

**CBSE**

**Class XII Business Studies  
Delhi Board Paper Set 3 – 2012**

**Time: 3 hrs**

**Max. Marks: 100**

---

Note:

- Please check that this question paper contains 12 printed pages.
  - Code number given on the right hand side of the question paper should be written on the title page of the answer-book by the candidate.
  - Please check that this question paper contains 30 questions.
  - **Please write down the Serial Number of the question before attempting it.**
  - 15 minutes time has been allotted to read this question paper. The question paper will be distributed at 10.15 a.m. From 10.15 a.m. to 10.30 a.m., the students will read the question paper only and will not write any answer on the answer-book during this period.
- 

**General Instructions:**

- (i) **All** questions in both the sections are compulsory.
  - (ii) Marks for questions are indicated against each question.
  - (iii) Questions No. **1 – 10** are very short-answer questions carrying **1** mark each. They are required to be answered in one sentence each.
  - (iv) Questions No. **11 – 15** are short answer questions carrying **3** marks each. Answers to them should normally not exceed **50 – 75** words each.
  - (v) Questions No. **16 – 20** are also short answer questions carrying **4** marks each. Answers to them should normally not exceed **150** words each.
  - (vi) Question number **21 – 25** are long-answer questions carrying **5** marks each. Answers to them should normally not exceed **150** words each.
  - (vii) Question number **26 – 30** are long-answer questions carrying **6** marks each. Answers to them should normally not exceed **200** words each.
  - (viii) Answers should be brief and to the point and the above word limits should be adhered to as far as possible.
- 

1. Name the type of plan which is time bound and linked with measurable outcome. **[1]**
2. 'Planning is done for achieving the organisational goals.' Do you agree? Give one reason in support of your answer. **[1]**
3. Identify the nature of management when it is said to be systematised body of knowledge that explain certain general truths. **[1]**
4. At which level of management are the managers responsible for the welfare and survival

- of the organisation? [1]
5. Give the meaning of 'orientation' as a step in the process of 'Staffing'. [1]
6. Define 'Formal Communication'. [1]
7. State any one regulatory function' of Securities Exchange Board of India (SERI). [1]
8. State any one objective of setting up National Stock Exchange of India (NSEI). [1]
9. How business associations act as a means of consumer protection? State. [1]
10. Give any one relief available to consumer who suffers due to consumption of expired date medicine. [1]
11. Explain how the principles of management.  
a. Provide useful insights into the reality and  
b. Help in thoughtful decision making [3]
12. Why is training important for the organisation? State any three reasons. [3]
13. What is meant by 'financial management? State the primary objective of financial management. [3]
14. What is meant by "Capital Structure"? State any two factors which affect the capital structure of a company. [3]
15. Why is training important for the employee? State any three reasons. [3]
16. What is meant by 'Divisional Structure' of organization? State it's any three advantages. [4]
17. Describe briefly the steps involved in the process of organising. [4]
18. Explain the following as factors affecting financial decision.  
i. Cost  
ii. Cash flow position of business  
iii. Level of fixed operating cost  
iv. Control consideration [4]
19. Explain the following 'Rights of a Consumer'.  
i. Right to safety  
ii. Right to consumer education [4]
20. Manu, a Chief Manager in a company using highly sophisticated machines and equipments,

wants that every employee should be fully trained before using the machines and equipments. Suggest and describe the best method of training that Manu can use for training the employees. [4]

21. Explain any five features of Co-ordination. [5]

22. Why is understanding of 'Business Environment' important for managers? State any five points. [5]

23. State any five features of planning. [5]

24. Differentiate between advertising and personal selling on any five bases. [5]

25. Differentiate between marketing and selling on any five bases. [5]

26. What is meant by 'Informal organisation'? State the features of informal organisation.

OR

What is meant by decentralisation? State any four points of importance of decentralisation. [6]

27. Give the meaning of 'Supervision' as an element of 'Directing' and any four points that explain its role.

OR

What is meant by 'Motivation'? Explain Maslow's need hierarchy theory of motivation. [6]

28. Describe the relationship between 'Planning' and 'Controlling'. OR Briefly explain the importance of Controlling. [6]

29. Explain any four functions of 'Financial-Market OR Explain any four functions of 'Stock Exchange'. [6]

30. Consumer products are classified on different basis. Shopping Efforts Involved' is one of them. Explain any three types of products in this category.

