. How to build a good rapport with your customers, particularly with their leaders.
16. Do you believe that production is determined in response to consumer demand or that demand for goods and services is predetermined by producers' wishes? In your answer, reflect your own impression about "marketing philosophy."
17. How are sales promotion and advertising different. Give examples. What is the essence of the marketing concept? Explain.

Short Questions

1. Mention the steps in product development.
2. Describe the steps in the production control process.
3. What are the three requirements specially needed in the maintenance and house keeping for production materials management.
4. What areas of marketing research should be considered by the small business owners?
5. Describe the possible alternatives to increasing sells.
6. Mention the different types of promotional methods in marketing.
7. What are the effectiveness of measuring advertisement?
8. What suggestions would you like to provide for liquidating the slow moving inventory?
9. How can you avoid being over-stoked?
10. What are the merits and demerits of giving credit?
11. What four questions are scrutinized for credit applicants?
12. How can you control credit costs?
13. Why is marketing research so vital a marketing tool?
14. What are some of the uses of marketing research?
15. Explain briefly the steps in the marketing research process.
16. How do wholesalers differ from retailers and also agents firm brokers?
17. How do the marketing channels for services differ from those for products? Give example.
18. What are the four objectives of advertising? Give examples.

Nothing happens until somebody sells something.
- Arthur H. Motley