

**CHAPTER 3**  
**THE CONCEPTUAL FRAMEWORK**

- 3.1 Introduction
- 3.2 Area of Research
- 3.3 Meaning of Market Segmentation
- 3.4. Definition of Market Segmentation
- 3.5 Types of Segmentation
- 3.6 Concept of Financial Management

## CHAPTER NO 3 CONCEPTUAL FRAMEWORK

### 3.1 Introduction

Marketing management is a business discipline which is focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities. Marketing managers are often responsible for influencing the level, timing, and composition of customer demand accepted definition of the term. In part, this is because the role of a marketing manager can vary significantly based on a business' size, corporate culture, and industry context

From this perspective, it consists of 5 steps, beginning with the market & environment research. After fixing the targets and setting the strategies, they will be realized by the marketing mix in step 4. The last step in the process is the marketing controlling. Marketing management strategy and design effective, cost-efficient implementation programs, firms must possess a detailed, objective understanding of their own business and the market in which they operate. In analyzing these issues, the discipline of marketing management often overlaps with the related discipline of strategic planning.<sup>3</sup>

Traditionally, marketing analysis was structured into three areas: Customer analysis, Company analysis, and Competitor analysis (so-called "3Cs" analysis). More recently, it has become fashionable in some marketing circles to divide these further into certain five "Cs": Customer analysis, Company analysis, Collaborator analysis, Competitor analysis, and analysis of the industry Context.<sup>4</sup>

Department analysis is to develop a schematic diagram for market segmentation, breaking down the market into various constituent groups of customers, which are called customer segments or market segmentations. Marketing managers work to develop detailed profiles of each segment, focusing on any number of variables that may differ among the segments: demographic, psychographic, geographic, behavioral, needs-benefit, and other factors may all be examined.

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<sup>3</sup> Kotler, Philip. *Marketing Management*, 1997, 9th edition, pp. 249-252.

<sup>4</sup> Kotler, Philip. *Marketing Management*, 1997, 9th edition, pp. 256-262.

### **3.2 Area of Research**

This research is blend of both Marketing Management and Financial Management. To be very specific it is about Market Segmentation of Financial Service industry and Marketing of Financial instruments.

### **3.3 Meaning of Market Segmentation**

The strategic marketing planning process flows from a mission and vision statement to the selection of target markets, and the formulation of specific marketing mix and positioning objective for each product or service the organization will offer. Leading authors like Kotler present the organization as a value creation and delivery sequence. Market segmentation is an adaptive strategy. It consists of the partition of the market with the purpose of selecting one or more market segments which the organization can target through the development of specific marketing mixes that adapt to particular market needs. But market segmentation need not be a purely adaptive strategy: The process of market segmentation can also consist of the selection of those segments for which a firm might be particularly well suited to serve by having competitive advantages relative to competitors in the segment, reducing the cost of adaptation in order to gain a niche. This application of market segmentation serves the purpose of developing competitive scope, which can have a "powerful effect on competitive advantage because it shapes the configuration of the value chain."

### **3.4 Definition of Market Segmentation**

Process of defining and sub-dividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment. Few firms are big enough to supply the needs of an entire market, most must breakdown the total demand into segments and choose the one or few the firm is best equipped to handle. <sup>5</sup>

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<sup>5</sup> [www.westgroupresearch.com](http://www.westgroupresearch.com), 05/10/2009, 14.22 Hrs

Four basic factors that affect market segmentation are

1. Clear identification of the segment,
2. Measurability of its effective size,
3. Its accessibility through promotional efforts, and
4. Its appropriateness to the policies and resources of the firm.

### **3.5 Types of Segmentation**

The four basic market segmentation-strategies are based on

1. Demographic Segmentation
2. Behavioral Segmentation
3. Geographic Segmentation and
4. Psychographic segmentation

#### **3.5.1 Demographic Segmentation**

Market segmentation based on differences in demographic factors (which normally match consumer wants and needs) of different groups of consumers. It is one of the five common segmentation strategies, and aims to define specific niches that require custom-tailored promotion. Following are various factors considered in demographic segmentation.