OR

Choice of channels of distribution depends on various factors. Explain any four factors which affect the choice of channels of distribution. [6]

**CBSE**  
**Class XII Business Studies**  
**Delhi Board Paper Set 3 – 2012**

**Time: 3 hrs**

**Max. Marks: 100**

---

**Answer 1**

Objective is a type of plan which is time-bound and linked with a measurable outcome.

**Answer 2**

Planning clearly states the predetermined course of action, guides managers regarding the things to be done, what route to take and how the objectives are to be achieved and provides a direction to the actions of different departments of the organisation. It also ensures that various departments work in a coordinated manner towards the achievement of the desired objectives. Hence, we can say that planning is done for achieving organisational goals.

**Answer 3**

Management is a systematised body of knowledge because it has a host of theories and principles which were developed over the years. In addition, similar to other disciplines, management has its own unique vocabulary.

**Answer 4**

Managers at the top level of management are responsible for the welfare and survival of the organisation.

**Answer 5**

Orientation is the process wherein the selected employee is introduced to other employees in the organisation and is briefed about organisational rules and policies.

**Answer 6**

Formal communication is the communication where information flows through a formal path, i.e. through official channels of communication.

**Answer 7**

One of the regulatory functions performed by SEBI is registration. SEBI undertakes registration of various brokers, sub-brokers, agents and other players in the market. Collective mutual schemes and mutual funds are also registered.

**Answer 8**

National Stock Exchange of India (NSEI) aims at establishing a country-wide facility for trading of securities. A nation-wise common system helps in building the confidence of investors.

**Answer 9**

In India, many business and commerce associations have been formed with the basic objective of protecting consumer interests. Two such organisations are Federation of Indian Chambers of Commerce and Industry (FICCI) and Confederation of Indian Industries (CII). Companies or organisations can become members of these commerce organisations. They provide guidelines regarding the code of conduct to the business regarding customer dealings.

**Answer 10**

If a consumer suffers because of consumption of expired date medicine, then he can get compensation in cash for loss or injury.

**Answer 11**

1. **Provide useful insights into reality:** Principles of management were developed over the years on the basis of continuous observation and experimentation of managers in real business situations. Accordingly, these principles act as a guide to managers in dealing with various business problems. They can be used by managers to deal with recurring business situations.
2. **Help in thoughtful decision making:** As the principles of management are developed on the basis of continuous observation and experimentation of managers, they are based on logic and reasoning. Thus, by following the principles of management, managers are able to take logical and rational decisions.

**Answer 12**

**Importance of training for an organisation:**

- i. **Less Wastage:** With training, employees learn to work systematically without the need of any hit and trial method. This helps in reducing the wastage of time and money.
- ii. **Higher Profits:** By developing the skills of individuals, it makes them more efficient and productive. With an increase in overall productivity, the profits of the organisation rise.
- iii. **Managerial Efficiency:** Training imparts self-confidence among employees to face new challenges. It helps them to better deal with varied situations and problems.

**Answer 13**

Financial management is efficiently acquiring and using funds. The basic objective of financial management is to maximise the wealth of shareholders. It aims at taking financial

decisions which prove beneficial for shareholders. Such financial decisions are taken wherein anticipated benefits exceed the cost incurred. This in turn implies an improvement in the market value of shares. An increase in the market value of shares is gainful for shareholders. In other words, financial decisions must be taken which lead to value addition for the company, so the price of the equity share rises. As this basic objective is fulfilled, other objectives such as optimum utilisation of funds and maintenance of liquidity are also automatically fulfilled.

