THEORY - 1

ENTREPRENEURSHIP and MANAGEMENT & SMART TECHNOLOGY

5TH SEMESTER, MECHANICAL

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Chapter – 5

FUNCTIONAL AREAS OF MANAGEMENT

TOPIC TO BE COVERED :-

- PRODUCTION MANAGEMENT
- INVENTORY MANAGEMENT
- FINANCIAL MANAGEMENT
- MARKETING MANAGEMENT
- HUMAN RESOURCE MANAGEMENT

A. PRODUCTION MANAGEMENT

A. PRODUCTION MANAGEMENT

- TOPIC TO BE COVERED :-
- FUNCTIONS
- ACTIVITIES
- PRODUCTIVITY
- QUALITY CONTROL
- PRODUCTION PLANNING AND CONTROL

A. PRODUCTION MANAGEMENT

INTRODUCTION

- It is defined as planning , implementation and control of industrial production process to ensure smooth and efficient operation.
- Production management techniques are used in both manufacturing and service industries.
- Simply, production management is a process of planning, organizing, directing and controlling the activities of the production function.

A. PRODUCTION MANAGEMENT

Production Management	Operation Management
1. It's concerned with manufacturing	1. It is concerned with services
2. Out put is tangible	2. Output is intangible
3. Job use less labour and more equipment	3. Job use more labour and less equipment
4. There is no customer participation	4. Frequent customer participation

A. PRODUCTION MANAGEMENT

❖HISTORY

- For over 2 centuries operations and production management has been recognized as an important factor in a country's economic growth.

- The traditional view of manufacturing management began in 18thcentury when Adam Smith recognized the economic benefits of specialization of labour.

- He recommended breaking of jobs down into subtasks and recognizes workers to specialized tasks in which they would become highly skilled and efficient.
- In the early 20thcentury, F.W. Taylor developed scientific management.

A. PRODUCTION MANAGEMENT

❖ HISTORY

➤ From then till 1930, many techniques were developed prevailing the traditional view.

➤ Production management becomes the acceptable term from 1930s to 1950s.

➤ As F.W. Taylor's works become more widely known, managers developed techniques that focused on economic efficiency in manufacturing.

➤ Workers were studied in great detail to eliminate wasteful efforts and achieve greater efficiency. At the same time, psychologists, socialists and other social scientists began to study people and human behavior in the working environment.

➤ In addition, economists, mathematicians, and computer socialists contributed more sophisticated analytical newer approaches.

A. PRODUCTION MANAGEMENT

❖HISTORY

- With the 1970s emerges 2 distinct changes in our views.
- The most obvious of these reflected in the new name operations management was a shift in the service & manufacturing sectors of the economy.
- As service sector became more prominent, the change from 'production' to 'operations' emphasized the broadening of our field to service organizations.
- The second, more suitable change was the beginning of an emphasis on synthesis, rather than just analysis, in management practices.

A. PRODUCTION MANAGEMENT

❉CONCEPT OF PRODUCTION:-

➤ Production is defined as "the step-by-step conversion of one form of material into another form through chemical or mechanical process to create or enhance the utility of the product to the user."

➤Thus production is a value addition process. At each stage of processing, there will be value addition.

➤Edwood Buffa defines production as 'a process by which goods and services are created'

A. PRODUCTION MANAGEMENT

❖CONCEPT OF PRODUCTION:-

➤ Example For Production

❑Manufacturing custom-made products Like-

1.Boilers with a specific capacity
2.Constructing flats
3. Structural fabrication works for selected customers, etc.

❑ manufacturing standardized products Like-

1.Car
2.Bus
3.Motor cycle
4.Television, etc.

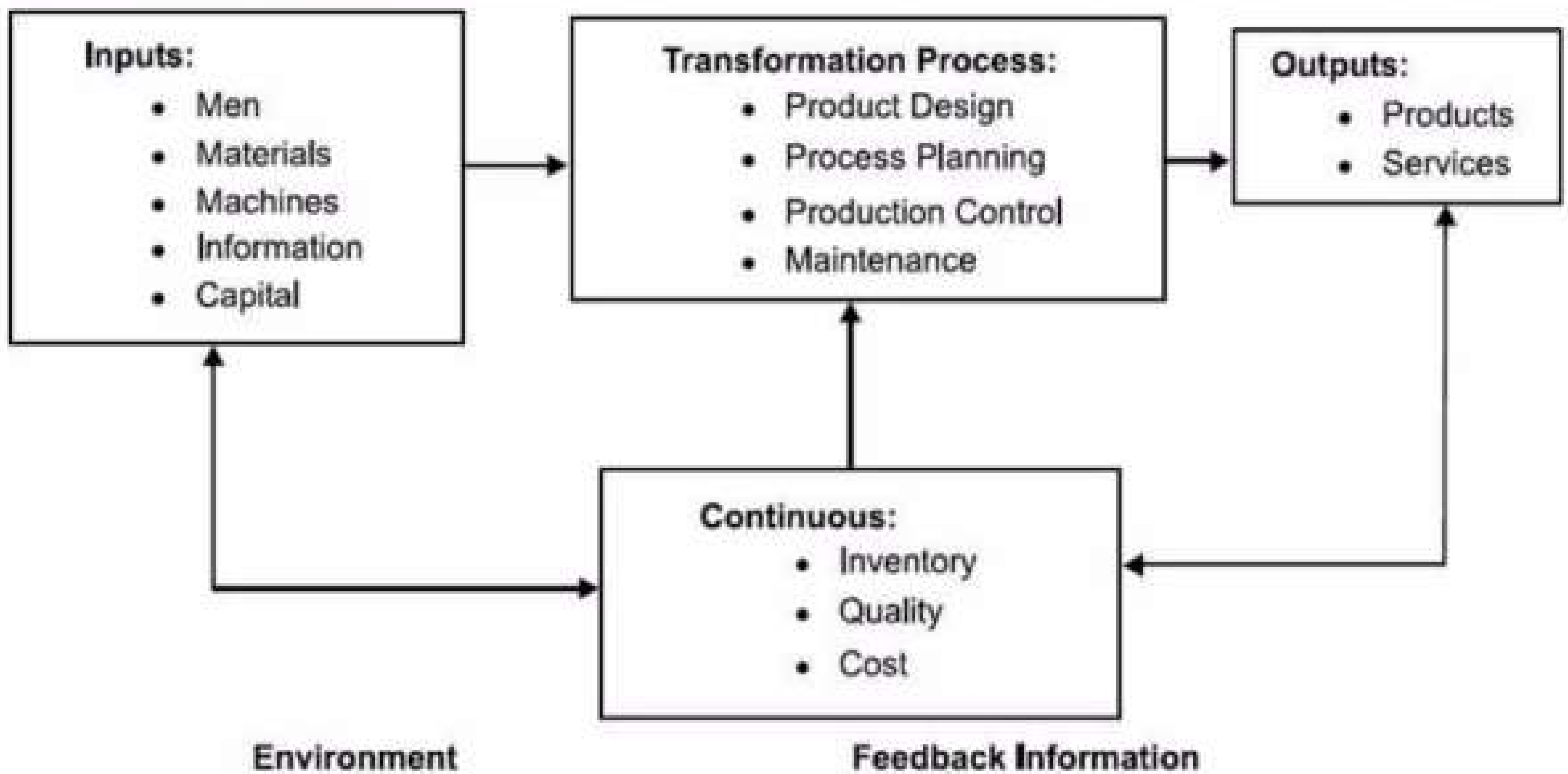
A. PRODUCTION MANAGEMENT

❖ PRODUCTION SYSTEM :-

➤ The production system of an organization is that part, which produces products of an organization.

➤ It is that activity whereby Resources, flowing within a defined system, are combined & transformed in a controlled manner to add value in accordance with the policies communicated by management.

A. PRODUCTION MANAGEMENT



Schematic production system

A. PRODUCTION MANAGEMENT

❖ CHARACTERISTICS PRODUCTION SYSTEM :-

1. Production is an organized activity, so every production system has an objective.

2. The system transforms the various Inputs to useful Outputs.

3. It doesn’t operate in Isolation from the other organization system.

4. There exists a feedback about the activities, which is essential to control and improve system performance.

A. PRODUCTION MANAGEMENT

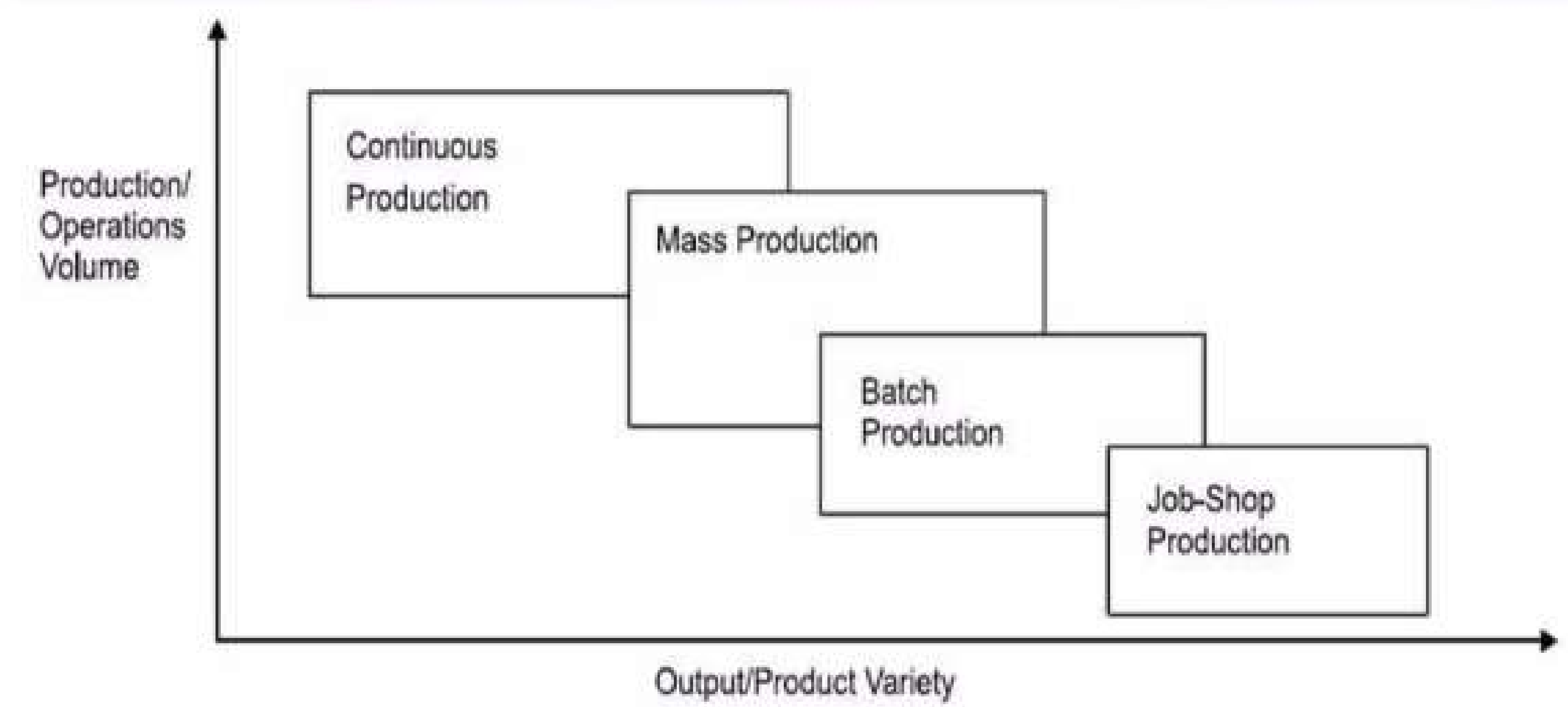
❖ CLASSIFICATION PRODUCTION SYSTEM :-

Production systems can be classified as:

1. Job Shop Production
2. Batch Production
3. Mass Production
4. Continuous Production

A. PRODUCTION MANAGEMENT

❈CLASSIFICATION PRODUCTION SYSTEM :



Classification of production systems

A. PRODUCTION MANAGEMENT

❉JOB SHOP PRODUCTION :-

- Job shop production are characterized by manufacturing of one or few quantity of products designed and produced as per the specification of customers within prefixed time and cost.

- The distinguishing feature of this is low volume & high variety of products.

- A job shop comprises of general purpose machines arranged into different departments.

- Each job demands unique technological requirements, demands processing on machines in a certain sequence.

A. PRODUCTION MANAGEMENT

❖JOB SHOP PRODUCTION :-

❑CHARACTERISTICS:-

1. High variety of products and low volume.
2. Use of general purpose machines and facilities.
3. Highly skilled operators who can take up each job as a challenge because of uniqueness.
4. Large inventory of materials, tools, parts.
5. Detailed planning is essential for sequencing the requirements of each product, capacities for each work centre and order priorities.

A. PRODUCTION MANAGEMENT

❖JOB SHOP PRODUCTION :-

❑ADVANTAGES :-

1. Because of general purpose machines and facilities variety of products can be produced.

2. Operators will become more skilled & competent, as each job gives them learning opportunities.

3. Full potential of operators can be utilised.

4. Opportunity exists for creative methods & Innovative ideas.

A. PRODUCTION MANAGEMENT

❖JOB SHOP PRODUCTION :-

❏LIMITATIONS :-

1. **Higher cost due to frequent set up changes.**

2. **Higher level of inventory at all levels and hence higher inventory cost.**

3. **Production planning is complicated.**

4. **Larger space requirements.**

A. PRODUCTION MANAGEMENT

❖ BATCH PRODUCTION :-

➤ Batch production is defined "as a form of manufacturing in which the job passes through the functional departments in lots or batches and each lot may have a different routing."

➤ It is characterised by the manufacture of limited number of products produced at regular intervals and stocked awaiting sales.

❑ CHARACTERISTICS:-

1. There is shorter production runs.
2. Plant and machinery are flexible.
3. Manufacturing lead time & cost are lower as compared to job shop production.

A. PRODUCTION MANAGEMENT

❖BATCH PRODUCTION :-

❑ADVANTAGES :-

1. Better utilisation of plant and machinery.
2. Promotes functional specialisation.
3. Cost per unit is lower as compared to job shop production.
4. Lower investment in plant and machinery.
5. Flexibility to accommodate and process number of products.
6. Job satisfaction exists for operators.

A. PRODUCTION MANAGEMENT

❖BATCH PRODUCTION :-

❑LIMITATIONS :-

1. Material handling is complex because of irregular and longer flows.
2. Production planning and control is complex.
3. Work in process inventory is higher compared to continuous production.
4. Higher set up costs due to frequent changes in set up.

A. PRODUCTION MANAGEMENT

❉MASS PRODUCTION :-

- Manufacture of discrete parts or assemblies using a continuous process are called mass production ’.

- This production system is justified by very large volume of production.

- The machines are arranged in a line or product layout. Product and process standardisation exists and all outputs follow the same path.

A. PRODUCTION MANAGEMENT

❖MASS PRODUCTION :-

CHARACTERISTICS:-

1. Standardisation of product and process sequence.
2. Large volume of products.
3. Shorter cycle time of production.
4. Lower in process inventory.
5. Perfectly balanced production lines.
6. Production planning and control is easy.
7. Material handling can be completely automatic.

A. PRODUCTION MANAGEMENT

❖ MASS PRODUCTION :-

ADVANTAGES:-

1. Higher rate of production with reduced cycle time.
2. Higher capacity utilisation due to line balancing.
3. Less skilled operators are required.
4. Low process inventory.
5. Manufacturing cost per unit is low.

A. PRODUCTION MANAGEMENT

❖MASS PRODUCTION :-

❑LIMITATIONS:-

1. Breakdown of one machine will stop an entire production line.

2. Line layout needs major change with the changes in the product design.

3. High investment in production facilities.

4. The cycle time is determined by the slowest operation.

A. PRODUCTION MANAGEMENT

❖CONTINIOUS PRODUCTION :-

➤Production facilities are arranged as per the sequence of production operations from the first operations to the finished product.

➤The items are made to flow through the sequence of operations through material handling devices such as conveyors, transfer devices, etc.

A. PRODUCTION MANAGEMENT

❖ CONTINIOUS PRODUCTION :-

❑ CHARACTERISTICS:-

1. **Dedicated plant and equipment with zero flexibility.**
2. **Material handling is fully automated.**
3. **Process follows a predetermined sequence of operations.**
4. **Component materials can’t be readily Identified with final product.**
5. **Planning and scheduling is a routine action.**

A. PRODUCTION MANAGEMENT

❖CONTINIOUS PRODUCTION :-

❑ADVANTAGES:-

1. Standardisation of product and process sequence.
2. Higher rate of production with reduced cycle time.
3. Higher capacity utilisation due to line balancing.
4. Manpower is not required for material handling as it is completely automatic.
5. Person with limited skills can be used on the production line.
6. Unit cost is lower due to high volume of production.

A. PRODUCTION MANAGEMENT

❖ CONTINIOUS PRODUCTION :-

LIMITATIONS:-

1. Process number of products doesn't exist.
2. Very high investment for setting flow lines.
3. Product differentiation is limited.

A. PRODUCTION MANAGEMENT

❖OBJECTIVES OF PRODUCTION MANAGEMENT :-

- The objective of the production management is ‘to produce goods services of right quality and quantity at the right time and right manufacturing cost’.

- **RIGHT QUALITY:-**
- The quality of product is established based upon the customers needs. The right quality is not necessarily best quality. It is determined by the cost of the product and the technical characteristics as suited to the specific requirements. i.e

A. PRODUCTION MANAGEMENT

❈OBJECTIVES OF PRODUCTION MANAGEMENT :-

- RIGHT QUANTITY:-
- The manufacturing organization should produce the products in right number.
- If they are produced in excess of demand the capital will block up in the form of inventory and if the quantity is produced in short of demand, leads to shortage of products.
- RIGHT TIME:-
- Timeliness of delivery is one of the important parameter to judge the effectiveness of production department.
- So, the production department has to make the optimal utilization of input resources to achieve its

A. PRODUCTION MANAGEMENT

- DIFFRENCE BETWEEN PRODUCTION & PRODUCTIVITY :-

- RIGHT MANUFACTURING COST :-

- Manufacturing costs are established before the product is actually manufactured.

- All attempts should be made to produce the products at pre-established cost, so as to reduce the variation between actual and the standard (pre-established) cost.

A. PRODUCTION MANAGEMENT

❉OBJECTIVES OF PRODUCTION MANAGEMENT :-

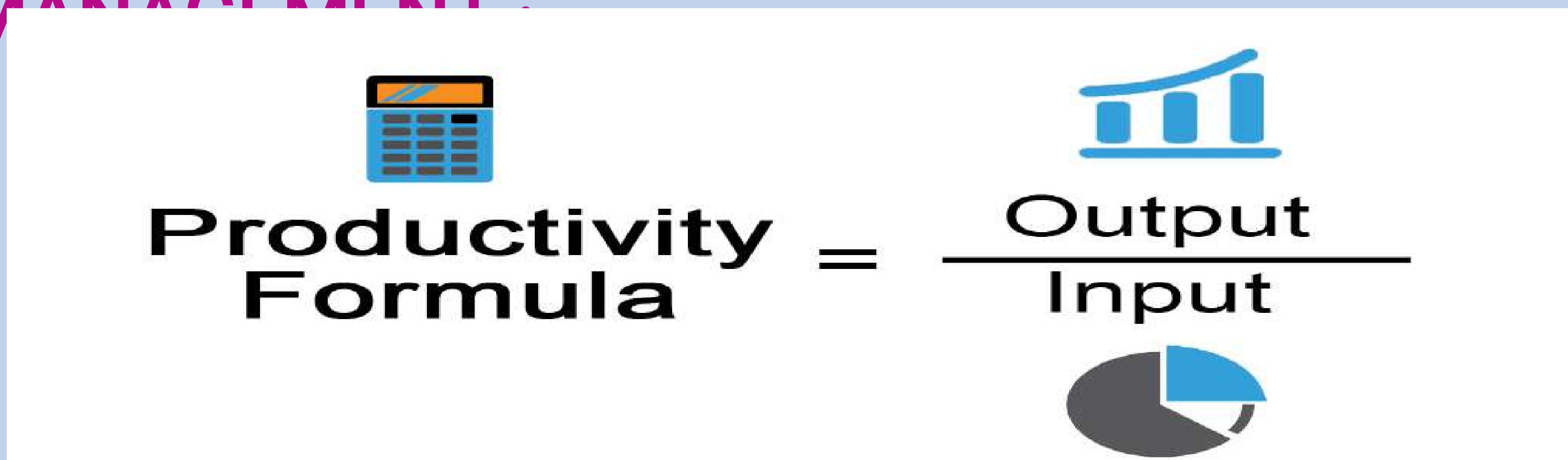
- Production is number of goods made.
- Productivity is the number of goods produced divided by employees.
- Example: Business A produced 40 chairs

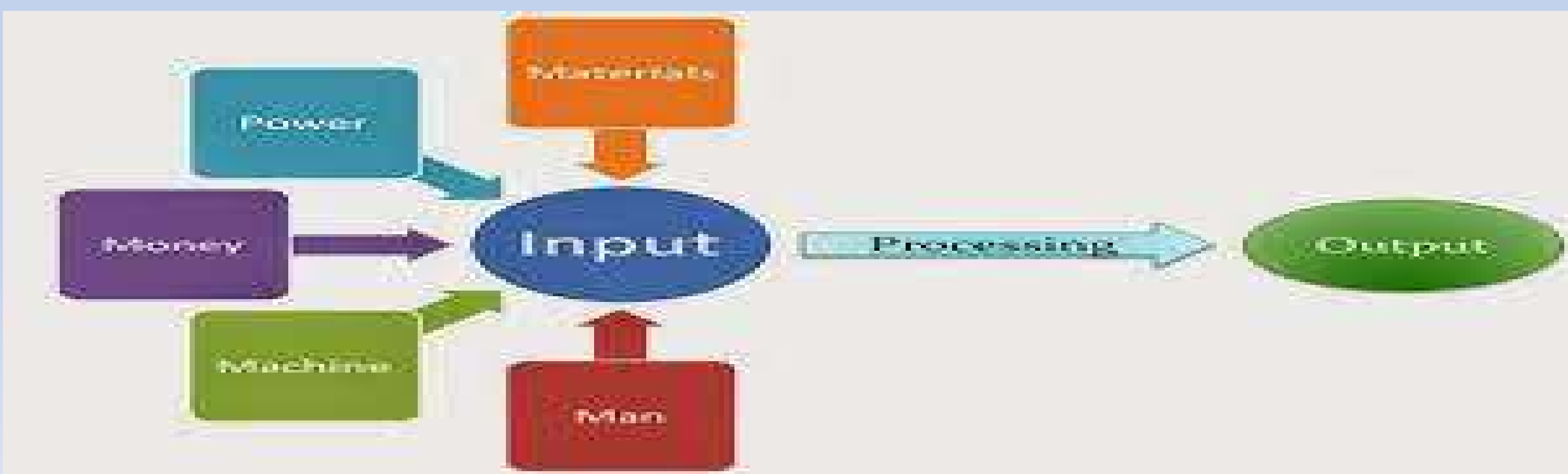
$$\text{Productivity} = \frac{\text{Units of output}}{\text{Units of input}}$$

- Productivity: 40chairs/5 employees= 8

A. PRODUCTION MANAGEMENT

❈OBJECTIVES OF PRODUCTION MANAGEMENT :





A. PRODUCTION MANAGEMENT

❉OBJECTIVES OF PRODUCTION MANAGEMENT :-

Labour Productivity Formula

Labour productivity is calculated using this formula:

$$\frac{\text{Output per period (units)}}{\text{Number of employees at work}}$$

The answer from the formula is usually expressed in terms of output per employee

e.g. 1,000 units per employee per month

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A. PRODUCTION MANAGEMENT

❖SCOPE OF PRODUCTION MANAGEMENT :-

- Production management concern with the conversion of inputs into outputs, using physical resources, so as to provide the desired utilities to the customer while meeting the other organizational objectives of effectiveness, efficiency and adoptability.
- It distinguishes itself from other functions such as personnel, marketing, finance, etc., by its primary concern for ‘conversion by using physical resources.’

A. PRODUCTION MANAGEMENT

❖Following are the activities which are listed under production management functions:-

1. Location of facilities
2. Plant layouts
3. Product design
4. Process design
5. Production and planning control
6. Quality control
7. Materials management
8. Maintenance management.

A. PRODUCTION MANAGEMENT

❖ LOCATION OF FACILITIES:-

➤Location of facilities for operations is a long-term capacity decision which involves a long term commitment about the geographically static factors that affect a business organization.

➤It is an important strategic level decision-making for an organization.

➤The selection of location is a key-decision as large investment is made in building plant and machinery.

A. PRODUCTION MANAGEMENT

❈LOCATION OF FACILITIES:-

➤An improper location of plant may lead to waste of all the investments made in plant and machinery equipments.

➤Hence, location of plant should be based on the company's expansion plan and policy, diversification plan for the products, changing sources of raw materials and many other factors.

