CBSE Class 12 Business Studies Question Paper 2014 with Solution PDF-Set 66/1/1 - Compartment

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 90**

General Instructions

(i) Answers to questions carrying **1 mark** may be from **one word to one sentence**.
(ii) Answers to questions carrying **3 marks** may be from **50 – 75 words**.
(iii) Answers to questions carrying **4 – 5 marks** may be about **150 words**.
(iv) Answers to questions carrying **6 marks** may be about **200 words**.
(v) Attempt all parts of a question together.

1. Identify the basic characteristic of management involved in the statement — 'The activities involved in managing an organisation are common to all organisations, whether economic, social or political.'

[1 mark]

Solution:

Concept:

- Management is all pervasive: it is required in organisations of every kind.
- The purpose of an organisation may differ, but the basic activities of management remain common.

Step 1: Identify the clue The statement says that managing activities are "common to all organisations, whether economic, social or political." Thus the need for management is not restricted to business enterprises.

Step 2: Name the characteristic This common applicability is called the all-pervasive nature of management. A social or political organisation also needs planning, organising, staffing, directing and controlling to achieve its objectives.

Step 3: Conclusion The characteristic is that management is **all pervasive**.

Quick Tip to Solve: Link management being needed in every kind of organisation with the term all pervasive.

2. Why is business environment called dynamic ? State. [1 mark]

Solution:

Concept:

- The business environment includes external forces that influence an enterprise.
- Dynamic nature means these external forces keep changing rather than remaining fixed.

Step 1: Explain the changing forces Business environment is called dynamic because it keeps on changing. Technology, consumer preferences, competition and government policies may all change over time.

Step 2: Relate change to business For example, a change in consumer tastes can change the demand for a product. An enterprise must therefore monitor its environment and adjust its decisions to the changing conditions.

Step 3: Conclusion Business environment is dynamic because its constituent forces undergo continuous change.

Quick Tip to Solve: Use the words continuous change and support them with a force such as technology or consumer tastes.

3. 'Dreams can be turned into reality only when managers think in advance what to do and how to do it.' Name the function of management indicated by the statement. [1 mark]

Solution:

Concept:

- Planning means deciding in advance what to do and how to do it.
- It establishes objectives and determines the course of action needed to achieve them.

Step 1: Read the decisive words The statement refers to managers who "think in advance what to do and how to do it." These words describe deciding future action before carrying it out.

Step 2: Identify the function The function is planning. Managers first determine the desired result and then decide how it can be achieved, thereby providing a course of action for converting the stated dreams into reality.

Step 3: Conclusion The function of management indicated is **planning**.

Quick Tip to Solve: The phrase deciding in advance what to do and how to do it identifies planning.

4. State the type of plan that does not allow any flexibility. [1 mark]

Solution:

Concept:

- A rule specifies what must or must not be done in a particular situation.
- Unlike a broad guideline, a rule leaves no discretion or flexibility in its application.

Step 1: Identify the restriction The question asks for a plan that does not allow any flexibility. Such a plan must prescribe a definite action or prohibition which employees are required to follow.

Step 2: Name the plan A rule meets this requirement because it states exactly what is to be done or not done. For instance, a prohibition on smoking in a workplace is a rule: an employee cannot choose an alternative way of complying with it.

Step 3: Conclusion A **rule** is the type of plan that does not allow any flexibility.

Quick Tip to Solve: Distinguish a rule from a policy: a policy guides judgement, whereas a rule prescribes or prohibits action.

5. Define 'organising' as a function of management. [1 mark]

Solution:

Concept:

- Organising translates plans into an arrangement of work and resources.
- It establishes working and authority relationships so that people can work together towards objectives.

Step 1: Identify and divide the work Organising begins with identifying the activities necessary for implementing plans, dividing the work and grouping related activities into suitable departments.

Step 2: Assign duties and relationships Duties are assigned to people and authority and reporting relationships are established. This arrangement enables people to work together effectively with the resources available to achieve the planned objectives.

Step 3: Conclusion Organising is the process of identifying and grouping work, assigning duties and establishing authority relationships so that people work together effectively to achieve organisational objectives.

Quick Tip to Solve: Include work identification, assignment and authority relationships when defining organising.

6. State the suitability of functional structure of organising. [1 mark]

Solution:

Concept:

- A functional structure groups similar activities into departments such as production, marketing and finance.
- Its suitability depends on the scale of operations and the need for specialised performance of functions.

Step 1: Identify the suitable scale Functional structure is suitable for an organisation with large operations, where activities can be grouped into clearly defined major functions.

Step 2: State the specialisation requirement It is particularly appropriate when a high degree of functional specialisation is needed. Each department can then be managed by specialists and employees performing similar tasks can work under the same functional head.

Step 3: Conclusion Functional structure is suitable for large organisations requiring a high degree of functional specialisation and having clearly identifiable major functions.

Quick Tip to Solve: For suitability, connect large operations and functional specialisation with grouping by functions.

7. How is staffing a continuous process ? State. [1 mark]

Solution:

Concept:

- Staffing involves finding, developing and maintaining a suitable workforce.
- Human resource needs continue throughout the life of an organisation, making staffing a continuous process.

Step 1: Recognise recurring workforce needs Staffing does not end with the first recruitment of employees. Vacancies continue to arise because of retirement, resignation, promotion and other

movements of employees.

Step 2: Explain continuing staffing activity The organisation must keep estimating manpower needs, recruiting and selecting suitable people, and training and developing its employees. Expansion and changing job requirements also create fresh staffing needs throughout its existence.

Step 3: Conclusion Staffing is continuous because manpower needs recur and recruitment, selection, training and development continue throughout the life of an organisation.

Quick Tip to Solve: Explain continuity through recurring vacancies and continuing employee development, rather than recruitment alone.

8. Why is it said that 'Motivation is a complex process' ? State. [1 mark]

Solution:

Concept:

- Motivation is the process of stimulating people to act towards desired goals.
- People differ in their needs, expectations and responses to the same incentive.

Step 1: Identify the human element Motivation deals with human beings whose behaviour is affected by several needs and feelings at the same time.

Step 2: Explain the complexity Different people may react differently to the same incentive. Even the same person may respond differently at different times as needs change. A manager therefore cannot use one fixed method to motivate everyone.

Step 3: Conclusion Motivation is a complex process because individuals have diverse and changing needs, expectations and reactions.

Quick Tip to Solve: Link complexity to differences between people and changes in their needs over time.