**Answer 14**

Capital structure refers to the ratio of debt and equity in the total capital of a company. Herein, debt (borrowed funds) comprises loans, public deposits and debentures. On the other hand, equity (owner's funds) comprises preference share capital, equity share capital and retained earnings.

**Factors affecting capital structure of a company:**

1. **Financial risk:** Debt involves financial risk in the sense that there is compulsion to repay the debt amount in a fixed period of time. Any default in repayment may even lead to liquidation of the firm. As against this, in case of equity, there is no such risk as it is not mandatory to pay dividends to shareholders.
2. **Return:** Debt offers higher return in the sense that in case of debt, the difference between cost and return is greater. Accordingly, the earning per share is greater.

**Answer 15**

**Importance of training for employees:**

- i. **Better Career Opportunities:** Training helps in improving the knowledge of the employee which in turn helps in improving his career prospects.
- ii. **Earn More:** By helping individuals to improve their knowledge and skills, training improves the earning prospects of employees.
- iii. **Less Accident Prone:** With proper training, employees become more efficient in handling complex machines. This helps in reducing the chances of an accident.

**Answer 16**

A divisional structure is one wherein various diversified business activities (product lines) of an organisation are grouped in different divisions. Each division is headed by a divisional manager who is responsible for the performance of that division.

**Advantages of a divisional structure:**

- i. **Managerial Efficiency:** Under divisional structure, each division is headed by a division head. The division head performs multiple functions for the division. In this way, he gets multiple opportunities for new experience and development. It helps in developing his skills and knowledge.

- ii. **Gauging Performance:** Under divisional structure, each division is responsible for its own profit and loss. In this way, the performance of each division of the organisation can be clearly evaluated, and so, necessary actions can be taken.
- iii. **Flexibility and Initiative:** As under divisional structure, each division functions independently. The divisional heads have the authority to take their own decisions. This promotes flexibility and initiative in the organisation.

**Answer 17**

**Steps involved in the process of organising:**

- i. **Identification and Division of Work:** The first step in the process of organising is to identify the various activities in the organisation and to divide them according to the plans. Division of work ensures that there is no duplication of work. In this way, it avoids the wastage of resources.
- ii. **Creation of Departments:** When the work is divided, activities which are similar in nature are grouped together in departments. This grouping can be on the basis of criteria such as regions and products. It promotes specialisation in work.
- iii. **Assigning Duties:** The third step is to assign and allocate the work to different employees. It must be ensured that the work is assigned according to the skills and capabilities of employees. In other words, it must be ensured that the most suitable person is selected for the work.
- iv. **Establishing Relationships:** A proper hierarchical structure must be established. Every employee must be clear that from whom he would take orders and to whom he is reporting. Such clarity in working relationships helps in smooth operations in the organisation.

**Answer 18**

- i. **Cost:** Cost is involved in every source of fund. Thus, it becomes important for the financial manager to evaluate the cost associated with different sources.
- ii. **Cash flow position of business:** Borrowed funds should be opted by the company only if it has a strong cash flow position. This is because cash would be required to repay the principle along with the interest rate on the debt. On the other hand, shareholders' funds can be used if the company does not have strong cash flow position.
- iii. **Level of fixed operating cost:** Owner's funds can be used by the company if fixed operational cost is high. On the contrary, a company with a low operational cost can use borrowed funds.
- iv. **Control considerations:** If owners of the company want to keep control in their hands, then they can opt for debt. However, if they have no problem in diluting control, then equity can be used.

**Answer 19**

1. **Right to safety:** It is the right of consumers to safeguard themselves against goods and services which can be hazardous to life, health or property. For example, a consumer can get injured if they use defective electrical appliances. Every consumer has the right to protect himself against such goods.
2. **Right to consumer education:** It is the right of consumers to have knowledge and be aware of their rights and responsibilities. They must have knowledge with regard to various legal remedies available if they face any form of exploitation. Various consumer organisations and NGOs actively work in this regard.