- a. Age: - Segmentation is done on the basis of age of person.
- b. Income: - Segmentation is done on the basis of income level of a person.
- c. Purchasing power: - Segmentation has done on the basis of purchasing power of the customer.
- d. Occupation
- e. Gender: -Product can be segmented for male and female.
- f. Family size
- g. Family life cycle
- h. Nationality
- i. Religion
- j. Education: - Primary, High School, Secondary, College, Universities.

Many of these variables have standard categories for their values. For example family lifecycle often is expressed as bachelor, married with no children, full-nest, and empty-nest or solitary survivor.

### **3.5.2 Behavioral Segmentation**

Markets can be segmented on the basis of buyer behavior as well. Since all Segmentation is in a way related to buyer behavior, one might be tempted to ask why buyer behavior-based segmentation should be a separate method. It is because there is some distinction between buyer's characteristics that are reflected by their geographic, demographic and psychographic profiles, and their buying behavior. Marketers often find practical benefit in using buying behavior as a separate segmentation base in addition to bases like geographic, demographics, and psychographics.

The primary idea in buyer behavior segmentation is that different customer groups expect different benefits from the same product and accordingly, they will be different in their motives in owning it and their behavior in buying it. Variables of buyer behavior are:-

a. Benefit sought: -

Quality / economy / service / look etc of the product.

b. Usage rate: -

Heavy user / moderate user / light user of a product.

c. User status: -

Regular / potential / first time user / irregular / occasional.

d. Brand Loyalty: -

Hard core loyal / split loyal / shifting / switches.

e Readiness to buy.

f. Occasion: -

Holidays and occasion stimulate customer to purchase products.

g. Attitude toward offerings:

Enthusiastic / positive attitude / negative attitude / indifferent / hostile.

### **3.5.3 Geographic Segmentation: -**

Potential customers are in a local, state, regional or national marketplace segment. If a firm selling a product such as farm equipment, geographic location will remain a

major factor in segmenting your target markets since their customers are located in particular rural areas. While for retail store, geographic location of the store is one of the most important considerations, in this case city areas are preferred. Segmentation of customers based on geographic factors are:-

- a. Religion: Segmentation by continent / country / state / district / city.
- b. Size: Segmentation on the basis of size of a metropolitan area as per its population size.
- c. Population density:- Segmentation on the basis of population density such as urban / sub-urban / rural etc.
- d. Climate :- Segmentation as per climatic condition or weather.

### **3.5.4 Psychographic Segmentation: -**

#### **3.5.4.1 Introduction**

Market competition is increasing. Consumers and business customers are accustomed to many choices, with greater product and service diversity, and thus have a higher level of expectation of your marketing efforts. To be more effective, you need better ways to segment your market. Psychographic segmentation is a method of dividing markets on the bases of the psychology and lifestyle habits of customers. It is the marketers and the sellers of products and commodities who use this technique in order to decide their marketing strategy. Marketing a product requires a deep understanding of the customers' psychology, along with their needs, in order for the product to be accepted. Marketers carry out a number of activities in order to better understand the psyche and the habits of the customers, so that they can accurately predict the response to the product they are selling, and thus make accurate sales projections. This is the primary use of psychographic segmentation.

#### **3.5.4.2 Meaning of Psychographic Segmentation**

Psychographic Segmentation groups customers according to their life-style and buying psychology. Psychographics are the next level of segmentation, offering greater insight into your customers. It can help marketers to construct profiles of the individuals and to help target customers in better way. Psychographic market segmentation describes customers in terms of their activities, interests, opinions, emotions, values, motivations and lifestyles. Psychographic segmentation plays on the

psychology of the potential customers and helps the seller determine how he must approach customers belonging to a particular segment.

