CHAPTER 1

INTRODUCTION

1.1 Advertising – An overview

Advertising is a form of communication that typically attempts to persuade potential customers to purchase or to consume more of a particular brand of product or service. Many advertisements are designed to generate increased consumption of the products and services through the creation and reinforcement of "brand image" and "brand loyalty". For these purposes, advertisements sometimes embed their persuasive message with factual information. All the major media is used to deliver these messages, including television, radio, cinema, magazines, newspapers, internet and billboards. Advertising is often placed by an advertising agency on behalf of a company or other organization.

Advertising can be seen as necessary for economic growth, it is not without social costs. Advertising is an inescapable part of our lives and very much involved in the rapidly changing technology of the world. It has been with the mankind ever since the trading began, in one form or the other. It is a non-personal, paid form of communicating a message through the use of various media. It is persuasive, informative, motivating, and designed to influence the buying behaviour or thought processes.

It is one of the forms of promotion mix and is delivered through selected media that require the marketer to pay for the message placement. Advertising is a method of mass promotion as a single message can reach a large number of people. However, this mass promotion approach presents problems since many exposed to an advertising message may not be within the marketer’s target market, and thus, may be an inefficient use of promotional funds. This is somehow changing as new advertising technologies and the emergence of new media channels offer more options for targeted advertising. It is also a commercial solicitation designed to sell some commodity or service.

From most of the definitions of advertising, it can be said that advertising is:-

- non-personal communication
- usually paid for
- persuasive is nature
- done by identified sponsors
- undertaken through various media
Any company or marketer is interested in reaching a large number of buyers so that optimum sales are achieved. The best way to reach the mass market is through mass communication and advertising becomes one of the means of mass communication. Advertising is perhaps a best known mass communication channel. However, one important thing to be noted is that advertising, by itself cannot sell the product. It cannot sell products of poor quality, products which are too costly or even products that do not come up to the expectations of the consumers. Advertising only helps in selling.

Advertising is an important process of product promotions and it is also the most important criteria that build up the awareness of the product among the consumers.

1.1.1 Need for advertising

1. Advertising is the most economical method by which a company can communicate with the audience to sell a product or promote a social welfare cause.
2. It enables the consumers to compare and choose the best option from the products & services available. Advertising enables the consumer to exercise their right of free choice.
3. Advertising improves economics of scale as it stimulates buyers and lead to higher production, thus generating more employment too. It also leads to higher distribution and helps stability in the prices.
4. Advertising being an essential means of communication is an integral part of free speech. Any restriction on the advertiser’s right to promote and recommend legitimate goods, services or ideas in public domain will dismiss the fundamental right of speech.
5. Advertising is an event of and integral part of the marketing system. The marketing functions cannot be performed unless information, features are conveyed to the prospective buyers through various media. The advertising and marketing are the key tools for a company as well as economy’s growth.

Advertising has become a very important part of present day scenario. The communication of information of vast number of goods and services is not possible without advertising. The changing consumer behavior and the emerging lifestyle call for regular flow of information to consumers by way of advertisements. The contribution of advertising to the promotion of savings and investments cannot be undermined. Advertising techniques and approaches are also being very effectively used for the promotion of a number of social causes like health care, safe driving, conservation of water etc. The advertisers must ensure to follow certain norms of quality and maintain standards while issuing advertisements. It is very important
that both the advertisers and the advertising agencies have a basic concern for consumer taste and acceptance and are willing to abide by the discipline of self regulation.

1.1.2 History of Advertising

Historically papyrus was used to make sales messages and wall posters. Commercial messages and political campaign displays have been found in the ruins of many ancient civilizations where lost and found advertising on papyrus was common. Wall or rock painting for commercial advertising was another manifestation of an ancient advertising form, which is present to this day. The tradition of wall paintings can be traced back to Indian rock art paintings that date back to 4000 BC.

As the towns and cities began to grow and the general population was unable to read, the traders would use an image associated with their trade to display their services. Fruits and vegetables were sold in the city squares from the backs of carts and wagons and their proprietors used street callers or town criers to announce their whereabouts for the convenience of the customers.

As education became an apparent need and reading as well as printing developed, advertising expanded to include handbills. These early print advertisements were used mainly to promote books and newspapers, which became increasingly affordable with advances in the printing press. However, false advertising and so-called "quack" advertisements became a problem, which ushered in the regulation of advertising content.

Marketing through the Internet opened new frontiers for advertisers and contributed to the "dot-com" boom of the 1990s. At the turn of the 21st century, a number of websites including the search engine Google, started a change in online advertising by emphasizing contextually relevant modest advertisements intended to help, rather than inundate the users. This has led to a plethora of similar efforts and an increasing trend of interactive advertising.

A recent advertising innovation is "guerrilla marketing", which involve unusual approaches such as staged encounters in public places, give aways of products such as cars that are covered with brand messages and interactive advertising where the viewer can respond to become part of the advertising message. This reflects an increasing trend of interactive and "embedded" advertisements, such as via product placement, having consumers vote through text messages and various innovations utilizing social network services.
1.1.3 Advertising situations

The following are the situations in which the advertising may be required:

- Up-gradation of a product.
- Launching a new product.
- Products with market gaps
- Special offers
- New applications, usage or benefits of a product.
- Technology and other inputs
- Seasonal products
- Institutional advertising
- Distribution and services information
- Raising capital
- Competition
- Change in brand name
- Change in rules
- Recruitment
- Contests and rewards.

1.1.4 Features of advertising

Advertising has the following unique characteristics:

1. Paid form:- It is a paid form of communication. The sponsor / company has to bear the expenses of communicating with the prospective audience. Any media has to be used for conveying the message and the advertisers have to pay for the space and time booked.

2. Impersonal in nature:- Advertising is a one-way communication with a wide audience and there is no one-to-one communication. That’s why advertising is a impersonal form of communication. Here, the audience is not necessarily required to pay personal attention and respond to the advertising message.

3. Pervasiveness: - It is pervasive form of communication. It enables a marketer to establish communication with a large customer base. The marketer can also decide to repeat the message as per the need. Thus, continuous communication with the prospective consumer is possible.
4. Identified sponsor:- Advertising is undertaken by some identified individual or a company. The advertiser or the marketer is the only one party which makes advertising efforts and also benefits from it.

1.1.5 Process of Advertising

Advertising is a process of informing and influencing the general public to buy products and services through visual or oral messages. It helps in creating demand, promote marketing system and boost economic growth. As a part of marketing, it is also a management function. Most of the critical processes of advertising management are generally outsourced to specialized advertising agencies.

The major objective of advertising is to inform, persuade and remind. It gives an opportunity to the people to make informed choices, by highlighting the various aspects of the products or the services. It also enhances the competitive spirit among the producers of similar products. The purpose of advertising is also to build identity or also brand recall to increase the sales of the products or services.

1.1.6 Benefits of advertising to the advertisers

The advertising provides the following benefits to the advertisers:-

1. The manufacturer can introduce new ideas and products
2. Being a form of mass communication, it establishes a link between the manufacturers and the consumer. A company reaches a vast number of prospective consumers, makes his produce known to them.
3. It expands market share, profitability and reduce prices.
4. Keeps the consumers informed about styles, features, sizes, colors, prices, usage and instructions about products and services.
5. Product adoption process becomes smooth and also builds up corporate identity.
6. For a marketer advertising conveys information, persuades and reminds consumers.

1.1.7 Benefits of advertising to consumers

1. Creates willingness in the minds of consumer to consider buying the advertised product.
2. Guides the consumer in making product choices as he gets all information about features, design of the products and also the prices.
3. Makes aware of many socially relevant causes like social forestry, pulse polio, energy and water conservation.
4. Educates consumers about various aspects.
5. Saves time for the consumer, improve standard of living and provide cost benefit information.

1.1.8 Advertising in India

The Indian advertising industry has evolved from being a small-scale business to a full-fledged industry. It has emerged as one of the major industries and tertiary sectors and has broadened its horizons in the creative aspects, the capital employed and the number of personnel involved. Indian advertising industry in a very little time has carved a niche for itself and placed itself on the global map.