### **Answer 20**

Manu can use vestibule training. Under this, the organisation creates a dummy model of the real working environment. The trainees are first made to work on dummy machines. Only after they attain expertise to work on the dummies, they are shifted to the workplace.

### **Answer 21**

#### **Features of coordination:**

- i. **Integrates group efforts:** Coordination acts as a binding force in the organisation in the sense that it unifies the efforts of various individuals in the organisation towards the achievement of common goals and objectives of the organisation.
- ii. **Ensures unity of action:** Coordination unifies the actions of all employees in the organisation towards the accomplishment of a common organisational objective.
- iii. **Continuous process:** Coordination is a continuous process. It begins from planning and continues till controlling. Then, it starts again with planning.
- iv. **All pervasive function:** Coordination is a pervasive function in the sense that every manager or management level performs this function to achieve the organisational goal.
- v. **Responsibility of all managers:** Coordination function has to be performed by every manager in the organisation. Top-level managers coordinate with subordinates to ensure that the policies of the organisation are properly implemented. Middle-level managers coordinate with top-level and lower level managers. Lower level managers coordinate with workers to see that work is done according to plans.

### **Answer 22**

#### **Importance of understanding the business environment:**

- i. **Identification of opportunities and threats:** The business environment is ever evolving. An interaction with the environment and careful analysis will help a business identify positive opportunities and possible threats. An identification of the threats can enable the organisation to take appropriate measures such as improving the quality and features of its advertising. It enables the organisation to grab these opportunities, gain maximum benefit and move ahead of its competitors.
- ii. **Accumulating useful resources:** The environment offers itself as a source of inputs such as raw material, machinery, labour and for the running of an organisation. In



return, the business supplies the environment with its output. This is possible only if the enterprises have an understanding of what the environment desires and what it can offer. Thus, it is rational for organisations to take up those resources from the environment which can be converted to the desired output.

- iii. **Adjusting to changes:** Business environment is dynamic and is prone to numerous socioeconomic changes. A careful analysis and understanding of the environment helps an enterprise in adapting to these changes and to take timely actions.
- iv. **Formulating plans and policies:** Understanding and analysing opportunities and threats helps a business frame suitable plans and policies in view of the current scenario.
- v. **Improving performance:** The main aim behind analysing and understanding the environment is to improve a firm's performance and efficiency. The future of an organisation depends on how closely it bonds with the environment and thrives to survive with ever changing policies.

### **Answer 23**

#### **Features of planning:**

- i. **Focus on objectives:** Planning starts when an objective is set, and a proper planning method gives boost to a well-organised and goal-oriented management. Plans ensure that the desired objective is attained economically and quickly. Managers must make sure that the plans made are purposeful, specific, realistic and clear and should adhere to the company's strategies, procedures and policies. For example, if a sales target is to be achieved, then the plans must be made in sync with this objective.
- ii. **Acts as a stepping stone:** A goal is achieved through planning, organising, staffing, directing and controlling. So, planning serves as the stepping stone for all other functions of an organisation. The remaining functions are conducted within the framework of the plans drawn, i.e. the other functions are interrelated and interdependent on planning. Thus, planning acts as the primary function for all organisations.
- iii. **Pervasiveness:** Planning must be done at all levels of the management and in all departments of the organisation. However, its scope differs along the various dimensions of business levels. For example, the top-level managers have to chalk out the policies regarding the overall management, whereas the middle-level managers plan out the authority to be assigned to subordinates or departmental planning. On the other hand, the lower level managers have to perform day-to-day operational planning and make out small targets.
- iv. **Continuity:** After an objective or goal is achieved, the plan drawn for it does not cease to exist but goes on to become a never ending strategy because of the dynamic nature of the business environment. It is a continuous process. After or within the plan period, a need may arise for the formulation or modification of another plan, keeping in view the new objectives and circumstances. It is a continuous process all along the life of a business enterprise.