The application of psychographic segmentation improves product and service development, brand positioning, targeting and advertising and marketing effectiveness, and results in a greater return on marketing investment. It combines expertise in branding, marketing and advertising with deep and extensive knowledge of human behavior, cognitive psychology and personality measurement.

#### **3.5.4.3 Psychographic Segmentation Variables**

The variables that come into play when we speak of psychographic segmentation are primarily psychological in nature. The following variables could be said to be a part of the process of psychographic segmentation.

- a. Interests
- b. Activities
- c. Opinions
- d. Behavioral patterns
- e. Habits
- f. Lifestyle
- g. Perception of selling company
- h. Hobbies

Using these factors as a base, a marketer can determine how a particular group of customers will respond to the launch of a new product. Psychographic segmentation should not be confused with demographic segmentation. Demographic segmentation primarily takes into consideration the age and the gender of the targeted customer group.

#### **3.5.4.4 Psychographic Segmentation Advantages**

Apart from the obvious advantage of increased sales, there are a few other intricate advantages of psychographic segmentation as well.

1. Increased brand value of the company in the eyes of the customer.
2. Greater usefulness of the product for the customer.
3. Better inputs for the design of new products that the customer will like.
4. Lesser amount of money spent on marketing, as it is now more specific.
5. Easier to target a specific type of customer base.
6. Simpler to derive effective and efficient marketing strategy.

7. Greater degree of customer satisfaction and customer loyalty, resulting in higher amount of customer retention.

The advantages of psychographic segmentation are well known to any marketer who wishes to sell his product. The scale of production and the size of the company are irrelevant when this concept comes into play. Even the smallest scale marketer knows the benefits of psychographic segmentation, and he will apply it to this marketing strategy, either knowingly or unknowingly.

#### **3.5.4.5 Psychographic Research**

Psychographic research is quantitative research that attempts to place consumers based on psychological, as opposed to strictly demographic dimensions (Heath, 1995). The most popular research tool describing lifestyle and psychographics is SRI International's Value and Lifestyles Program (VALS).

##### **3.5.4.5.1 Meaning of VALS**

VALS - short for values and lifestyles - is a way of viewing people on the basis of their attitudes, needs, wants, beliefs, and demographics. The VALS program was created by SRI International in 1978 in an attempt to "put people" into the thinking of those of us trying to understand the trends of our times - in the marketplace, economically, politically, sociologically, and humanly. The approach is holistic, drawing on insight and many sources of data to develop a comprehensive framework for characterizing the ways of life of Americans. Conceptually, VALS owes a major debt to the findings of developmental psychology. Our initial speculations have now been extensively confirmed, honed, and extended in field research. The system is currently being applied in many areas of business and is evoking interest in circles as diverse as sociology, politics, law, education, and medicine.

The U.S. Framework, a graphic representation of VALS, illustrates the eight types and two critical concepts for understanding consumers: primary motivation and resources. The combination of motivations and resources determines how a person will express himself or herself in the marketplace as a consumer. VALS segments eight distinct types are :

### **1. Innovators**

Innovators are successful, sophisticated, take-charge people with high self-esteem. Because they have such abundant resources, they exhibit all three primary motivations in varying degrees. They are change leaders and are the most receptive to new ideas and technologies. Innovators are very active consumers, and their purchases reflect cultivated tastes for upscale, niche products and services.

Image is important to Innovators, not as evidence of status or power but as an expression of their taste, independence, and personality. Innovators are among the established and emerging leaders in business and government, yet they continue to seek challenges. Their lives are characterized by variety. Their possessions and recreation reflect a cultivated taste for the finer things in life.

### **2. Thinkers**

Thinkers are motivated by ideals. They are mature, satisfied, comfortable, and reflective people who value order, knowledge, and responsibility. They tend to be well educated and actively seek out information in the decision-making process. They are well-informed about world and national events and are alert to opportunities to broaden their knowledge.