The creative minds that the Indian advertising industry incorporates have come up with some mind-boggling concepts and work that can be termed as masterpieces in the field of advertising. Advertising agencies in the country too have taken a leap. They have come a long way from being small and medium sized industries to becoming well known brands in the business. Mudra, Ogilvy and Mather (O&M), Rediffussion, Leo Burnett are some of the top agencies of the country.

The silver jubilee of the advertising club of Bombay was celebrated in March, 1980. Indian advertising today has grown to its maturity and has also become highly professional. There are advertising clubs in each of the major metropolitan cities and about 500 advertising agencies.

The advertising business in India has shown remarkable growth due to phenomenal growth of media – TV, radio, cinema, large number of new products as a result of liberalization and opening of Indian economy, rapid growth in the number of newspapers, magazines, internet etc. It is said that advertising in India has tremendously improved in the last 4-5 decades in terms of technical excellence, particularly graphics and copy but has not made much progress in terms of relating to the consumer. In India the rules pertaining to advertising are very lax. There are no regulatory bodies to monitor TV advertisements.

Sometimes the Ministry of Information & Broadcasting decides to intervene whenever it may feel like. However, there are only voluntary groups working as business organizations like Advertising Agencies Association of India and the Advertising Standards Council of India, which can only put moral pressure on advertisers and companies to withdraw objectionable advertisements.
Indian economy is on a boom and the market is on a continuous trail of expansion. Businesses are looking up to advertising as a tool to cash in on lucrative business opportunities. Growth in business has led to a consecutive boom in the advertising industry as well.

The Indian advertising today handles both national and international projects. This is primarily because of the reason that the industry offers a host of functions to its clients that include everything from start to finish that include client servicing, media planning, media buying, creative conceptualization, pre and post campaign analysis, market research, branding, and public relation services. Keeping in mind the current pace at which the Indian advertising industry is moving, the industry is expected to witness a major boom in the times ahead. The industry in the coming times will form a major contribution to the GDP.

The following graph gives the details of advertising expenditure in India:

Graph 1.1

![Advertising Expenditure per Medium, India](http://www.zenithoptimedia.com/publications/forecasts/)

Source: http://www.zenithoptimedia.com/publications/forecasts/

1.1.9 Differentiating advertising from other forms of promotion methods

Advertising comes in so many forms and carries out so many different tasks that the common factors may not be obvious. They are, however, very simple. Advertising distinguishes itself from other forms of promotional activities like sales promotion, direct marketing and personal selling.

The sales promotion describes promotional methods, using special short-term techniques to persuade members of a target market to respond or undertake certain activity. The main purpose of sales promotion activities is to encourage and persuade the consumers to buy a particular product. It consists of a diverse collection of incentive tools, mostly short term,
designed to stimulate quicker or greater purchase of particular products or services by consumers.

The direct marketing deals with a particular individual and leads to a one-to-one relationship. The basic features of direct marketing are a definite offer to the consumer and providing all the necessary information to make a decision. The mechanism for direct marketing options include sales letters, catalogues, tele-marketing, home visits, Internet etc.

The personal selling is the face-to-face interaction with one or more prospects / purchasers for the purpose of making sales. This normally takes place in the retail outlets for a vast variety of products.

Advertising presents a totally controllable message. Since the advertiser pays for the space (in newspapers, magazines, posters) or the time (Radio and TV) in which his advertisement appears, he has the right to insist on his message appearing exactly as he chooses, when he chooses and how he chooses, subject to certain level in place. An advertisement can be transmitted for as many times as the advertiser is prepared to pay. Advertising delivers messages to large number of people at low cost per ‘contact’. Sending someone to seekout a prospective customer in order to talk to them personally is very expensive. We may not even know whom to talk to because we do not know precisely who will be interested in our message. Advertising is a fast method of communicating with many people at the same time. Using a sales team to call personally or by telephone a large number of people, will take a long time. Even with such methods as letters posted or delivered directly to households, it is not easy to achieve a simultaneous delivery. Advertising can achieve this, often at short notice, through, for example, Radio & TV.

1.1.10 Objectives of advertising

The basic objectives of advertising for most of the companies are to provide awareness, give reminders, information and ultimately aim to achieve higher sales. Advertising can actually do a great many things. The range of situations in which it may be used is very wide and for each situation there is a variety of different strategies and different media.

Broadbent ¹ (1997), suggests that advertising is still run differently (that is, from other corporate expenditures). It is hardly understood by many who pay for it, its objectives are set in communication terms, its budget is subject to whims; no one is too sure about the real returns and so advertising budget recommendations are not much trusted.

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D’ Souza ² (1989), suggests that in most advertising strategies there will be a section on campaign objectives. Invariably it will include some of these tasks:

- Make an impact.
- Create awareness.
- Communicate messages.
- Evoke an immediate response.
- Create favourable impressions.
- Remind consumers.
- Fulfill needs.
- Change perceptions (mental repositioning or overcome prejudice).
- Reinforce attitudes.
- Consolidate a position.
- Enthusie the staff and the trade.
- Encourage Trial.

1.1.11 Role of Advertising

Advertising helps both, the advertiser and also the consumers who are exposed to it. Therefore, the role of advertising is:-

1. Persuasion of consumers – advertising persuades the prospective buyers to buy the products and services. This may bring more sales to the company. The persuasive content should be an important part of the advertised message.

2. Communication with consumers – as the economy grows, multiple players exist for manufacturing various products and services and wide variety of products get produced and providing information about all these to the prospective consumers become very significant. Advertising is a major way of communicating by the advertisers with the consumers. It is a reminder to the existing buyers and also aims at developing new customers.

3. Change catalyst – Many of the advertising messages have an inherent element of creativity which helps in changing the perception of the prospective buyers. If the

advertisements are original innovative and imaginative, it will have an eventual effect on the consumers and the standard of living may go up. The contribution of advertising in bringing about a change is of special relevance in the developing countries.

4. Contribution to economic growth. – Advertising helps in contributing to the economic growth by helping to expand the market, especially for the new products and also by helping to develop new market segments. Any company developing new innovative products as part of their R & D activities, has to depend a great deal on advertising for establishing the market for such products. Advertising acts as a motivating factor for many new users to make more efforts to increase their purchasing power to afford to buy certain new products. As such advertising can also be termed as a force to increase demand for many products.

1.1.12 Strengths of advertising

Advertising is one of the major tools to create awareness among prospective buyers, remind the consumers and help improving the sales. Advertising has to justify its place in the promotional mix and also in the marketing mix. As it always involve budgetary considerations, its contribution to the overall growth of the company is of paramount importance.

Kotler ³ (1976), suggests that advertising has the following particular distinctive qualities, especially when it comes to brand and institutional advertising: -

Public Presentation:- Advertising is a highly public mode of communication. Its public nature confers a kind of legitimacy to the product and also suggests a standardized offering. Because many persons receive the same message, buyers know that their motive for purchasing the product will be publicly understood.

Pervasiveness:- Advertising in a pervasive medium that permits the seller to repeat his messages many times. It also allows the buyer to receive and compare the messages of various competitors. Large scale advertising by a seller says something positive about the seller’s size, popularity and success.

Amplified Expressiveness:- Advertising provides opportunities for dramatizing the company and its products through the artful use of print, sound and colour.

Impersonality:- Advertising inspite of being public, pervasive and expressive, cannot be as compelling as a personal salesman. The audience does not feel obligated to pay attention or respond. Advertising is only able to carry on a monologue, not a dialogue, with the audience.

1.1.13 Limitations of Advertising

The limitations of advertising are as follows:

1) Lacks focused approach to meet individual customer needs and wants
2) Targets all the audience
3) Advertising campaign approach cannot be standardised
4) Non-affordability of cost factor for small and medium companies to use advertising.
5) Inability to provide deep insights about a product or service.

1.1.14 Types of advertising

Advertising has its ability to deliver messages cheaply and effectively. It is very widely used in many different ways. Some types of advertising are as follows:-

Personal Advertising

Many people buy space in the local newspapers to sell their car or the furniture they no longer need, change their names, to announce the birth of their baby or their daughter’s engagement.