➤The purpose of the location study is to find the optimal location that will results in the greatest advantage to the organization.

A. PRODUCTION MANAGEMENT

❖PLANT LAYOUT :-

➤Plant layout refers to the physical arrangement of facilities.

➤It is the configuration of departments, work centres and equipment in the conversion process.

➤The overall objective of the plant layout is to design a physical arrangement that meets the required output quality and quantity most economically.

A. PRODUCTION MANAGEMENT

❈OBJECTIVES OF PLANT LAYOUT :-

1. Integrate the production centres
2. Reduce material handling
3. Effective utilization of available space
4. Worker convenience and job satisfaction
5. Flexibility
6. Quick disposal of work
7. Smooth flow of operation
8. Avoids industrial accidents

A. PRODUCTION MANAGEMENT

❖ TYPES OF PLANT LAYOUT :-

1. Process layout or functional layout:-

- Similar machine grouped together
- Used in job and batch production and non-repetitive type of work.
- This type of layout makes production planning and control more difficult.
- For example, all lathes grouped together in turning section.

A. PRODUCTION MANAGEMENT

❖ TYPES OF PLANT LAYOUT :-

2. Product layout or line layout:-

- Machines and auxiliary services arranged in line according to sequence of operation to be performed on the work.
- Raw material enters in line at one end, operations are carried out in succession
- In a smooth flow and the finished product is delivered at the other end of the line
- Used in mass production and repetitive work.

A. PRODUCTION MANAGEMENT

❖ TYPES OF PLANT LAYOUT :-

3. Mixed layout or Combined layout:-

- Combination of process and line layout is commonly used in industry.
- Combined layout incorporates the benefits of process and product layout.

A. PRODUCTION MANAGEMENT

❖ TYPES OF PLANT LAYOUT :-

4. Static layout or Fixed Position layout:-

- It is adopted when work piece is very big or too heavy to move from one position to other and is consequently fixed in one place.
- Used in custom ordered type production
- e.g. in construction work , ship building , air craft, pressure vessel, locomotives , etc.

A. PRODUCTION MANAGEMENT

❖ IMPORTANCE OF PLANT LAYOUT :-

1. Determine the arrangement of facilities and services in the plant.
2. Outlines the relationship between production centres and service departments.
3. Outlines the nature of the flow in the plant and affects the distance travelled by materials and personnel.
4. Determines the type of handling systems and machine utilization.
5. Specifies the location , accessibility , and size of stores.
6. Affects the amount of work in process and work awaiting further processing.

A. PRODUCTION MANAGEMENT

❖ PRODUCT DESIGN :-

- Product design deals with conversion of ideas into reality.
- Every business organization have to design, develop and introduce new products as a survival and growth strategy.
- Developing the new products and launching them in the market is the biggest challenge faced by the organizations.
- The entire process of need identification to physical manufactures of product involves three functions:
  - marketing,
  - product development,
  - manufacturing.

A. PRODUCTION MANAGEMENT

❖ PRODUCT DEVELOPMENT :-

- Product development translates the needs of customers given by marketing into technical specifications and designing the various features into the product to these specifications.

- Manufacturing has the responsibility of selecting the processes by which the product can be manufactured.

- Product design and development provides link between marketing, customer needs and expectations and the activities required to manufacture the product.

A. PRODUCTION MANAGEMENT

❖ PROCESS DESIGN :-

- Process design is a macroscopic decision-making of an overall process route for converting the raw material into finished goods.
- These decisions encompass the selection of a process, choice of technology, process flow analysis and layout of the facilities.
- Hence, the important decisions in process design are to analyzed the workflow for converting raw material into finished product and to select the workstation for each included in the workflow.

A. PRODUCTION MANAGEMENT

❖ PRODUCTION PLANNING AND CONTROL:-

- The principle of production planning and control lies in the statement ‘First Plan Your Work and then Work on Your Plan’.

- Main functions of production planning and control includes

a) planning,
b) routing,
c) scheduling,
d) dispatching and
e) follow-up.

A. PRODUCTION MANAGEMENT

❖ PRODUCTION PLANNING AND CONTROL:-

- **Planning** is deciding in advance what to do, how to do it, when to do it and who is to do it.
- **Routing** may be defined as the selection of path which each part of the product will follow, which being transformed from raw material to finished products.
- **Routing** determines the most advantageous path to be followed.
- **Scheduling** may be defined as the fixation of time and date for each operation' as well as it determines the sequence of operations to be followed.

A. PRODUCTION MANAGEMENT

❖ PRODUCTION PLANNING AND CONTROL:-

- Dispatching is concerned with the starting the processes. It gives necessary authority so as to start a particular work, which has already been planned under ‘Routing’ and ‘Scheduling’.

- The function of follow-up is to report daily the progress of work in each shop in a prescribed proforma and to investigate the causes of deviations from the planned performance.

A. PRODUCTION MANAGEMENT

❖ QUALITY CONTROL:-

- Quality Control (QC) may be defined as ‘a system that is used to maintain a desired level of quality in a product or service’.

- Quality control can also be defined as ‘that industrial management technique by means of which product of uniform acceptable quality is manufactured’.

- It is the entire collection of activities which ensures that the operation will produce the optimum quality products at minimum cost.

A. PRODUCTION MANAGEMENT

❖ QUALITY CONTROL:-

➤ The main objectives of quality control are:-

1. To reduce companies cost through reduction of losses due to defects.
2. To achieve interchangeability of manufacture in large scale production.
3. To produce optimal quality at reduced price.
4. To ensure satisfaction of customers with productions or services or high quality level, to build customer goodwill, confidence and reputation of manufacturer.
5. To make inspection prompt to ensure quality control.
6. To check the variation during manufacturing.

B. INVENTORY MANAGEMENT

B. INVENTORY MANAGEMENT

What is inventory?

A physical resource that a firm holds in stock with the intent of selling it or transforming it into a more valuable state.

Purpose of inventory management

- How many units to order?
- when to order? discount

B. INVENTORY MANAGEMENT

What is Inventory Management?

- Inventory refers to either saleable products or the raw materials available in hand for manufacturing products for sale.
- Inventory management is essential for earning profits and keeping the customers happy and satisfied.
- The key to proper inventory management is knowing the right quantity and ordering time of stock.
- Inventory management is a three-step process-

1) Buying or manufacturing products.
2) Storing the products/inventory.
3) Selling the finished products for earning profit.

B. INVENTORY MANAGEMENT

Types of Inventories

- Raw materials
- Purchased parts and supplies
- Finished Goods
- Work-in-process (partially completed products)
- Items being transported
- Tools and equipment

B. INVENTORY MANAGEMENT

Nature of Inventories

Raw Materials – Basic inputs that are converted into finished product through the manufacturing process

Work-in-progress – Semi-manufactured products need some more works before they become finished goods for sale

Finished Goods – Completely manufactured products ready for sale

Supplies – Office and plant materials not directly enter production but are necessary for production process and do not involve significant investment.

B. INVENTORY MANAGEMENT

Need for Inventory Management:

- Inventory management facilitates the smooth functioning of your business and enhances sales, promotes cost-effectiveness, and improves customer experience.
- Listed below are some of the reasons why businesses need inventory management:

1) **Managing Finances:**

- Inventory management helps businesses understand which products are more valuable in sales and earning profits.
- This allows businesses to eliminate unnecessary capital blockage by strategically planning their future inventory orders.

B. INVENTORY MANAGEMENT

Need for Inventory Management:

2) Tracking Inventory:

➤Inventory management provides a complete detailing of the inventory and its location.

➤ It is especially useful in assigning distribution channels to the inventory.

➤Inventory management eases the process of managing more than one shop/store or warehouse.

3) Avoiding Late Deliveries:

➤Businesses are likely to face stock-outs if they do not have proper inventory management that's where they can use the inventory management software.

➤Stockouts can result in late deliveries and unhappy customers.

➤Inventory management considers all plausible factors and fluctuations and provides stockout warnings from beforehand.

➤This helps in improving customer experiences, thus increasing sales.

B. INVENTORY MANAGEMENT

Need for Inventory Management:

4) Managing Time and Effort:

- Proper inventory management leads to a well-arranged warehouse or store.
- This makes tracking products in hand and products on order easy and less time-consuming.
- It helps in increasing productivity and efficiency.

5) Predicting Future Sales:

- Inventory management helps in predicting future sales based on past transaction data.
- This helps businesses to prepare well for the future and meet customer expectations.

6) Enhancing Customer Loyalty:

- Effective inventory management warns businesses about deteriorating inventory from beforehand.
- This ensures that customers are only provided with top-notch quality products.
- Enhanced customer experience leads to repeat customers.

B. INVENTORY MANAGEMENT

Inventory and Supply Chain Management

Bullwhip effect

- demand information is distorted as it moves away from the end-use customer(forecast)
- higher safety stock inventories are stored to compensate

Seasonal or cyclical demand

Sale of umbrella , dominos sale in weekend

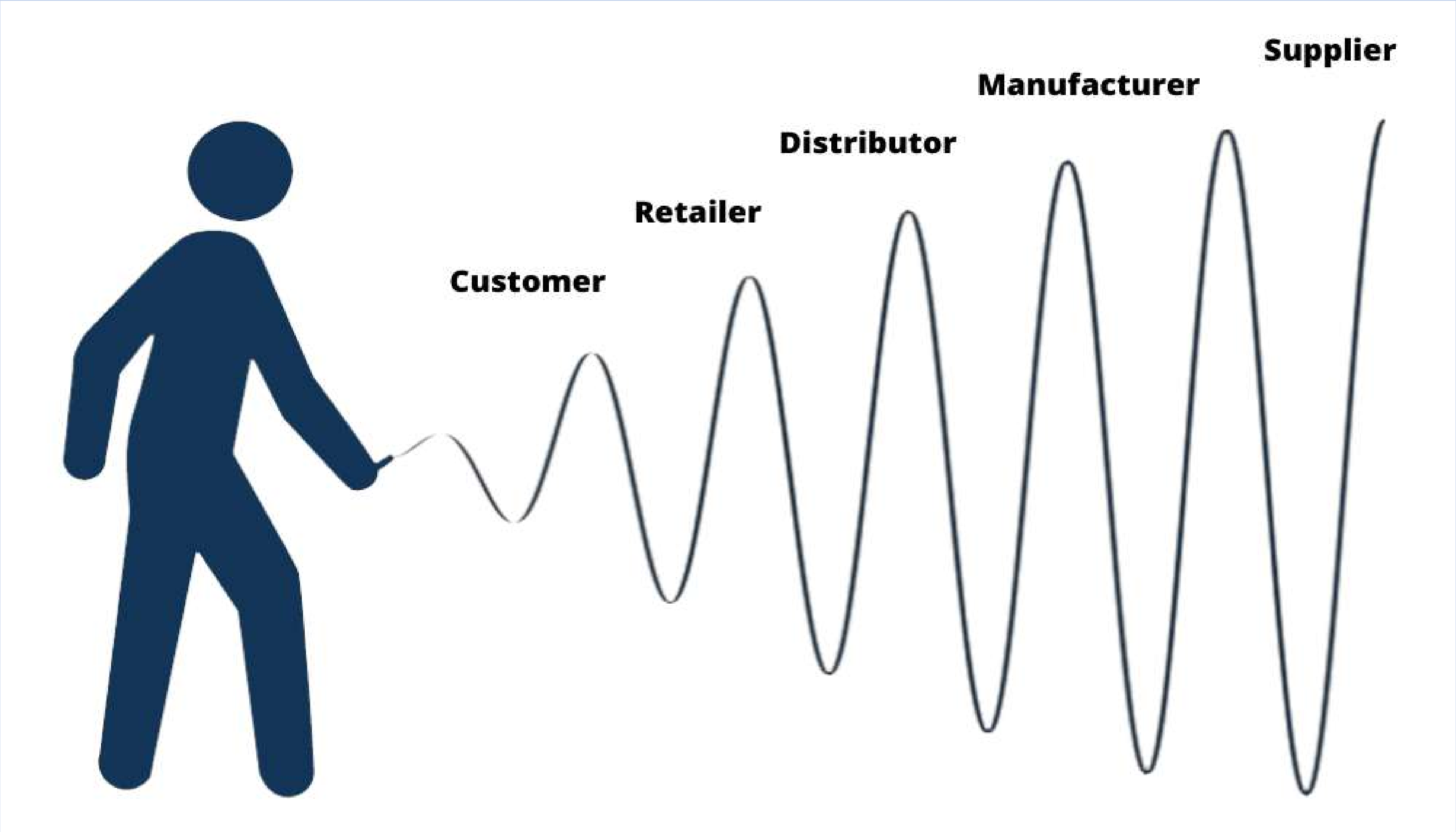
Inventory provides independence from vendors

Take advantage of price discounts

Inventory provides independence between stages and avoids work stoppages

WIP inventories

B. INVENTORY MANAGEMENT



B. INVENTORY MANAGEMENT

Two Forms of Demand

Dependent

(not used by customer directly)

- Demand for items used to produce final products
- Tires stored at a plant are an example of a dependent demand item

Independent

- Demand for items used by external customers
- Cars, computers, and houses are examples of independent demand inventory

B. INVENTORY MANAGEMENT

Inventory and Quality Management

Customers usually perceive quality service as availability of goods when they want them

Inventory must be sufficient to provide high-quality customer service

B. INVENTORY MANAGEMENT

Inventory Costs

Carrying cost

- cost of holding an item in inventory

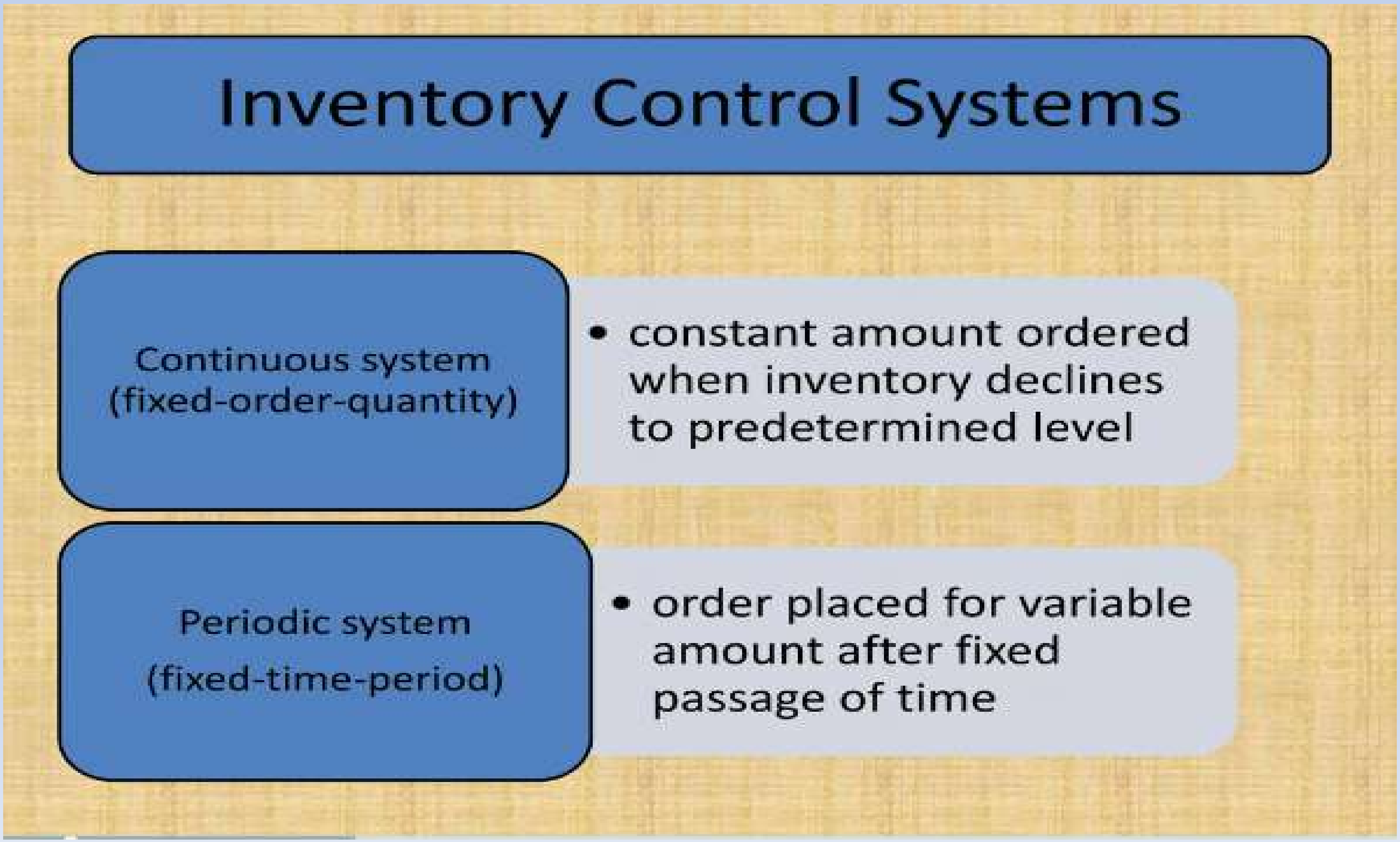
Ordering cost

- cost of replenishing inventory

Shortage cost

- temporary or permanent loss of sales when demand cannot be met

B. INVENTORY MANAGEMENT



B. INVENTORY MANAGEMENT

Types of Inventory Management Techniques

1. ABC Analysis
2. Just In Time (JIT) Method
3. Material Requirements Planning (MRP) Method
4. Economic Order Quantity (EOQ) Model
5. Minimum Safety Stocks
6. VED Analysis
7. Fast, Slow & Non-moving (FSN) Method

B. INVENTORY MANAGEMENT

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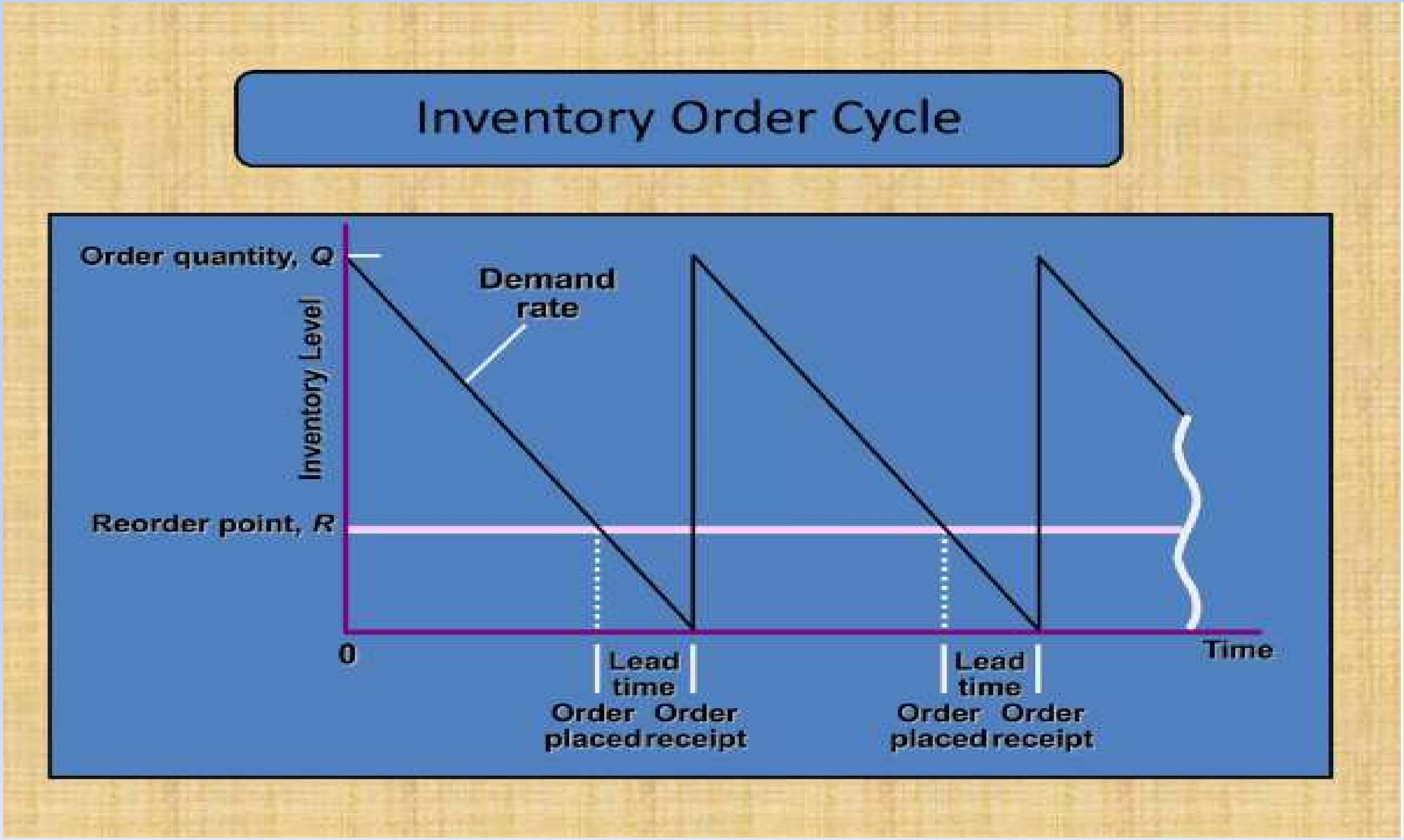


B. INVENTORY MANAGEMENT

EOQ Cost Model

C_o - cost of placing order
C_c - annual per-unit carrying cost

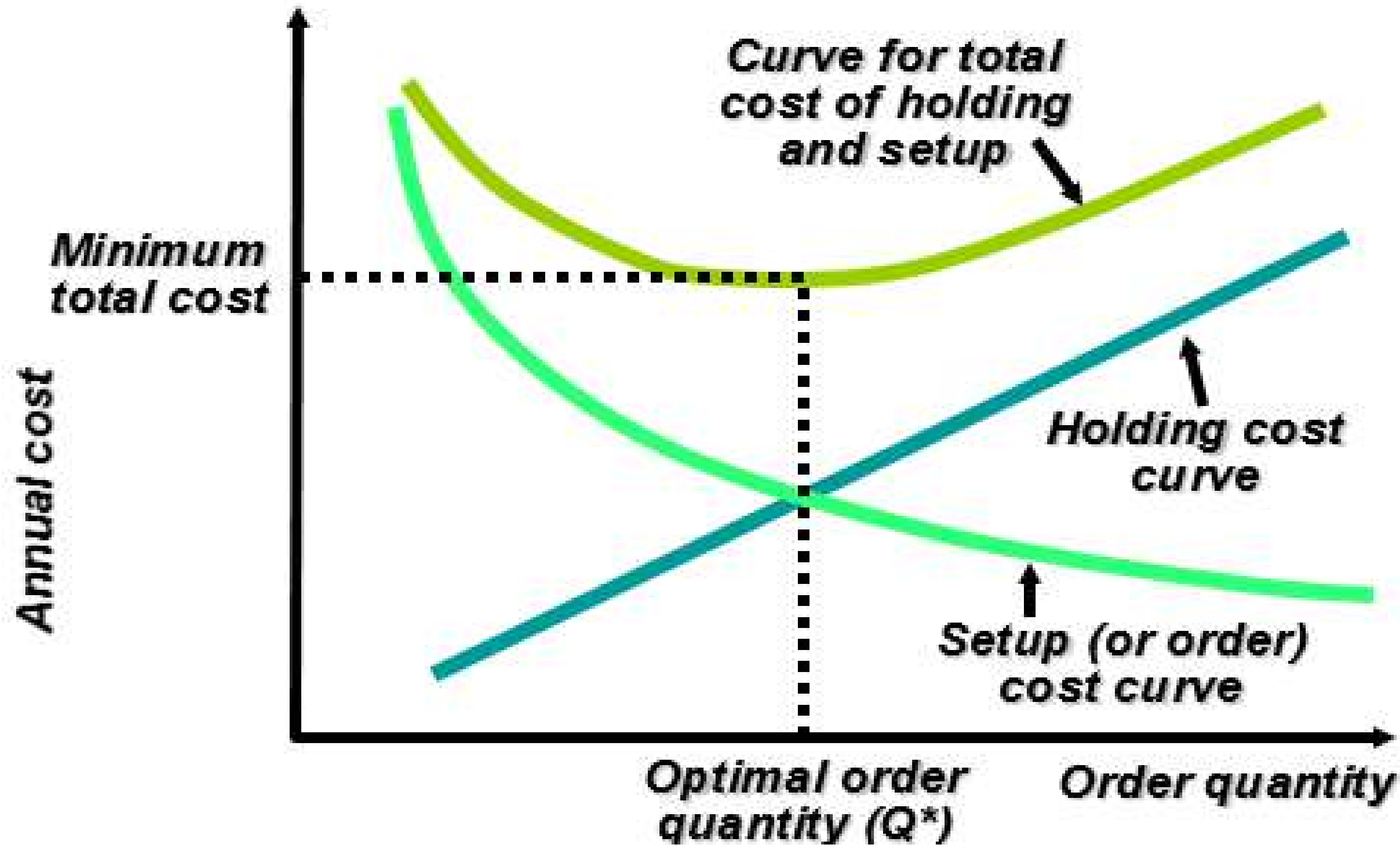
D - annual demand
Q - order quantity

$$\text{Annual ordering cost} = \frac{C_o D}{Q}$$

$$\text{Annual carrying cost} = \frac{C_c Q}{2}$$

$$\text{Total cost} = \frac{C_o D}{Q} + \frac{C_c Q}{2}$$

B. INVENTORY MANAGEMENT



B. INVENTORY MANAGEMENT

ECONOMIC ORDER QUANTITY (EOQ)

ECONOMIC ORDER QUANTITY (EOQ) refers to optimum quantity of an item that should be ordered at a point in time. It helps to avoid over-spending in an item, minimize the ordering and the holding costs associated with the item.