- v. **Choice making:** After coming up with all possible alternatives and outcomes, managers need to evaluate them. This evaluation is based on the utility and consequences of the options and the performance study of various actions. Various factors will be weighed against each other as they must assess the pros and cons of each alternative.

**Answer 24**

<b>Basis</b>	<b>Advertising</b>	<b>Personal Selling</b>
<b>Form</b>	Impersonal form of communication	Personal form of communication
<b>Reach</b>	Broader reach as huge number of people can be reached in one go	Narrower reach as few people be reached directly
<b>Flexibility</b>	Inflexible as advertisements cannot be changed according to the customer's requirement	Flexible as seller can change the message according to the customer's requirement
<b>Suitability</b>	Suitable where marketing has to be done on a large scale	Suitable where marketing has to be done for a few consumers
<b>Cost</b>	Cost per person is low	Costly

**Answer 25**

<b>Basis</b>	<b>Marketing</b>	<b>Selling</b>
Scope of the term	Marketing is a wider term and comprises a large number of activities such as planning, designing and after sales services.	Selling is a narrower term and is limited to promotion activities and the transfer of ownership of the product from the seller to the consumer.
Emphasis	Customer satisfaction.	Sale of goods and the transfer of ownership of a product from the seller to the consumer.
Means of profit maximisation	The primary focus is on customer satisfaction.	The primary focus is on maximising sales.
Scope of activities	Both pre-production and post-production activities.	Only post-production activities.
Strategies and efforts	Towards production, planning, designing and feedback services.	Towards the promotion and sale of the product.

**Answer 26**

A network of social relationships which arises spontaneously because of interaction at work is called an informal organisation. It arises out of free social interaction among employees of an organisation.

**Features of an informal organisation:**

1. An informal organisation arises spontaneously out of the social friendly interactions among like-minded personnel in a formal organisation.
2. Rules and regulations of the group are followed instead of organisational rules.
3. There is free communication and interaction among employees.
4. It does not have any definite structure, so we can say that it is complex.
5. It is not deliberately created by management.

**OR**

Decentralisation refers to the delegation of authority and power to the lower level in the hierarchy.

**Importance of decentralisation:**

- i. **Initiative:** Decentralisation provides managers the freedom and authority to take their own decisions. In this way, it gives them opportunities to take initiatives. This helps managers to develop self-confidence.
- ii. **Managerial Competence:** Decentralisation provides personnel the opportunity to gain new experience and develop their skills. This helps in improving their competence. In this way, it helps in the development of future managers who can take greater responsibilities.
- iii. **Control:** With decentralisation, the performance of various departments can be evaluated better. The contribution of each department towards the overall objectives can be easily analysed.
- iv. **Active Decision Making:** Decentralisation enables decision making at the nearest point of action. This ensures quick decision making.

**Answer 27**

Supervision refers to the process where the activities of workers are guided towards pre-determined objectives. It involves directly overseeing the work of workers. Through effective supervision, it is ensured that work is performed efficiently and towards the desired objectives.

**Role of supervision:**

- i. A supervisor would guide workers and provide them with support. He would ensure that workers work with harmony and unity.
- ii. He would ensure that the work is performed efficiently and smoothly and that the set targets are met.
- iii. He would provide employees with knowledge and skills as required by workers.

- iv. A supervisor with good leadership would help in boosting employee morale.

**OR**

Motivation refers to the process of inducing employees to work towards the desired goals and objectives. In other words, it implies encouraging workers to work to the best of their capabilities towards the common goals and objectives of the organisation. Motivation influences an individual's psychology such that he is induced to perform better.

Maslow's Hierarchy of Needs helps in understanding the phenomenon of motivation. According to Maslow, the needs of an individual can be classified into five categories which can be arranged in a hierarchical order. With the knowledge of these needs, a manager can better understand the behaviour of employees in the organisation and accordingly provide appropriate motivation.