Classified Advertising

A high proportion of advertising space in regional and local newspapers especially, is concerned with jobs, tender and property. The term ‘classified advertising’ (or sometimes ‘small ads’) is used to distinguish this type of advertising – usually classified under various headings.

Manufacturer’s consumer advertising

This is the most common type of advertising people mainly associate the term advertising with. It includes much of the glossy, high-spending repetitive advertising on television and newspapers. It is the way in which large manufacturers communicate directly with their customers (as distinct from the wholesalers, retailers, etc. to whom they sell directly and from whom the end user ultimately buys). This advertising is normally for food, shoes, clothing, cars, household goods, toiletries and leisure goods etc.
Services advertising

In the past few years there has been a huge increase in expenditure on the advertising of ‘services’ or ‘intangibles’. In particular, hospitals, software companies, cell phone service providers advertise in a proactive approach to the marketplace. Educational institutions, Multiplexes and travel cos. also spend significant sums on such advertising.

Retailer advertising

For many decades, leading manufacturers dominated the marketing scene with their branded and heavily advertised products. Retailers were happy to keep these goods in their stores. With the growth of large retail chains however, this situation has changed. More and more retailers are developing their ‘Private label’ brands and are themselves advertising heavily. The customer loyalty is increasing to retailers rather than manufacturers, like Big Bazaar, Reliance Fresh, Shoppers Stop etc.

Trade advertising

The manufacturers (including suppliers of services, ) also use advertising to communicate with the wholesalers, retailers, etc. who are their immediate customers. They use advertising in the trade Journals and specialist publications for groups like grocers, chemists and travel agents. These people need to be informed of new products, price changes, etc. and to be persuaded to deal with one supplier than another. Because the publications have low-circulation, this does not represent a high volume of expenditure.

Industrial (business-to-business) advertising

One very important type of advertising is seen only by much smaller groups of people and appears mainly in much more specialised media. It is industrial advertising also known as ‘business-to-business’ advertising. It includes the advertising of goods and services for commerce, industry, government and other institutions. The customers here are executives or officials, taking collective, rather than individual decisions to purchase items like factory machines, office equipment and vehicles or bulk supplies of stationery, raw materials and components.

Corporate advertising

A substantial proportion of the advertising carried out by companies is not designed directly to promote products. Rather it aims at encouraging people to have a clear understanding of what the company stands for – its ‘corporate image’ as it is often called.
Many major companies, including TATA, Reliance, Godrej & Birla promote the company name in such a way that all of their products benefit from the values attached to their ‘corporate identity’.

**Outdoor Advertising**

The outdoor advertising is an important way of providing communication. It can be stationary like hoardings, billboards or can be mobile as panel on buses and trains. The message carried by most outdoor media is brief as the exposure duration is short. The content of the message and the layout has to be designed accordingly. Normally, outdoor media may create awareness about the brand name or just one or two features of the product or service. Very often outdoor advertising is more used as a reminder.

The outdoor media has certain advantages. They are less expensive than other mass media. The cost may vary as per the location. The traffic density may provide more mileage.

**Financial and savings advertising**

The banks, insurance companies and Mutual funds advertise their services and schemes. They provide information about their schemes under regulatory supervision. The Companies also publish their annual reports.

The bank deposits and post office schemes in India do not need much advertising as they provide guaranteed pre-determined returns and the products offered are simple. As the products/schemes offered by Mutual fund companies are complex and their pooled money also gets deployed in capital market instruments, the need for advertising is felt more and information gets transmitted to the prospective investors. In India, UTI was the first Mutual fund to operate from 1963 and it started advertising for its schemes/policies to explain the concept of investing in a scheme of a financial institution and motivate the investors to come forward and invest their savings in its schemes. All other Mutual funds which followed UTI also started advertising their products regularly to attract investors about their features and scheme performance.

**Charity and educational advertising**

Many religious and charitable Institutions, Universities and also NGOs advertise for promoting their courses, services concept for the social good, thus helping many people to get information they need for their specific needs.
**Cause advertising**

Many times, the advertising is used to promote causes (sometimes referred to as advocacy advertising). Advertising is used to seek support for preventing the destruction of wildlife, Pulse Polio Programme and for many other campaigns to marshal public support for a particular cause.

**Celebrity Advertising**

This type of advertising focuses upon using celebrity power, fame, money, popularity to gain recognition for their products and promote specific stores or products. Advertisers often advertise their products, for example, when celebrities share their favourite products or wear clothes by specific brands or designers. The celebrities are often involved in advertising campaigns such as television or print adverts to advertise specific or general products e.g. Aamir Khan for Samsung cell phones, M.S. Dhoni for Aircel etc.

**1.1.15 Modern approach of Advertising**

Newer media are overtaking television because of a shift towards consumer's usage of the Internet as well as other devices.

E-mail advertising is one of the recent phenomenon. Unsolicited bulk E-mail advertising is known as "spam". As the mobile phones became a new mass media in mid 90s, it has become a very popular media for advertising. We get messages from construction companies for their house property selling and from banks for their home loan schemes on our cell phones. A new form of advertising that is growing rapidly is social network advertising. It is online advertising with a focus on social networking sites. Initially being a relatively immature market, it has shown a lot of promise as advertisers are able to take advantage of the demographic information the user has provided to the social networking sites.

**1.1.16 The parties to advertising**

There is a multiplicity of participants in an advertising campaign. It is a collaborative process, broadly among three key players:-

1. **The advertiser**, who commissions advertising, controls it, uses it and pays for it.

2. **The advertising agency**, which provides a specialist consultancy and planning service and which implements the programme once the client has authorised it.
3. **The media**, which provides the space or time and enables the process of communication to take place.

The advertising process broadly is a three-sided triangle. Besides there is a range of suppliers of many specialised services without which advertising implementation cannot take place. Some other important services involved in advertising process are press production, artwork, typesetting, TV production, filming, recording, writing, music, animating, radio production, stand fitting, transportation and servicing, direct mail planning, printing, literature production, research into advertising effectiveness.

**1.1.17 Advertising strategies**

Any advertising strategy will have two aspects – message and media strategy. The message so made should fulfill the requirements of the objective, should be easily understood and should stand out from the competition. It can have any of the audio, visual or written aspects. The idea should be to create a recall for the consumers. The media strategy relates to the appropriate media to be used. Two important factors here are cost and the reach. An advertisement should have a trade-off between the two. The other related factors for choosing the media are target audience, visibility, impact etc. A mix of various media types is also desirable. It has also to be kept in mind that advertisement is not a onetime affair, it has to be repeated over specified periods. The media strategy will take care of all such issues. Advertising is both science and an art. It is termed as science as it has set goals, strategies are made, choice made among different creative styles. Lot of information needs to be collected to make the core advertising strategy. After finalizing the message strategy and the broad creative approach, the actual advertising is created, which is a very unique process. At this stage the best approach is divergent thinking-meaning letting loose your wild imagination to find out the most creative unexpected unique way to communicate the advertising message. This is an art. A lot of new talent is required to be shown in developing a new advertisement. The creativity is more than the logical analysis.