9. List any two non-financial incentives. [1 mark]

Solution:

Concept:

- Non-financial incentives satisfy psychological, social and emotional needs rather than directly providing money.
- Recognition and participation can motivate employees by meeting their needs for esteem and belonging.

Step 1: Name employee recognition Employee recognition means appreciating an employee's work, for example by publicly acknowledging a useful contribution.

Step 2: Name employee participation Employee participation means involving employees in decisions concerning their work, so that they feel valued and involved in the organisation.

Step 3: Conclusion Two non-financial incentives are employee recognition and employee participation.

Quick Tip to Solve: Choose incentives that improve respect or involvement rather than directly increasing pay.

10. Give the meaning of 'Critical Point Control'. [1 mark]

Solution:

Concept:

- Critical point control concentrates managerial attention on key result areas that are crucial to organisational success.
- Control effort should focus on factors whose performance materially affects the achievement of objectives.

Step 1: Identify the critical areas A manager first identifies key result areas, such as production cost or product quality, whose performance is vital to the business.

Step 2: Focus control attention Performance in these areas is monitored closely and deviations are corrected. Attempting to control every activity equally would waste scarce managerial time and effort.

Step 3: Conclusion Critical point control means concentrating control on key result areas that are critical to the organisation's success.

Quick Tip to Solve: Remember: critical point control asks which areas matter most; management by exception asks which deviations need attention.

11. How many members are required to constitute 'District Consumer Dispute Redressal Forum' ? [1 mark]

Solution:

Concept:

- Under the Consumer Protection Act, 1986 framework relevant to this paper, the District Forum consists of a President and two other members.
- The President is a person qualified to be a District Judge, and one of the other members must be a woman.

Step 1: Count the President The President is included when counting the total membership of the District Consumer Disputes Redressal Forum.

Step 2: Add the other members There are two other members in addition to the President. Thus its total composition is three persons, rather than only the two members other than the President.

Step 3: Conclusion Three persons are required: a President and two other members, one of whom must be a woman.

Quick Tip to Solve: When counting the District Forum, include the President along with the two other members.

12. Besides a 'consumer', name any two parties who can file a complaint before the appropriate consumer forum. [1 mark]

Solution:

Concept:

- Consumer protection permits specified parties other than the individual consumer to seek redressal.
- A registered consumer association and the Central or a State Government can file a complaint before the appropriate forum.

Step 1: Name a registered consumer association Any voluntary consumer association registered under the Companies Act or any other law can file a complaint. The consumer need not be a member of that association.

Step 2: Name the government The Central Government or any State Government can also file a complaint, enabling public authorities to protect consumer interests.

Step 3: Conclusion Two eligible parties are a registered voluntary consumer association and the Central Government or any State Government.

Quick Tip to Solve: For parties besides the consumer, recall a registered consumer association and the government.

13. ABC Ltd. is engaged in producing electricity from domestic garbage. There is almost equal division of work and responsibility between workers and management. The management even takes workers into confidence before taking important decisions. All the workers are satisfied as the behaviour of the management is very good.

(a) State the principle of management described in the above para.

(b) Identify any two values which the company wants to communicate to the society. [3 marks]

Solution:

Concept:

- Taylor's principle of cooperation, not individualism requires management and workers to replace competition with mutual cooperation.
- Management should involve workers in important decisions and share work and responsibility appropriately.
- Business values include protecting the environment and respecting the dignity and welfare of employees.

Step 1: Identify and explain the principle **(a) Cooperation, not individualism:** Taylor advocated cooperation between management and workers instead of individualism. The statement that there is "almost equal division of work and responsibility between workers and management" points to their shared contribution. Taking "workers into confidence before taking important decisions" also shows consultation and cooperation rather than management acting alone. Both sides work together towards organisational prosperity.

Step 2: Identify the environmental value **(b) Environmental protection:** The company produces

"electricity from domestic garbage". Using waste as a productive resource promotes waste management and a cleaner environment. It conveys that business should take responsibility for the environmental effects of its activities.

Step 3: Identify the employee-related value **Respect for employees and their welfare:** The management consults workers and its "behaviour ... is very good", leaving all workers satisfied. These details communicate respect for employees, concern for their satisfaction and dignified treatment at work. Such conduct supports healthy management-worker relations.

Step 4: Conclusion (a) The principle is cooperation, not individualism. (b) Two values are environmental protection and respect for employees and their welfare.

Quick Tip to Solve: Use the equal sharing and consultation clues for Taylor's principle; use the garbage-to-electricity and worker-satisfaction clues for the values.

14. Voltech India Ltd. is manufacturing LED bulbs to save electricity and running under heavy losses. To revive from the losses, the management thought of shifting the unit to a backward area where labour is available at a low cost. The management also asked the workers to work overtime without any additional payment and promised to increase the wages of the workers after achieving its mission. Within a short period the company started earning profits because both the management and the workers honoured their commitments.

(a) State the principle of management described in the above para.

(b) Identify any two values that the company wants to communicate to the society. [3 marks]

Solution:

Concept:

- Fayol's principle of discipline means obedience to organisational rules and employment agreements necessary for the working of an organisation.
- Discipline requires good supervision, clear and fair agreements and judicious application of penalties. Both management and workers should honour their commitments.

Step 1: Identify the principle from the mutual commitments The principle is **discipline**. The decisive evidence is that "both the management and the workers honoured their commitments." Workers accepted the agreed overtime arrangement during the company's difficulties, while management honoured its promise concerning wages after the mission was achieved. The emphasis is therefore on respecting agreements on both sides, rather than merely giving orders or imposing punishment on employees.

Step 2: Identify the values communicated by the company

- **Environmental protection and conservation of energy:** The company is "manufacturing LED bulbs to save electricity." Its product promotes economical use of electricity and conservation of resources.
- **Balanced regional development:** Its decision to shift the unit "to a backward area" brings industrial activity and employment opportunities to a less developed region. This supports development beyond already industrialised areas.

Step 3: Conclusion (a) The principle illustrated is **discipline**, evidenced by management and workers honouring their commitments. (b) Two values are **energy conservation/environmental protection** and **balanced regional development through employment in a backward area**.

Quick Tip to Solve: When a case stresses that both employer and employees keep their promises, identify discipline; support each value with a specific action quoted from the case.