IMPORTANCE

- Minimizes Wastage and Stockouts
- Helpful in Case of Multiple Products

LIMITATIONS

- Assumes that demand will be constant through out year
- Assumes that inventory will be restocked in one go each time

Calculation of EOQ

- Ordering Cost
- Holding Cost

- **Ordering Cost** is the cost incurred at the time of placing each orders.
- **Holding Cost** is the cost incurred to hold and carry the inventory.

EOQ Formula : Square root of (2xDxS/H)

Here, D= Annual demand in units of a product, S= Ordering cost per order, and H= Holding cost per unit of the product.

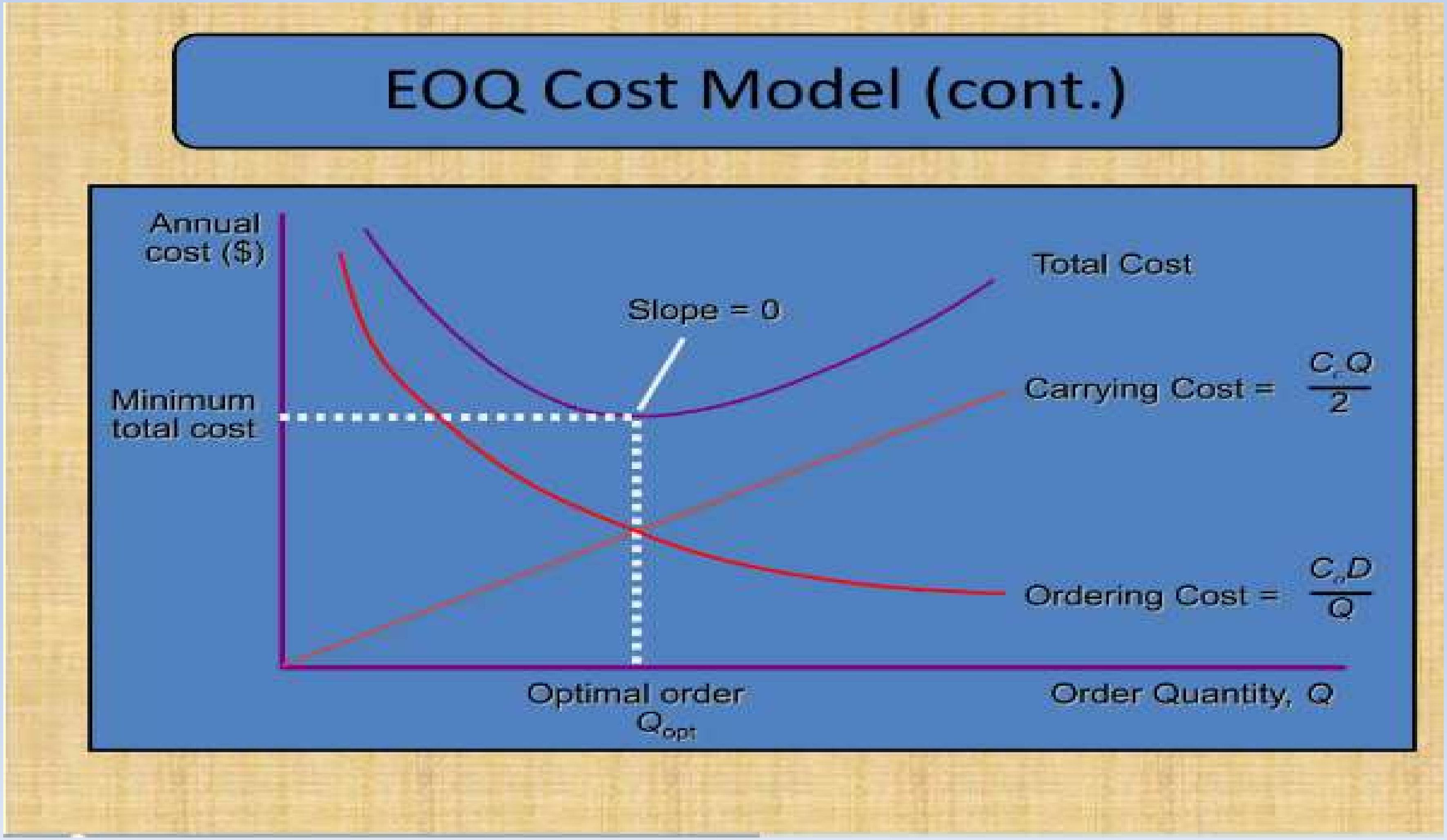
Example : Annual Sales of Cars : 6000 units, Ordering Cost per order = USD 300 and Holding Cost per unit = USD 50

Thus, EOQ = Square Root (2XDXS/H)
= Square Root [(2 X 6000 X 300)/50] = 268 units.

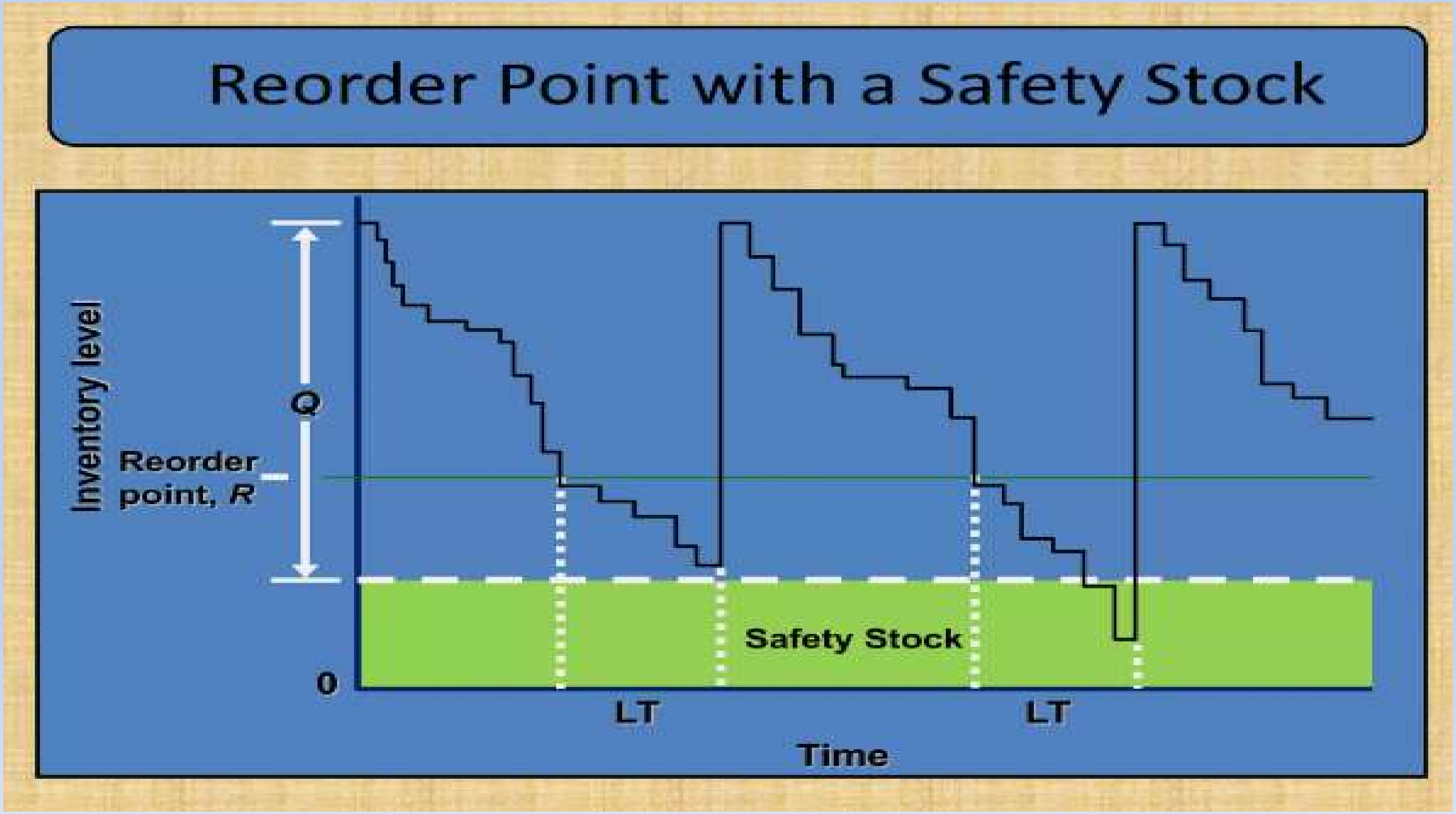
This depicts that the at the order quantity of 268 units per order, the company would have minimum cost with keeping required stock in hand.

eFinanceManagement.com

B. INVENTORY MANAGEMENT



B. INVENTORY MANAGEMENT



B. INVENTORY MANAGEMENT

Classifying Inventory Items

ABC Classification (Pareto Principle)

In any Retail organization there are large numbers of inventories to be maintained. It is not practical to have very stringent inventory control system for each & every item. So with the modus of having an effective Purchase & stores control we implement ABC Inventory

Classification model Known as Always Better Control (ABC) based upon Pareto rule (80/20 rule)

B. INVENTORY MANAGEMENT

ABC Analysis

Divides inventory into three classes based on Consumption Value

Consumption Value = (Unit price of an item) (No. of units consumed per annum)

- Class A - High Consumption Value
- Class B - Medium Consumption Value
- Class C - Low Consumption Value

B. INVENTORY MANAGEMENT

ABC Analysis

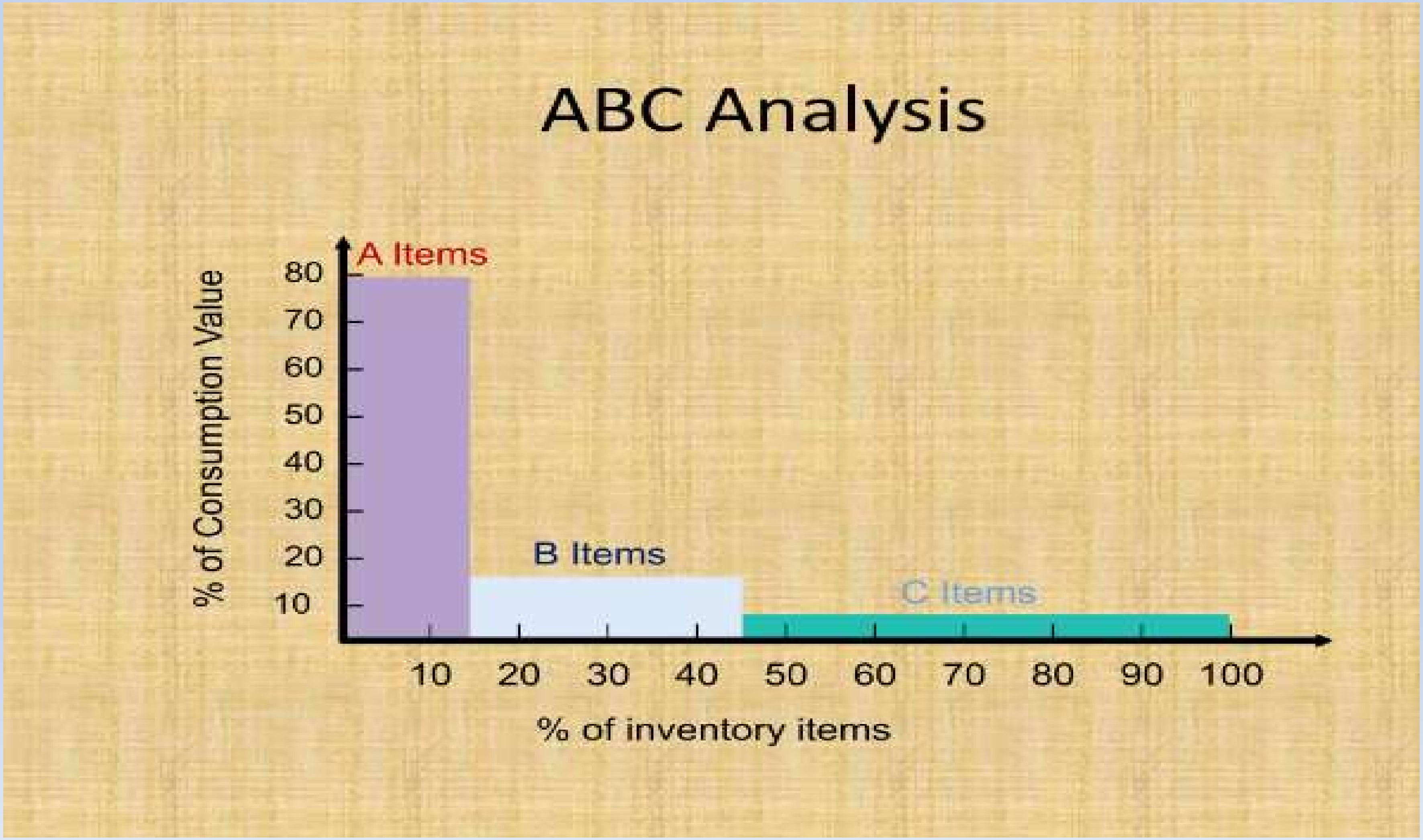
Item Stock Number	Percent of Number of Items Stocked	Annual Volume (units)	x	Unit Cost	=	Annual Consumption value	Percent of Annual consumption value		Class
#10286	20%	1,000		$ 90.00		$ 90,000	38.8%	•72%	A
#11526		500		154.00		77,000	33.2%		A
#12760		1,550		17.00		26,350	11.3%		B
#10867	30%	350		42.86		15,001	6.4%	•23%	B
#10500		1,000		12.50		12,500	5.4%		B

B. INVENTORY MANAGEMENT

ABC Analysis

Item Stock Number	Percent of Number of Items Stocked	Annual Volume (units)	x	Unit Cost	=	Annual cons. value	Percent of Annual cons. value		Class
#12572		600		$ 14.17		$ 8,502	3.7%		C
#14075		2,000		.60		1,200	.5%		C
#01036	50%	100		8.50		850	.4%	•5%	C
#01307		1,200		.42		504	.2%		C
#10572		250		.60		150	.1%		C
		8,550				$232,057	100.0%		

B. INVENTORY MANAGEMENT



B. INVENTORY MANAGEMENT

Inventory Management Policy

A Items:
very tight control, complete and accurate records, frequent review via EOQ model.

B Items:
less tightly controlled, good records, regular review

C Items:
simplest controls possible, minimal records, large inventories, periodic review and reorder

<u>Some time with the view of doing Lean inventory management</u>

Within ABC category VED (Vital , essential & desirable factor) is introduced with the view of further having effective control of inventory on the basis if its being critical.

V (Vital) is the inventory where neither Substitute nor Variation Gap is allowed .

E (Essential) is the inventory which allows either of the one to be changed

D (Desirable) is the one which can have variation in both of the parameters

B. INVENTORY MANAGEMENT

B. INVENTORY MANAGEMENT

B. INVENTORY MANAGEMENT

ABC Analysis:

ABC analysis stands for Always Better Control Analysis. It's an inventory management technique where inventory items are classified into three categories namely – A, B and C. The items in "A" category of inventory are closely controlled because it consists of high-priced inventory which may be less in number but are very expensive. The items in "B" category are relatively lesser expensive inventory as compared to "A" category and the number of items in "B" category is moderate. So control level is also moderate. The "C" category consists of a high number of inventory items which require lesser investment so the control level is minimum.

B. INVENTORY MANAGEMENT

Just in Time (JIT) method:

In just in time method of inventory control, the corporate keeps only the maximum amount inventory because it needs during the assembly process with no excess inventory in hand the company saves the cost of storage and insurance. The company orders further inventory when the old stock of inventory is close to replacement. This is a little risky method of inventory management because a little delay in ordering new inventory can lead to stock out situation. Thus this method requires proper planning so that new orders can be timely placed.

B. INVENTORY MANAGEMENT

Material Requirement Planning (MRP) Method:

Material requirements planning is an inventory control method in which the manufacturers order the inventory after considering the sales forecast. MRP system integrates data from various areas of the business where inventory exists. Based on the data and demand in the market, the manager would carefully place the order for new inventory with the material suppliers.

B. INVENTORY MANAGEMENT

Economic Order Quantity (EOQ) Model:

Economic order quantity technique focuses on taking a decision regarding how much quantity of inventory should the company order at any point of time and when should they place the order. In this model, the store manager will reorder the inventory when it reaches the minimum level. EQO model helps to save the ordering cost and carrying costs including while placing the order. With the EOQ model, the organization is able to place the right quantity of inventory.

B. INVENTORY MANAGEMENT

Minimum Safety Stocks:

The minimum safety stock is the level of inventory which an organization maintains to avoid the stock out situation. It is the level when we place the new order before the existing inventory is over. Like for example, if the total inventory in an organization is 18000 units, they place a new order when the inventory reaches 15,000 units. Therefore, the 3000 units of inventory shall form part of the minimum safety stock level.

B. INVENTORY MANAGEMENT

VED Analysis:

VED stands for Vital Essential and Desirable. Organizations mainly use this technique for controlling spare parts of inventory. Like a higher level of inventory is required, for vital parts they are very costly and essential for production. Others are essential spare parts, which absence may slow down the production process, hence it is necessary to maintain such inventory. Similarly an organization can maintain a low level of inventory for desirable parts, which are not often required for production.

B. INVENTORY MANAGEMENT

Fast, Slow & Non-moving (FSN) methods:

This method of inventory is very useful for controlling obsolescence. All the items of inventory are not used in the same order, some are required frequently, while some are not required at all. So this method classifies inventory into three categories, Fast-moving inventory, slow-moving inventory and non-moving inventory. The order for new inventory is placed based on the utilization of inventory.

C. FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT

C. FINANCIAL MANAGEMENT

Definition of financial management

"Financial management is concerned with the **management decisions that result in the acquisition and financing** of the long term and short term of a firm"

-Phillippatuo

C. FINANCIAL MANAGEMENT

Next definition

"financial management deals with how the **corporation obtains the funds and how it uses them**"

-Hoagland

"financial management is the application of the **planning and control functions to the finance functions**, financial management involves the **application of general management principles to a particular financial operation**"

-Howard and Upton

C. FINANCIAL MANAGEMENT

Next definition

"financial management is the area of business management, **devoted to a judicious use of capital** and a careful selection of **sources of capital** in order to enable the direction of reaching it goods"

-prof Bradley

C. FINANCIAL MANAGEMENT

Meaning of financial management

- In the short

it refers to the **management activities or efforts** taken to the proper management of finance.

- it includes
  - **financial planning,**
  - **financial administration,**
  - **financial control**.

C. FINANCIAL MANAGEMENT

Objectives of financial management

1. maximization of profit:-

A business firm is a **profit seeking organization** so naturally maximization of profit is one of the basic objectives.

The Objectives of profit maximization is that financial management should ensure that the profit of the firm are maximized.

C. FINANCIAL MANAGEMENT

The Objectives of profit maximization

- By **increasing the sales** and there by increasing the **revenues**.
- By **reducing the cost of production** through **efficient use of the resources.**
- By **making judicious choice of funds.**
- By **minimizing risk**

C. FINANCIAL MANAGEMENT

The arguments in favor

a) Profit is the prime motive which contributes to better and more efficient performance
b) It ensures maximum returns to the shareholder
c) If this object is not there their would not be any place for competition.
d) It plays important role in growth of a business
e) It act as a protection against risk

C. FINANCIAL MANAGEMENT

Continued....

2. Wealth maximization:-

it is the main objective of financial management.

It means to Maximization of wealth of a company, over the long run.

C. FINANCIAL MANAGEMENT

Merits

- It helps in future cash flows.
- It considered the time value of money.
- This concept allows the dividend policy of the company to have its effect of the market value of the equity shares.
- It also contributes to the maximization of other objectives of financial management.

C. FINANCIAL MANAGEMENT

Other Objectives:-

- **Ensuring maximum operational efficiency** through planning, directing and controlling of the utilization of the funds.
- **Enforcing financial discipline** in the organization in the use of financial resources.
- **Building up of adequate reserves** for financing growth of expansion.
- **Ensuring a fair return to the shareholders** on their investments.

C. FINANCIAL MANAGEMENT

Scope of Financial Management

Financial management has a wide scope. According to **Dr. S. C. Saxena**, the scope of financial management includes the following **five 'A's**.

1. **Anticipation** : Financial management **estimates the financial needs** of the company. That is, it finds out how much finance is required by the company.

C. FINANCIAL MANAGEMENT

Continued....

2. **Acquisition** : It collects **finance** for the company **from different sources**.
3. **Allocation** : It uses this collected finance to **purchase fixed and current assets** for the company.
4. **Appropriation** : It **divides** the company's **profits among the shareholders**, **debenture holders**, etc. It keeps a part of the profits as reserves.

C. FINANCIAL MANAGEMENT

Continued....

5. Assessment :

It also controls all the financial activities of the company.

All other functional areas such as **production management**, **marketing management**, **personnel management**, etc. depends on Financial management.

Efficient financial management is required for **survival**, **growth and success** of the company or firm.

C. FINANCIAL MANAGEMENT

Importance of financial mgt

- Economic growth and development
- Improved standard of leaving
- Improved health
- Allows better financial decision
- Creates job
- Alleviation of poverty
- Promotes our environment

C. FINANCIAL MANAGEMENT

Functions of financial management

1. Financial forecasting:-

- This is one of the important function of financial management.
- It means to establish the **long term and short term financial needs of the concern**.
- The total financial requirements of the firm and the various physical activities of the concern is estimated by financial forecasting.

C. FINANCIAL MANAGEMENT

Continued....

2. Estimating and controlling cash flows

- Sufficient fund are required at the proper time for financing the smooth flow of operations of an enterprise.
- Adequate funds at proper time can ensured by proper estimating and controlling of the cash flow of enterprise

C. FINANCIAL MANAGEMENT

Continued....

3. Determination of financial objective, financial policies and operational procedures.
4. Designing the capital structure
   > i.e. determination of owns fund and borrowed fund
5. Determination of the proper sources of finance
   > i.e. it is like equity shares, preference share, retained earning etc.-

C. FINANCIAL MANAGEMENT

Continued....

6. Investment decision

   it means to determination of the amount of funds to be invested on fixed assets and on current assets.

7. Working capital management i.e.

   cash management ,inventory management etc

8. Disposal of profit /dividend decision

   decision making as to how much of profit of the concern should be ploughed back

C. FINANCIAL MANAGEMENT

Continued....

9. Routine incidental functions

- Safe keeping of imp. Documents, securities etc
- Complying with legal requirements.
- Maintenance of cordial relation with creditors.
- Discharge of duties of customers
- Discharge of duties to employees.
- Discharge of social responsibilities.
- Preparation and submission of financial reports

C. FINANCIAL MANAGEMENT

Role of finance/financial manager

- Responsibilities of finance manager
- ➢ Business forecasting
- ➢ Determination of financial objectives, financial polices and operational procedures
- ➢ Estimation of the capital requirements of the business
- ➢ Designing the capital structure
- ➢ Determination of the proper sources of finance

C. FINANCIAL MANAGEMENT

Continued….

- Investment decision
- Ensuring supply of required funds
- Controlling the use of funds
- Profit planning
- Disposal of surplus or profit, or dividend decision
- Management of working capital
- Helping in valuation decisions

C. FINANCIAL MANAGEMENT

Continued….