**1.1.18 Advantages and disadvantages of various advertising media**

The Table below compares various media used in advertising with their distinctive advantages and disadvantages:-
Table 1.1: Advantages and disadvantages of various advertising media

<table>
<thead>
<tr>
<th>S. No</th>
<th>Media</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Television</td>
<td>Reaches a very wide audience…</td>
<td>…but unselectively (although an increasing number of channels, inducing cable etc. modifies this slightly).</td>
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<tr>
<td></td>
<td></td>
<td>Sight, sound and colour gives dramatic possibilities.</td>
<td>Expensive both for time and film production.</td>
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<td></td>
<td></td>
<td>Can be used regionally (various languages).</td>
<td>30 seconds peak spot across the network costs very heavily.</td>
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<td>2</td>
<td>Press</td>
<td>Message received at home in a relaxed atmosphere.</td>
<td>Message at times may be lengthy.</td>
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<td></td>
<td></td>
<td>High national coverage…</td>
<td>… but needs more than one paper to achieve it.</td>
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<td></td>
<td></td>
<td>Authoritative editorial atmosphere.</td>
<td>Mainly black and white only, little drama.</td>
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<tr>
<td></td>
<td></td>
<td>Can cope well with detailed information</td>
<td>Demonstration of product very difficult.</td>
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<tr>
<td></td>
<td></td>
<td>Messages carry urgency…</td>
<td>… but are read in a hurry (not quite so true of the Sundays).</td>
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<td>3.</td>
<td>Local/Regional Newspapers</td>
<td>Strong reader loyalty</td>
<td>Multiple titles in India, so complex / expensive to use on a wide scale.</td>
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<td></td>
<td></td>
<td>High coverage within specific areas</td>
<td>Generally poor readership data.</td>
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<tr>
<td></td>
<td></td>
<td>regional flexibility</td>
<td>high production costs.</td>
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<tr>
<td>4.</td>
<td>Magazines</td>
<td>Selective readerships</td>
<td>Reading may be spread over weeks/months.</td>
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<td></td>
<td></td>
<td>Reader involvement (especially in ‘enthusiast’ publications) is good</td>
<td>Long copy and cancellation dates.</td>
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<tr>
<td>5.</td>
<td>Outdoor (Posters and Hoardings)</td>
<td>Low cost</td>
<td>High printing costs (but acceptable if used on a big scale).</td>
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<td></td>
<td></td>
<td>High coverage and Big posters give high impact.</td>
<td>Long booking and cancellation lead times.</td>
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<td></td>
<td></td>
<td>Sites can be booked very flexibly.</td>
<td>Poor audience research.</td>
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<td>6.</td>
<td>Radio</td>
<td>Local area coverage with high number of listeners.</td>
<td>Expensive as national medium</td>
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<td></td>
<td></td>
<td>Impact and immediacy(Direct impact)</td>
<td>Relatively small audiences (as percentage of population)</td>
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<td></td>
<td>Speed of appearance (short lead times)</td>
<td>Audience may not listen intently but use as ‘audio wallpaper’.</td>
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<tr>
<td>7.</td>
<td><strong>Cinema</strong></td>
<td>Selective local coverage</td>
<td>High production costs (many copies of films have to be made as well as original).</td>
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<tr>
<td></td>
<td>Impact of big screen with sound, movement and colour.</td>
<td>Slow build-up of audience because attendance is low and infrequent.</td>
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<td>8.</td>
<td><strong>Electronic media/internet</strong></td>
<td>Principally sight, but with sound and some colour movement dramatic possibilities are developing</td>
<td>Generally poor viewership data.</td>
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<td></td>
<td>Interactive medium permits direct response.</td>
<td>Consumer confidence in security low but improving.</td>
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<td></td>
<td>Able to track audience movements through the media.</td>
<td>Not a mainstream media with broad customer appeal; but developing.</td>
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<tr>
<td></td>
<td>Message permanent and can be down-loaded by audience (i.e. screen-savers, text, etc.)</td>
<td>Speed of movement though the media depends on sophistication of technological link.</td>
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<td></td>
<td>No universal computing language yet agreed-material written in Java Script may not be read by systems written in the more universal html.</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** John Wilmshurst & Adrian Mackay, 11nd edition, 1999, The fundamentals of Advertising, Butterworth, Heinemann, Page- 112-114

It is quite difficult to define a good advertising. The short but unhelpful answer is ‘one that communicates the necessary message effectively.’ It is unhelpful because there are often many difficult ways of achieving the end results. This means it is very difficult to produce good advertising ideas ‘by the rule book’.

White ⁴ (1993), suggests some rules for a good advertisement. Every advertisement should embody a clear, straightforward proposition. Say what you have to say in as few words as possible. There is no place for humour in advertising. Give the customer credit for some intelligence.

**1.1.19 Ethics of advertising**

It is very important to have ethics in advertisements as these are addressed to masses. The advertisement should not be obscene or indecent. Issues are also raised when advertisements use children. The advertisers must note that they cannot be unethical while releasing their advertisements as they are also part of the same society which uses their products.

The advertisements should not provide false information about the products. There should not be any endorsements which are misleading. Certain code of ethical behavior must be followed, failing which credibility of the product, brand will be lost. Ethical advertisements will make strong goodwill and reputation for company’s products in the long run.

Advertising is a purposeful communication to achieve specific objectives. The target audiences must be kept in mind while designing such communication. However, the coverage of advertising does not remain confined to such target groups alone. The advertising activities make the job of the sales personnel less difficult and more efficient as it creates consumer pull towards the goods and services. The sales personnel themselves are one audience for company's advertising. These employees should be fully conversant with advertising content and the programmes. It is desirable on the part of the companies to take sales people into confidence while designing new advertising plans and strategies. They should also be given a preview of the company’s advertisements.

Advertisement is a powerful marketing tool, a form of mass communication, a field of employment and also a profession. It involves communication with the public about a product or a service through a medium. It could be print, electronic or any other media.

An advertisement is a form of persuasive communication with the people. It is normally one sided from the advertisers to the public. The public is free to respond to advertisements in their own way. However, with the rapid advancements in the sector of information technology, the new concept of interactive advertisements have started through the internet revolution.

1.1.20 Characteristics of the advertisement

An advertising copy is considered as good when it helps in achieving the advertising objectives. The advertisement should be able to sell the message to the target audience and help them to take the purchase decisions. Some qualities / values required in a good advertisement copy are:-

1. Attention value – It should draw the attention of the audience through attractive presentations of message with attractive headlines.

2. Conviction value – It should convince the target audience with proper approach and arguments, more importantly for expensive items.

3. Sentiment value – The advertisements having sentimental approach have an edge. The sentiments related to culture, traditions, national heritage become more appealing.
4. Memorising value – The message should be such that the prospective buyers should be able to keep the message and the brand name in their memory to take the purchase decisions after a while, if needed.

5. Educati

6. Emotional appeal value – The advertisements with different types of emotional appeals have special advantages. The presence of emotional touch motivates the audience in a very subtle manner and help in achieving advertising objectives.

1.1.21 Impact of advertisements on investors

Advertising is multi-faceted. To be effective, advertising programmes for investment products and schemes need to be specific in their goals and specific in their means. The advertising impacts & influences the investor in the following areas:-

1. **To create awareness** – It helps to make things known about the financial instruments. On the whole, people do not deal with things they have never heard.

2. **To create or develop favourable attitudes** – It helps to foster a positive view of the product/schemes.

3. **To develop a brand identity** – Advertising helps identify a product with a special image or characteristic.

4. **To position a product in a market** – where a market is segmented, advertising helps positioning a product within a segment and identify with it. Bank deposits, insurance policies, growth & income schemes of Mutual fund occupy different segments. Their communication through advertisement reflects this.

5. **To persuade** – Advertising puts up a case for the investor to be interested in the scheme or policy.

6. **To create demand** – The Communication by way of advertising makes the product/schemes seem desirable, worthwhile and attainable.

7. **To build up enquiries** – Often advertising is a bridge between the product and a sales call. Its function is to obtain enquiries for a sales call.
8. **To support distributors** – where there is a distributive chain, the distributor may require reinforcement in the local marketplace. Advertising is one of the forces that can supply this.

9. **To launch new products** – advertising is a key weapon to launch new and modified schemes for the prospective investors.

10. **To offset competition** – As markets grow so usually does competition. Advertising helps in tackling the competition from other players. In an increasingly competitive world, the companies must advertise to protect themselves against primary competition and sometimes against other categories of product too.

11. **To help provide a point of difference** – The brand needs a difference, a unique personality, a point of interest, a feature which will differentiate it from a multitude of others. Brands sell differences or their USPs. These can be powerfully conveyed through advertising.

12. **To help reach people** – In some cases, an organization may need to reach an important contact group but finds it cannot do so directly, not effectively or economically. But it may do so with advertising. The TV advertisements of LIC’s Jeevan Anand Policy and LIC’s new policy Jeevan Ankur in newspapers carry the information to very large number of people in India.

### 1.2 Effectiveness of Advertisements

The impact of advertising has been a matter of considerable debate and many different claims have been made in different contexts. According to many sources, the past experience and state of mind of the person subjected to advertising, may determine the impact that advertising has. Children under the age of four / five may be unable to distinguish, advertising from other television programmes, while the ability to determine the truthfulness of the message may not be developed until the age of eight.