15. Explain the factors that affect capital budgeting decision. [3 marks]

Solution:

Concept:

- A capital budgeting decision is a long-term investment decision involving funds committed to fixed assets or a long-term project.
- Such decisions affect future profitability and risk, involve substantial funds and are often difficult or costly to reverse. Expected benefits must therefore justify the investment.

Step 1: Examine the project's cash flows **Cash flows of the project:** Investment produces a series of cash inflows and outflows over its life. The amount and timing of these cash flows must be carefully assessed. A project needs sufficient cash inflows to recover its investment and generate a worthwhile surplus. Accounting profit alone does not show when cash becomes available, so the cash-flow pattern is central to evaluating the project.

Step 2: Compare the expected return with the risk **Rate of return:** The expected return from each investment proposal must be assessed along with the risk involved. Subject to the required return and other relevant conditions, a proposal offering a higher return is preferable. A high apparent return should not be considered in isolation from the uncertainty of receiving the estimated benefits.

Step 3: Apply suitable investment criteria **Investment criteria involved:** Different capital budgeting techniques are used to evaluate proposals. The evaluation takes account of the amount invested, the interest rate, cash flows and the rate of return. Appropriate criteria help compare alternatives consistently and decide whether a project should be accepted or rejected; the decision should not rest on the size of the initial investment alone.

Step 4: Conclusion Capital budgeting decisions are affected by the **cash flows of the project**, the **rate of return**, and the **investment criteria used** to evaluate and compare proposals.

Quick Tip to Solve: Organise this answer as cash flows, return and investment criteria; explain how each affects acceptance or comparison of a long-term project.

16. State any three points of importance of financial planning. [3 marks]

Solution:

Concept:

- Financial planning estimates the funds required by a business and specifies their sources. It connects future activities with the financial resources needed to carry them out.
- Its purpose is to ensure availability of funds when required and avoid unnecessary raising of finance. Planning also prepares the business to deal with future financial conditions.

Step 1: State how planning prepares the business for the future **Forecasts future requirements:** Financial planning forecasts the funds needed under different business situations. It makes managers look ahead at future sales, investments and expenditure rather than react only when payments fall due. As a result, the firm can arrange suitable funds in advance and meet the requirements of its planned activities.

Step 2: State how planning helps meet uncertainty **Helps avoid business shocks and surprises:** Financial planning considers possible changes in the availability or cost of finance and in business requirements. By anticipating such situations and preparing financial responses, the firm is better placed to face unexpected difficulties. It cannot remove uncertainty altogether, but it reduces the disruption caused by being financially unprepared.

Step 3: State how planning links different decisions **Coordinates business functions:** Financial planning brings together the financial implications of sales, production, investment and other plans. For example, a production expansion must be supported by adequate finance for assets and operations. Combining these requirements helps departments work towards a consistent overall plan instead of making incompatible financial demands independently.

Step 4: Conclusion Three points of importance are: financial planning **forecasts future fund requirements**, **helps avoid business shocks and surprises**, and **coordinates different business functions** through a consistent financial plan.

Quick Tip to Solve: For an importance question, state the benefit and then explain its effect on the business; forecasting, preparedness and coordination give three distinct points.

17. Give the meaning of the following money market instruments :

(i) Certificate of deposit; and

(ii) Commercial bill. [3 marks]

Solution:

Concept:

- The money market deals in short-term funds through instruments with a maturity of up to one year. These instruments help institutions and businesses manage temporary financing needs.
- A certificate of deposit represents a short-term deposit placed with an issuing institution, whereas a commercial bill originates in a credit sale of goods.

Step 1: Explain a certificate of deposit **Certificate of deposit:** It is an unsecured, negotiable

instrument in bearer form issued by a commercial bank or a development financial institution against funds deposited with it for a specified short period. It has a fixed maturity and is issued to individuals, corporations and companies. Banks use it to mobilise large deposits, particularly when deposits grow slowly, demand for credit is high and liquidity is tight. Its negotiability allows the holder to transfer the instrument rather than necessarily hold it until maturity.

Step 2: Explain a commercial bill **Commercial bill:** It is a bill of exchange used to finance a firm's working-capital requirements arising from credit sales. The seller draws the bill on the buyer, directing the buyer to pay a specified sum on a specified future date. Once the buyer accepts it, it becomes a marketable instrument called a trade bill. If the seller needs funds before maturity, the bill can be discounted with a bank; it then becomes a commercial bill. The bank pays the seller after deducting discount and collects the amount from the buyer at maturity.

Step 3: Conclusion A certificate of deposit raises short-term funds against a deposit with a bank or financial institution. A commercial bill provides short-term trade finance by converting the amount due from a credit sale into a negotiable instrument that may be discounted.

Quick Tip to Solve: Remember the origin of each instrument: a certificate of deposit begins with a deposit; a commercial bill begins with a credit sale and an accepted bill of exchange.

18. Identify and explain the marketing management philosophy which implies that products and services are bought not merely because of their quality or brand name, but because they satisfy a specific need of a customer. [3 marks]

Solution:

Concept:

- Under the marketing concept, achievement of organisational objectives depends on identifying the needs and wants of target customers and satisfying them more effectively and efficiently than competitors.
- The customer is the starting point of marketing decisions. Product quality and a brand name contribute to an offering, but their value depends on the satisfaction they provide to the customer.

Step 1: Identify the philosophy from the statement **Marketing concept:** The decisive words are "satisfy a specific need of a customer." They show that the business must begin with customer needs rather than merely with the product it is capable of making. The customer buys the benefit or satisfaction supplied by the offering, rather than quality or a brand name in isolation.

Step 2: Explain how the marketing concept guides decisions **Customer focus:** The firm first selects its target market and studies the needs and wants of those customers. It then develops a product or service that fulfils those needs. Thus, customer demand guides what should be produced and offered.

Integrated marketing: Product, price, promotion and distribution decisions must work together to deliver the required satisfaction. All departments should coordinate their activities around the customer rather than pursue unrelated departmental goals.

Profit through satisfaction: The firm seeks to satisfy customers better than competing firms. Satisfied customers are more likely to purchase again and recommend the offering, enabling the organisation

to achieve its objectives through customer satisfaction. This differs from the product concept, which concentrates primarily on quality, performance and features.

Step 3: Conclusion The philosophy is the **marketing concept**. It treats the identification and effective satisfaction of target customers' needs as the key to achieving organisational goals; quality and branding must serve those needs.

Quick Tip to Solve: Link "customer needs and satisfaction" with the marketing concept; link a primary emphasis on superior quality and features with the product concept.