Thinkers have a moderate respect for institutions of authority and social decorum but are open to consider new ideas. Although their incomes allow them many choices, Thinkers are conservative, practical consumers; they look for durability, functionality, and value in the products that they buy.

### **3. Believers**

Like Thinkers, Believers are motivated by ideals. They are conservative, conventional people with concrete beliefs based on traditional, established codes: family, religion, community, and the nation. Many Believers express moral codes that have deep roots and literal interpretation. They follow established routines, organized in large part around home, family, community, and social or religious organizations to which they belong. As consumers, Believers are predictable; they choose familiar products and established brands. They favor U.S. products and are generally loyal customers.

#### **4. Achievers**

Motivated by the desire for achievement, Achievers have goal-oriented lifestyles and a deep commitment to career and family. Their social lives reflect this focus and are structured around family, their place of worship, and work. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. They value consensus, predictability, and stability over risk, intimacy, and self-discovery.

With many wants and needs, Achievers are active in the consumer marketplace. Image is important to Achievers; they favor established, prestige products and services that demonstrate success to their peers. Because of their busy lives, they are often interested in a variety of time-saving devices.

#### **5. Strivers**

Strivers are trendy and fun loving. Because they are motivated by achievement, Strivers are concerned about the opinions and approval of others. Money defines success for Strivers, who don't have enough of it to meet their desires. They favor stylish products that emulate the purchases of people with greater material wealth. Many Strivers see themselves as having a job rather than a career, and a lack of skills and focus often prevents them from moving ahead. Strivers are active consumers because shopping is both a social activity and an opportunity to demonstrate to peers their ability to buy. As consumers, they are as impulsive as their financial circumstance will allow.

#### **6. Experiencers**

Experiencers are motivated by self-expression. Young, enthusiastic, and impulsive consumers, Experiencers quickly become enthusiastic about new possibilities but are equally quick to cool. They seek variety and excitement, savoring the new, the offbeat, and the risky. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend a comparatively high proportion of their income on fashion, entertainment, and socializing. Their purchases reflect the emphasis that they place on looking good and having "cool" stuff.

### **7. Makers**

Like Experiencers, Makers are motivated by self-expression. They express themselves and experience the world by working on it—building a house, raising children, fixing a car, or canning vegetables—and have enough skill and energy to carry out their projects successfully. Makers are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context.

Makers are suspicious of new ideas and large institutions such as big business. They are respectful of government authority and organized labor but resentful of government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose. Because they prefer value to luxury, they buy basic products.

### **8. Survivors.**

These consumers have the lowest incomes. They have too few resources to be included in any consumer self-orientation and are thus located below the rectangle. They are the oldest of all the segments, with a median age of 61. Within their limited means, they tend to be brand-loyal consumers.

## **3.6 Meaning of Financial Management**

Financial management, as a discipline, is concerned with decision making in regard to the size and composition of assets, the level and structure of financing. It is also concerned with flow of funds in any firm with financial decision making and thereby deals with raising of funds and their optimum utilization since all decisions have financial implications.

### **3.6.1 Functions of Financial Management**

Finance functions are closely related to financial decisions. The functions performed by a finance manager are known as finance functions. In the course of performing these functions a finance manager takes the following decisions:

### **3.6.1.1 Investment Decision**

The Investment decision relates to the selection of assets in which funds will be invested by a firm. The assets which can be acquired into two broad groups.

1. Long term assets which will yield a return over a period of time in future.
2. Short term or current assets defined as those assets which in normal course of business are convertible into cash usually within a year

### **3.6.1.2 Capital Budgeting**

Capital budgeting, the long term investment decision is probably the most crucial financial decision of a firm. It relates to the selection of an asset or investment proposal or course of action whose benefits are likely to be available in future over the lifetime of the project. Capital budgeting decisions is the analysis of risk and uncertainty. Since the benefits from the investment proposals extend into the future, their accrual is uncertain.