Over the past few years, a whole science of marketing analytics and marketing effectiveness has been developed to determine the impact of marketing actions on consumers, sales, profit and market share. Marketing mix modeling, direct response measurement and other techniques are included in this science.

Advertisements frequently emphasize salient attributes of products so that people's beliefs about these attributes will change. It is commonly accepted that changes in
beliefs lead to changes in attitude. Substantial evidence suggests that advertising can affect unattached elements as well. An audience may infer beliefs about aspects of a product not mentioned in the advertisement. Thus, communication messages about one attribute can influence beliefs about other attributes. That is, advertisements can have indirect effects on attitudinal elements.

Advertisers frequently use endorsers or spokespersons as credible sources to influence consumers' attitudes and purchase intentions. The corporate credibility—the reputation of a company for honesty and expertise is another type of source credibility that can influence consumer reactions to advertisements and shape brand attitudes.

The aim of advertising is either increase in sales or building brand. The aim of most companies, while doing advertising is to track the impact on sales. Measuring advertising effectiveness is not easy. Sometimes, the results of measuring are just better guesses. There are dramatic differences in the effectiveness of various forms of advertising.

Rana (2011), says that it is not that the advertisers or their sponsors are there to throw millions of rupees down the drain without getting any return on it. They do want to know if the money they have spent on advertising has really made a difference to their brand value or boosted their sales. What prevents them from knowing this is the complexity of the process of measuring advertising effectiveness as much as their willingness to fork out additional money on researching this expenditure. For one, it is very difficult to identify the factor which has actuated a prospect to purchase a product advertised. Similarly, it is equally difficult to determine if the prospect has not purchased the product advertised because he/she found the advertising ineffective. There could be many other factors for the purchasing decision such as ability to pay, availability of stocks, weather conditions, competition and other opinion makers. Secondly, because of the high cost involved in collecting and analysing the data of advertising effectiveness from the target audience, many advertisers or their clients may not go for it.

But, with the liberalisation of the economy and the opening of the markets, competition has become stiff in all sectors of the economy. To beat this competition, it is essential for business houses to carve a unique brand image for themselves and their products. This is possible only with effective advertising. As advertising budgets climb sky high, it is equally necessary for advertisers to know that their advertising money is yielding the desired results.

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It may not be possible to assess the impact of advertising on purchasing behaviour of customers, but it is always possible to assess the achievement of the specific objectives of advertising. Measuring advertising effectiveness helps to give concrete feedback to the marketer regarding need for any changes in future. So, advertising research companies are doing brisk business these days in India.

Advertising effectiveness is defined as the degree of change brought about in the level and nature of awareness of the largest number of prospects with regard to a product or a service or an organization. The greater the awareness the greater is the effectiveness of advertising. Likewise, the more favourable the response the greater is the effectiveness of advertising. The quantitative parameter of the number of persons seeing the advertisement is as important as the qualitative parameters.

1.2.1 Measurement of advertising effectiveness

The advertising effectiveness can be measured on both quantitative and qualitative parameters.

A. The quantitative parameters are:

1. No. of viewers

The number of persons who have viewed an advertisement, is important. The greater the number of eye balls attracted to it, the greater would be the breadth of its impact. The marketing research companies keep tabs on the viewership and readership figures of print media and audio-visual media to know the number of persons to whom the advertisements might have been exposed.

2. Time spent

The amount of time spent by a prospect on the advertising message is another parameter. In general, there are four responses of the audience to a communication message – selective exposure, selective perception, selective understanding and selective retention. Based on these four responses, one can identify the effectiveness of an advertisement. However, as these are qualitative responses, they have to be quantified in terms of the time spent. A short duration of less than a minute may indicate the rejection of the message. A time period of one to two minutes may again indicate a mere perception, while the duration more than two minutes may indicate readiness to understand the message. Finally, the retention can neither be measured by time nor be tested by it. The duration of time spent for each of the first three
responses may vary from one media to another. In the case of the electronic media, the duration will be shorter as the messages in it move rapidly, compared to print, where the discretion to view is solely that of the reader.

B. The major qualitative parameters are as follows:

1. Ad recall
   It is normally tested by way of a question in a questionnaire. The prospects are asked to answer questions about the advertisements that have appeared in a particular period of time over print/electronic media to test the degree to which the advertisement has been able to register on their minds. The simple questions about the punch line and general details show an effort on the part of the prospect to engage with the message of the advertisement. The complex questions that seek answers at the analytical level are designed to test the depth of understanding.

2. Brand awareness
   The purpose of all advertising is to seek the support of the potential customers for the organization or its brand. This can be achieved only if the target customer is aware of the brand and its competitors in the market. Thus, all advertising messages seek to enhance brand awareness in the minds of the potential customers. While ad recall measures the ability of the prospect to remember the advertisement, brand awareness measures the actual gain in terms of the interest created in a brand. The brand awareness is measured by taking the following two variables into account:

   a. Advertiser identification
   b. Previous knowledge.

   Advertiser identification tests how far the viewer/reader can identify the brand. But, it would be an exaggeration to attribute advertiser identification to the present advertising campaign only. It could partly or wholly result from the previous knowledge as well. In other words, a prospect may know about the brand even before the current campaign was launched. Thus, while assessing advertising effectiveness, it is necessary to find out from the prospect if he/she had prior knowledge of the brand.
3. Appeal

Apart from measuring the enhancement of brand awareness, it is essential to assess the kind of appeal that the advertising campaign had on the prospects. An advertisement may have the following kinds of appeals on the viewers/readers:

a. Directed to me

It is the strongest appeal. When the viewer/reader feels that the ad is directed to him/her, it tends to have the strongest impact. It could be achieved with appropriate visuals and/or texts that speak directly to the audience.

b. Interesting

When the prospect finds the advertisement interesting, he/she can be expected to pay full attention to its content.

c. New Information

When the prospect feels that he/she is getting some new information about a product or a service, the advertisements can be considered to have achieved its goal of leaving an impact on the mind of the viewer/reader. Thus, it is much more powerful an appeal than that of ‘interesting’ also.

d. Easy to understand

It tells whether the information given in the advertisements is easy to understand or not. The understanding is a very important component of any communication process. If an advertisement facilitates comprehension, it can be more effective.

e. Positive attitude

For an advertisement to be effective, it is essential that it should not simply have all the above appeals but also the ability to create a positive attitude towards the product/service/organization advertised. This appeal qualifies to be the most important one for advertising effectiveness and all advertisers work for it.

4. Benefit

One of the parameters for judging the effectiveness of an advertisement is the benefit that prospects expect to derive. Even if all the appeals are positive, but if the prospects don’t feel that the product or service advertised is going to benefit them in a substantial way, then the entire purpose of advertising is defeated.
5. Usefulness

This parameter measures the actual action that has resulted from the advertisement. It could be either or all of the below mentioned follow-up actions:

a. Look for more information

b. Visit the store

c. Have bought/will buy

The prospect may look for additional information to confirm or refute the information gained from the advertisement. A visit to the store can be made to verify the product personally and get satisfied about the features. Lastly, one could either buy the product or service or decide to buy it in the near future.

1.3 Capital Market & Financial Instruments

A financial market is a mechanism that allows people to easily buy and sell (trade) financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods) and other fungible items of value at low transaction costs and at prices that reflect the efficient-market hypothesis.

Both general markets (where many securities are traded) and specialized markets (where only one security / Instrument is traded) exist. Markets work by placing many interested buyers and sellers in one place, thus making it easier for them to find each other. An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market economy in contrast either to a command economy or to a socialist economy.

The financial markets facilitate:–

- The raising of capital (in the capital markets)
- The transfer of risk (in the derivatives markets)
- International trade (in the currency markets)

The financial markets are used to match those who want capital and those who have it. A borrower issues a receipt to the lender promising to pay back the capital. These receipts are called securities which may be freely bought or sold. The lender expects compensation in the form of interest or dividend.
The history of Indian capital markets goes back 200 years, around the end of the 18th century. The capital market of India initially developed around Mumbai and with around 200 to 250 securities brokers, participating in active trade during the second half of the 19th century. The Indian financial market comprises of the primary market, FDIs, banking and insurance, the pension sectors and also the asset management segment. It is one of the oldest in the world and is one of the fastest growing and best among all the financial markets of the emerging economies.