19. 'The skilful and personal application of existing knowledge to achieve desire results is called art.' In the light of this statement, describe whether management is an art or not. [4 marks]

Solution:

Concept:

- Art means the skilful and personal application of existing knowledge to achieve desired results. It concerns how knowledge is put into practice, rather than merely knowing principles.
- Management is an art because it possesses the characteristics of art: an existing theoretical body of knowledge, personalised application, and practice and creativity.

Step 1: Relate management to theoretical knowledge **Existence of theoretical knowledge:** Every art rests on an organised body of knowledge. For example, a musician must understand musical notes before performing. Similarly, management has theories and principles developed by thinkers such as Taylor and Fayol. A manager studies these principles and uses them to understand managerial situations. Thus, management has the knowledge base necessary for an art.

Step 2: Explain personal application and creative practice **Personalised application:** Possessing knowledge alone does not make a successful artist or manager. Different managers apply the same principles differently according to their judgement, experience and the particular situation. Their individual skill in dealing with people and resources produces different results even under similar circumstances.

Based on practice and creativity: An artist improves through continuous practice and adds a creative touch to each performance. Likewise, a manager gains skill by repeatedly handling problems, learning from experience and modifying established knowledge to suit changing circumstances. A manager must creatively combine available resources and adapt methods to achieve the organisation's objectives; mechanical repetition of a rule is insufficient.

Step 3: Conclusion Management is an art: managers draw on theoretical knowledge, apply it personally, and develop skill through practice and creativity to achieve desired results. The statement therefore applies directly to managerial work.

Quick Tip to Solve: Link each feature of art to a managerial action: learn principles, apply them with personal judgement, and improve their use through creative practice.

20. Explain any four points of importance of business environment. [4 marks]

Solution:

Concept:

- Business environment comprises the external forces, institutions and conditions that affect a business enterprise's performance. An individual firm generally cannot control these forces but must understand and respond to them.
- Environmental awareness enables managers to recognise favourable opportunities and adverse threats early and to adjust decisions to external changes. Any four points of its importance are explained below.

Step 1: Explain how awareness reveals opportunities and threats **Identifying opportunities and getting the first-mover advantage:** Opportunities are favourable external changes that can help a business improve its performance. Understanding the environment enables a firm to identify them early and take suitable action ahead of competitors. For example, noticing a growing preference for healthier food can help a producer introduce a suitable product before rivals and establish its position in that market.

Identifying threats and early warning signals: Threats are unfavourable external trends that may obstruct performance. Environmental understanding alerts managers to such developments in time to prepare a response. For example, awareness that a new competitor is entering the market enables the firm to improve product quality or customer service before it loses customers.

Step 2: Explain how awareness supports adjustment and planning **Coping with rapid changes:** Markets, technology, consumer preferences and competitive conditions change rapidly. Continuous study of the environment helps managers understand these changes and develop appropriate courses of action. A firm can update its technology, products or methods to remain relevant rather than continue with practices that no longer suit the market.

Assisting in planning and policy formulation: Plans and policies must take account of the external conditions in which they will operate. Environmental analysis provides information about emerging opportunities, constraints and likely changes. Managers can use it to set realistic objectives and choose suitable strategies, such as planning a product launch in response to demand or adjusting investment plans to expected government policy.

Step 3: Conclusion Understanding the business environment helps an enterprise identify opportunities early, recognise threats, cope with rapid change, and formulate sound plans and policies. These four benefits improve its ability to respond effectively to external conditions.

Quick Tip to Solve: Keep the four benefits distinct: opportunities show what to pursue, threats show what to guard against, change requires adaptation, and planning turns information into decisions.

21. After the following logical steps in the process of planning, explain the steps required to complete the process :

(a) Setting objectives;

(b) Developing premises; and

(c) Identifying alternative courses of action. [4 marks]

Solution:

Concept:

- Planning means deciding in advance what is to be done and how it is to be done. Its steps proceed logically from objectives to implementation and review.
- Since objectives, premises and alternative courses have already been identified, the remaining steps begin with evaluating those alternatives, rather than repeating the initial stages.

Step 1: Evaluate and select an alternative **Evaluating alternative courses:** Examine the positive and negative aspects of every possible course in the light of the objectives. Assess its feasibility, expected benefits, costs and risks, using the planning premises as the basis of comparison. This comparison helps management judge which alternative can best achieve the desired results.

Selecting an alternative: Choose the most suitable course after evaluating the available alternatives. The best plan should be feasible, profitable and have the least negative consequences in the circumstances. Sometimes a combination of plans is more suitable than a single alternative; management then selects that combination.

Step 2: Implement the plan and review its progress **Implementing the plan:** Put the selected plan into action. Translate decisions into practical work by organising the necessary resources, assigning responsibilities and issuing directions. For example, a decision to increase production has to be supported by arranging inputs and assigning production duties; selection alone does not accomplish the objective.

Follow-up action: Monitor whether activities are being performed according to the plan and whether the intended results are being achieved. Compare progress with the objectives, identify deviations and take corrective action where required. Such review establishes whether the plan is working and supplies feedback for future planning.

Step 3: Conclusion The remaining steps, in order, are evaluating alternative courses, selecting an alternative, implementing the plan and follow-up action. Together they turn the identified possibilities into action and check the achievement of objectives.

Quick Tip to Solve: After identifying alternatives, remember: evaluate, select, implement and follow up. Keep evaluation separate from the final choice.

22. Give the definition of 'Consumer' as per Consumer Protection Act, 1986. [4 marks]

Solution:

Concept:

- The Consumer Protection Act, 1986 recognises consumers of goods as well as consumers of services. The definition covers the purchaser or hirer and certain approved users or beneficiaries.
- Consideration is the price or payment for the transaction. It may be paid immediately, promised, partly paid and partly promised, or payable under a system of deferred payment.

Step 1: Define a consumer of goods **Buyer of goods:** A consumer is any person who buys any goods for a consideration which has been paid or promised, partly paid and partly promised, or under any system of deferred payment.

Approved user and exclusions: The definition includes any user of those goods other than the buyer, when the goods are used with the buyer's approval. It excludes a person who obtains goods for resale or for any commercial purpose. However, buying and using goods exclusively for earning one's livelihood by means of self-employment is not treated as a commercial purpose. Thus, the statutory exclusion does not remove the protection given to such a self-employed purchaser.