- Wealth maximization
- Legal responsibilities
- Designing suitable system of providing information
- Keeping track of stock exchange quotations
- Co-ordination of the activities of subordinates

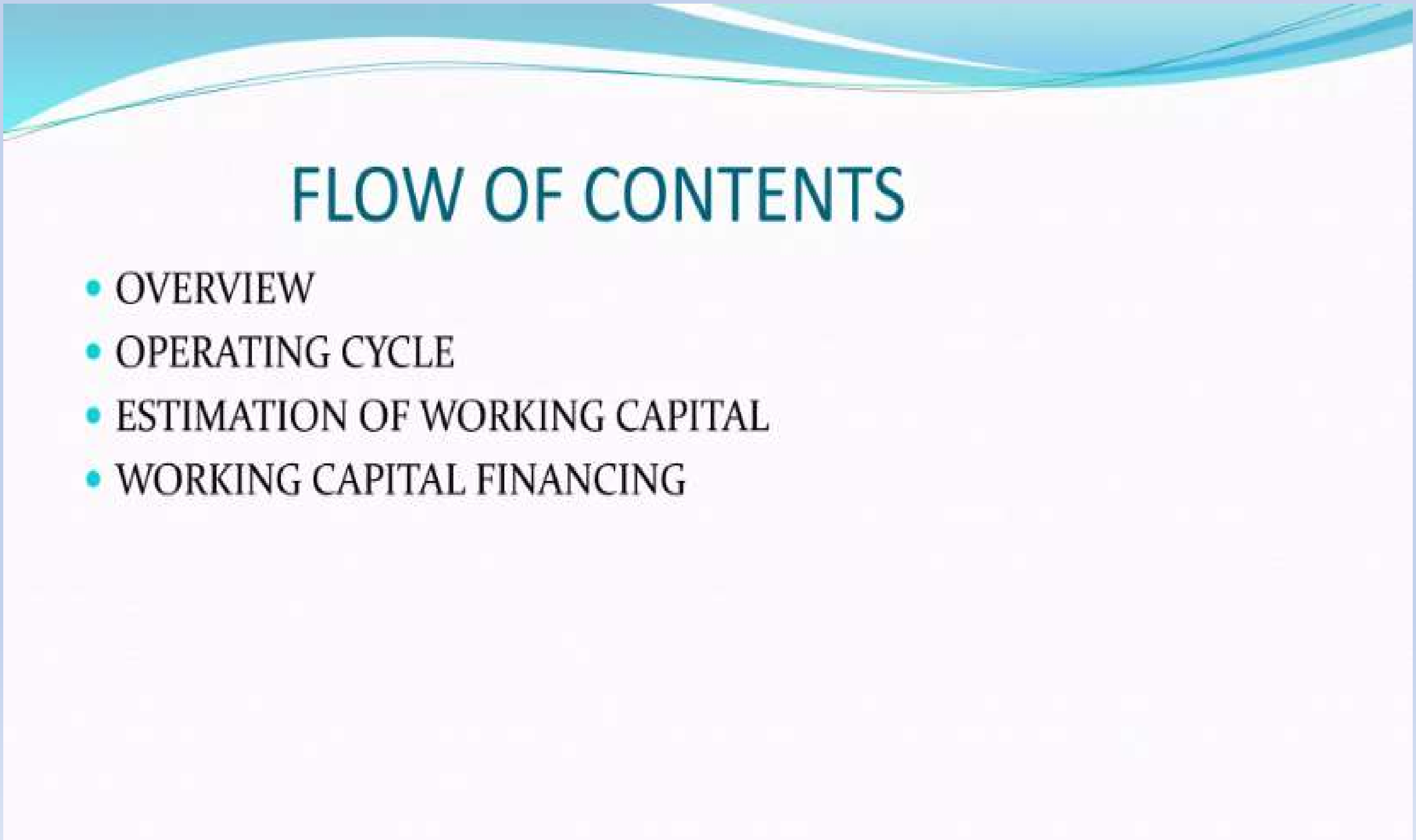
C. FINANCIAL MANAGEMENT

Continued....

- Other responsibilities
  - Responsibilities to shareholders
  - Responsibilities to employees
  - Responsibilities to various creditors
  - Responsibilities to customers
  - Responsibilities to the society

C. FINANCIAL MANAGEMENT

C. FINANCIAL MANAGEMENT



C. FINANCIAL MANAGEMENT

Working Capital :- Meaning

- Working capital means the firm's holding of current or short-term assets such as cash, receivables, inventory and marketable securities.
- These items are also referred to as circulating capital
- Corporate executives devote a considerable amount of attention to the management of working capital.

Working capital management

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelations that exist between them.

C. FINANCIAL MANAGEMENT

Concepts of Working Capital

There are two possible interpretations of working capital concept:

1. Balance sheet concept
2. Operating cycle concept

Balance sheet concept

There are two interpretations of working capital under the balance sheet concept.

- Excess of current assets over current liabilities
- gross or total current asset

C. FINANCIAL MANAGEMENT

Current assets

Current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm.

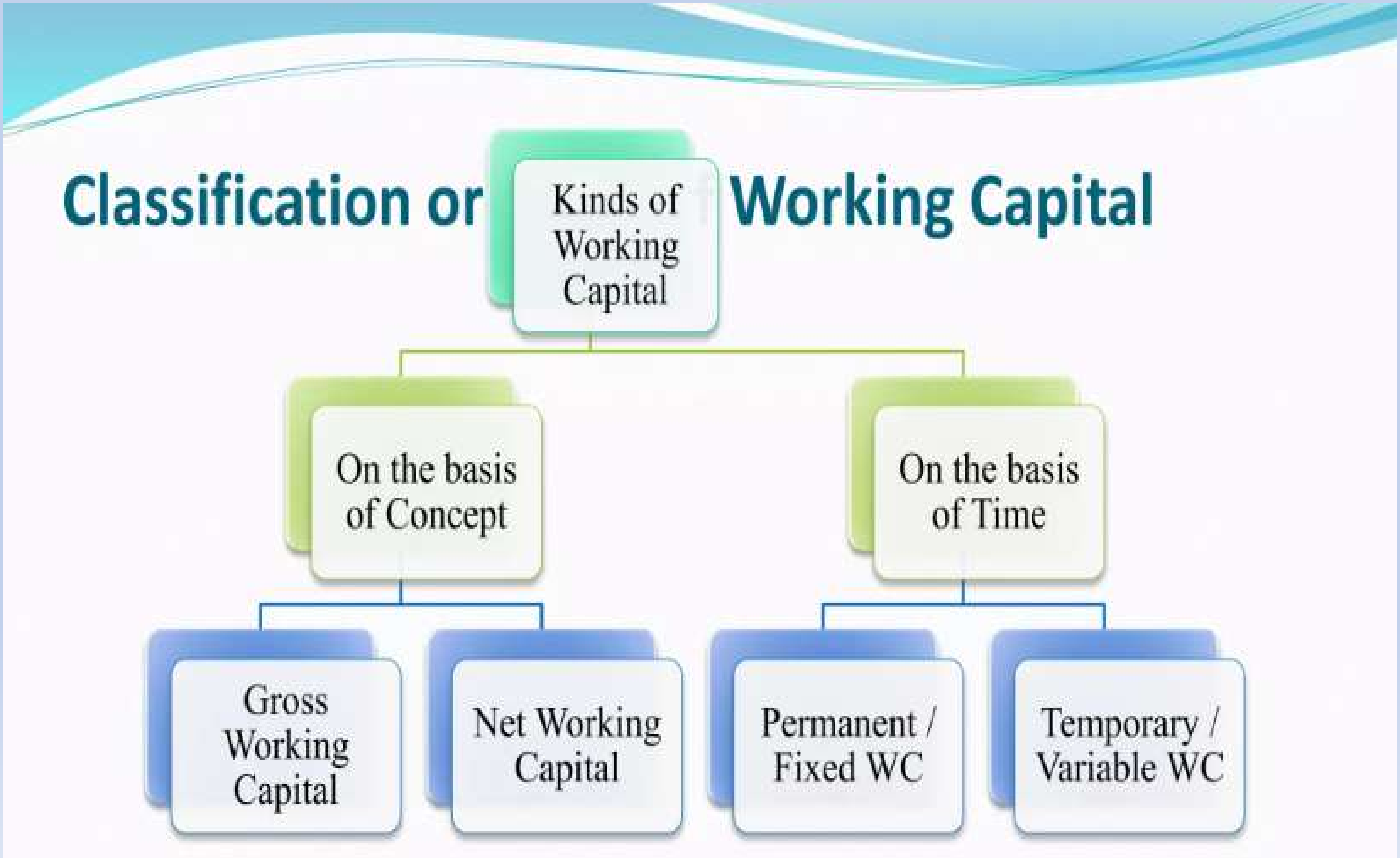
Examples- cash, marketable securities, accounts receivable and inventory.

Current liabilities

Current liabilities are those liabilities which are intended, at their inception, to be paid in the ordinary course of business, within a year, out of the current assets or the earnings of the concern.

Examples- accounts payable, bills payable, bank overdraft and outstanding expenses.

C. FINANCIAL MANAGEMENT



C. FINANCIAL MANAGEMENT

Concepts of Working Capital

1. Gross working capital (GWC)

GWC refers to the firm's total investment in current assets.

Current assets are the assets which can be converted into cash within an accounting year (or operating cycle) and include cash, short-term securities, debtors, (accounts receivable or book debts) bills receivable and stock (inventory).

C. FINANCIAL MANAGEMENT

Concepts of Working Capital

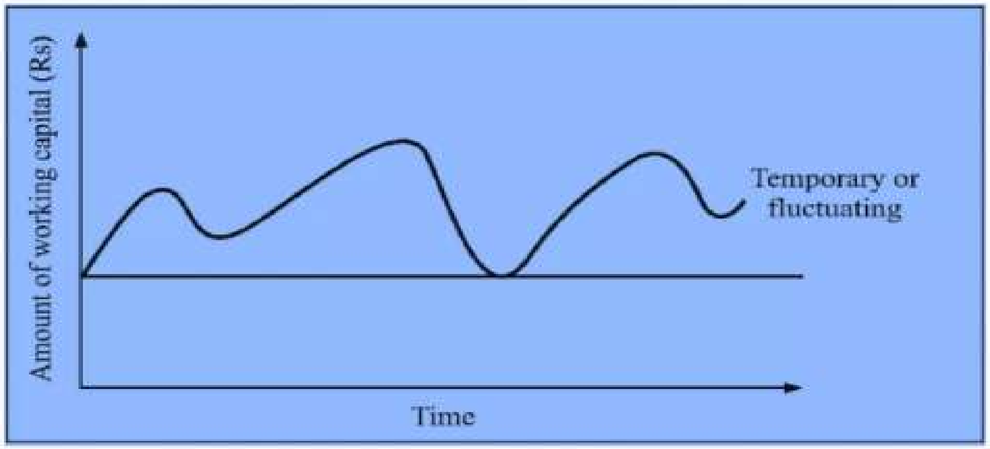
Net working capital (NWC)

- NWC refers to the difference between current assets and current liabilities.
- Current liabilities (CL) are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (accounts payable), bills payable, and outstanding expenses.
- NWC can be positive or negative.
  - Positive NWC = CA > CL
  - Negative NWC = CA < CL

C. FINANCIAL MANAGEMENT

Permanent And Variable Working Capital

- **Permanent** or **fixed working capital**
  A minimum level of current assets, which is continuously required by a firm to carry on its business operations, is referred to as permanent or fixed working capital.
- **Fluctuating** or **variable working capital**
  The extra working capital needed to support the changing production and sales activities of the firm is referred to as fluctuating or variable working capital.



Permanent and temporary working capital

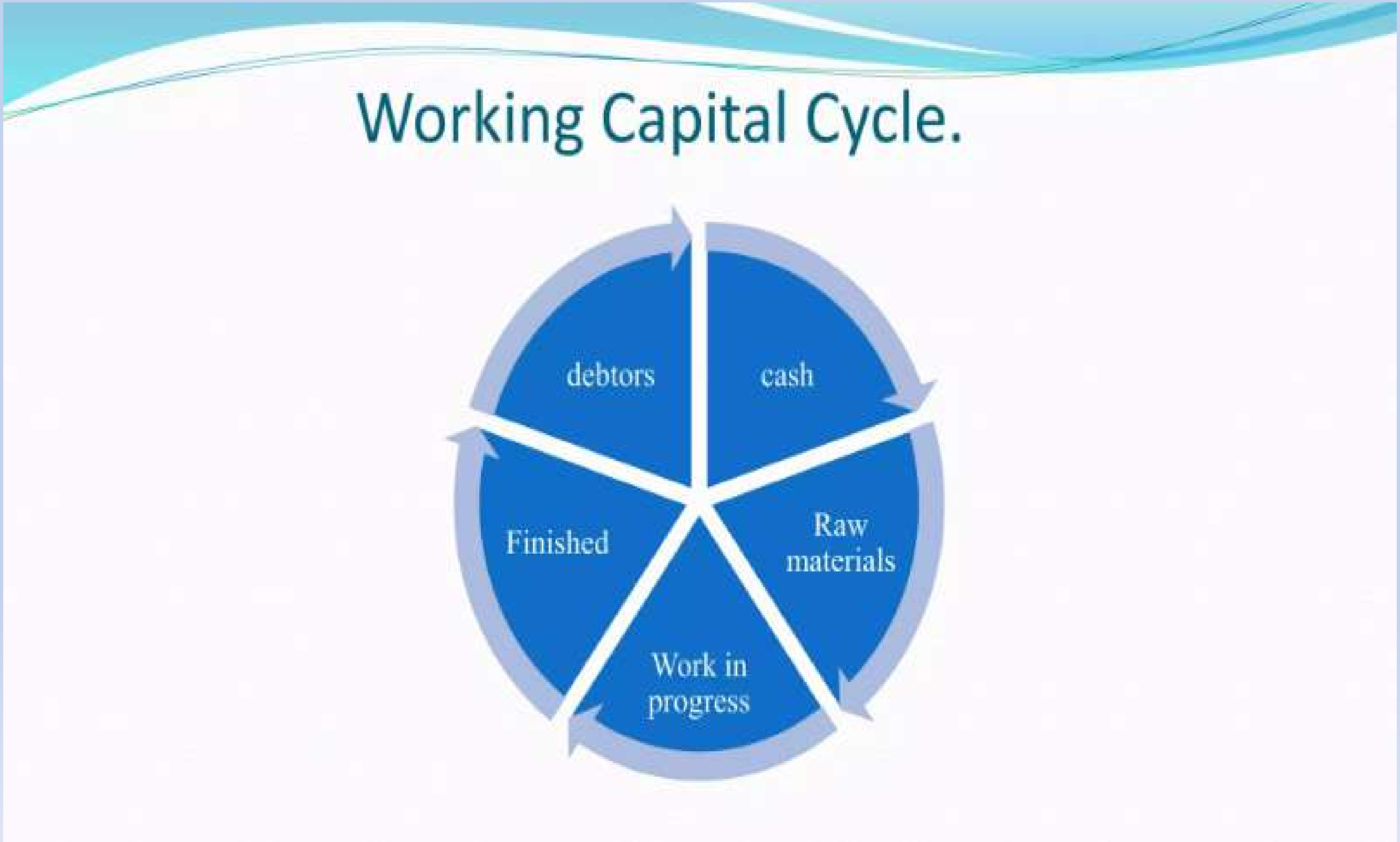
C. FINANCIAL MANAGEMENT

Operating Cycle

Operating cycle is the time duration required to convert sales, after the conversion of resources into inventories, into cash. The operating cycle of a manufacturing company involves three phases:

- *Acquisition of resources* such as raw material, labour, power and fuel etc.
- *Manufacture of the product* which includes conversion of raw material into work-in-progress into finished goods.
- *Sale of the product* either for cash or on credit. Credit sales create account receivable for collection.

C. FINANCIAL MANAGEMENT



C. FINANCIAL MANAGEMENT

How to compute operating cycle

- RMCP – Raw material Conversion Period
- WIPCP – Work in progress conversion period
- FGCP – Finished goods conversion period
- RCP – Receivables Conversion period

Gross Operating Cycle = RMCP + WICP + FGCP +RCP

C. FINANCIAL MANAGEMENT

Importance or advantages of adequate working capital

1. Solvency of business
2. Goodwill
3. Easy loans
4. Cash discounts
5. Regular supply of raw materials
6. Regular payment of salaries, wages and other day to day expense
7. Ability face crisis

Dis-advantages of redundant or excessive WC

- ✓ Idle funds – earns no profit
- ✓ Leads to unnecessary purchase
- ✓ Implies Excessive debtors and defective credit policy
- ✓ Leads to overall inefficiency of the firm
- ✓ Bad relationship with bank and financial inst.

C. FINANCIAL MANAGEMENT

Dis advantages of Inadequate WC

- Cannot pay short term obligations in time
- Loose of goodwill
- Cannot avail discounts and other benefits (Economies of scale)
- Difficult for the firm to exploit favorable market condition
- Rate of return on investment fall with the shortage of working capital
- Difficult to pay day to day expenses of operations

Determinants of Working Capital Requirement

1. Nature or Character of business
2. Size of the business and scale of operation
3. Production policy
4. Seasonal variation
5. Credit policy

C. FINANCIAL MANAGEMENT

Estimation of Working Capital

Total approach

- All expenses and profit margin are included

Cash cost approach

- Only cash expenses(excluding depreciation) are included

C. FINANCIAL MANAGEMENT

Working capital financing

SHORT TERM:

1. Factoring
2. Invoice discounts
3. Bank overdraft
4. Commercial papers
5. Trade finance
6. Letter of credit

LONG TERM:

1. Equity capital
2. loans

C. FINANCIAL MANAGEMENT

Costing

- Costing means that to evaluate and finalize the price of a product.
- To finalize the cost of a commodities a company see some factors and evaluate all the expenses like raw material cost, transportation cost, labor cost, all types of taxes, electricity bill, then profit of the owner.
- Add all expenses then total number of unit's product divided by all expenses then you find the price of one unit of product.

C. FINANCIAL MANAGEMENT

COST MANAGEMENT

Types of Cost Management

1. **Direct Cost:** Cost of resources that is directly traced and utilized completely for the project purposes.
2. **Indirect Cost:** Cost that is shared across multiple projects or programs.
3. **Fixed Cost:** A periodic cost that does not vary with the business volume.
4. **Variable Cost:** Cost that varies depending upon the business volume.

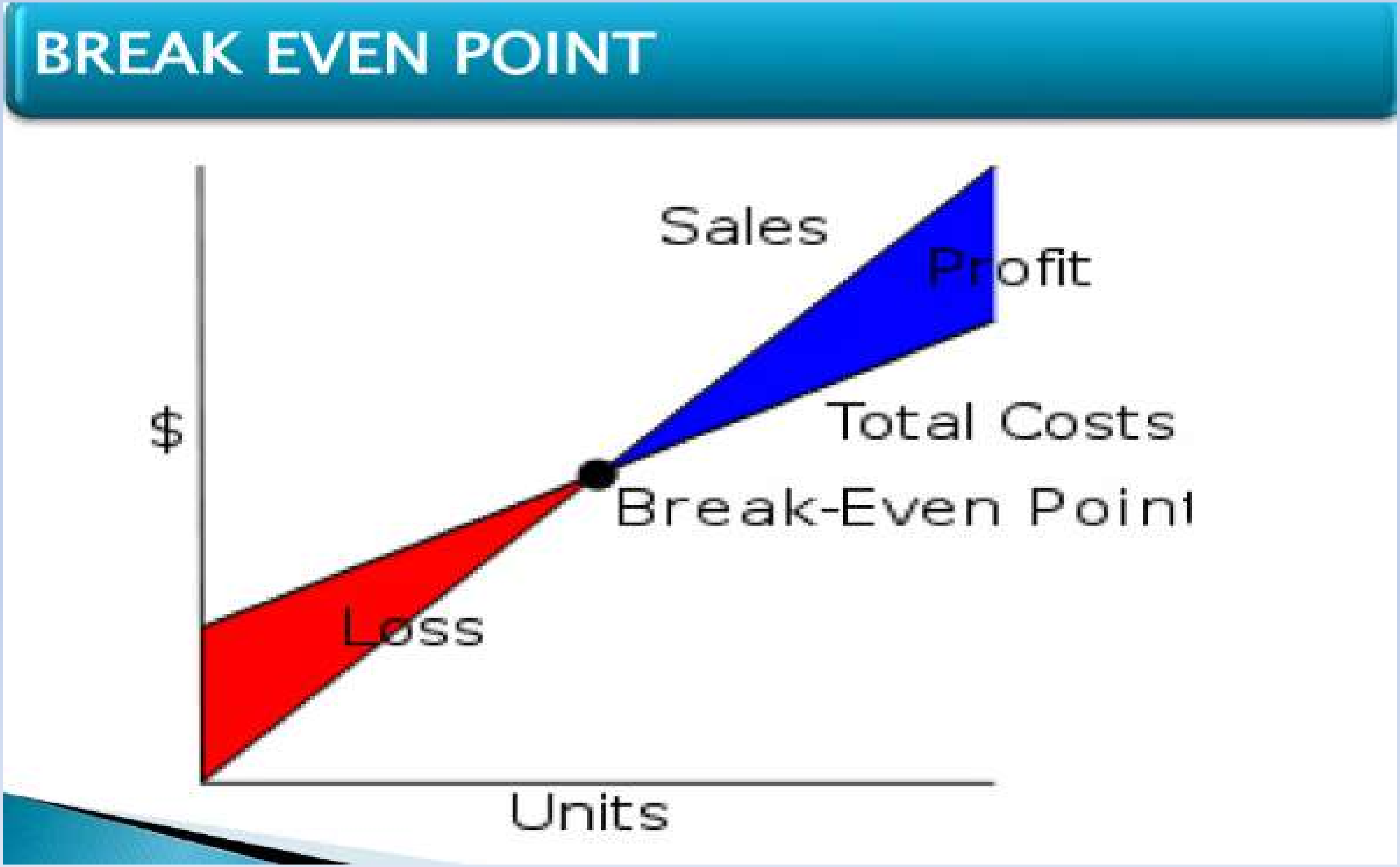
C. FINANCIAL MANAGEMENT

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

INTRODUCTION

- A **breakeven analysis** is used to determine how much sales volume your business needs to start making a profit.
- The breakeven analysis is especially useful when you're developing a pricing strategy, either as part of a marketing plan or a business plan.
- In economics & business, specifically cost accounting, the **break-even point** (BEP) is the point at which cost or expenses and revenue are equal: there is no net loss or gain, and one has "broken even".
- Total cost = Total revenue = B.E.P.

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS



C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

BREAK EVEN ANALYSIS

In order to calculate how profitable a product will be, we must firstly look at the Costs Price and Revenue involved.

- There are two basic types of costs a company incurs.
  - Variable Costs
  - Fixed Costs

- Variable costs are costs that change with changes in production levels or sales. Examples include: Costs of materials used in the production of the goods.

- Fixed costs remain roughly the same regardless of sales/output levels. Examples include: Rent, Insurance and Wages

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

- **Unit Price:**

  The amount of money charged to the customer for each unit of a product or service.

- **Total Cost:**

  The sum of the fixed cost and total variable cost for any given level of production.
  (Fixed Cost + Total Variable Cost)

- **Total Variable Cost:**

  The product of expected unit sales and variable unit cost.
  *(Expected Unit Sales * Variable Unit Cost)*

- **Total Revenue:**
  The product of expected unit sales and unit price.
  *(Expected Unit Sales * Unit Price)*

- **Profit/ loss**
  The monetary gain or loss resulting from revenues after subtracting all associated costs. *(Total Revenue – Total Costs)*

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

ASSUMPTIONS

- All elements of cost i.e. production, administration and selling distribution can be divided into fixed and variable components.
- Variable costs remain constant per unit of output.
- Fixed cost remain constant at all volume of output.
- Selling price per unit remains unchanged or constant at all levels of output.
- Volume of production is the only factor that influences cost.
- There will be no change in the general price level.
- There is one product and in case of multi product, the sales remain constant.

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

COMPUTATION

- The break-even point (in terms of Unit Sales (X)) can be directly computed in terms of Total Revenue (TR) and Total Costs (TC) as:

$$
\begin{aligned}
TR &= TC \\
P \times X &= TFC + V \times X \\
P \times X - V \times X &= TFC \\
(P - V) \times X &= TFC \\
X &= \frac{TFC}{P - V}
\end{aligned}
$$

where:
TFC is Total Fixed Costs,
P is Unit Sale Price, and
V is Unit Variable Cost

The quantity (P – V) is of interest in its own right, and is called the Unit Contribution Margin (C): it is the marginal profit per unit, or alternatively the portion of each sale that contributes to Fixed Costs

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

EXAMPLES

- For example, suppose that your fixed costs for producing 100,000 product were 30,000 Rs a year.
- Your variable costs are 2.20 R.s materials, 4.00 R.s labor, and 0.80 Rs overhead, for a total of 7.00 R.s per unit.
- If you choose a selling price of 12.00 Rs for each product, then:
- BEP= TFC/P-V
- 30,000(TFC) divided by [12.00(P) – 7.00(V)] equals 6000 units.
- This is the number of products that have to be sold at a selling price of 12.00 Rs before your business will start to make a profit.