1.3.1 Scope of the Indian Financial Markets

The financial market in India, at present, is more advanced than many other sectors as it became organized in the 19th century with the setting up of the stock exchanges in Mumbai, Ahmedabad and Kolkata. Today there are 23 regional stock exchanges in India. The Indian financial markets, till 1990s remained stagnant due to the rigid economic controls. It was only in 1991, after the liberalization process that the Indian securities market witnessed a number of capital issues. The market saw many new companies spread across different industry segments and business began to flourish.

The launch of the NSE (National Stock Exchange) and the OTCEI (Over the Counter Exchange of India) in the mid 1990s helped in regulating a smooth and transparent form of securities trading.

The capital markets in India experienced turbulence during early 1990s after which the SEBI came into prominence. The market loopholes had to be bridged by taking drastic measures.

1.3.2 Potential of the Indian financial markets

The Indian financial markets help in promoting the savings of the economy and helping to adopt an effective channel to transmit various financial policies. The Indian financial sector is well-developed, competitive, efficient, integrated and regulated. In the Indian financial markets there are various types of financial products whose prices are determined by the numerous buyers and sellers in the market. The other important factor for the price movement of the financial products, is the market forces of demand and supply.

1.3.3. Types of financial markets

The financial markets can be divided into different sub-types:

- **Capital markets** consisting of Stock markets, which provide financing through the issuance of shares and enable the subsequent trading thereof and the Bond markets, which
provide financing through the issuance of bonds and enable the subsequent trading thereof.

- **Commodity markets** which facilitate the trading of commodities.
- **Money markets** which provide short term debt financing and investment.
- **Derivatives markets** which provide instruments for the management of financial risk and the futures markets which provide standardised forward contracts for trading products at some future date.
- **Insurance markets** which facilitate the redistribution of various risks.
- **Foreign exchange markets**, which facilitate the trading of foreign exchange.

The capital market is the market for securities where companies and governments can raise long-term funds. The capital market includes the stock market, bond market, Government securities market and the derivatives market. In India, the Securities and Exchange Board of India (SEBI) oversees the capital markets to ensure that investors are protected against fraud and unfair practices.

The capital market consists of the primary and secondary markets. The primary markets are where new stock and bond issues are sold to investors. The secondary markets are where existing securities are sold and bought from one investor or speculator to another, usually on an exchange i.e. Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), through a broker.

**1.3.4 Raising capital in the capital markets**

Without financial markets, the borrowers would have difficulty finding lenders themselves. The intermediaries such as banks help in this process. The banks take deposits from those who have money to save. They, then lend money from this pool of deposited money to those who seek to borrow. The banks popularly lend money in the form of loans and mortgages.

A good example of a financial market is a stock exchange. A company can raise money by selling shares to investors and its existing shares can be bought or sold.

**1.3.5 Financial instruments**

In the primary markets, equity and debt are the two basic instruments to raise capital. These financial instruments can be:-
1. **Equity shares**: These give ownership of the company to the holders. They provide permanent capital. They get dividend at the discretion of the Board of Directors. The preference shares entitle the holders for a fixed dividend rate and get preference over the Equity Shareholders to get dividend and the capital in case the company is wound up.

2. **Debentures**: These are also known as Bonds, representing long term debt given by the holders to the company. The rate of interest is specified and is a cost to the company. The convertible debentures have the features of both, a debenture as well as equity. Here a debenture is issued with a feature of being convertible into equity share, after a specified period of time at a given price.

3. **Warrants** – A company may issue equity shares or debentures attached with warrants. The warrants will entitle an investor to buy equity shares after a specified period at a given price.

4. **Derivative instruments** – These are financial instruments which derive their value from the value and characteristics of one or more underlying assets. They can be divided into exchange-traded derivatives and over-the-counter (OTC) derivatives.

5. **Cash instruments** – These are financial instruments whose value is determined directly by the markets. They can be divided into securities which are readily transferable and other cash instruments such as loans and deposits, where both the borrower and the lender have to agree on a transfer.

6. **Money market instruments** – It can be defined as a market for short-term money and financial assets that are near substitutes for money. It is an integral part of the Indian financial system. The money market maintains an equilibrium between the short term demand and supply of money. The short term means a period of upto one year. The near substitutes to money mean any financial asset which can be quickly converted into cash with minimum transaction cost. The lenders in the money market are financial institutions, banks, mutual funds and other corporate entities and borrowers are the entities with deficit funds. The money market is a wholesale market and the volume of funds or financial assets traded are very large. It comes under the purview of RBI. The mutual funds in India, have also launched many money market mutual funds where the amount mobilized from the investors, is invested in money market instruments.

7. **Foreign Exchange Instruments** – These instruments deal with international trade among different countries, including foreign currencies.
Financial Services

Finance is the study of the nature, creation, behaviour, regulation and administration of money. In any country, the financial system consists of financial institutions, financial markets, financial instruments and the services provided by the financial institutions.

Features of financial services

The financial services are different from other services. Their features are as follows:

1. These services are intangible in nature. The institutions who provide such services should have a good image and confidence of the clients. They must try to provide quality and innovative services.
2. This sector is customer driven and in the very first place the needs of the customers/investors have to be understood and identified. This will enable the financial firms to design the products and strategies appropriately.
3. The financial services are produced and supplied simultaneously.
4. These services are perishable in nature and so the demand and supply must be properly balanced.
5. The firm offering financial services should be pro-active to judge and visualise the kind of services in demand and modify in case of need.
6. As the financial services are people intensive the persons offering the services should be properly trained to offer quality service. The constituents of financial services include equity, debt and hybrid instruments, banks, mutual funds, merchant and stock brokers, financial consultants, depositories, credit rating agencies, discount houses, RBI, SEBI, Ministry of Finance’s regulatory wing.

1.4 Mutual Funds

The mutual funds play a significant role in the development of the financial markets. The mutual funds have emerged as strong financial intermediaries and are playing a very significant role in bringing stability to the financial system and efficiency to resource allocation. The mutual funds on one hand help companies to raise funds for their financial needs and on the other hand, provide various schemes of investment to investors to park their savings. All this greatly lead to the overall growth of the economy. The mutual funds promote economic development as their presence is very dominant in capital, money and also savings market. They also increase liquidity in the money market. The private corporate sector units generally remain deficient in their financial resources and in such conditions,
mutual funds provide the necessary financial resources by launching various schemes and mobilise savings of a large number of investors. The mutual funds are directly financing the companies by buying their securities. These funds have also widened the private placement market for corporate securities. The mutual funds also enable the corporate sector to raise funds at reduced costs and thus it becomes a very attractive source of raising funds for companies. As the Government offers various tax benefits and concessions for investing in mutual fund schemes the role of mutual funds in mobilizing the savings of the people assume great importance. The funds also play an active role in the working of money market and capital markets.

A Mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests it in shares, bonds, short-term money market instruments and/or other securities.

**1.4.1 The concept of a mutual fund**

A Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. Thus, a Mutual fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

The core function of a Mutual fund is, to provide the expertise of professional investment managers to small investors. The investment management service is provided by the Asset Management Company (AMC) for a fee. The AMC is responsible for all activities related to creating a Mutual fund product, bringing it to the investors, collecting funds from the investors, investing the funds and managing the operation of the fund. The AMC focuses its attention on the core function of investment management. The investment management team of the AMC evaluates investment opportunities, economic factors and policies and their impact on different assets, sectors and industries. They bring the benefit of a formal and research-oriented investment process to the investors in a Mutual fund. They earn a fee from the Mutual fund for this function, the limits for this fee being prescribed by SEBI.

In order to ensure that the investors are serviced at a large number of locations with efficiency, the Mutual funds appoint Registrar & Transfer (R&T) agents, who maintain the records of the investors’ transactions and also service investor requests for buying, selling and transacting in units, through their Investor Service Centres (ISCs).
1.4.2 Usage of funds by mutual fund companies

The Mutual funds can invest in many kinds of securities. The most common are cash instruments, shares and bonds but there are many sub-categories also. The sector funds, for instance, can invest primarily in the shares of a particular industry such as IT or Auto. The bond funds can vary according to risk (e.g., high-yield junk bonds or investment-grade corporate bonds) or maturity of the bonds (short or long-term).