Step 2: Define a consumer of services **Hirer or person availing services:** A consumer is also any person who hires or avails of any services for a consideration which has been paid or promised, partly paid and partly promised, or under any system of deferred payment.

Approved beneficiary and exclusions: This includes a beneficiary of the services other than the person who hires or avails of them, provided the services are availed of with that person's approval. A person who avails of services for a commercial purpose is excluded. For this definition, commercial purpose does not include services availed of exclusively to earn one's livelihood by means of self-employment. Payment need not have been made in full at the time of purchase or hiring for the person to qualify.

Step 3: Conclusion Under the Act, a consumer is a buyer of goods or a person hiring or availing of services for consideration, together with an approved user or beneficiary, subject to the exclusions for resale and commercial purposes and the livelihood-by-self-employment exception.

Quick Tip to Solve: State both goods and services, all forms of consideration, and approved users or beneficiaries; then add the exclusions and the self-employment exception.

23. State the merits of internal sources of recruitment. [5 marks]

Solution:

Concept:

- Internal recruitment means filling a vacancy from among the organisation's existing employees, mainly through transfers and promotions.
- Its merits arise from using employees whose abilities are already known and from providing opportunities for advancement within the organisation.

Step 1: Explain the benefits for employees and selection **1. Motivation and better performance:** The

possibility of promotion gives employees a career path within the organisation. They are encouraged to improve their knowledge, skills and performance because good work can lead to higher positions. Promotion also increases job satisfaction and loyalty.

2. Simpler and more reliable selection: Management already knows the work, experience, abilities and conduct of existing employees. Their past performance records help in assessing their suitability for the vacancy. Selection is therefore easier, and the risk of choosing an unsuitable person is lower than when an entirely unknown outsider is appointed.

3. Preparation for higher responsibilities: Transfer allows an employee to gain experience of different jobs, departments or locations. This broadens the employee's understanding of the organisation and helps prepare the person for positions involving greater responsibility. Internal movement therefore supports the development of future managers.

Step 2: Explain the operational and cost advantages **4. Adjustment of manpower requirements:** Transfers allow employees to be moved from departments with surplus staff to departments facing a shortage. The organisation can balance its available human resources and fill requirements without necessarily recruiting additional people from outside.

5. Economy in recruitment: Internal recruitment avoids much of the expenditure on advertisements, external recruitment agencies and the extensive screening of outside applicants. Existing employees are already familiar with the organisation's policies and working environment, so less initial orientation is generally needed. This saves both time and money.

Step 3: Conclusion Internal recruitment motivates employees, simplifies and improves the reliability of selection, develops employees for higher responsibilities, helps redistribute surplus staff and reduces recruitment costs.

Quick Tip to Solve: Recall five merits through motivation, known performance, development, manpower balance and economy; connect each merit to promotion or transfer.

24. Explain the relationship between Planning and Controlling. [5 marks]

Solution:

Concept:

- Planning decides in advance what is to be done and how it is to be done. It establishes objectives and the standards of performance expected from organisational activities.
- Controlling measures actual performance, compares it with planned standards, analyses deviations and initiates corrective action. Planning and controlling are interdependent functions of management.

Step 1: Explain why the two functions depend on one another **1. Planning provides the basis for controlling:** Control requires a standard against which actual performance can be compared. Plans supply these standards, such as the desired output, cost or time for completing a task. Without planning, the manager has no clear basis for judging whether performance is satisfactory; controlling would be blind.

2. Controlling makes planning meaningful: Merely preparing a plan does not ensure its achievement.

Controlling checks whether activities are proceeding according to the plan and brings deviations to management's attention. Corrective action helps ensure that the objectives established during planning are achieved. Planning without controlling is therefore meaningless.

3. Control supplies feedback for future plans: Analysis of deviations reveals defects in implementation or unrealistic standards and assumptions. Managers use this information to revise plans and improve subsequent planning. The results of control thus become an input to the next planning cycle.

Step 2: Explain their forward and backward links **4. Both are forward-looking:** Planning is forward-looking because it chooses a future course of action. Controlling is also forward-looking because corrective action is taken to improve future performance and prevent the repetition of mistakes. Its purpose is not merely to find faults in work already completed.

5. Both also involve looking back: Controlling compares actual performance already achieved with the standards fixed earlier. Planning also draws on past experience and the information produced by controlling when framing future objectives and courses of action. Thus, describing planning as only forward-looking and controlling as only backward-looking gives an incomplete picture.

Step 3: Conclusion Planning and controlling are inseparable and reinforce one another: planning establishes standards, controlling checks their achievement, and control feedback improves later plans. Both use past information to guide better future action.

Quick Tip to Solve: Build the answer around the cycle: plans set standards, control compares results, corrective action follows, and feedback improves the next plan.

25. Differentiate between 'Capital Market' and 'Money Market' on the following basis :

(i) Participants;

(ii) Instruments;

(iii) Investment outlay;

(iv) Duration; and

(v) Liquidity. [5 marks]

Solution:

Concept:

- Financial Markets: the capital market channels medium- and long-term funds, while the money market deals in short-term funds with maturities up to one year.
- A comparison must use the same basis for both markets. Participants, instruments, investment outlay, duration and liquidity describe different aspects of their operation.

Step 1: Identify the financing needs served by the two markets The capital market supplies funds for purposes such as establishing or expanding a business. The money market meets temporary cash requirements and provides an avenue for investing short-term surplus funds. This difference in purpose explains why their instruments, investors and maturities differ.

Step 2: Compare the markets on the five specified bases

Basis	Capital market	Money market
Participants	Financial institutions, banks, corporate entities, foreign investors and ordinary retail investors participate.	The main participants are the RBI, banks, financial institutions and finance companies; large companies also participate.
Instruments	Instruments include equity shares, preference shares, debentures and bonds.	Instruments include Treasury bills, commercial paper, certificates of deposit, call money and commercial bills.
Investment outlay	An investment need not involve a huge sum; securities can be bought in relatively small units, making retail participation possible.	Transactions generally require a large investment outlay, so institutional and other large investors dominate.
Duration	Deals in medium- and long-term securities, generally with a maturity exceeding one year; equity shares have no fixed repayment maturity.	Deals in short-term instruments with a maximum maturity of one year.
Liquidity	Securities are marketable through stock exchanges, but are generally less liquid than money-market instruments.	Instruments are highly liquid because of their short duration and the arrangements for their ready conversion into cash.