### **3.6.1.3 Working Capital Management**

Working capital management is concerned with the management of the current assets. It is an important and integral part of financial management as short term survivals a pre-requisite to long term success. The management of working capital has two basic ingredients, namely

- a. An overview of working capital management as a whole.
- b. Efficient management of the individual current assets such as cash, receivables and inventory.

### **3.6.1.4 Financing Decisions**

Financing decision is with the financing mix or capital structure or leverage. The financing decision of the firm relates to the choice of these sources to finance the investment requirements. There are two aspect of financing decisions.

- a. The theory of capital structure which shows the theoretical relationship between the employment of debt and the return to the shareholders.
- b. Financing decisions is the determination of an appropriate capital structure.

### **3.6.1.5 Dividend Policy Decisions**

The dividend decision should be analyzed in relation to the financing decisions of a firm. Two alternatives are available in dealing with the profits of a firm. They can be distributed to the shareholders in the form of dividend or they can be retained in the business. The decision will depend upon the preference of the shareholders and investment opportunities available with the firm.

### **3.6.2 Meaning of Savings**

Keynes sets out meanings of 'Saving' as uncontroversial, meaning 'the excess of income over what is spent on consumption. The idiosyncrasies arise over 'investment' and 'income'. 'To-day's user cost is equal to the maximum of the discounted values of the potential expected yields of all the tomorrows.' Any individual act of saving is the acquisition of an asset, either by producing it, or, more probably, by buying it from someone else, in which case the other individual is necessarily selling an asset. This is true even in the case of bank deposits. Effectively, by depositing income in the bank, the individual buys an asset from the bank. The necessity for aggregate savings and aggregate investment to be equal in any period. Take the bank's extension of credit as the first step in the causal chain. There has been no prior saving, but an entrepreneur borrows money to spend on investment. Effectively, new purchasing power has been created out of nothing by the bank. As the entrepreneur spends this money, incomes will be increased, and the receivers of the additional income choose how much to spend and how much to save. No-one is forced to save, though higher incomes tend to increase savings. 'Yet employment, incomes and prices cannot help moving in such a way that in the new situation someone does choose to hold the additional money.' The additional investment made possible by the bank loan will generate savings to match it, or it will come at the expense of other investment. It is logically necessary.

### **3.6.3 Meaning and Definition of Investment**

Investment is an activity that is engaged in by people who have savings, i.e. investments are made from savings, or in other words, people invest their savings. But all savers are not investors. Investment is an activity which is different from savings. Let us see what is meant by investment.

It may mean many things to many persons. If one person has advanced some money to another, he may consider his loan as an investment. He expects to get back the money along with interest at a future date. Another may have purchased one kilogram of gold for the purpose of price appreciation and may consider it as an investment. Yet another person may purchase an insurance plan for the various benefits it permits in future. That is his investment.

Investment refers to acquisition of some assets. It also means the conversation of money into claims on money and use of funds for productive and income earning assets, In essence, it means the use of funds for productive purpose, for securing some objectives like income appreciation of capital or capital gains or for further production of goods and services with objective of securing profits. Investment activity involves the use of funds or savings for further creation of assets or acquisition of existing assets

#### **3.6.4 Definition of Investment**

“Investment may be defined as the purchase by an individual or institutional investor of a financial or real asset that produces a return proportional to the risk assumed over some future investment period.”<sup>6</sup>

“Investment is a commitment of funds made in the expectation of some positive rate of return if the investment is properly undertaken, the return will commensurate with the risk, the investment assumes.”<sup>7</sup>

#### **3.6.5 Interrelation between Savings and Investment**

Investors are savers but all savers cannot be good investors, as investment is a science and an art. Savings are sometimes autonomous and sometimes induced by the incentives

Like fiscal concessions, income or capital appreciation. The number of investors is estimated of about 50 million out of population of more than one billion in India. Savers come from all classes in the case of the population are below the poverty line. The growths of urbanization and literacy have activated the cult of investment. Since the eighties the investment activity has become more popular with the change in the

<sup>6</sup> V. Gangadhar and G Rameshbabu (2006) “Investment Management” Anmol Publications, Fourth Edition Page 2

<sup>7</sup> ibid

government policies towards liberalization and financial deregulation. The process of liberalization and privatization was accelerated by the Government policies changes towards a market oriented economy, through economic and financial reforms started in July 1991.