Most Mutual funds' investment portfolios are adjusted under the supervision of a professional fund manager who forecasts cash flows into and out of the fund by investors as well as the future performance of investments appropriate for the fund and chooses those which he or she believes will most closely match the fund's stated investment objective.

The Mutual funds are subject to a special set of regulatory, accounting, and tax rules. The dividends from equity Mutual fund schemes are completely exempt from tax. The capital gains on Mutual fund schemes are taxed based on whether they are realized within a year (short term) or after a period of one year (long term).

The dividends from other funds (funds that have less than 65% in equity) are also exempt from tax in the hands of the investor, but subject to a dividend distribution tax as stipulated by the government. This tax has to be paid by the fund directly to the government before dividends are paid to the investor. The capital gains from such funds are subject to tax, depending again on whether they are long term or short term.

A front-end load or sales charge is a commission paid to a broker by a Mutual fund when units are purchased, taken as a percentage of funds invested. The value of the investment is reduced by the amount of the load. Some funds have a deferred sales charge or back-end load. In this type of fund, an investor pays no sales charge when purchasing units but will pay a commission out of the proceeds when units are redeemed depending on how long they are held.

The load funds are sold through financial intermediaries such as brokers, advisors and other types of registered agents who charge a commission for their services.

It is possible to buy many Mutual fund schemes without paying a sales charge. These are called No-Load funds. In addition to being available from the fund company itself, no-load funds may be sold by brokers for a flat transaction fee or even no fee at all. (This does not necessarily mean that the broker is not compensated for the transaction; in such cases, the fund may pay brokers' commissions out of "distribution and marketing" expenses rather than
a specific sales charge. The purchaser is therefore paying the fee indirectly through the fund's expenses deducted from profits.)

1.4.3 Risks associated with mutual fund investments

The returns from MFs are subject to market risks and there is no guarantee that the objectives of the schemes will be achieved. For any security investment, the Net Asset Value (NAV) of the unit issued under the scheme can go up and down depending on the factors affecting capital market. The past performance of the sponsor, asset management company / fund is not indicative of the future performance of the schemes.

1.4.4 Mutual fund industry in India

In India, the setting up of Unit Trust of India (UTI) in 1964 marked the advent of Mutual fund industry. It was set up by an act of Parliament. The detailed deliberations had been conducted in the Parliament before this institution was set up. UTI was regulated since its inception by the UTI Act, 1963, and regulations framed there under. It was established as a corporate body. The general superintendence, direction and management of the affairs and business of this institution was vested in a Board of Trustees. An executive committee was formed with a view to effectively supervise the asset management functions. The members of the executive committee were drawn from the Board of trustees. This committee reported to the board. In public interest, the Central Government and the RBI had powers to give directions. The day to day functioning of UTI was left to the chairman and the operating management reporting to him.

The four decades of Mutual funds in India can be classified into four phases. The first phase (1963-1987) saw UTI consolidating its position by offering a variety of schemes throughout the country. The second phase (1987-93) marked the arrival of Mutual funds sponsored by public sector banks and financial institutions. The third phase began in 1993 with the arrival of private sector players, both Indian and foreign. The fourth phase started with SEBI (Mutual fund) Regulations 1996.

1.4.5 Progress of Mutual Funds in India

Till 1987, UTI was the only mutual fund in the market as no one else was legally allowed to set-up mutual funds. In 1987, some public sector institutions like banks, financial institutions and insurance companies started establishing mutual funds, following the Government’s decision. State Bank of India became the second one to launch a mutual fund when it launched the SBI mutual fund in November, 1987.
In 1992, the Government permitted private sector players to set up mutual funds. A number of private sector mutual funds like Kothari Pioneer MF, ICICI MF, Birla MF and Taurus MF were set up. The investors are getting a wider choice regarding the kind of schemes with the presence of many mutual funds in the market, today. These private sector funds are providing many added advantages to the investors. Many of them have been generally set-up in partnership with foreign mutual funds, with the latter providing the technology and the experience in managing funds.

The entry of private sector and foreign institutions in 1993 provided a boost to the Indian mutual fund industry in the form of different schemes launched. The Government of India helped the mutual fund industry to grow by offering various tax benefits in the budget and enabling it to play an important role in mobilization of savings and in the development of the financial markets.

1.4.6 The current developments in the Mutual fund industry in India

Over the past decade, the Mutual fund industry has evolved in terms of the practices followed and the usage of technology. The Mutual fund investors are being offered a wide variety of schemes with an equally wide range of services. All the players in the industry are offering innovative schemes to fulfill a large number of investment needs of the investors. The industry is also well regulated.

The Indian Mutual fund industry has evolved a mechanism to usher in practices, conducive to the long-term survival and growth. The players in the industry have come together voluntarily and have established the Association of Mutual funds in India (AMFI). This association continuously interacts with the regulator, government and other entities.

1.5 Investor’s Behaviour

1.5.1 Meaning of Investment

Most of us face imbalances in our earnings and the consumption which in turn lead us to either save from the current income or borrow money. The major aim of savings is to provide for future consumptions. The process of putting money in some medium such as shares, bonds, real estate etc., in expectation to receive some future benefits is known as investing.
1.5.2 Purpose of Investing

The major investment objectives, for any investment are:-

a. Enhanced current income – People invest their savings to enhance their current income derived by way of dividend, interest etc.

b. Invest money for future major purchases – The major expenditures in our lives could be buying a house, car, jewellery, children’s higher education and marriage etc.. For such major expenditures, the current income is not sufficient and people invest their savings for years to meet such expenditures.

c. Retirement planning – After retirement one’s income normally comes down and people, in order to have a decent lifestyle after the retirement, do make investments regularly for future incomes. Such investments will fulfill many needs of the people during the retired life.

d. Tax benefits – Certain tax benefits are provided by the Government for making the specified investments, e.g. investment in real estate provide tax deduction and the investor can reduce their tax liability.

1.5.3 Direct v/s. Indirect Investment

The investors can either invest directly in securities in their own name or can invest through an investment company, also called as a mutual fund. An investment company is a financial intermediary that collects money from very large number of investors and invests in various securities on their behalf. These financial intermediaries provide the benefits of professional management, diversification and also convenience for investments of small amounts of money. The investment company charges a fee for its services referred to as management fee. The investors receive the returns periodically or at the end of the specified period. In direct investments investors on their own, choose their investment avenues keeping in view their risk appetite and investment goals. The investors have to use their expertise, knowledge to invest in shares, bonds and other instruments directly and also supervise these investments. Here they can avoid paying management fee or other administrative charges.

1.5.4 Types of Investment options

Every investor has his own investment objectives and one can choose from various investment avenues, in view of his financial needs. Some of the investment options are as follows:-

1. Stocks or Shares
1. **Stocks or Shares** – The equity capital or shares offer permanent capital with limited liability for repayment without any fixed obligation for the payment of dividends. The shareholders enjoy voting rights in company.

2. **Bonds** – A bond is a fixed income security. A company issues bonds to the investors. In this type of investment avenues, the investor buys bonds and thus gives loan to the company and in turn, receives periodical returns in the form of interest, annually or bi-annually. The maturity amount is received after the maturity date. Sometimes, a company may issue Zero coupon bonds in which the company does not pay any interest and instead bonds are issued at a discount to the face value and are redeemed at par.

3. **Mutual Funds** – These are the financial intermediaries who collect money from large number of diverse investors and invest in the companies who need this capital for running and growing their businesses.

   A mutual fund is an investment company and a financial intermediary that collects money from many investors and invests in various kinds of securities on their behalf. The investors get periodical returns or at the end of a specified time period. The mutual fund charges management fee to the investors for the services offered. A mutual fund sells units of its various schemes to the investors. The units can be bought and sold at NAV related prices.