Step 3: Conclusion The capital market serves longer-term financing and admits both institutional and small investors. The money market serves short-term financing, generally through large transactions in highly liquid instruments.

Quick Tip to Solve: Use one row for each basis and keep the two entries directly comparable: who participates, what is traded, how much is invested, how long it runs and how readily it becomes cash.

26. State any five characteristics of a good brand name. [5 marks]

Solution:

Concept:

- Marketing Management: branding gives a product a name, sign, symbol, design or a combination of these that identifies the seller's product and distinguishes it from competitors' products.
- A brand name is the part of a brand that can be spoken. A good name should help customers recognise, remember and select the product and should support its legal protection.

Step 1: Relate the name to the purpose of branding The name should give the product a recognisable identity rather than merely describe an entire product category. When customers can recall and distinguish it, they can ask for the same product again. The following five characteristics make a name useful for this purpose.

Step 2: State five characteristics of a good brand name

- **Short, easy to pronounce, spell and remember:** A simple name is convenient to communicate

and recall when making repeat purchases. Names such as Lux and Vim illustrate this simplicity.

- **Suggestive of the product's benefits and qualities:** The name should convey a relevant product advantage, purpose or quality. For example, a name such as Safi suggests cleanliness, helping customers associate the name with a benefit.
- **Distinctive:** It should stand apart from competing names so that the buyer can identify the intended seller's product without confusion. Mere similarity to an existing brand weakens that identification.
- **Adaptable to packing or labelling requirements and different media:** The name should be suitable for clear presentation on the package and label and for use in print and other advertising media. Its identity should remain recognisable across these uses.
- **Capable of registration and legal protection:** The name should be eligible for registration as a trademark so that the firm can protect its identity against unauthorised imitation and prevent others from using it deceptively.

Step 3: Conclusion A good brand name is simple and memorable, suggests benefits or qualities, is distinctive, is adaptable to packaging and advertising media, and can be registered and legally protected.

Quick Tip to Solve: Check a proposed name by asking whether buyers can say it, remember it, connect it with a benefit, distinguish it from rivals and recognise it on a pack or advertisement.

27(a). Explain the steps in the process of Organising. [6 marks]

Solution:

Concept:

- Organising translates plans into action by identifying work, grouping related activities and defining responsibilities and authority relationships.
- The NCERT organising process has four steps: identification and division of work, departmentalisation, assignment of duties, and establishment of reporting relationships.

Step 1: Identify and divide the work **Identification and division of work:** Identify all the activities necessary to implement the plan and divide the total work into manageable tasks. Each task should have a clear scope so that work is neither duplicated nor left unattended. Division of work permits specialisation: employees repeatedly perform a limited range of related activities and develop greater skill. For example, a manufacturing business identifies purchasing materials, producing goods, checking quality, selling goods and maintaining accounts as distinct activities.

Step 2: Group related activities into departments **Departmentalisation:** Group similar or related tasks into separate departments to facilitate coordination. The basis may be functions such as production, marketing and finance, or products such as different product lines. For instance, buying raw materials and managing their supply can be placed under the purchase department. Grouping related work makes the department's role clear and enables a manager to supervise and coordinate that work effectively.

Step 3: Assign duties to suitable people **Assignment of duties:** Define each job and allocate it to an employee with the required knowledge, experience and abilities. Match the nature of the work with

the competence of the person so that duties are performed effectively. Avoid overlap by making each individual's responsibility clear. For example, an employee trained in accounting should be assigned preparation and maintenance of financial records rather than an unrelated technical production job.

Step 4: Establish reporting relationships **Establishment of reporting relationships:** Specify who will report to whom and who has authority over whom. Give employees authority appropriate to their assigned responsibilities and clarify the superior-subordinate relationships. This creates the hierarchy through which instructions and accountability move. Employees know from whom to receive orders and to whom to report results, reducing confusion and helping departments coordinate their efforts towards the common plan.

Step 5: Conclusion Organising therefore proceeds from dividing the required work to grouping activities, assigning duties and establishing reporting relationships. Together these four steps create a workable structure of jobs and authority for implementing organisational plans.

Quick Tip to Solve: Recall the sequence as Work, Departments, Duties, Reporting. Explain what each step does before giving an example; do not confuse these four steps with the separate importance of organising.

OR

27(b). Differentiate between Formal and Informal organisation on the basis of the following :

(i) Meaning;

(ii) Origin;

(iii) Authoring;

(iv) Behaviour;

(v) Flow of Communication; and

(vi) Leadership. [6 marks]

Solution:

Concept:

- Formal organisation is the structure of jobs and authority relationships deliberately designed by management to achieve organisational objectives.
- Informal organisation is the network of personal and social relationships that emerges spontaneously from interaction among people at work.

Step 1: Compare meaning, origin and authority The distinction concerns the officially prescribed structure and the social network that develops within it. The third printed basis, "Authoring", is addressed as authority in the comparison below.

Basis	Formal organisation	Informal organisation
Meaning	A consciously designed structure of jobs, duties, authority and responsibility that defines official working relationships.	A network of social relationships arising from employees' interaction and shared interests, beyond prescribed working relationships.
Origin	Created deliberately by management to organise work and achieve organisational goals.	Arises spontaneously through employees' personal interaction; management does not deliberately create it.
Authority	Comes from the position a person occupies in the management hierarchy; an official superior can issue instructions within that position's authority.	Comes from personal qualities, influence and acceptance by group members; it does not depend on an officially assigned post.

Step 2: Compare behaviour, communication and leadership Formal relationships prescribe how official work should be done. Informal relationships operate through the group's own norms and personal contacts. The remaining differences are:

Basis	Formal organisation	Informal organisation
Behaviour	Directed by the rules, procedures and standards prescribed by management for the organisation.	Guided by the values, attitudes and norms accepted by the informal group.
Flow of communication	Follows officially prescribed channels and the scalar chain of superior-subordinate relationships.	Has no prescribed route; information can move freely in different directions through personal contacts, commonly called the grapevine.
Leadership	Managers are the appointed leaders because of their official positions and the authority attached to them.	Leaders emerge from the group and gain followers through personal influence, ability or acceptance, irrespective of official rank.

Step 3: Conclusion Formal organisation is deliberately created and governed by official positions, rules and channels. Informal organisation develops naturally and depends on personal relationships, group norms and accepted leaders. Both may coexist among the same employees within one enterprise.

Quick Tip to Solve: Use the same basis on both sides of every comparison. For authority and leadership, contrast official position and appointment with personal influence and acceptance by the group.