Savings and Investments which are promoted by the capital market are the basis of capital formation and economic growth in the country. Growth is a function of saving and investment in the economy, which along with the capital output ratio determines the level of income.

The household sector is the major saver in India and contributes to the bulk of total savings that flow into financial assets which may take any of the forms of currency, Deposits with banks and companies, Provident Fund, Insurance and corporate shares, bonds, etc.

### **3.6.6 Classification of Investment**

There are different methods of classifying the investment avenues. A major classification is physical investment and financial investments. They are physical, if savings are used to acquire physical assets, useful for consumption or production. Some physical assets like Lorries, cars, jeeps, etc are useful in business. But most of the financial assets barring cash are used for production or consumption, or further creation of assets are useful for production of goods and services.

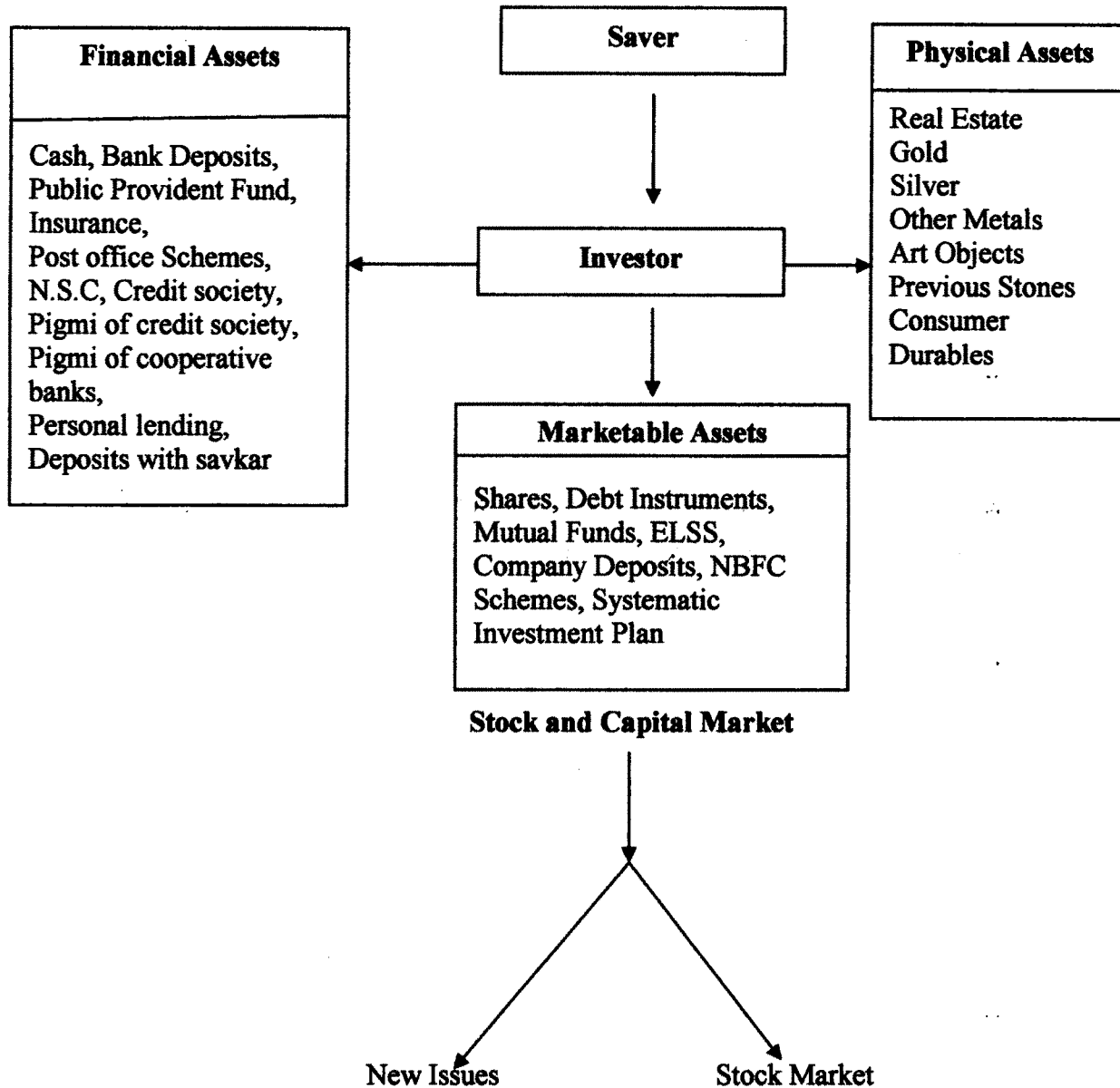
Among different types of investment, some are marketable and transferable. Marketable assets are shares and debentures of public limited companies, particularly the listed companies on stock exchange, bonds of public sector units, government securities, etc. Non marketable securities are bank deposits, provident and pension funds, Insurance certificates, Post office deposits, National Saving Scheme. Company deposits etc. These types of assets are detailed in the chart below.