4. **Real Estate** – Another very important investment vehicle is investment in real estate such as land, commercial property and flats. It is not easy to exchange and transfer such properties easily. The investors can earn returns in the shape of rent, capital gain and certain tax benefits. The location of the real estate is a important consideration because it determines the value of the property. It is quite difficult to predict the risk and returns in the real estate market.

5. **Commodities Futures and Options** – The commodities are tangible goods which may be used for various purposes. These include all goods and articles except financial assets. The commodities futures and options are contracts to buy and sell goods like cotton,
wheat, coffee, cocoa, silver, oil etc. The contracts are traded for various purposes and in various modes in both organized and unorganized markets.

6. Bank Deposits – the savers can open various kinds of bank accounts in bank and earn fixed interest periodically. These accounts can be Savings, Fixed, Recurring etc. The investors find bank accounts more convenient to operate.

7. Insurance Policies – These policies also attract investment from investors to obtain life cover for future risk, can periodically pay premium and earn returns as per the features of a policy. The tax benefits can also be availed by purchasing the insurance policies.

The safety of capital invested is the prime concern for all investors. Every investment will have some element of risk, only the degree may vary. The risk and returns go hand in hand in all kinds of investments and the investors have to understand the risk-return trade off. The investors can try to minimize their risk in investment by following certain strategies.

1.5.5 Risks involved in Investments

Every financial asset has some risks. Some of the general risks involved in investments are:-

a. Market Risk – The market risk refers to the day-to-day fluctuations in a stock’s price due to various market developments. All securities have market risk but the exposure is greater in case of equity shares. The stocks tend to perform well during a bull market and poorly during a bear market. The volatility is a measure of risk as it refers to the behavior or “temperament” of the investment. The market movements enable investors to make money and that’s why volatility is essential for returns.

b. Default Risk - This risk arises when a company defaults on its interest or principal obligation. Whenever a company goes bankrupt, it is not able to pay its debts fully, some part of the money is lost. There may also be delay on paying the balance amount. The corporate bonds, as compared to Government bonds, posses more of default risk. The credit rating agencies like CARE and ICRA in India, rate the bonds and provide the investment grades.

c. Interest Rate Risk – It is the variability in a security’s returns coming from changes in the level of interest rates. The security prices move inversely to interest rates. Interest rate movements affect bondholders more as compared to the equity shareholders.

d. Purchasing Power Risk – During inflationary conditions, there is reduction in the purchasing power of the rupee, known as inflation risk. It affects all securities. It is directly related to the interest rate risk as interest rates move up with the inflation rates.
When investing abroad, the currency exchange rate can change the price of an asset. It is referred to as Foreign Exchange risk. Another risk is political risk, which may happen when the Government suddenly changes its policies. This generally may happen in developing and under developed economies.

1.6 Investor’s Investment Process

The investor behavior is the searching, purchasing, using & evaluating various investment avenues. It also involves taking a decision to invest the available surplus money. The psychology of investor is to select between different alternatives and in this process also gets influenced by personal goals, risk appetite, culture, family & media. As a matter of fact the investor’s behaviour is less predictable. In the modern day world, the global markets provide more challenges to the investors.

Diagram 1.1

Investor’s investment process

- **Problem or Need Recognition**

  The investor possesses surplus money to invest and finds a gap between his desired state and the actual state. He feels the need for investing his surplus savings in an appropriate investment avenue in view of his financial goals.

- **Information Search**

  The investor starts collecting information regarding various investment schemes from numerous sources. This also leads to intense information search. The existence of various alternative investment opportunities necessitate information search.

  The degree of search varies in the following ways for different investment avenues and the amount of money to be invested:
• Large amount of surplus money – complex search
• Small amount of surplus money – simple search

The investor may browse the newspaper and television advertisements, catalogues, magazines, net etc. Besides, he can also collect information from the financial advisors, sales and marketing managers of banks, insurance companies, Mutual funds etc.

• Evaluation Behaviour

It involves comparing different investment products on various parameters. The investment evaluation is a process of selection of relevant attributes of various savings and investment instruments, giving different weights to different attributes, development of brand beliefs and arriving at an attitude for the investment instruments.

• Investment Decision

At this stage, a ranked set of preferences is created & investment intentions are developed. The investor is now ready for investing the money available in a particular financial instrument, including the Institution. The necessary documentation and formalities are complied with by the investor and the amount tendered for the instrument.

• Post investment behaviour

The post investment behaviour for the investor is very crucial. It is a complex stage as it decides whether the investor is satisfied with returns, safety and the performance of the financial instrument. He tries to match the expectations with the performance.

1. If performance > Expectation = +ve satisfaction
2. If performance < Expectation = -ve satisfaction
3. If performance = Expectation = neutral feeling

The post investment behaviour is basically concerned with the investor satisfaction which gets translated into investor loyalty where the loyalty is a feeling of commitment towards a instrument, brand which results in repeat investments. The brand loyalty is more evident in some investment instruments. Repeat investments show brand loyalty. The negative post investment behaviour denotes investor dissatisfaction. The investor may complain to RBI, SEBI, IRDA and stop investing in the instrument/brand in future. He may also warn friends/others. Some of the investors may take no action.
1.6.1 Increasing popularity of Investments

Due to rise in earning capacity, the rate of savings and investments are rising among investors.

The following factors are increasing the popularity of investments:

1. Increase in working population, larger family incomes and consequent higher savings.
2. Tax incentives available for investments in specified instruments.
3. Increase in tendency of people to hedge against inflation.
4. Availability of diverse, large and attractive investment avenues.
5. Increase in investment related publicity and marketing.
6. Good chances of investments to provide income and capital appreciation.

1.7 Psychology & Behavioral Finance

Much of economic and financial theory is based on the notion that individuals act rationally and consider all available information in the decision-making process. However, researchers have uncovered a surprisingly large amount of evidence that this is frequently not the case. Dozens of examples of irrational behavior and repeated errors in judgment have been documented in academic studies.

A field known as "behavioral finance" has evolved that attempts to better understand and explain how emotions and cognitive errors influence investors and the decision-making process. Many researchers believe that the study of psychology and other social sciences can shed considerable light on the efficiency of financial markets as well as explain many stock market anomalies, market volatilities and crashes. As an example, some believe that the outperformance of value investing results from investor's irrational overconfidence in exciting growth companies and from the fact that investors generate pleasure and pride from owning growth stocks. Many researchers believe that these human flaws are consistent, predictable, and can be exploited for profit.

People are overconfident in their own abilities and investors and analysts are particularly overconfident in areas where they have some knowledge. However, increasing levels of confidence frequently show no correlation with greater success. The money managers, advisors, and investors are consistently overconfident in their ability to outperform the market, however, most fail to do so.
People often see other people's decisions as the result of disposition but they see their own choices as rational. Investors frequently trade on information they believe to be superior and relevant, when in fact it is not and is fully discounted by the market. This results in frequent trading and consistently high volumes in financial markets that many researchers find puzzling. On one side of each speculative trade is a participant who believes he or she has superior information and on the other side is another participant who believes that his/her information is superior. Yet they can't both be right.

Many researchers theorize that the tendency to gamble and assume unnecessary risks is a basic human trait. Entertainment and ego appear to be some of the motivations for people's tendency to speculate. People also tend to remember successes, but not their failures, thereby unjustifiably increasing their confidence. It can be said that people trade for both cognitive and emotional reasons. They trade because they think they have information when they have nothing but noise and they trade because trading can bring the joy of pride. Trading brings pride when decisions turn out well but it brings regret when decisions do not turn out well. The investors try to avoid the pain of regret by avoiding the realization of losses, employing investment advisors as scapegoats, and avoiding stocks of companies with low reputations.

In this chapter the basics of concepts of advertising including its history, need, process and benefits to advertisers and consumers have been discussed. The unique features of advertising and objectives also form part of this chapter. A table illustrates advantages and disadvantages of various advertising media. Advertising effectiveness and its measurement also find a place. The chapter has included details of capital market, financial instruments. The concept of mutual fund, its growth and current developments in India have been discussed. The investors behaviour and the investors investment process also form part of the chapter. The various kinds of investment options like shares, bonds, bank deposits, mutual funds also are discussed in this chapter.