28(a). Describe psychological barriers to effective communication. [6 marks]

Solution:

Concept:

- Psychological barriers arise from the mental and emotional state of the sender or receiver. Effective communication requires the receiver to understand the message in the sense intended by the sender.
- The NCERT psychological barriers are premature evaluation, lack of attention, loss by transmission

and poor retention, and distrust. They can distort a message even when the words themselves are clear.

Step 1: Explain barriers caused by judgement and inattention

- **Premature evaluation:** A receiver sometimes judges the meaning or worth of a message before the sender has completed it. The judgement may reflect the receiver's preconceived ideas or prejudices rather than the complete facts. For example, a manager who dismisses an employee's suggestion immediately may miss the explanation that makes it useful. Understanding is obstructed because listening is replaced by an early conclusion.
- **Lack of attention:** A receiver preoccupied with another problem may not listen carefully to the message. The words may be heard without their meaning being absorbed. For example, an employee worried about a personal difficulty may miss an important instruction. The sender has transmitted the information, but the receiver's divided attention prevents effective understanding.

Step 2: Explain barriers caused by memory and distrust

- **Loss by transmission and poor retention:** When a message passes through several successive persons, some information can be omitted, altered or misunderstood at each stage. Its final form may therefore differ from the original. People also cannot retain all oral information for a long time. Poor retention makes detailed oral instructions especially vulnerable to being forgotten, so an important qualification may be lost even without deliberate distortion.
- **Distrust:** If the sender and receiver do not trust each other, communication loses credibility. The receiver may suspect a hidden motive, reject accurate information or interpret an ordinary statement negatively. A message is then understood through suspicion rather than its intended meaning. Mutual confidence is therefore essential for a free and accurate exchange of information.

Step 3: Conclusion Psychological barriers interfere with listening, interpretation, retention and acceptance. Premature evaluation, lack of attention, loss by transmission and poor retention, and distrust prevent the receiver from understanding and accepting the message as intended.

Quick Tip to Solve: Organise psychological barriers around four questions: Did the receiver judge too soon, pay attention, retain the message and trust its sender?

OR

28(b). Explain how directing helps in effective and efficient functioning of the organisation. [6 marks]

Solution:

Concept:

- Directing means instructing, guiding, counselling, motivating and leading people to achieve organisational objectives. It converts plans and an organisation structure into purposeful action through people.
- Effectiveness means achieving the desired objectives, while efficiency means doing so with minimum cost and wastage of resources. Directing supports both by bringing employees' efforts into line with organisational goals.

Step 1: Show how directing starts and unifies work

- **Initiates action:** Plans, staffing and the allocation of duties do not by themselves make people work. Through instructions, guidance and supervision, directing tells employees what to do and helps them begin their assigned activities. It therefore puts the other managerial functions into operation and moves the organisation towards its objectives.
- **Integrates employees' efforts:** People work at different levels and in different departments. Their separate efforts must contribute to a common purpose. Directing guides individuals so that their activities complement one another instead of conflicting or being duplicated. This coordination helps achieve organisational objectives while avoiding wasted time and resources.

Step 2: Explain motivation, adaptation and stability

- **Realises employees' potential:** Appropriate motivation and leadership encourage people to contribute their abilities fully. A manager understands employees' needs, provides suitable incentives and guides them in their work. Employees are encouraged to improve performance and cooperate willingly, which increases both achievement and productive use of human resources.
- **Facilitates introduction of change:** Employees may resist new methods because they fear uncertainty or loss of familiar arrangements. Effective communication, motivation and leadership explain the need for change and its benefits. Managers can address doubts and secure cooperation, helping the organisation adopt necessary changes with less disruption and wasted effort.
- **Brings stability and balance:** Directing fosters cooperation and commitment among members. Through persuasion, incentives and guidance, managers reconcile individual interests with organisational interests and reduce conflict between people and groups. A more harmonious work environment helps maintain continuity and enables the organisation to function steadily despite differing expectations.

Step 3: Conclusion Directing makes organisational work effective and efficient by initiating action, integrating efforts, developing employees' potential, facilitating change and bringing stability and balance. People are guided towards the required results while avoidable conflict, duplication and wastage are reduced.

Quick Tip to Solve: Link each importance point to a result: work begins, efforts unite, potential develops, change is accepted and cooperation becomes stable.

29(a). Explain any four factors affecting the dividend decision of a company. [6 marks]

Solution:

Concept:

- The dividend decision determines how much of a company's profit is distributed to shareholders and how much is retained in the business for future needs.
- A sound dividend policy balances shareholders' desire for current income with the company's need to finance investment and maintain adequate liquidity. The following are four factors affecting this decision.

Step 1: Examine the amount and stability of earnings **1. Amount of earnings:** Dividends are paid

out of current and past earnings. A company with higher profits has a greater capacity to distribute dividends, whereas low profits restrict the amount available for distribution. Management must decide what part of the available earnings can be paid without weakening the business. A large accounting profit therefore provides scope for a dividend, but does not by itself require all profits to be distributed.

2. Stability of earnings: A company whose earnings are stable can generally afford a higher dividend payout because it can reasonably expect to earn similar profits in future. A company with fluctuating earnings usually adopts a more cautious policy and retains a larger proportion in good years. This helps it meet business needs and avoid making a dividend commitment that it cannot sustain during a poor year.

Step 2: Consider growth opportunities and cash availability **3. Growth opportunities:** A company with profitable expansion or investment opportunities needs funds to undertake them. It may retain a larger proportion of earnings and pay a lower dividend so that internal funds can finance growth. A company with fewer such opportunities has less need to retain profits for expansion and may distribute a larger proportion. Retention is justified by the need to finance promising projects, rather than by a desire merely to accumulate profits.

4. Cash-flow position: Payment of dividends involves an actual outflow of cash. The company must therefore have enough cash to pay dividends after considering its operating and other commitments. Even a profitable company may have funds tied up in inventories or credit sales and consequently be unable to pay a high cash dividend. A strong cash-flow position makes dividend payment easier, while a shortage of liquid funds limits it.

Step 3: Conclusion Amount of earnings, stability of earnings, growth opportunities and cash-flow position are four factors affecting the dividend decision. Higher and stable earnings support payment; substantial growth needs encourage retention, and adequate cash is necessary to make the payment.

Quick Tip to Solve: Separate profit from cash: earnings determine the capacity to declare a dividend, while liquidity determines whether the company can actually pay it.