### **3.6.7 Investment Activity**

#### **Introduction**

Investment is the activity, which is made with the objective of earning some sort of positive returns in the future. It is the commitment of the funds to earn future returns and it involves sacrificing the present investment for the future return. Following figure shows types of investments which are available to savers for converting their savings into investments.

**Figure No 1  
Investment Activity<sup>8</sup>**



Above figure shows that there are basically three types of investments from which the investors can choose their investment avenues. The three kinds of investment have their own risk and return profile and investor will decide to invest taking into account his own risk appetite. They are:

<sup>8</sup> Audhani V.A. (2006), Investment Management, Himalaya Publication, New Delhi, Sixth Edition.

**Financial Assets:** - Non marketable securities like bank deposits, provident fund and pension funds, Insurance certificates, Post office deposits, National Saving Scheme. Company deposits etc are the assets which cant be transferred or traded in open market.

**Physical Assets:** - These investments refer to the investments made by the common investor in his physical assets like the television, car, house, motor cycle, gold, etc. These types of investments are termed as the Physical investments. Such types of investment are important for the domestic economy of the country.

**Marketable Assets:** - This type of investments refers to the investments made in the marketable securities which are of tradable nature. It includes the shares, debentures, bonds and units of the mutual funds and any other securities which is covered under the ambit of the Securities Contract Regulations Act definition of the word security. The investments made in the capital market instruments are of vital important for the country.

These are the various types of assets for the investors to invest their money.

### **3.6.8 Characteristics of Investment**

All investment is characterized by certain feature. Following are characteristic features of investments.

#### **3.6.8.1. Return**

All investments are characterized by the expectation of a return. In fact, investment is made the primary objective of deriving a return. The return may be received in the form o yield plus capital appreciation. The difference between the sale price and the purchase price is capital appreciation. The dividend or interest received from the investment is the yield. Different types of investments promise different rates of returns. The return from an investment depends upon the nature of the investment, the maturity period and a host of other factors.

#### **3.6.8.2. Risk**

Risk is inherent in any investment. This risk may relate to loss of capital, delay in repayment of capital, non-payment of interest, or variability of returns. While some

investments like governments' securities and bank deposits are almost risk less, others are more risky. The risk of investment depends on the following factors.