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

EXAMPLE

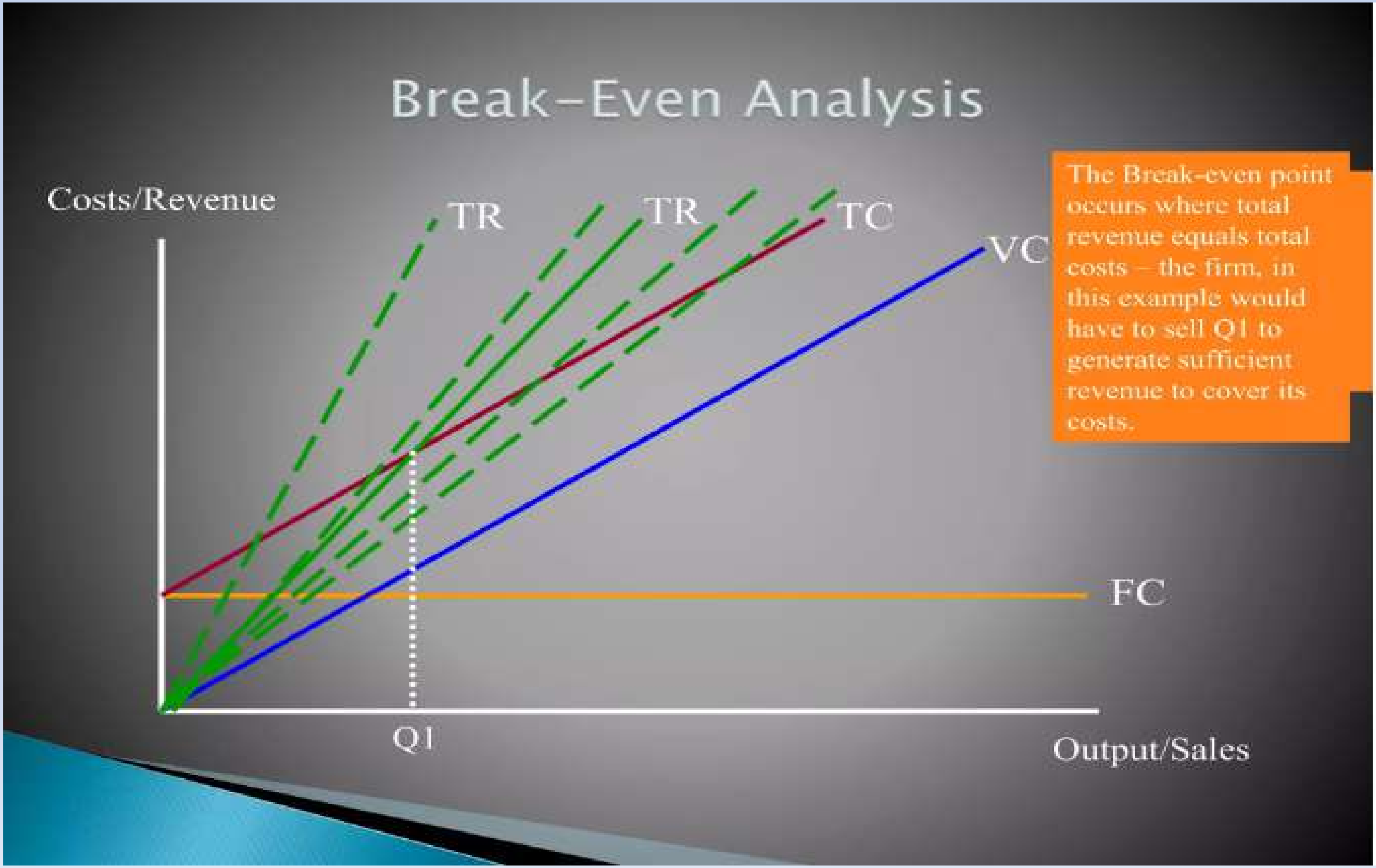
- For example, if it costs R.s. 50 to produce a pen, and there are fixed costs of R.s.1,000, the break-even point for selling the widgets would be:

  If selling for R.s. 100: 20 Widgets
  (Calculated as 1000/(100-50)=20)

  If selling for $200: 20 Widgets
  (Calculated as 1000/(200-50)=6.7)

  From this we can make out that the company should sell products at higher price to reach BEP faster.

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS



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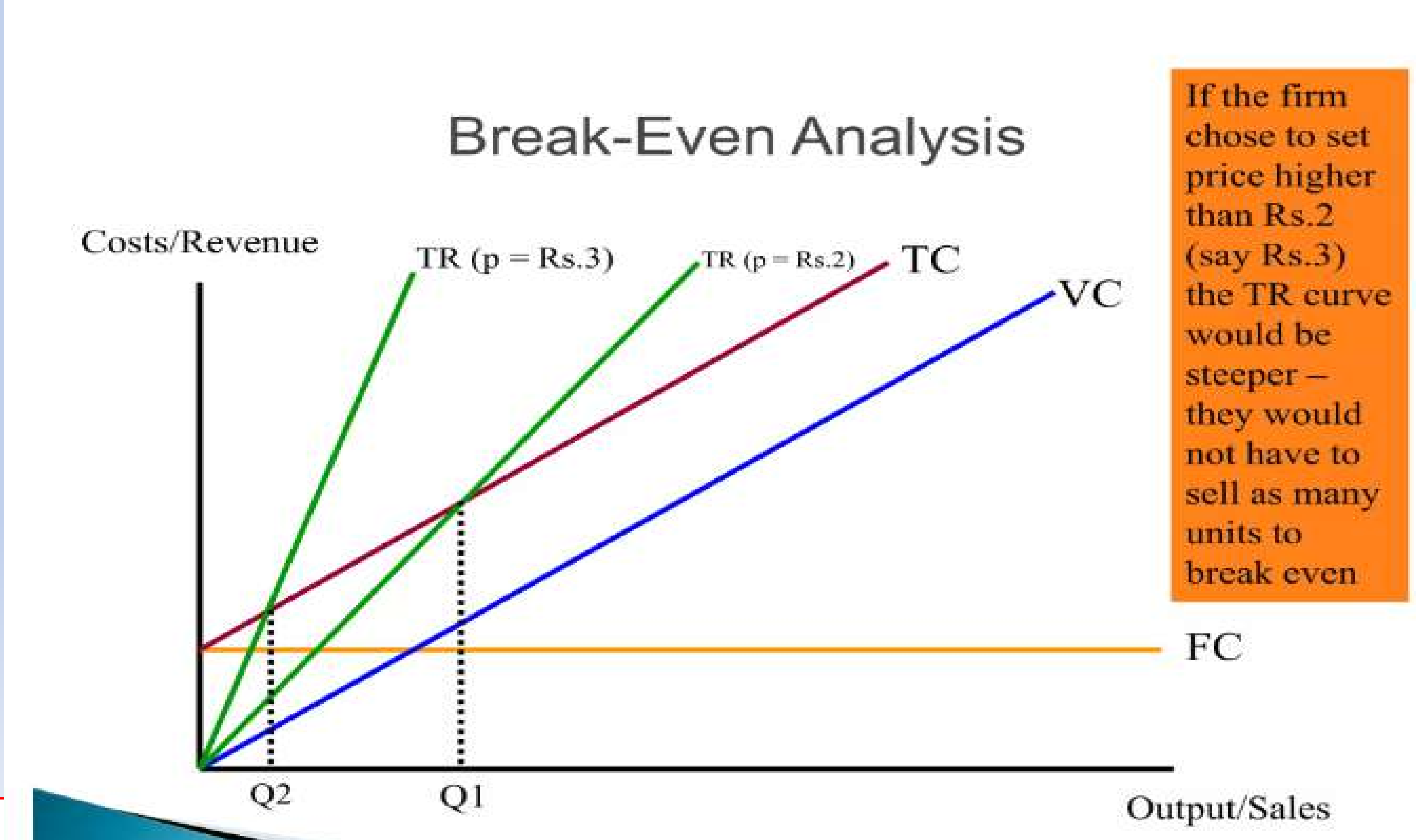
BREAKEVEN ANALYSIS



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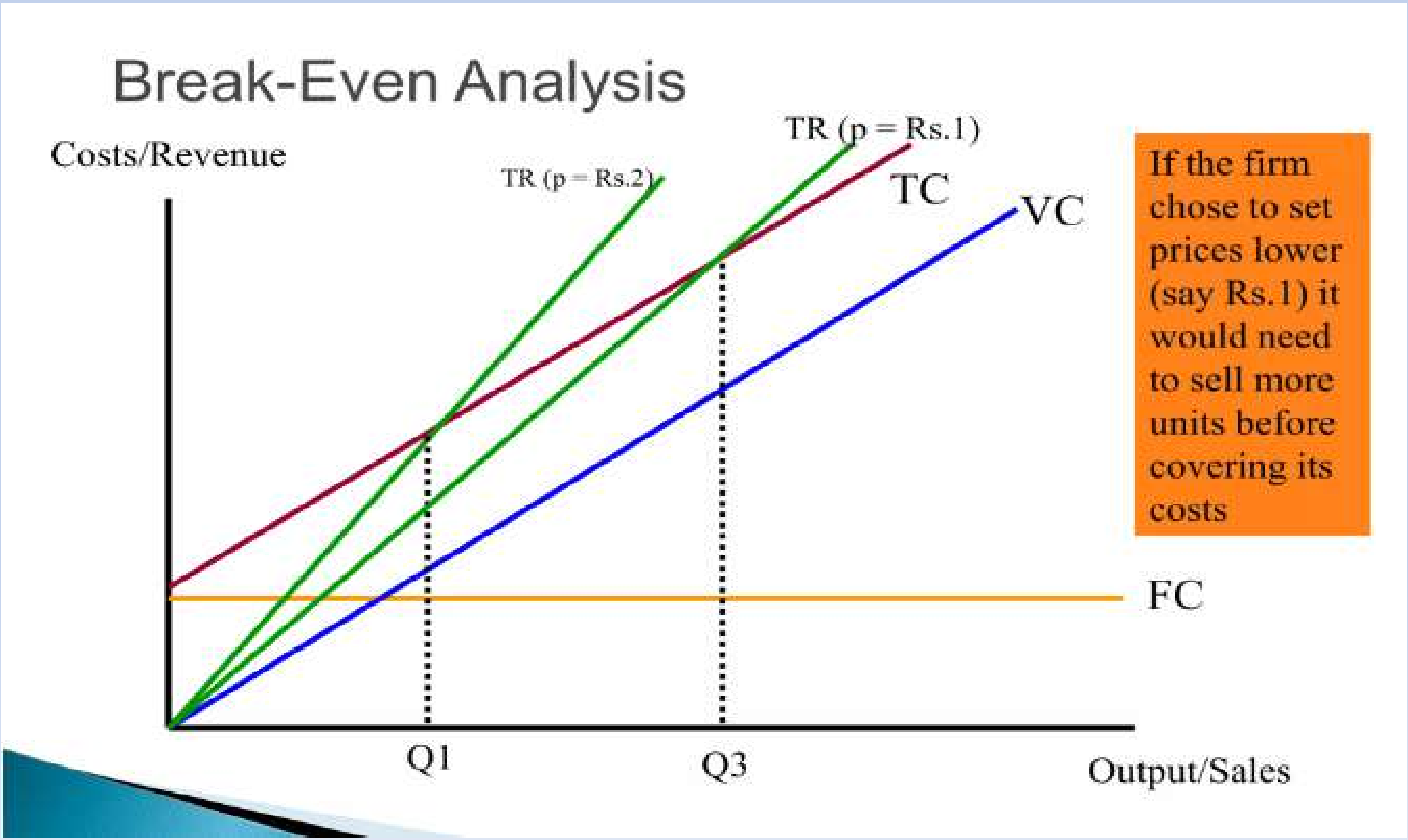
BREAKEVEN ANALYSIS



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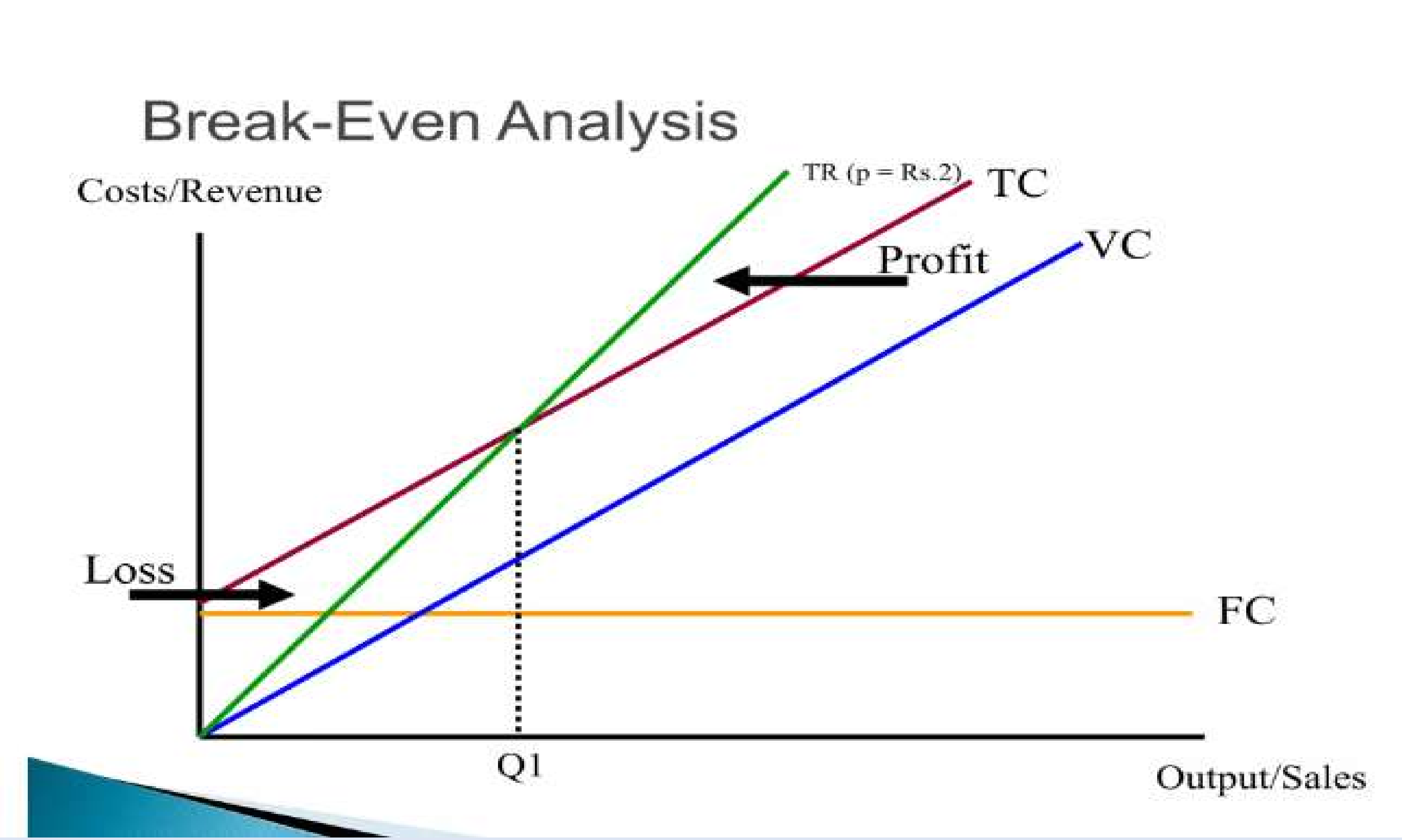
BREAKEVEN ANALYSIS



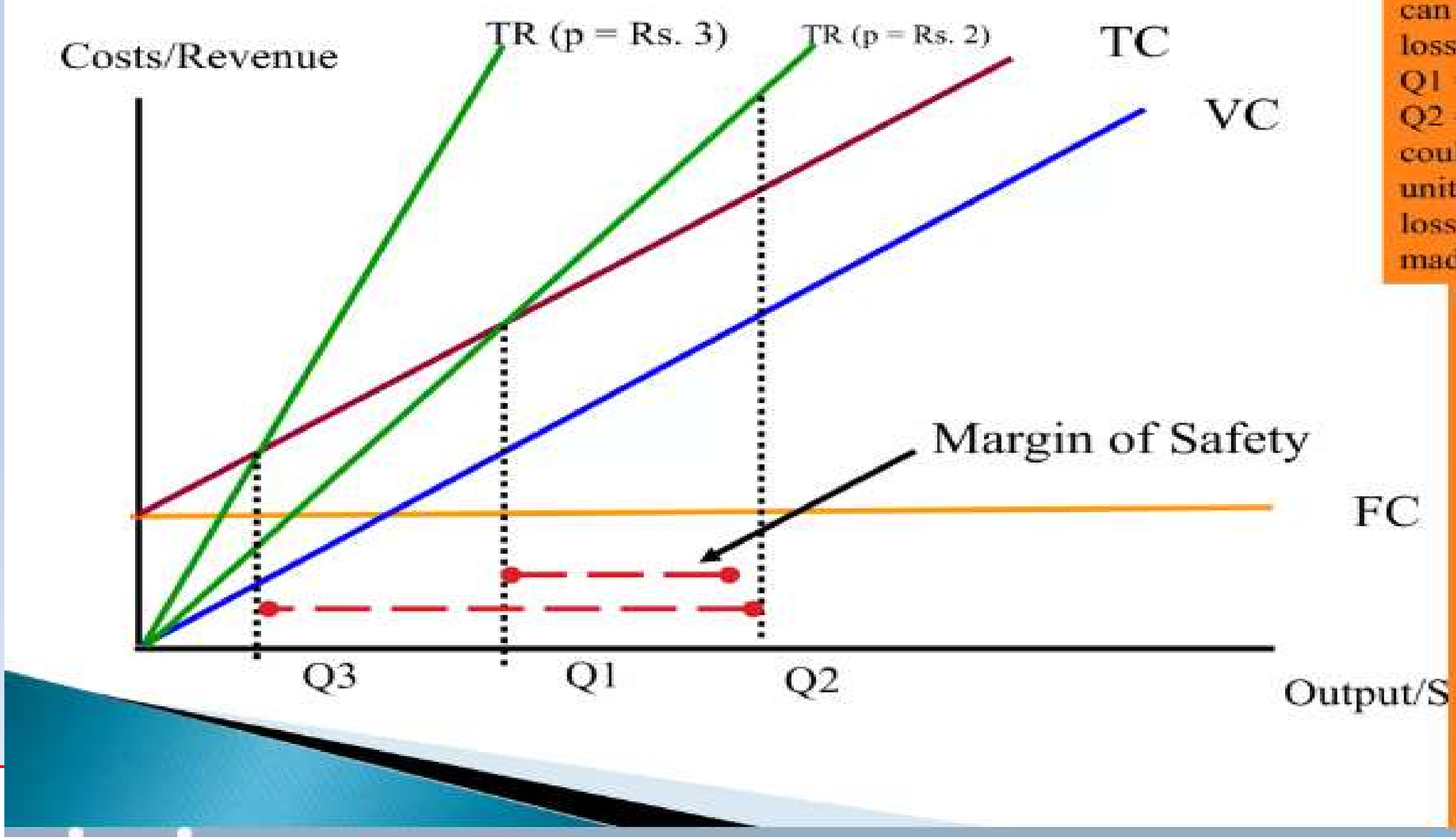
C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

MARGIN OF SAFETY

- Margin of safety represents the strength of the business. It enables a business to know what is the exact amount it has gained or lost and whether they are over or below the break even point.
- margin of safety = (current output – breakeven output) OR
- Margin o safety = actual sales – BEP sales
- margin of safety% = (current output – breakeven output)/current output × 100

C. FINANCIAL MANAGEMENT BREAKEVEN ANALYSIS

Break-Even Analysis



Margin of safety shows how far sales can fall before losses made. If Q1 = 1000 and Q2 = 1800, sales could fall by 800 units before a loss would be made

A higher price would lower the break even point and the margin of safety would widen

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

USES OF BREAK EVEVN POINT

- Helpful in deciding the minimum quantity of sales
- Helpful in the determination of tender price.
- Helpful in examining effects upon organization's profitability.
- Helpful in deciding about the substitution of new plants.
- Helpful in sales price and quantity.
- Helpful in determining marginal cost.

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

LIMITATIONS

- Break-even analysis is only a supply side (costs only) analysis, as it tells you nothing about what sales are actually likely to be for the product at these various prices.
- It assumes that fixed costs (FC) are constant
- It assumes average variable costs are constant per unit of output, at least in the range of likely quantities of sales.
- It assumes that the quantity of goods produced is equal to the quantity of goods sold (i.e., there is no change in the quantity of goods held in inventory at the beginning of the period and the quantity of goods held in inventory at the end of the period.
- In multi-product companies, it assumes that the relative proportions of each product sold and produced are constant.

C. FINANCIAL MANAGEMENT
BREAKEVEN ANALYSIS

CONCLUSION

- A company should determine its break even point before selling its products.
- In order to know how price your product, you first have to know how to calculate breakeven point.
- Break-even analysis is a supply side analysis; that is it only analyzes the costs of the sales.
- It does not analyze how demand may be affected at different price levels.

C. FINANCIAL MANAGEMENT

BRIEF IDEA ABOUT ACCOUNTING TERMINOLOGIES

Book Keeping

Book keeping is the recording of financial transactions and is part of the process of accounting in business transactions include purchases, sales, receipts and payments by an individual person or an organization/corporation.

Journal Entry

A journal entry is the act of keeping or making records of any transactions either economic or non-economic.

Transactions are listed in an accounting journal that shows a company's debit and credit balances. The journal entry can consists of several recording each of which is either a debit or a credit.

C. FINANCIAL MANAGEMENT

BRIEF IDEA ABOUT ACCOUNTING TERMINOLOGIES

Petty Cash Book

The petty cash book is in which all petty or small payments made through petty cash funds are recorded systematically. Petty cash book is maintained by the petty cashier.

Profit and Loss (P&L) Account

The profit and loss (P&L) statement may be a plan that summarizes the revenues, costs and expenses incurred during a particular period, usually a fiscal quarter or year.

Balance Sheet:

In financial accounting a record or statement of mandatory position or statement of economic condition may be a summary of the financial balances of a private organization.

D. MARKETING MANAGEMENT

D. MARKETING MANAGEMENT

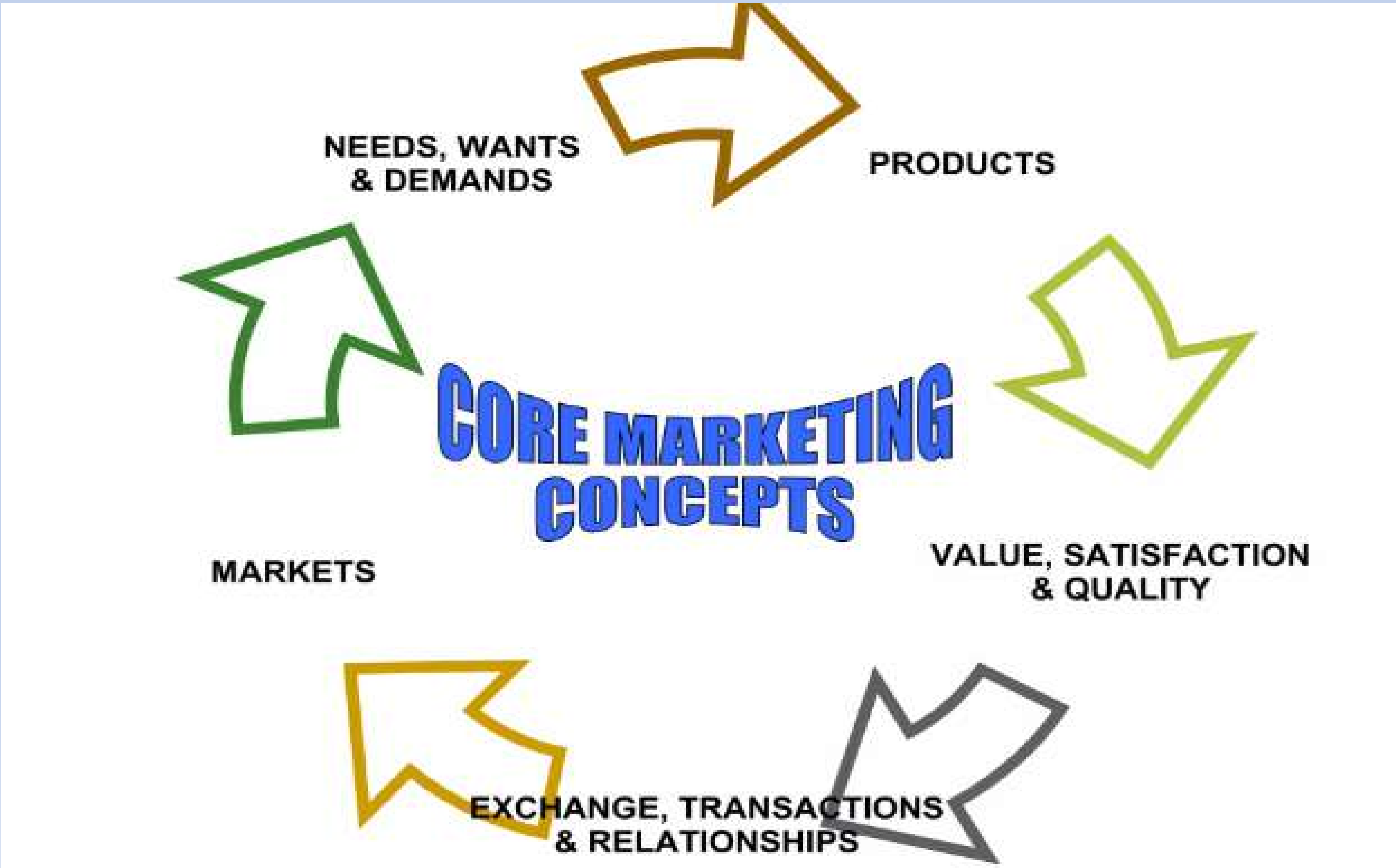
WHAT IS MARKETING?