OR

29(b). Explain any four factors affecting fixed capital requirements of a company. [6 marks]

Solution:

Concept:

- Fixed capital refers to funds invested in fixed assets such as land, buildings, plant and machinery. These assets serve the business over a long period, so decisions about them commit funds for the long term.
- The amount of fixed capital required depends on the operating characteristics and plans of the company. Four important factors are the nature of business, scale of operations, choice of technique and growth prospects.

Step 1: Relate the requirement to the business and its size **1. Nature of business:** A manufacturing company generally requires more fixed capital than a trading company because it needs plant,

machinery and production buildings to convert inputs into finished goods. A trading company buys and sells goods without undertaking such manufacturing operations and therefore usually needs less investment in production assets. Thus, the activities the business performs determine the kinds and amount of fixed assets it must acquire.

2. Scale of operations: A company operating on a large scale requires more fixed capital than a comparable company operating on a small scale. Larger operations generally need bigger premises, greater plant capacity and more equipment. Small-scale operations can usually function with a smaller investment in these assets. The comparison concerns the total funds required for fixed assets, even if large-scale production reduces the cost per unit of output.

Step 2: Consider production technique and future expansion **3. Choice of technique:** A company using a capital-intensive production technique requires a larger investment in machinery and equipment and therefore more fixed capital. A labour-intensive technique relies more on workers and less on machinery, so its fixed-capital requirement is relatively lower for comparable operations. The chosen production method changes the proportion of funds committed to long-term physical assets.

4. Growth prospects: A company expecting rapid growth needs more fixed capital because expansion requires additional productive capacity, buildings or equipment. It may have to invest in these assets before the extra output and sales are realised. A company with limited growth prospects has less need to create additional capacity and therefore generally requires a smaller additional commitment of fixed capital. Planning must therefore consider future requirements as well as current activity.

Step 3: Conclusion Nature of business, scale of operations, choice of technique and growth prospects are four factors affecting fixed capital requirements. Manufacturing activity, a larger scale, capital-intensive technology and rapid expected growth generally increase the funds needed for fixed assets.

Quick Tip to Solve: Link each factor to a long-term asset: ask whether it requires more premises, plant, equipment or productive capacity, rather than merely more day-to-day cash.

30(a). Explain the four important elements of marketing mix. [6 marks]

Solution:

Concept:

- The marketing mix is the combination of controllable marketing variables used by a firm to achieve its marketing objectives in its target market.
- Its four important elements, called the four Ps, are Product, Price, Place and Promotion. These decisions must support each other and satisfy the needs of target customers.

Step 1: Explain the product and price decisions

- **Product:** Product means the goods or services offered to satisfy customer needs. Product decisions cover features, quality, design, size and variety, together with branding, packaging, labelling and after-sales service. A marketer must decide what benefits the product will provide and how its offer will be distinguished from competing products. For example, reliable performance and suitable packaging make the offer useful and recognisable to buyers.
- **Price:** Price is the amount customers must pay to obtain the product. Price decisions include fixing

the basic price, discounts, payment terms and credit terms. The firm considers production and marketing costs, customer demand, competing offers and its pricing objectives. A suitable price should attract the target customers while allowing the firm to cover costs and earn an appropriate return.

Step 2: Explain the place and promotion decisions

- **Place:** Place refers to making the product available to target customers at the right location and time. Decisions include the choice of distribution channels, such as direct selling or selling through wholesalers and retailers. Physical distribution decisions cover order processing, transportation, warehousing and inventory. Even a good product may lose sales if customers cannot obtain it conveniently when they need it.
- **Promotion:** Promotion covers activities that inform customers about the offer and persuade them to buy it. The firm selects an appropriate combination of advertising, personal selling, sales promotion and public relations or publicity. It decides the message, media and promotional expenditure so that buyers understand the product's benefits and are encouraged to purchase it.

Step 3: Conclusion Product determines the offer, price determines what the buyer pays, place makes it available, and promotion communicates its benefits. Their coordinated combination forms the marketing mix.

Quick Tip to Solve: Recall the four Ps and expand each into its decisions: offer, payment, availability and communication. Do not confuse place with the factory's location alone.

OR

30(b). Explain any four factors determining the choice of an appropriate channel of distribution.

[6 marks]

Solution:

Concept:

- A channel of distribution is the route through which goods move from the producer to the ultimate consumer, directly or through intermediaries such as wholesalers and retailers.
- The appropriate channel depends on the product, the firm's resources and objectives, the market and the competitive situation. A shorter channel has fewer intermediaries; a longer channel has more.

Step 1: Assess the product and the company's characteristics

- **Product-related factors:** The nature of the product influences the number and type of intermediaries. Perishable products, such as fresh vegetables, usually need a short channel so that they reach buyers quickly. Technically complex industrial equipment is often sold directly because buyers require expert advice, installation and service. Standardised consumer goods can generally be distributed through longer channels, while bulky goods favour shorter channels to reduce repeated handling and transportation costs.
- **Company characteristics:** Financial strength and the degree of control desired affect channel

choice. A financially strong company can establish its own selling outlets, maintain stocks and employ a sales force, making direct distribution feasible. A company with limited resources may depend on intermediaries who perform these functions. A firm wanting close control over prices, customer service and presentation of its products generally prefers a shorter channel; using more intermediaries reduces such direct control.

Step 2: Assess competition and the market to be served

- **Competitive factors:** A firm must examine the channels used by competitors. It may use similar channels because customers already buy through those outlets and the intermediaries possess relevant market knowledge. Alternatively, it may deliberately choose a different channel to avoid direct competition or provide greater customer convenience. The decision should support the firm's competitive strategy rather than merely copy rivals without assessing suitability.
- **Market factors:** The number of buyers, their geographical concentration, the size of orders and buying habits influence distribution. A small number of buyers concentrated in one area can be served directly at reasonable cost. Numerous scattered customers generally require intermediaries to provide wide coverage. Large institutional orders favour direct selling, while small, frequent household purchases commonly favour retailers. Thus, the chosen channel must make the product conveniently available to the intended buyers.

Step 3: Conclusion Four factors determining channel choice are product-related factors, company characteristics, competitive factors and market factors. Together they determine whether direct distribution or a channel with intermediaries can serve customers most effectively.

Quick Tip to Solve: For each factor, state the condition and its effect on channel length. For example, perishability favours a short channel, while scattered buyers favour intermediaries.