### **Assumptions**

Maslow's theory is based on the following assumptions:

- i. People behave according to their needs and desires.
- ii. It is possible to arrange the needs of an individual in an order of hierarchy.
- iii. An individual would move to a higher level need in the hierarchy only when the need at the lower level is appropriately satisfied.
- iv. When a need at a particular level is satisfied, further motivation can be provided only through the next level need.

### **Theory**

Hierarchy of needs as given by Maslow:

1. **Physiological Needs:** These needs are the most basic needs in the hierarchy of needs. It comprises needs which are essential for survival and sustenance. For example, need for food, clothing and shelter. In terms of an organisation, the requirement of a basic salary is a physiological need.
2. **Security Needs:** An individual requires physical and economic security. For example, an employee wishes for job security and stability in income.
3. **Belongingness Needs:** It refers to the social needs of an individual in terms of affection and acceptance. In other words, it refers to a feeling of belongingness to society.
4. **Esteem Needs:** It comprises elements such as respect, dignity and recognition in the peer group.
5. **Self-Actualisation Needs:** Every individual wishes to achieve what he aims or aspires. For an employee, it includes factors such as recognition of work, autonomy and growth.

**Answer 28**

Controlling is closely related to planning. A good control system requires set standards for evaluation. These standards are provided by the plans defined by the organisation. In other words, plans serve as the base for controlling.

Controlling is essential for effective implementation of plans. It is essential to keep a close watch on the plans, identify any deviations and take appropriate corrective actions. Without proper controlling, planning would be futile.

In a similar manner, planning forms the base for controlling. Without planning, there would be nothing to control. Controlling is done only when there are predetermined standards for evaluation.

While planning involves intellectual thinking, decision making and deciding a course of action, controlling ensures that plans take the required course of action.

Both concepts of planning and controlling are interlinked as they are forward looking and backward looking. Planning is a process wherein it is decided what is to be done and accordingly deciding the required course of action. In other words, planning involves deciding the goals and objectives which are to be achieved and deciding the actions through which they are to be achieved. In this way, planning helps in predicting future actions; thus, it can be said to be looking ahead.

As against planning, the controlling function involves assessing and evaluating past performance against pre-defined standards. Because controlling assesses past performance, it can be said to be backward looking.

However, it must be remembered that planning decides the goals and actions for the future, but these decisions are taken on the basis of experiences and previous controlling actions. Thus, planning involves looking back as well.

In a similar manner, controlling not just involves assessing the past performance but also decides the corrective actions to be taken (in the future) and forms the base for plans. Thus, the controlling function looks forward as well.

**OR**

**Importance of controlling:**

- i. **Achieving organisational goals:** Controlling aims at accomplishment of organisational goals by indicating deficiencies and corrective measures which are to be taken. It helps take the right steps for achieving organisational goals and objectives efficiently.
- ii. **Evaluating standards:** Controlling helps in judging the accuracy of standards adopted by the management. Managers check whether the set standards are accurate and feasible. It also makes it possible for the organisation to review and revise the standards according to the changing business environment.
- iii. **Optimally utilising resources:** Continuous control and monitoring ensure the efficient and optimum utilisation of resources. As each task is completed according to the set standards and targets, there is less wastage and spoilage of resources, thereby reducing duplication in work.
- iv. **Motivating employee:** By exercising effective control, employees get to know well in advance what is expected from them and the standards against which their performance

will be assessed. This motivates them to achieve the assigned targets in a better way.

- v. **Maintaining order and discipline:** Efficient controlling brings about an atmosphere of order and discipline in an organisation. As employees are made aware of the fact that they are being continuously observed, dishonesty and inefficiency are minimised.
- vi. **Promoting coordination:** Pre-determined standards provide a basis for better coordination of various activities. As the departments of an organisation are made aware of their duties and tasks, controlling promotes coordination among them. It provides unity of direction while ensuring that organisational objectives are met.