- **Marketing** – is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

NEEDS, WANTS AND DEMANDS

- **Need**
  - States of felt deprivation.
  - physical, social and individual needs.
- **Wants**
  - The form taken by human needs as they are shaped by culture and individual personality.
- **Demands**
  - Human wants that are backed by buying power.

D. MARKETING MANAGEMENT



D. MARKETING MANAGEMENT

PRODUCTS

- Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas.

VALUE, SATISFACTION & QUALITY

- **Customer Value**
  - The difference between the values the customer gains from owning and using a product and the cost of obtaining the product.
- **Customer Satisfaction**
  - The extent to which a product's perceived performance matches a buyer's expectations.
- **Total Quality Management (TQM)**
  - Programs designed to constantly improve the quality of products, services, and marketing process.

D. MARKETING MANAGEMENT

EXCHANGE, TRANSACTIONS & RELATIONSHIPS

- **Exchange**
  - The act of obtaining a desired object from someone by offering something in return.
- **Transaction**
  - A trade between two parties that involves at least two things of value, agreed-upon conditions, a time of agreement, and a place of agreement.
- **Relationship Marketing**
  - The process of creating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders.

D. MARKETING MANAGEMENT

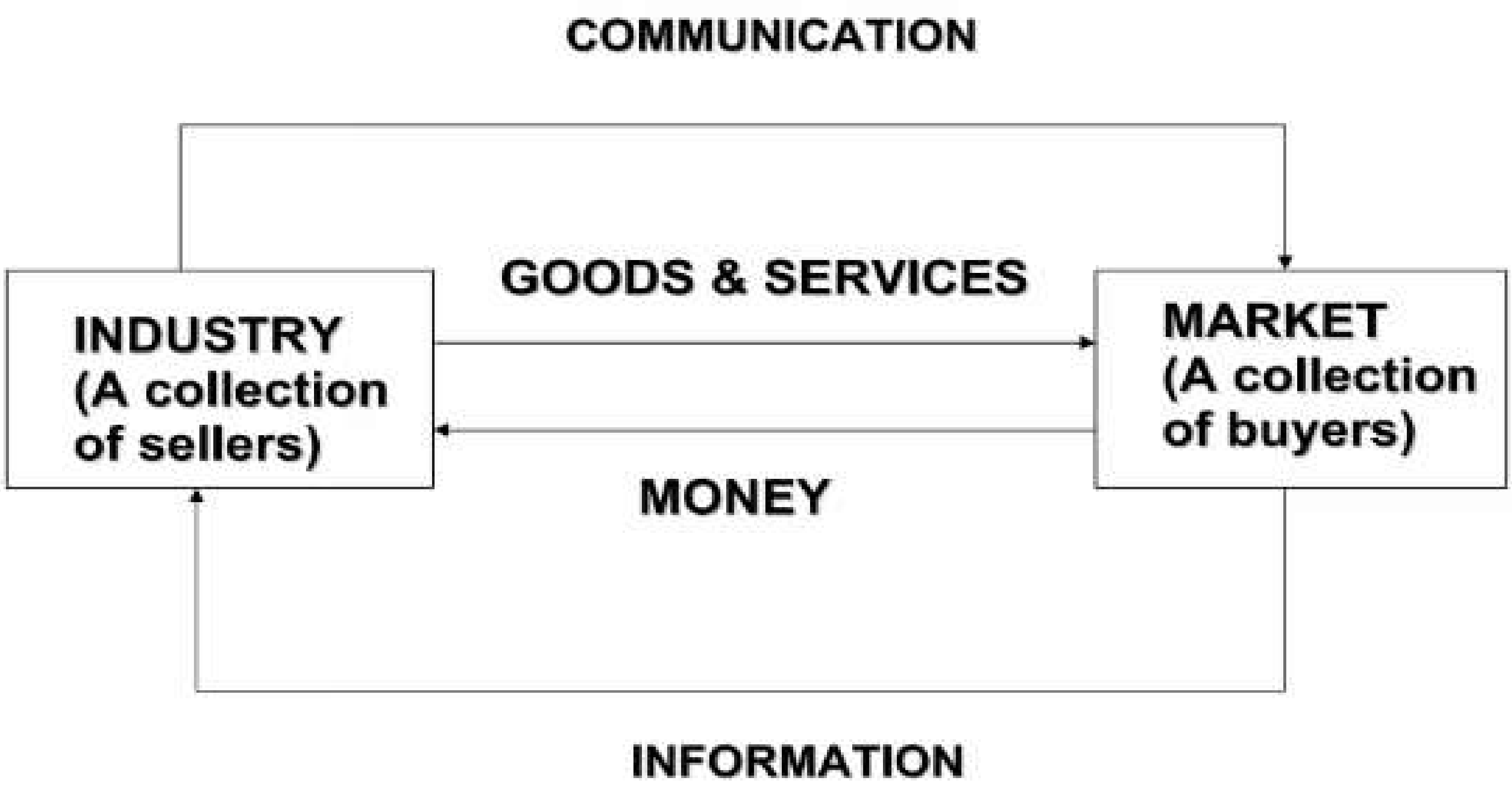
MARKET

- The set of all actual and potential buyers of a product or service.

- **Marketplace** – physical, as when one goes shopping in a store
- **Marketspace** – is digital, as when one goes shopping on the internet
- **Metamarket** – used to describe a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries.

D. MARKETING MANAGEMENT

A Simple Marketing System

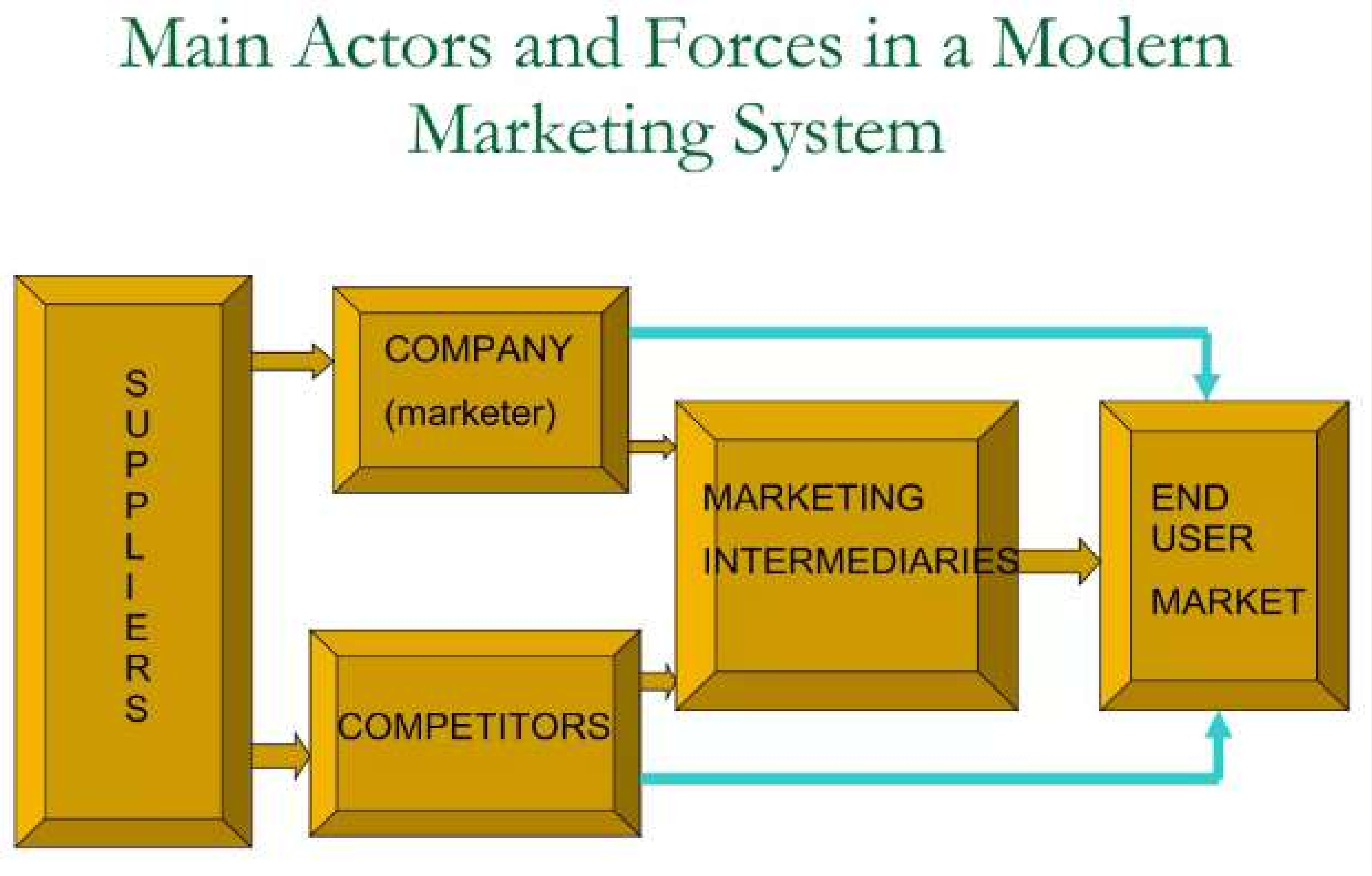


D. MARKETING MANAGEMENT

MARKETING

- means managing markets to bring about exchanges for the purpose of satisfying human needs and wants.
- process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

D. MARKETING MANAGEMENT



D. MARKETING MANAGEMENT

Marketers and Prospects

A **marketer** is someone seeking a response (attention, a purchase, a vote, a donation) from another party, called the **prospect.**

Marketing Channels

- **Communication channels**
  - Deliver and receive messages from target buyers, and include newspapers, magazines, etc…
- **Distribution channels**
  - Used to display, sell or deliver the physical product or service(s) to the buyer or user.
- **Service channels**
  - Used to carry out transactions with potential buyers.

D. MARKETING MANAGEMENT

Supply Chain

- Describes a longer channel stretching from raw materials to components to final products that are carried to final buyers.

Competition

- Includes all the actual and potential rival offerings and substitutes that a buyer might consider.

Four Levels:

- Brand competition
- Industry competition
- Form competition
- Generic competition

D. MARKETING MANAGEMENT

Marketing Environment

- **Task environment**
  - Includes the immediate actors involved in producing, distributing, and promoting the offering.
- **Broad environment**
  - Consists of components which contain forces that can have a major impact on the actors in the task environment

Marketing Program

- **Marketing program** – consists of numerous decisions on the mix of marketing tools to use
- **Marketing mix** – set of marketing tools the firm uses to pursue its marketing objectives in the target market

D. MARKETING MANAGEMENT

MARKETING MANAGEMENT

- The analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives.
- Involves:
  - Demand Management
    - **Demarketing** - Marketing to reduce demand temporarily or permanently – the aim is not to destroy demand, but only to reduce or shift it.
  - Customer Relationship Management

D. MARKETING MANAGEMENT

Marketing Management Process

- Situation Analysis
  - Economic environment
    - State of macro-economy and changes in it also bring marketing opportunities and constraints
    - Examples
      - Factors of high inflation and unemployment levels
      - Changes in technology
- Situation Analysis
  - Social environment
    - Includes general cultural and social traditions, norms and attitudes
    - As values change, change brings the need for new products and services
      - Public demand for a cleaner environment

D. MARKETING MANAGEMENT

- Situation Analysis
  - Political environment
    - Includes attitudes and reactions of the general public, social and business critics
  - Legal environment
    - Includes federal, state and local legislation directed at protecting both business competition and consumer rights.
      - Deregulation

Marketing Management Process

- Marketing planning
  - Establishing objectives
    - Provides the framework for the marketing plan
  - Selecting the target market
    - What do customers want?
    - What must be done to satisfy these wants or needs?
    - What is the size of the market?
    - What is its growth profile?
  - Developing the marketing mix
    - Controllable variables: product, price, promotion and place (channels of distribution), must be managed to satisfy target market and achieve objectives

D. MARKETING MANAGEMENT

Marketing Management Process

- Implementation and Control
  - Implementing
    - Putting the plan into action and performing marketing tasks according to predefined schedule
    - Marketing executives must closely monitor and coordinate implementation of the plan
  - Controlling
    - Results are measured
    - Results are compared with objectives
    - Decisions are made on whether the plan is achieving objectives

D. MARKETING MANAGEMENT

Marketing management process

- Analysis/Audit - where are we now?
- Objectives - where do we want to be?
- Strategies - which way is best?
- Tactics - how do we get there?
- Implementation - Getting there!
- Control - Ensuring arrival

D. MARKETING MANAGEMENT

The marketing opportunities faced by organizations depend on the changing needs of society:

- Consumers are becoming more sophisticated and more discerning in their expectations.
- Globalization of the world's marketplace has not only created new possibilities but also challenge of new competition.

Why is marketing planning necessary?

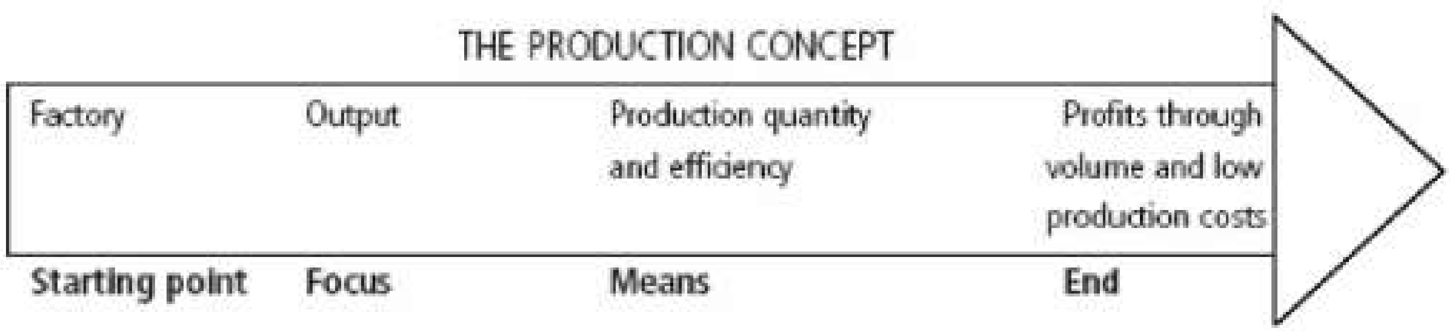
- Systematic futuristic thinking by management
- better co-ordination of a company's efforts
- development of performance standards for control
- sharpening of objectives and policies
- better prepare for sudden developments

D. MARKETING MANAGEMENT

MARKETING MANAGEMENT PHILOSOPHIES

- *five* different orientation of firms towards the marketplace:

- The *PRODUCTION CONCEPT* holds that consumers will prefer products that are widely available and inexpensive.



D. MARKETING MANAGEMENT

MARKETING MANAGEMENT PHILOSOPHIES

- The *PRODUCT CONCEPT* holds that consumers will favor those products that offer the most quality, performance, or innovative features.

D. MARKETING MANAGEMENT

MARKETING MANAGEMENT PHILOSOPHIES

- The *SELLING CONCEPT* holds that consumers and businesses, will ordinarily not buy enough of the organization's products. The organization must therefore, undertake an aggressive selling and promotion effort.

D. MARKETING MANAGEMENT

- The *MARKETING CONCEPT* holds that the key to achieving its organizational goals consists of the company being more effective than competitors in creating, delivering, and communicating customer value to its chosen target markets.

- The *SOCIETAL MARKETING* involves the marketer paying attention not only to the needs of customers but also to the wider natural and social environment. Marketers' concern for the natural environment involves taking into account the environmental impact of production and distribution.

D. MARKETING MANAGEMENT

	PRODUCTION	PRODUCT	SALES	MARKETING	SOCIETAL
Assumptions regarding buyer behaviour	Customers are not concerned about product quality or variety	Customers are not aware of the possibilities for product class	They need to be pushed into buying	Customers prefer products which cater for their needs and wants and if this is done they may come back. Will need less sales effort	Customers will buy from marketers with concerns for wider environmental issues This will also win favour with government
Situations when effective	When there is a lack of supply – customers will buy whatever is available	In high technology businesses where there is an asymmetry of information between buyer and seller	When buyers' behaviour is characterised by inertia	Where customers have a choice and will prefer those products which cater most closely to their needs	Where there is pressure to look after the environment and other social issues
Situations when ineffective	When customers have a choice – they will want quality and variety	When marketers come to regard themselves in the business of making a particular product and not fulfilling a particular want	Where focus on selling leads marketers to sell whatever they have rather than consider customers' wants	Where customers are unable to identify their needs and wants. Where there is a lack of production capability and customers will buy anything	Where there is no pressure from customers/gov't and no long term benefits and the costs outweigh the benefits

D. MARKETING MANAGEMENT

Meaning

- Market: it is a place where buyers and sellers sales and buys from producers.
- Marketing: it is a process or system of business activity designed to plan promote and distribute the want satisfying goods and services to target market.
- Marketing Management: It can be defined as an art and science of choosing target volume and getting keeping and growing customer to create delivering and communicating superior customer value.

D. MARKETING MANAGEMENT

- According to **American Marketing Association (AMA)**, Marketing is the activity, set of institutions and processes for creating, communicating, delivering and exchanging offering that have value for customers, clients, partners and society at large.
- According to **Dr. Philip Kotler** defines marketing as the science and art of exploring, creating and delivering value of satisfying the needs of target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measure and quantifies market and profit potential.

D. MARKETING MANAGEMENT

Marketing Management

- What is marketing management?

  « Marketing management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals » (Philip Kotler)

- Marketing management has the task of influencing the level, timing, and composition of demand in a way that will help the organization achieve its objectives.

D. MARKETING MANAGEMENT

Marketing

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services to create exchanges that satisfy individual and organizational goals

- American Marketing Association

What Is Marketing?

Simple definition:

Marketing is the management process responsible for identifying, anticipating, and satisfying customer requirements profitably.

Goals:

1. *Attract new customers by promising superior value.*
2. *Keep and grow current customers by delivering satisfaction.*

D. MARKETING MANAGEMENT

Marketing Defined

- Marketing is the activity, set of instructions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

OLD view of marketing:

Making a sale— "telling and selling"

NEW view of marketing:

Satisfying customer needs

D. MARKETING MANAGEMENT

MARKETING MANAGEMENT

Marketing management is the *art and science* of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.

The Marketing Process

A simple model of the marketing process:

- Understand the marketplace and customer needs and wants.
- Design a customer-driven marketing strategy.
- Construct an integrated marketing program that delivers superior value.
- Build profitable relationships and create customer delight.
- Capture value from customers to create profits and customer quality.

D. MARKETING MANAGEMENT

Needs, Wants, and Demands

Need: State of felt deprivation including physical, social, and individual needs.

- Physical needs: Food, clothing, shelter, safety
- Social needs: Belonging, affection
- Individual needs: Learning, knowledge, self-expression

Want: Form that a human need takes, as shaped by culture and individual personality.

- Wants + Buying Power = *Demand*

D. MARKETING MANAGEMENT

Need/ Want Fulfillment

Needs & wants are fulfilled through a *Marketing Offering:*

- Products:
  - Persons, places, organizations, information, ideas.
- Services:
  - Activity or benefit offered for sale that is essentially intangible and does not result in ownership.
- Experiences:
  - Consumers live the offering.

D. MARKETING MANAGEMENT

Difference Between - Sales & Marketing ?

Sales

trying to get the customer to want what the *company* produces

Marketing

trying to get the company produce what the *customer* wants

Core Concepts of Marketing

- Based on :
  - Needs, Wants, Desires / demand
  - Products, Utility, Value & Satisfaction
  - Exchange, Transactions & Relationships
  - Markets, Marketing & Marketers.

D. MARKETING MANAGEMENT

Nature, scope and importance

- Marketing is consumer-oriented process.
- Market starts and ends with customer
- Marketing is the guiding element of business
- Marketing is a system
- Marketing is a goal-oriented process
- Marketing is a process of exchange
- Marketing is a continuous process.

D. MARKETING MANAGEMENT

Importance

Marketing plays an important role in the success of a business enterprise. It is primarily concerned with movement of goods and services from the producer to the customer in order to satisfy their needs.

- It helps in realization of the objectives. An effective marketing is essential for the survival and growth of the organization.
- It helps the community to satisfy their economic and social needs and thus raise their standard of living.
- It helps in an effective and productive utilization of resources, both human and materials, eliminating wastages.
- It helps the enterprise to adapt the changing condition and circumstances and provides the guidance for the innovative technology.
- It helps the enterprise in achieving the maximum efficiency, productivity and profitability with the minimum of effort and cost.

D. MARKETING MANAGEMENT

The role of marketing in economic development

Marketing and trade play vital roles in the economic growth and overall development of a nation. The major roles of marketing and trade in the national economy can be thought of in terms of:

- Specialization in activities of comparative advantage
- Enhanced resource use efficiency and trade.
- Advances in marketing with economic growth.

Concepts of marketing

- The production concepts
- The product concepts
- The selling concepts
- The marketing concepts
- The societal marketing concepts

D. MARKETING MANAGEMENT

Production Concept

The philosophy that consumers will favour products that are available and highly affordable and that management should therefore focus on improving production and distribution efficiency.

Product Concept

The philosophy that consumers will favour products that offer the most quality, performance, and innovative features.

Selling Concept

The idea that consumers will not buy enough of the organization's products unless the organization undertakes a large – scale selling and promotion effort.

D. MARKETING MANAGEMENT

Marketing Concept

The marketing management philosophy that holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.

Societal Marketing Concept

The idea that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and society's well – being.

D. MARKETING MANAGEMENT

Marketing environment

- A variety of environmental forces influence a company's marketing system. Some of them are controllable while some are uncontrollable. It is the responsibility of the marketing manager to change the company's policies along with the changing environment.
- According to **"Philip Kotler"** A company's marketing environment consist of the internal factors and forces, which affect the company's ability to develop & maintain successful transaction & relationship with the company's target customer's.
- There are 2 classification of environments: Macro & Micro.

D. MARKETING MANAGEMENT

Importance

- Understanding of clear marketing environment is essential for marketing manager in order to have favorable relationships with desirable customers which in turn ensures good rerun for his investment studying the environment allows marketers to take advantage of opportunities as well as to combat threats.
- Marketing intelligence and research are used to collect information about the environment.
- Many companies have started utilizing the opportunities that are emerging in a changing environment.

D. MARKETING MANAGEMENT

Types of market environment

- Micro environment: these are internal factors, which the organization can control.
- Macro environment: (PEST factors): these are external forces which the organization does not have direct control over these factors. PEST (Political, Economical, Social and Technological).

D. MARKETING MANAGEMENT

Micro environment

- Suppliers
- Shareholder
- Customer
- Competitor
- R & D
- employees

Macro environment

- Political
- Socio cultural
- Technology
- Demography
- Economical

D. MARKETING MANAGEMENT

What is Marketing Mix?

- The marketing mix is the combination of marketing activities that an organization engages in so as to best meet the needs of its targeted market. Traditionally the marketing mix consisted of just 4 Ps.
- Getting the mix of these elements right enables the organization to meet its marketing objectives and to satisfy the requirements of customers.

