Chapter 4: Business Services

Exercises — Exercises

Q1 Define services and goods.

Services are separately identifiable, essentially intangible activities that satisfy wants and are not necessarily linked to the sale of a product or another service. They involve an interaction between provider and consumer and give no ownership of anything physical, e.g., a doctor's advice or watching a movie. A good is a physical product that can be delivered to a purchaser and involves transfer of ownership from seller to customer, e.g., a car or ice cream. The term is also used for commodities of all types, except services, involved in trade or commerce.

Q2 What is e-banking. What are the advantages of e-banking?

E-banking is electronic banking, i.e., banking through electronic media such as the internet. It lets a customer manage savings, check accounts, apply for loans or pay bills using a personal computer, mobile telephone or handheld computer. Advantages to customers: it facilitates digital payments and transparency in statements; it offers service 24 hours, 365 days; transactions can be made from home, office or while travelling; it builds financial discipline by recording every transaction; and it gives greater satisfaction and security, as customers avoid carrying cash. Advantages to banks: competitive advantage, an unlimited network not limited to branches, and reduced load on branches through a centralised database.

Q3 Write a note on various telecom services available for enhancing business.

Telecom is the backbone of every business activity. Its main types are: (i) Cellular mobile services: voice and non-voice messages, data and PCO services, with interconnectivity to other providers. (ii) Fixed line services: voice, non-voice and data services for long-distance traffic, mainly over fibre optic cables. (iii) Cable services: linkages and switched services within a licensed area, mainly one-way entertainment, with two-way voice and data expected later. (iv) VSAT services: satellite-based communication that is reliable in urban and rural areas and supports tele-medicine, online newspapers, market rates and tele-education. (v) DTH services: satellite-based media received through a small dish antenna and set top box, independent of cable operators.

Q4 Explain briefly the principles of insurance with suitable examples.

The principles of insurance are: (i) Utmost good faith: both parties must disclose all material facts; non-disclosure makes the contract voidable. (ii) Insurable interest: the insured must stand to suffer financial loss, e.g., a creditor has an interest in a debtor's life. (iii) Indemnity: the insured is restored to the position before the loss, no more; it does not apply to life insurance. (iv) Proximate cause: only the most dominant cause of loss counts, and it must be a peril covered by the policy. (v) Subrogation: after settling a claim, the insurer takes over the insured's rights of recovery. (vi) Contribution: with double insurance, insurers share the loss in proportion to the amounts assured. (vii) Mitigation: the insured must take reasonable steps to minimise loss, e.g., saving goods when a store house catches fire.

Q5 Explain warehousing and its functions.

Warehousing means storing goods in a scientific and systematic manner so as to maintain their original quality, value and usefulness. Modern warehouses are logistical service providers, making the right quantity available at the right place, time, form and cost. Functions: (a) Consolidation: goods from different plants are combined and dispatched to one customer in a single shipment. (b) Break the bulk: large consignments are divided into smaller lots for clients. (c) Stock piling: seasonal storage of goods, such as harvested crops, released as demand arises. (d) Value added services: packaging, labelling, grading and repackaging. (e) Price stabilisation: supply is adjusted to demand, controlling prices. (f) Financing: warehouse owners advance money against goods and supply goods on credit.

Q6 What are services? Explain their distinct characteristics.

Services are separately identifiable, essentially intangible activities that satisfy wants and are not necessarily linked to the sale of a product or another service. They involve interaction between provider and consumer and give no ownership of a physical thing. They have five characteristics, the five Is. (i) Intangibility: they cannot be touched or tasted, only experienced, so quality is hard to judge before purchase. (ii) Inconsistency: there is no standard product, so each service is performed afresh to suit different customers, as with mobile services. (iii) Inseparability: production and consumption happen simultaneously, and the customer's presence and interaction remain necessary even when ATMs replace clerks. (iv) Inventory (less): services are perishable and cannot be stored, e.g., a railway ticket can be kept but the journey is experienced only when provided. (v) Involvement: the customer participates in delivery and can have the service modified to specific requirements, e.g., self-service in a fast food joint.

Q7 Explain the functions of commercial banks with an example of each.

Commercial banks perform these functions. (i) Acceptance of deposits: banks take money through current, savings and fixed deposit accounts; e.g., savings accounts encourage individual saving, while fixed deposits earn higher interest. (ii) Lending of funds: loans and advances out of deposits, as overdrafts, cash credits, discounting of bills, term loans and consumer credit; e.g., an overdraft to a trader. (iii) Cheque facility: banks collect customers' cheques drawn on other banks; e.g., a bearer cheque is encashed immediately at the counter, while a crossed cheque is deposited only in the payee's account. (iv) Remittance of funds: transfer of money between places through bank drafts, pay orders or mail transfers on nominal commission; e.g., a draft drawn on another branch. (v) Allied services: bill payments, locker facilities, underwriting, buying and selling shares and debentures, and paying insurance premium or collecting dividend for customers.

Q8 Write a detailed note on various facilities offered by Indian Postal Department.

The postal department has divided the country into 22 postal circles, which manage head, sub and branch post offices. Its facilities fall into two broad groups. (i) Financial facilities: savings schemes such as Public Provident Fund, Kisan Vikas Patra and National Saving Certificates, along with retail banking functions like monthly income schemes, recurring deposits, savings accounts, time deposits and money orders. (ii) Mail facilities: parcel services, registration for security of articles, and insurance cover for all risks in transit. Allied facilities include greeting post; media post, for advertising through postcards, envelopes and letterboxes; direct post, addressed or unaddressed advertising; international money transfer with Western Union from 185 countries; passport facilities with the Ministry of External Affairs; Speed Post, covering over 1000 destinations in India and 97 countries; and e-bill post for BSNL and Bharti Airtel bill payments.

Q9 Describe various types of insurance and examine the nature of risks protected by each type of insurance.

Life insurance: the insurer pays a sum on the insured's death or at a stated age, protecting dependants against premature death and the insured against reduced earning in old age. It is not indemnity, needs insurable interest at inception, and also serves as saving. Types include whole life, endowment, joint life, annuity and children's endowment policies. Fire insurance: covers loss or damage by accidental fire up to the policy amount, usually for one year. It is strictly indemnity, needs insurable interest at policy time and at loss, and requires fire as the proximate cause. Marine insurance: covers perils of the sea, namely collision, piracy, fire and actions of the crew, for ship (hull), cargo and freight. It is indemnity, needs insurable interest at the time of loss, and applies causa proxima. Other types: health (medical costs), motor vehicle (liability to others), burglary (theft of household goods), cattle (death of animals), crop (failure through drought or flood), sports, and education and women-welfare policies.

Q10 Explain in detail the warehousing services.

Warehouses were once static storage units, but today they are logistical service providers that supply the right quantity, at the right place, time, form and cost, using automation such as conveyors, computer-operated cranes and management software. Types: (i) Private warehouses: owned or leased by a company for its own goods, giving control and flexibility. (ii) Public warehouses: licensed by government and open to anyone for a fee; the owner acts as the owner's agent, and small manufacturers benefit from no fixed cost. (iii) Bonded warehouses: licensed to hold imported goods until customs duty is paid, allowing duty in instalments and entrepot trade. (iv) Government warehouses: owned and managed by the government, e.g., Food Corporation of India and Central Warehousing Corporation. (v) Cooperative warehouses: set up by cooperative societies for their members. Functions include consolidation, breaking bulk, stock piling, value added services, price stabilisation and financing.