### **Answer 29**

A financial market is a market for the creation and exchange of financial assets (such as shares and debentures).

#### **Functions of a financial market:**

- i. **Mobilising savings:** The financial market acts as a channel for mobilising savings to productive use. This is done by providing savers a platform for transferring investment. It provides savers a wide choice in investment. In this way, it ensures that the funds are directed towards the most productive investment.
- ii. **Establishing price:** The financial market facilitates the interaction between those who demand securities (households) and suppliers of securities (business firms). This helps in establishing a competing price for securities.
- iii. **Providing liquidity to assets:** By easing the process of sale and purchase of securities, the financial market provides liquidity to securities. That is, through the financial market, securities can be easily converted to cash.
- iv. **Reduction in the cost of transaction:** Information required for trading in securities is provided by the financial market. In this way, it helps reduce the cost in terms of both time and money.

**OR**

#### **Functions of a stock exchange:**

- i. **Provides Liquidity and Marketability:** The stock exchange provides a platform where sale and purchase of existing securities can take place. In this way, the stock exchange facilitates the conversion of securities to cash as and when required. In addition, it renders liquidity to long-term securities and can be converted to medium-term and short-term securities.
- ii. **Determination of Prices:** A stock exchange acts as a link for the interaction of buyers and sellers. In other words, it helps in the interaction of demand and supply forces, and thereby helps in establishing the price of securities.
- iii. **Fair and Safe Market:** A stock exchange provides a safe and fair market for trading of securities. It functions according to a well-regulated legal framework.

- iv. **Facilitates Economic Growth:** By facilitating the sale and purchase of securities, the stock market helps in channelising savings to a productive investment. This in turn promotes capital formation and economic growth.

**Answer 30**

On the basis of the shopping efforts involved, consumer products are classified into

- i. **Convenience products:** These products are purchased frequently by consumers. They can be purchased with minimum time and effort.
- Characteristics of a convenience product:**
- They are easily available and can be purchased with minimum time and effort.
  - They are purchased frequently by consumers. In other words, they have a continuous demand. For example, essential commodities.
  - They are purchased by consumers in small units. They usually command a low price.
  - There exists high competition in the market for these products. Accordingly, they require extensive marketing.
- ii. **Shopping products:** These products are purchased by consumers after analysing their quality, price and suitability.
- Characteristics of a shopping product:**
- They are durable in nature.
  - They have a relatively less frequent demand.
  - These products are available in larger units and command higher per unit price. Accordingly, the profit margin is high.
  - They are bought after considering factors such as price and quality of the product.
- iii. **Speciality products:** These products have some special features. To buy these products, consumers make special efforts.
- Characteristics of speciality products:**
- They have limited demand.
  - The unit price is very high.
  - They are available at limited places.
  - They require high promotion.

**OR**

**Factors which determine the choice of channels of distribution:**

- i. **Product Type:** The choice of channel of distribution depends on the type of product, i.e. perishable or non-perishable, industrial or consumer product. For example, in case of perishable goods, short channels of distribution would be more suitable. Similarly, for consumer products, long channels are used, while for industrial products, short channels are used.
- ii. **Characteristics of the Company:** There are two important characteristics of a company which determine the channel of distribution used by it-financial strength

and the degree of control which the company wishes to command over intermediaries. Shorter channels of distribution require greater funds but also offer greater control over intermediaries. Accordingly, a financially strong company or a company which wishes to command greater control over intermediaries would opt for shorter channels of distribution.

- iii. **Competitive Factors:** The channel of distribution opted by a company also depends on the channels opted by its competitors. For instance, a company may opt for a similar channel as used by its competitors.
- iv. **Business Environmental Factors:** Business environmental factors such as economic factors and legal policies are also important factors in determining the choice of channel of distribution. For example, if there are complex legal formalities at various steps of distribution, then a company would prefer shorter channels of distribution.