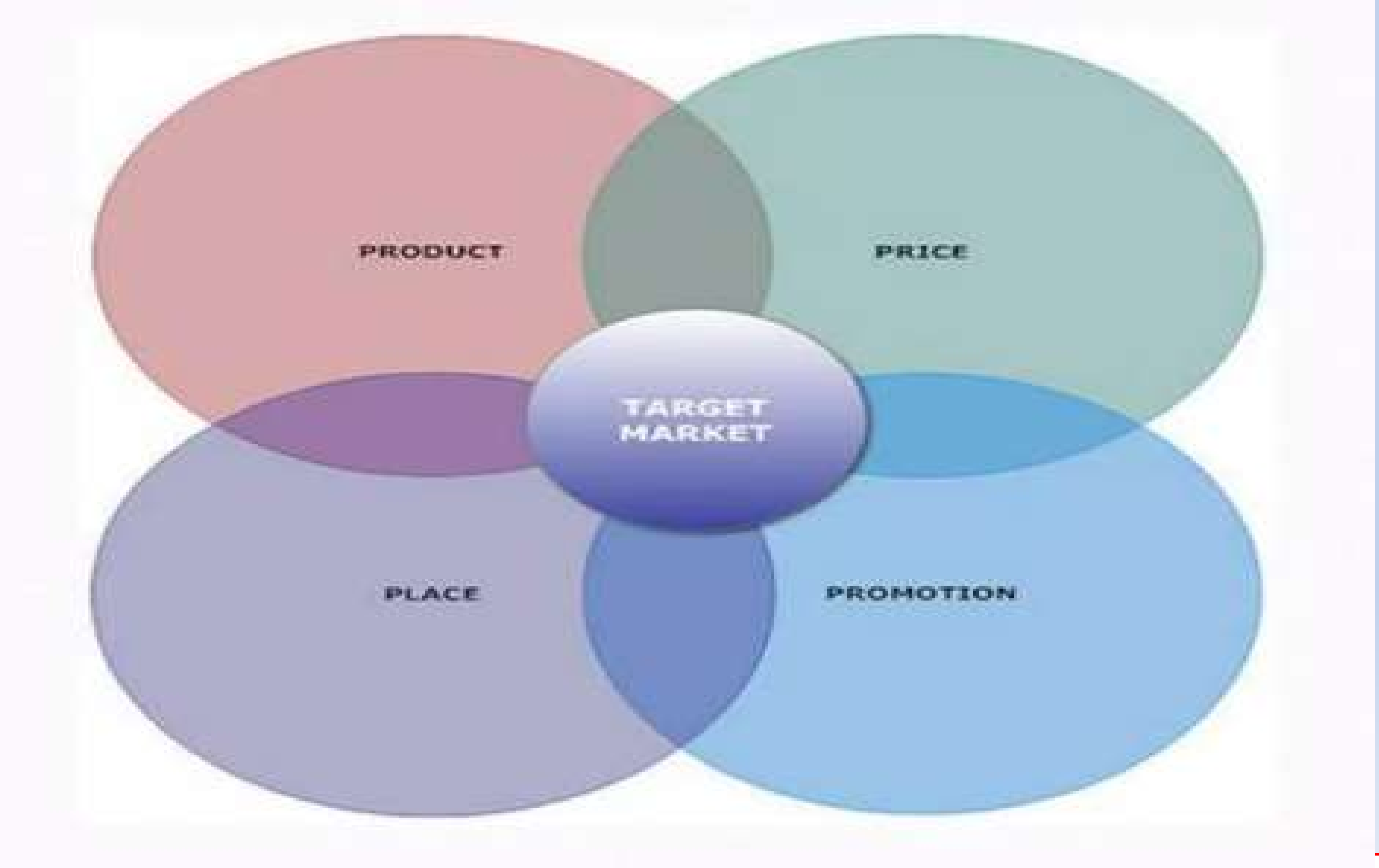
D. MARKETING MANAGEMENT

The Marketing Mix

The set of controllable, tactical marketing tools that the firm blends to produce the response it wants in the target market.

- Product: Variety, features, brand name, quality, design, packaging, and services.
- Price: List price, discounts, allowances, payment period, and credit terms.
- Place: Distribution channels, coverage, logistics, locations, transportation, assortments, and inventory.
- Promotion: Advertising, sales promotion, public relations, and personal selling.

D. MARKETING MANAGEMENT



D. MARKETING MANAGEMENT

- A product is an item that is built or produced to satisfy the needs of a certain group of people. The product can be intangible or tangible as it can be in the form of services or goods.
- A product has a certain life cycle that includes the growth phase, the maturity phase, and the sales decline phase. It is important for marketers to reinvent their products to stimulate more demand once it reaches the sales decline phase.

D. MARKETING MANAGEMENT

price

- Price is a very important component of the **marketing mix.** It is also a very important component of a marketing plan as it determines firm's profit and survival. Adjusting the price of the product has a big impact on the entire marketing strategy as well as greatly affecting the sales and demand of the product.
- Pricing always help shape the perception of your product in consumers eyes. Always remember that a low price usually means an inferior good in the consumers eyes as they compare your good to a competitor.

D. MARKETING MANAGEMENT

place

- Placement or distribution is a very important part of the product mix definition. You have to position and distribute the product in a place that is accessible to potential buyers.

  There are many distribution strategies, including:

- Intensive distribution
- Exclusive distribution
- Selective distribution
- Franchising

D. MARKETING MANAGEMENT

promotion

- Promotion is a very important component of marketing as it can boost brand recognition and sales. Promotion is comprised of various elements like:
- Sales Organization
- Public Relations
- Advertising
- Sales Promotion

D. MARKETING MANAGEMENT

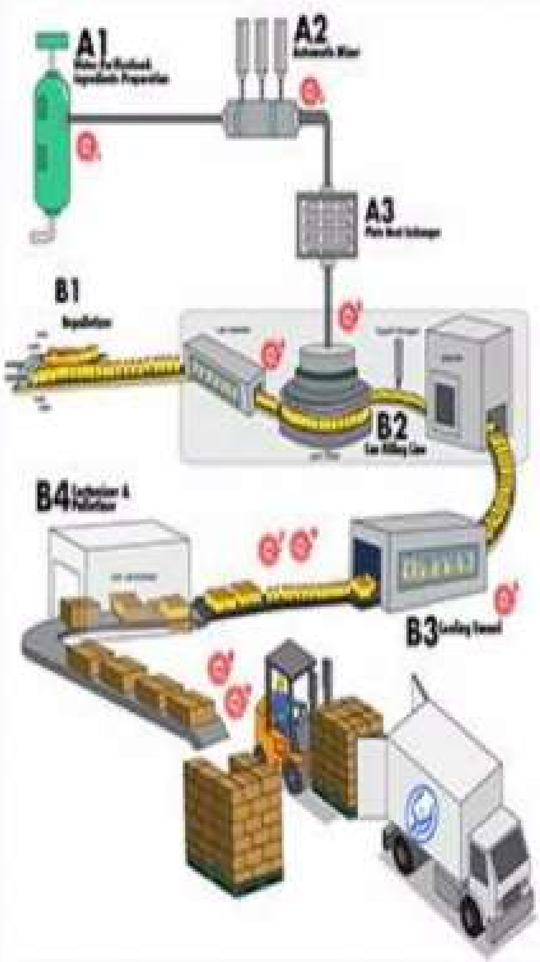
D. MARKETING MANAGEMENT

People

- The company's employees are important in marketing because they are the ones who deliver the service. It is important to hire and train the right people to deliver superior service to the clients, whether they run a support desk, customer service, copywriters, programmers…etc.
- When a business finds people who genuinely believe in the products or services that the particular business creates, it's is highly likely that the employees will perform the best they can.
- Additionally, they'll be more open to honest feedback about the business and input their own thoughts and passions which can scale and grow the business.

D. MARKETING MANAGEMENT

process



- Process could be your entire sales funnel, a pay system, distribution system and other systematic procedures and steps to ensure a working business that is running effectively.

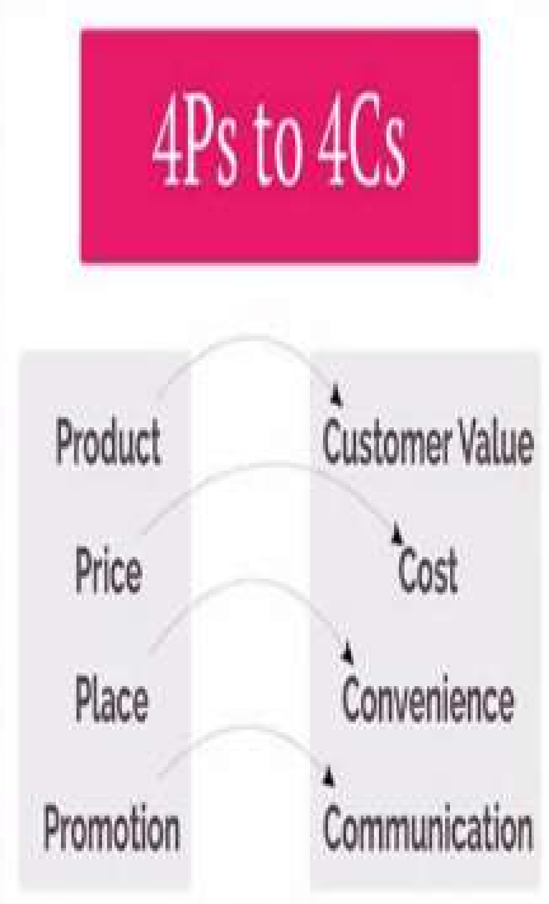
D. MARKETING MANAGEMENT

Physical evidence

- In the service industries, there should be physical evidence that the service was delivered. Additionally, physical evidence pertains also to how a business and it's products are perceived in the marketplace.
- It is the physical evidence of a business' presence and establishment. A concept of this is branding. For example, when you think of "fast food", you think of McDonalds.
- When you think of sports, the names Nike and Adidas come to mind.

D. MARKETING MANAGEMENT

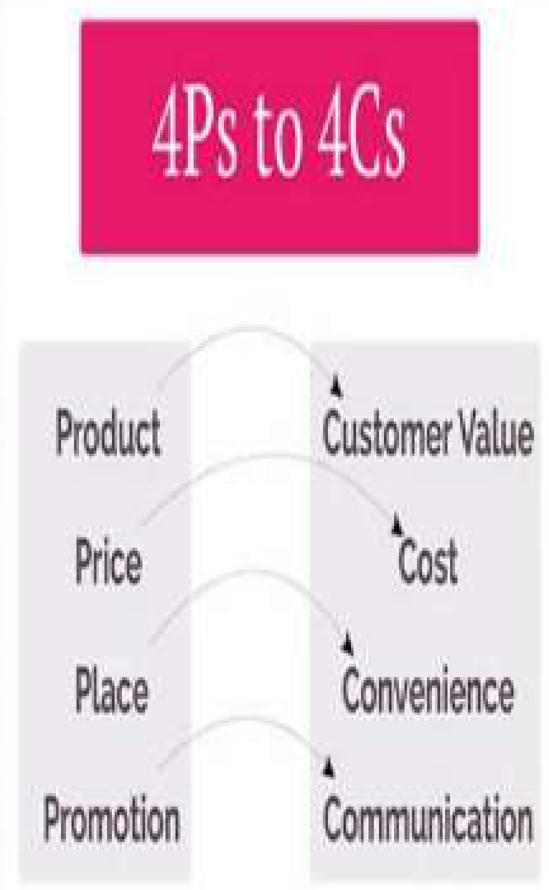
Marketing mix with 4C's



- The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. It is a modification of the 4Ps model. It is not a basic part of the **marketing mix definition**, but rather an extension.

D. MARKETING MANAGEMENT

Marketing mix with 4C's



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D. MARKETING MANAGEMENT

Here are the components of this marketing model:

- **Cost** – According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience or opportunity cost is also part of the cost of product ownership.
- **Consumer Wants and Needs** – A company should only sell a product that addresses consumer demand. So, marketers and business researchers should carefully study the consumer wants and needs.
- **Communication** – According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open dialogue with potential clients based on their needs and wants.
- **Convenience** – The product should be readily available to the consumers. Marketers should strategically place the products in several visible distribution points.

D. MARKETING MANAGEMENT

Classifications of Consumer Products/Services

Staple goods - Used often/regularly and are kept on hand. Examples: bread, toilet paper

Impulse goods - Unplanned purchases. Examples: magazine or candy in a grocery store check-out aisle

Emergency goods - Purchased to satisfy an immediate need. Example: Medicine purchased on the way to a sporting event to sooth a headache.

Convenience goods - Inexpensive products that require little time and effort on the purchase decisions and are purchased regularly.

D. MARKETING MANAGEMENT

Specialty goods - Sought by a consumer who desires a specific brand or product. The consumer will not accept a substitute. The consumer may have saved money for long period of time before purchasing or may have to borrow money to purchase.

Examples: Rolex watch, house, boat.

Classifications of Consumer Products/Services

Pure services: Activities performed that do not include a tangible product.

Non-good services - Personal/professional service for a fee. Example: tax preparation.

Owned-good services - Activities that alter, improve, or repair products already owned. Example: dry cleaning, appliance repair service.

Rented-good services - Provide a product to use for a brief period for a fee. Example: carpet cleaners, movie rental.

D. MARKETING MANAGEMENT

Product related services - Activities offered with or to compliment a product. Examples: warranties, alterations.

D. MARKETING MANAGEMENT

Classifications of Consumer Products/Services

Shopping goods - Products that usually require a great deal of time and effort for the purchase decision. Consumers search and compare similar products prior to purchase.

Clothing items and hardware or appliances are often considered shopping goods.

D. MARKETING MANAGEMENT

MARKETING MIX

- *Product*
- *Price*
- *Place*
- *Promotion*

D. MARKETING MANAGEMENT

Marketing Mix Determination

PRODUCT

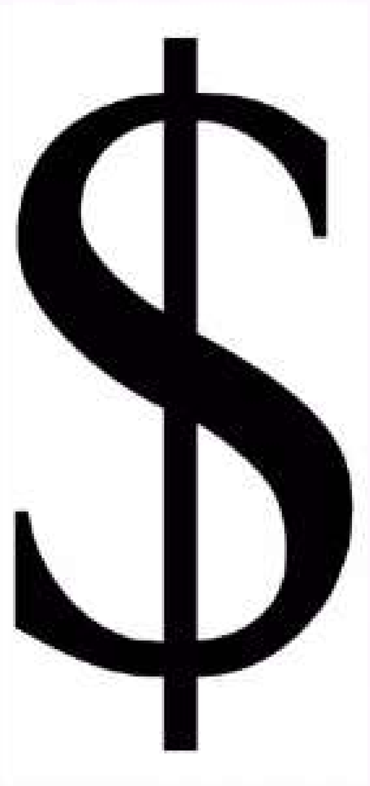
- *WHAT SIZE SHAPE AND THE FEATURE's SHOULD THE PRODUCT HAVE.*
- *HOW SHOULD IT BE PACKAGED*
- *WHAT ASPECT OF SERVICE IS MOST IMPORTANT TO CONSUMERS*
- *HOW IT IS TO BE DESIGNED*

D. MARKETING MANAGEMENT

Marketing Mix Determination

PRICE

- *PRICE SENSITIVITY OF CONSUMERS*
- *PRICE AWARENESS*
- *NEW PRODUCT LAUNCH*
- *LIST PRICE*
- *DISCOUNTS,ALLOWANCES AND PAYMENT METHODS*



D. MARKETING MANAGEMENT

Marketing Mix Determination

PLACE

- *DISTRIBUTION*
- *PROCESS RELATED ISSUES*
- *CONSUMER'S LOYALTY.*
- *WHAT TYPE OF RETAIL OUTLET SHOULD SELL.*
- *LOCATION AND IN WHAT NUMBERS*

D. MARKETING MANAGEMENT

Marketing Mix Determination

PROMOTION

- *ADVERTISING*
- *PERSONAL SELLING*
- *PUBLICITY*
- *DIRECT MARKETING*

D. MARKETING MANAGEMENT

D. MARKETING MANAGEMENT

Packaging is defined as all the activities of designing and producing the container for a product

- *Primary Package*
- *Secondary Package*
- *Shipping Package*

- ***Factors Contributing to growing use of packaging:***
- *SELF SERVICE*
- *CONSUMER AFFLUENCE*
- *COMPANY & BRAND IMAGE*
- *INNOVATION OPPURTUNITY*

D. MARKETING MANAGEMENT

labeling

- *Label identifies the product or brand*
- *Grade the Product*
- *Promote- Through attractive graphics*
- *Describe the product*

D. MARKETING MANAGEMENT

Warranties and Guarantees

- *Warranties are formal statements of expected product performance by the manufacturer*
- *Extended warranties*
- *Guarantee: A promise or an assurance, especially one given in writing, that attests to the quality or durability of a product or service*
- *A pledge that something will be performed in a specified manner*

D. MARKETING MANAGEMENT

What Is Marketing

- "Meeting Needs Profitability"
- Marketing is an organizational function

  and set of processes for

  creating, communicating & delivering value to customers and

  for managing customer relationships

  in ways that

  benefit the organization & its stakeholders

D. MARKETING MANAGEMENT

What is Marketing Management

- *The art and Science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value*

D. MARKETING MANAGEMENT

Marketing Concept

- Production Concept
- Service Concept
- Selling Concept
- Product Concept
- Marketing Concept
- Holistic Concept
  - Internal Marketing
  - Integrated Marketing
  - Relationship Marketing
  - Performance Marketing

D. MARKETING MANAGEMENT

Modern Marketing

- *Every Employee is a Marketer*
- *Internal Communication*
- *Experience Concept*
- *Green Marketing*

D. MARKETING MANAGEMENT

Factors Influencing Marketing Concept

- *Growth of Population*
- *Changing Concept of Family*
- *More Disposable Income*
- *More Discretionary Income*
- *Technology Advancement*
- *Media*
- *Credit Facility*

D. MARKETING MANAGEMENT

Difference Between Marketing and Selling

Marketing	Selling
Focuses on Customer Needs	Focuses On Sellers Needs
Begins before Production	Begins after Production
Continues After Sales	Comes To an End after sale of Product
Philosophy of Business	Routine Process
Profits through customer satisfaction	Profits through Sales Volume
Long Term Perspective	Short Term Perspective
Customer First	Product First

E. HUMAN RESOURCE MANAGEMENT

E. HUMAN RESOURCE MANAGEMENT

Definition

- Human resource management can be defined as
  - " employing people, developing their resource, utilizing maintaining and compensating their services in tune with the job and organizational requirements"

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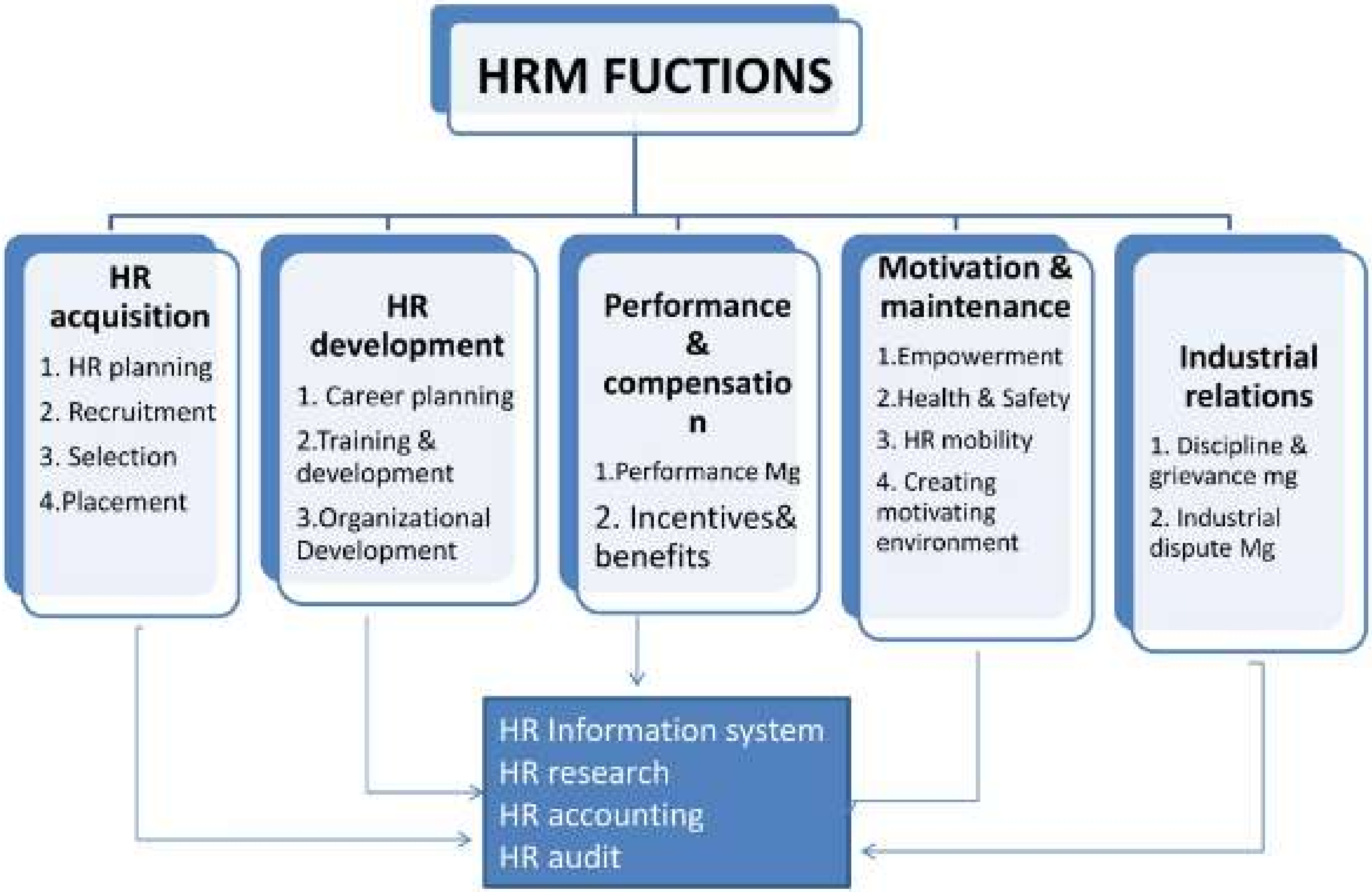

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Nature of HRM

1. **Inherent part of management-** selecting people, training, motivating, appraising their performance for improving their quality.
2. **Pervasive function-**present in all levels of mg in an organization
3. **Action oriented-**solve problem through rational(balanced) policies rather than record keeping
4. **People oriented-**HRM is all about people at work. Assign jobs, produce results, reward, motivate them towards improvements in productivity
5. **Future oriented-** Effective HRM helps organization meet its goals
6. **Development oriented-**HRM develops full potential of employees through reward, training, job rotation.
7. **Integrating mechanism:** HRM maintains cordial relationship between people working at various levels in organization.
8. **Comprehensive function:** Workforce signifies people working at all levels, HRM differs with form & shape but the basic objective of effective utilization of human resource remains the same.
9. **Continuous function:** HRM is not a one shot deal it requires constant awareness and alertness of human relations in every day operation.
10. **Based on human relation:** Every person has different need, perception and expectations. The manger should give due attention to these factors.

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Scope(capacity) of HRM

1. Human resource planning-fill various position
2. Recruitment & Selection- develop a pool(team) of candidates
3. Job Design: define task, assign authority & responsibility
4. Training & Development- helps in developing key competencies
5. Appraisal of performance-systematic assessment & evaluation of workforce
6. Motivation of workforce- develop enthusiastic workforce
7. Remuneration of employees-focuses on fair, consistent & equitable compensation
8. Social security & Welfare of employees-working conditions, transport, medical assistance etc
9. Review & audit of personnel policies- ensures reliable HR policies
10. Industrial labour relation- ensures healthy union mg relationship e.g.: settlement of dispute

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Difference between personnel mg & HRM

PERSONNEL MANAGEMENT	HUMAN RESOURCE MG
Mg of people employed	Mg of employees skills, Knowledge, abilities
Employees are treated as economic man as his service are exchanged with salary	Employees are treated as economic, social & psychological man
Employee are viewed as tool, equipment	Employee are treated as a resource
Employee are treated as cost center. Therefore mg controls cost of labour	Employees as treated as profit center. Therefore, invest in human resource.
Employees used as organization benefit	Employees used for multi-mutual benefit for org, employees & family
Personnel function is only auxiliary (secondary)	HRM is a strategic(planned) mg function
Short term perspective	Long term perspective

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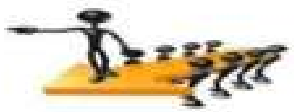

Objectives of HRM

1. To help the organization reach its goal
2. To employ the skills and abilities of the workforce efficiently
3. To provide the organization with well trained & well motivated employees
4. To increase employees job satisfaction and self actualization (stimulate employees to realize their potential)

5. To develop & maintain a quality of work life.
6. To communicate HR policies to all employees.
7. To be ethically & socially responsive to the needs of the society(ensuring compliance with legal & ethical standards)
8. To provide an opportunity for expression & voice in management
9. To provide fair, acceptable & efficient leadership
10. To establish sound organizational structure & desirable working relationships.

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Importance of HRM

GOOD HR PRACTICES HELPS

1. Attract & retain talent
2. Train people for challenging roles
3. Develop skills & competencies
4. Promote team spirit
5. Develop loyalty & commitment
6. Increase productivity & profits
7. Improve job satisfaction
8. Enhance standard of living
9. Generate employment opportunity
10. Greater trust & respect

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Qualities of HR Manager

Henry fayol categorized as

a) Physical- health, vigor (energy, strength), address

b) Mental- ability to understand, learn, judge & adaptable

c) Moral – firmness, responsible, initiative, loyal, dignity (self respect)

d) Educational- subject knowledge about function performed

e) Technical- peculiar knowledge on function

f) Experience – arising from work proper.

<u>OTHERS:</u>

Alert mentally, competent to take quick decision, honesty & integrity, patience, good leader, socially responsible, good communicator, courteous (well mannered)

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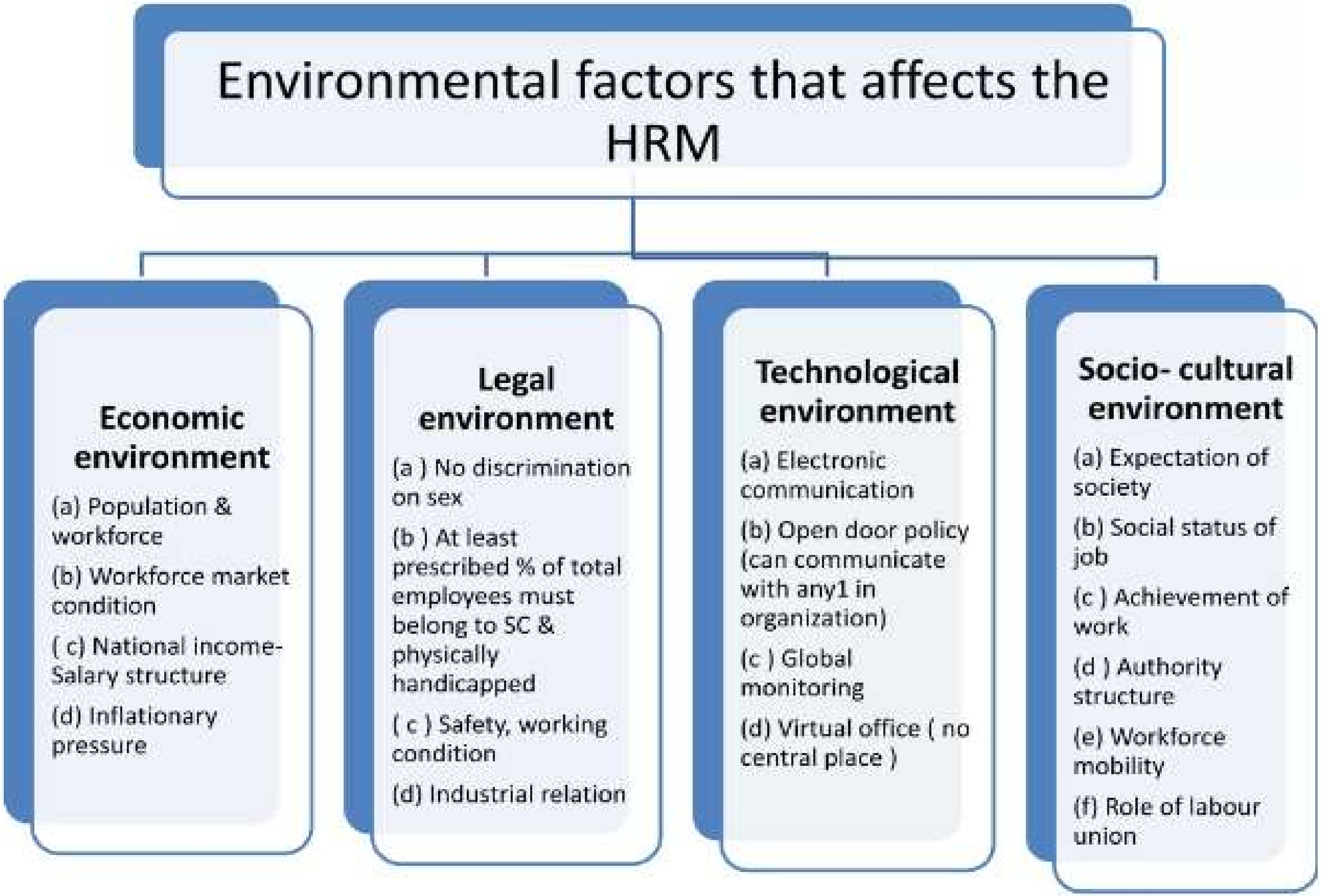

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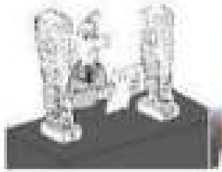


Emerging issues in HRM
Future of HRM: influencing factors

1. Increase in size of workforce-additional demands for better pay, benefits & working conditions.
2. Composition of workforce- The raising percentage of women in workforce, demand for equal pay, gender inequality
3. Employees expectations-as workers are better educated, more demanding, voice strong- financial & non financial demands is ever growing & expanding.
4. Changes in technology- increase in automation, modernization & computerization. Employees must update their knowledge & skills constantly. This will necessitate constant training at all levels.
5. Life style changes- people are ready to change jobs, shift locations, start up companies & even experiment with untested ideas.
6. Environmental challenges- Privatization efforts in India will gather momentum . Burden of training & retraining falls on the shoulder of HR manager. Reserved categories, minorities will lose importance during selection of employees.
7. Personnel Function- Job redesign, career opportunity, Productivity, reward, safety and welfare, Talent hunting, developing & retaining, Lean & mean mg (good bye to old employees), labour relation, Health care benefits

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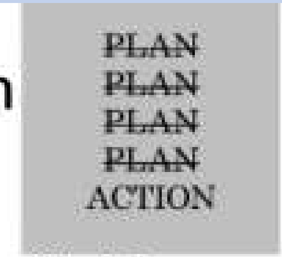
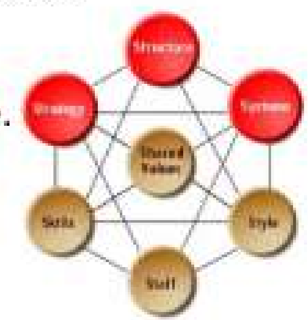
Role & Responsibility of HR professionals in changing Environment



- **Focus on strategic HR issues:** Issues have to be identified & dealt with adequately. It will act as an in-build advantage
- **Proactive action:** not on reactive basis. Putting action in practice before an issue arises.

- **Developing integrated HR system:**

  Well balanced system without lack of coherence (unity) in function



- **Working as Change agent:** must perceive need for change and initiate it. HR professionals must play an active role.
- **Marketing HR potential:** must have ability to prove their contribution to enterprise
- **Outsourcing HR functions:** business instructs an external supplier to take responsibility (and risk) for HR functions.

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HUMAN RESOURCE PLANNING

- According to Geisler-

  " Man power planning is the process which includes forecasting, developing implementing, and controlling by which a firm ensures that it has the right number of people and the right kind of people at the right place, at the right time doing work for which they are economically most useful"

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Objectives of Human resource planning

1) Forecast personnel requirement
2) To ensure optimum utilization of resource
3) Use of existing manpower productively
4) Cope with changes(training about technological changes)
5) To provide control measures(ensure resource availability when required)
6) Promote employees in systematic manner(promotions, pay scale)

7) To provide a basis for Management Development Programmes.
8) To assist productivity bargaining(good deal)
9) To assess the cost of man power

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Importance of HR Planning

A. **Reservoir of talent-** retain skilled people
B. **Prepare people for future-** motivated& developed to meet future needs
C. **Expand or contract-**continuous supply of people to handle challenging jobs
D. **Cut cost-**Hr budget
E. **Succession planning-** stars are picked for challenging projects

EFFECTIVE HUMAN RESOURCE PLANNING:
set efficient objective, top mg support, Employee skill inventory, HR Information system, Coordination

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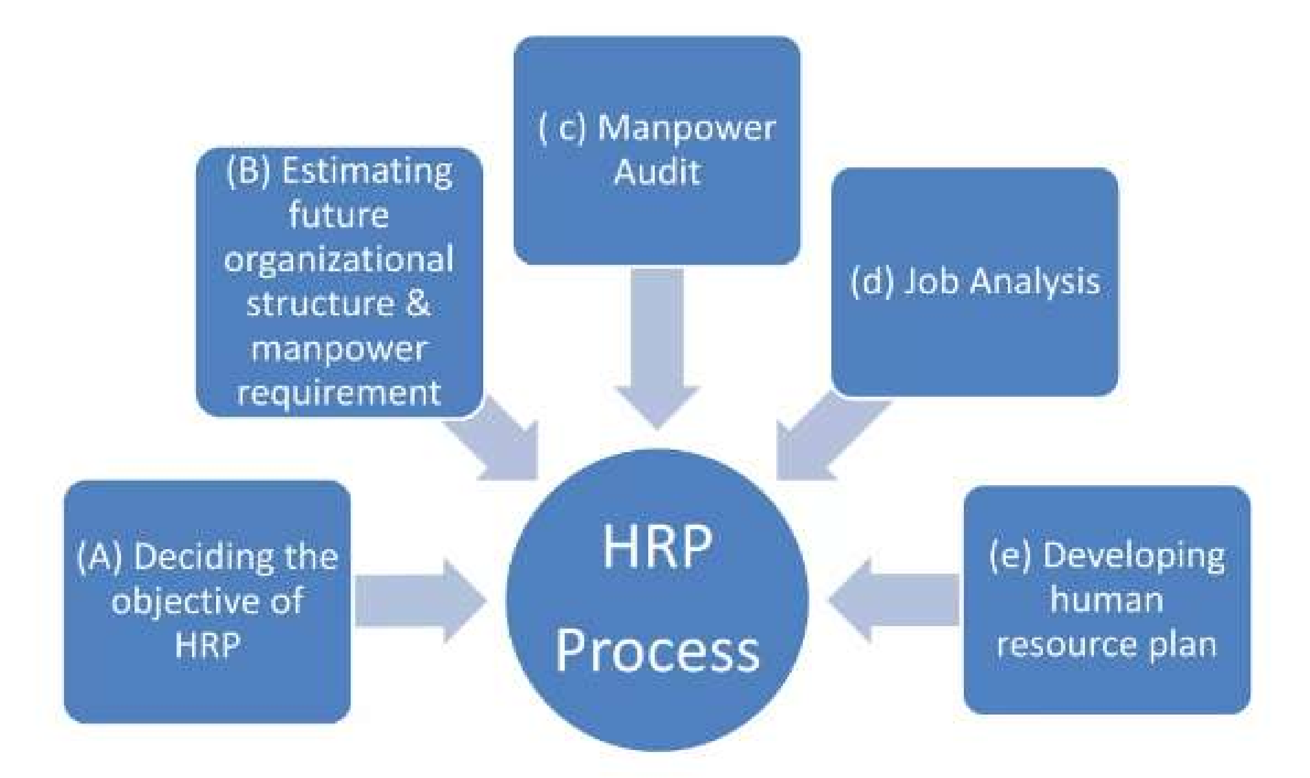

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A. Objective of HRP- fitting employee abilities to enterprise requirements

B. Estimating future organizational structure & manpower requirement- The mg must estimate the number & types of employees (age, experience, qualification, salary range)required in future by analyzing growth, expansion, structural changes .

C. Manpower Audit- Skill inventory

PERSONAL FACTORS	EDUCATION & TRAINING	EXPERIENCE & SKILLS	ADD INF
Name Age Marital status	School Degree Academic excellence Training achieved	Job areas Job titles Special skills Lang known Reason for leaving	Salary grade Disciplinary record Career plans Appraisal data Test results

D. Job Analysis:	
Training, Job evaluation, Performance App, Career Dev, Induction, Counseling, labor relat	**job description**-job summary, Duties performed, Machine , tools ,materials , working conditions **Job specification**- what kind of person to recruit & for what qualities that person should be tested. Physical character, Psychological character, personal character, responsibility, demographic nature

E.Developing human resource plan-Implementation of findings

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Recruitment

- Acc to Edwin B.Flippo defined recruitment as

  " the process of searching for prospective employees and stimulating them to apply for jobs in the organization"

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Factors affecting Recruitment

INTERNAL FACTORS

- Company's pay package
- QWL
- Organizational Culture
- Career planning
- Company's size
- Company's products
- Company's Growth rate
- Cost of recruitment

EXTERNAL FACTORS

- Socio-economic factors
- Supply & demand factors
- Employment rate
- Labour market condition
- Reservation for SC/ST
- Information system

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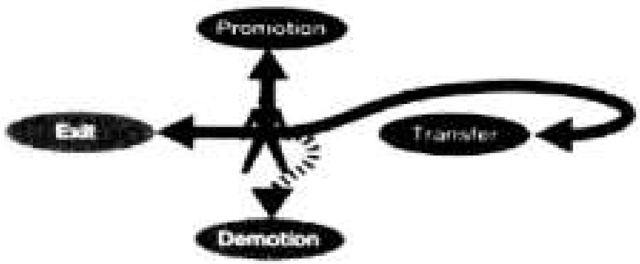

Sources of Recruitment

Internal source

Transfer- job rotation shifting from one job to another

Promotion- shifting an employee to higher position

Employee referrals- recommendation from current employees

External source

Direct recruitment- (factory gate)

Unsolicited application

Media Advertisement

Employment Exchange

Mg consultants(data bank)

Campus recruitment

Recommendations

Labour contractors

Modern technique

Walk- in

Consult-in-(encourage to approach personally)

Head Hunting-(professional org search senior executives and advise co. to fill the position)

Body shopping- training institution develop pool of HR.

Business Alliances- acquisition, mergers, share HR

Tele-recruitment

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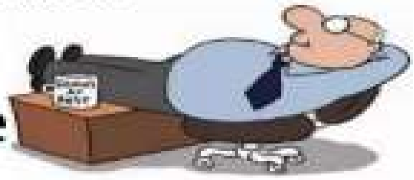
Advantages of Internal source

- Employees are motivated, Employee morale(self confident) is increased, Cheaper process, Chain of promotion improves performance, Tool for training,



Disadvantages of Internal source

- Scope for fresh talent reduced, Employees become lethargic(lazy), Spirit of competition is hampered, Frequent transfers reduce productivity.

Advantages of External source

- Attract Qualified personnel, Wider choice, Fresh talent, Competitive spirit

Disadvantages of External source

- Dissatisfaction among existing staff, Lengthy time consuming process, Costly process, Uncertain response

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SELECTION-choose

- “Selection is the process of picking individuals who have relevant qualifications to fill jobs in an organization”.
- The basic purpose is to choose the individual who can most successfully perform the job, from the pool (collection) of qualified candidates.

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SELECTION STEPS- series of hurdles

STEP 1
- **Reception**-(a co. create favorable impression from stage of reception)

STEP 2
- **Screening Interview-**(Preliminary interview cuts the cost, allow only eligible candidates to go through further stages)

STEP 3
- **Application Blank-** (brief history sheet of employees background)

STEP 4
- **Selection Tests-**1.Intelligent test 2. Aptitude, 3.Personality 4.Achievement Tests 5. Simulation test 6.Assessment centre 7. Graphology test 8. Polygraph (lie detector) 9.Integrity test

STEP 5
- **Selection Interview-** oral examination

STEP 6
- **Medical Examination-** reveals Physical fitness

STEP 7
- **Reference checks**-personnel department check applicants previous job performance through references given.

STEP 8
- **Hiring Decision-** final decision whether to select or reject a candidate.

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SELECTION TEST

1.Intelligent test [mental ability]- numerical ability

2. Aptitude tests[potential to learn skills]- mathematical

3.**Personality tests-**

(a)Projective tests[interpret problem],

(b)Interest tests[idea to know peoples area of interest],

(c)Preference test[people differ in preference for achievement]

4.Achievement Tests[proficiency know-how test]-short hand

5. Simulation test[assess potential of employees by making them solve problem]

6.Assessment centre[in a separate room employees are assessed through multiple assessors]

(a)The in-basket [candidates are asked to act in limited periods with the files & notes given]

(b)Leaderless group discussion[to examine interaction as a group]

(c)Business game[how to advertise, market, penetrate market]

(d)Individual presentation[plan, organize on assigned topic]

(e)Structured Interview[series of questions aimed at participant]

7. **Graphology test**[to examine lines, trend , curves understanding ability, flourishes persons handwriting and emotional make-up]

8. **Polygraph (lie detector)**- [rubber tube around chest , arms , fingers to examine physical changes, blood pressure etc. This establishes truth about applicants behavior]

9.Integrity test – measure employees honesty. By asking more "yes" or "No" questions

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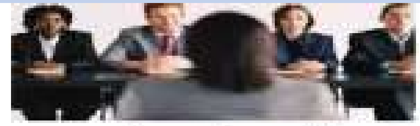

KINDS OF INTERVIEW

1. **Preliminary interview-** screening of applicants this afford him freedom to decide whether the job will suit him.
2. **The non directive interview-** recruiter asks questions that comes to mind. This allows applicant to talk freely.
3. **The directive or structured interview-** recruiters use predetermined set of questions & comparison are made among applicants.
4. **The situational interview-** Applicant is given a hypothetical (imaginary) incident and asked to respond to it

5. **The behavioral interview-**focuses on actual work incidents. The applicant must reveal what he/she do in given situation.
6. **Stress interview-** Interviewer attempts to find out how applicant respond to aggressive, embarrassing, rude & insulting questions.
7. **Panel interview-** the applicant meets 3-5 interviewers who takes turns in asking questions. The panel members can ask new & incisive (penetrating) question based on their expertise & experience and elicit (draw out) deeper & meaningful responses from candidates.

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ERRORS IN INTERVIEWING

- **The Halo effect-** The interview should assess the whole of candidate's personality and should not be led away by any one trait or achievement.
- **Leniency (mercy)-** When a candidate is rated by 2 raters, their rating may be different. One with high score & other with low score which results in error.
- **Projection-** interviewer expects his own qualities , skills, opinions, values as he resembles his age , voice & background.
- **Stereotyping-** This error arises when interviewer have already forms mental association between particular community, culture, origin. This is an undesirable quality of an interviewer.

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PLACEMENT

- Placement is an important human resource activity
- Placement is the actual posting of an employee to a specific job
- It involves assigning a specific task and responsibility to an employee.
- Placement decision are taken after matching requirement of job with qualification of candidates.
- Organization put new recruits on probation period & closely monitored.

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PERSONNEL
MANAGEMENT

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What is Personnel Management ?

- It is defined as obtaining, using and maintaining a satisfied workforce.
- It is the planning, organizing, compensation, integration and maintenance of people for the purpose of contributing to organizational, individual and societal goals.
- It is that part which is primarily concerned with human resource of organization.

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Elements of Personnel Management

- **Organization**

  \- *Organization* is said to be the framework of many activities taking place in view of goals available in a concern. An organization can be called as a physical framework of various interrelated activities.

- **Job**

  \- The second element, i.e., jobs tell us the activities to be performed in the organization. It is said that the goals of an enterprise can be achieved only through the functional department in it.

- **People**

  \- The last and foremost element in personnel management is people. In a organizational structure, where the main aim is to achieve the goals, the presence of manpower becomes vital.

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Personnel Manager

- Personnel manager is the head of personnel department.
- He performs both managerial and operative functions of management.

Roles of a Personnel Manager

- Personnel manager **provides assistance** to top management
  - The top management are the people who decide and frame the primary policies of the concern. All kinds of policies related to personnel or workforce can be framed out effectively by the personnel manager.
- He **advices the line manager** as a staff specialist
  - Personnel manager acts like a staff advisor and assists the line managers in dealing with various personnel matters.

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Roles of a Personnel Manager

- As a **counselor**
  - Personnel manager attends problems and grievances of employees and guides them. He tries to solve them in best of his capacity.
- As a **mediator**
  - He is a linking pin between management and workers.
- As a **spokesman**
  - Since he is in direct contact with the employees, he is required to act as representative of organization in committees appointed by government. He represents company in training programs.

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Personnel Management Functions

1) Manpower Planning
2) Recruitment
3) Employee Selection
4) Training

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Manpower Planning

- is also called as Human Resource Planning
- consists of putting the right number of people, the right kind of people at the right place, at the right time, doing the right things for which they are suited for the achievement of goals of the organization.

Recruitment

2 Types of Recruitment

- **Internal Recruitment**
  - is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization.

Internal recruitment sources are primarily :

- **Transfers**
- **Promotions (through Internal Job Postings)**
- **Re-employment of ex-employees**

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Recruitment

- **External Recruitment**
  - External sources of recruitment have to be solicited from outside the organization.

Some external recruitment sources are :

- **Advertisement**
- **Employment Agencies**
- **Educational Institutions**
- **Recommendations**
- **Labor Contractors**

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Employee Selection

- It is the process of putting right men on the right job. It is a procedure of matching organizational requirements with the skills and qualifications of people.

- Effective selection can be done only when there is effective matching. By selecting best candidate for the required job, the organization will get quality performance of employees.

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Employee Selection Process

- **Preliminary Interview**
  - It is used to eliminate those candidates who do not meet the minimum eligibility criteria laid down by the organization.
- **Written Tests**
  - Various written tests conducted during selection procedure are aptitude test, intelligence test, reasoning test, personality test, etc. These tests are used to objectively assess the potential candidate.
- **Employment Interviews**
  - It is a one to one interaction between the interviewer and the potential candidate. It is used to find whether the candidate is best suited for the required job or not.

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Employee Selection Process

- **Medical examination**
  - Medical tests are conducted to ensure physical fitness of the potential employee. It will decrease chances of employee absenteeism.
- **Appointment Letter**
  - A reference check is made about the candidate selected and then finally he is appointed by giving a formal appointment letter.

Training

- Training is the process of enhancing the skills, capabilities and knowledge of employees for doing a particular job.
- Training process molds the thinking of employees and leads to quality performance of employees. It is continuous and never ending in nature.

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Benefits of Training

- **Improves morale of employees**
  - Training helps the employee to get job security and job satisfaction. The more satisfied the employee is and the greater is his morale, the more he will contribute to organizational success and the lesser will be employee absenteeism and turnover.

- **Less Supervision**
  - A well trained employee will be well acquainted with the job and will need less of supervision. Thus, there will be less wastage of time and efforts.

- **Fewer Accidents**
  - Errors are likely to occur if the employees lack knowledge and skills required for doing a particular job. The more trained an employee is, the less are the chances of committing accidents in job and the more proficient the employee becomes.

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- **Chances of promotion**
  - Employees acquire skills and efficiency during training. They become more eligible for promotion. They become an asset for the organization.

- **Increased productivity**
  - Training improves efficiency and productivity of employees. Well trained employees show both quantity and quality performance. There is less wastage of time, money and resources if employees are properly trained.

Methods of Training

- On The Job Training
  - On the job training methods are those which are given to the employees within the everyday working of a concern. The motto of such training is "learning by doing."

- Off The Job Training
  - Off the job training methods are those in which training is provided away from the actual working condition. Off the job training is also called as *vestibule training*, i.e., the employees are trained in a separate area(may be a hall, entrance, reception area, etc. known as a vestibule) where the actual working conditions are duplicated.

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Employee Relations

- Employee relations generally deal with avoiding and resolving issues concerning individuals which might arise out of or influence the work scenario.
- Healthy employee relations lead to more efficient, motivated and productive employees which further lead to increase in sales level.
- Employee Indiscipline
  - It is when the employees do not behave as per the accepted norms of behavior. Absenteeism, change in employee's behavior, slow performance and grievances are all forms of employee indiscipline.
- Employee Grievance
  - The employees also expect from the management to provide them a safe working environment, fair treatment, proper incentives, participation in decisions, and needs satisfaction. The failure on part of management to meet these expectations is termed as employee grievance.
- Employee Stress
  - It is when the employees fail to meet their own expectations whether in terms of personal goals, career goals, performance, self-respect, etc

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Improving Employee Relations

- Employee has expectation of fair and just treatment by the management. Thus, management must treat all employees as individuals and must treat them in a fair manner. Employee favoritism should be avoided.
- Do not make the employees' job monotonous. Keep it interesting. Make it more challenging. This can be done by assigning employees greater responsibilities or indulging them in training programs.
- Maintain a continuous interaction with the employees. Keep them updated about company's policies, procedures and decisions.
- Employees must be rewarded and appreciated for a well-done job or for achieving/over-meeting their targets. This will boost them and they will work together as a team.
- Encourage employee feedback. This feedback will make the employers aware of the concerns of employees, and their views about "you" as an employer.
- Give the employees competitive salary. They should be fairly paid for their talents, skills and competencies.
- Be friendly but not over-friendly with the employees. Build a good rapport with the employee. The employee should feel comfortable with the manager/supervisor rather than feeling scared.

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Supervising Working Conditions to Maintain and Effectively Utilize Personnel

- *Working conditions* refers to the working environment and to the non-pay aspects of an employee's terms and conditions of employment.

- It covers such matters as the organization of work and work activities; training, skills and employability; health, safety and well-being.

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Various Services and Benefits to Workers

- Health Services or Programs
- Physical Examination
- Employee Services
  - According to the Employee Services Management Association, *employee services* encompass "recreation programs, community services, recognition programs, event planning, childcare/eldercare services, convenience services, and travel offerings."

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Maintaining Personnel Records & Personnel Research

- *Personnel Records* are records pertaining to employees of an organization. These records are accumulated, factual and comprehensive information related to concern records and detained.

- Such records are helpful to a manager in various decision - making areas.

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Types of Personnel Record

1. Records of employment contain applicants past records, list sources, employees progress, medical reports, etc.
2. Wages and salaries records contains pay roll records, methods of wages and salaries, leave records, turnover records and other benefit records.
3. Training and development contains appraisal reports, transfer cases, training schedule, training methods.
4. Health and safety records include sickness reports, safety provisions, medical history, insurance reports, etc.
5. Service Records are the essential records containing bio-data, residential and family information, academic qualifications, marital status, past address and employment records.

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Purposes of Personnel Records

- It helps to supply crucial information to managers regarding the employees.
- To keep an update record of leaves, lockouts, transfers, turnover, etc. of the employees.
- It helps the managers in framing various training and development programs on the basis of present scenario.

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Purposes of Personnel Record

- It helps the government organizations to gather data in respect to rate of turnover, rate of absenteeism and other personnel matters.
- It helps the managers to make salary revisions, allowances and other benefits related to salaries.
- It also helps the researchers to carry in- depth study with respect to industrial relations and goodwill of the firm in the market.

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AWW!
THANK YOU