1. The longer the maturity period, the larger is the risk.
2. The lower the credit worthiness of the borrower, the higher is the risk.
3. The risk varies with the nature of investment. Investment in ownership securities like equity shares carry higher risk compared to investments in debt instrument like debentures and bonds.

Risk and return of an investment are related. Normally, the higher the risk, the higher is the return.

#### **3.6.8.3. Safety**

The safety of an investment implies the certainty of return of capital without loss of money or time. Safety is another feature which an investor desires for his investments. Every investor expects to get back his capital on maturity without loss and without delay.

#### **3.6.8.4. Liquidity**

An investment which is easily salable or marketable without loss of money and without loss of time is said to possess liquidity. Some investment like company deposits, bank deposits, P.O.deposits, NSC, NSS, etc. are not marketable. Some investments instruments like preference shares and debentures are marketable, but there are no buyers in many cases and hence their liquidity is negligible. Equity shares of companies listed on stock exchanges are marketable through the stock exchanges. Investors generally prefer liquidity for his investments, safety of his funds, a good return with minimum risk or minimization of risk and maximization of return.

#### **3.6.9 Investment Avenues**

There are different types of securities conferring different sets of rights on the investors and different sets of conditions under which these rights can be exercised. The various avenues for investment, ranging from risk less to higher risky investment opportunities consist of both security and non security forms of investment.

### **3.6.9.1 National Saving Schemes**

National saving schemes have been started by the Government of India mainly to finance its economic development plans through the mobilization of savings of smaller income groups. This scheme is operated mainly through the post offices. Because of the tax free nature of the scheme its main purpose is to attract higher income group of people also. The mode of arrangement is basically the payment of lump sum amount to be received at the end of a certain period. The investor has an exact picture of the amount that he will receive at the time of encashment of security. The rate of Interest on National Saving Scheme is usually higher than the commercial banks. These schemes also be transferred from one post office to another, if the investor so desires. The certificates have another advantage that can be used as collateral at the time of taking a loan from bank

### **3.6.9.2 Bank Deposits**

Among the investment, the most popular are deposits with banks such as current account, saving account and fixed deposits. No interest is paid as these are meant for regular transactions by businessman and companies. Saving deposits are those on which interest is paid at 3.5%, which is lowest among the various categories of investments. There is also the category of fixed deposits, which may be recurring deposits where in savings are deposited at regular intervals or fixed deposits of varying notice periods such as 7 days, 15 days, etc. The interest rates on these deposits vary depending upon the maturity period. The interest rates on deposits are now free from RBI control. The amount of interests on these deposits is payable half yearly or quarterly calculated on the basis of simple interest. The principle and the accumulated interest are paid to the investor on maturity.

### **3.6.9.3 Public Provident Fund**

PPF is the best fixed income investment for high tax payers. The PPF deposits can be made in monthly installments with a minimum of 100 Rs and a maximum of Rs 60000 p.a. It gives return at around of 8% i.e. more than bank deposits PPF is a very attractive long term fixed income investment option for small investors because, It gives tax deduction of 20% of the amount invested from tax liability for the year subject to a maximum amount of Rs.60000 for the tax deduction.

PPF is also gives less risk to investors as compared to other investment avenue.

Lack of liquidity is a negative point of PPF. Investors can withdraw money from investment made once in 7 years only.

#### **3.6.9.4 Gold**

Gold investment is a long-term investment scheme involving low risks. People willing to invest in gold have a natural advantage because the demand for gold is much more than its actual supply. The price of gold is generally in a continual rise. However, investors should not invest all their funds in one kind of gold investment. The gold industry is huge and has many facets, and a savvy investor can exploit this. Money can be invested directly in gold mines, for example, which can be more lucrative than investing in physical Gold.

Benefits of gold investment:

1. Gold is a popular form of saving
2. Gold is indestructible
3. Gold is a major requirement in the jewelry industry
4. The malleability and ductility of gold make it very useful
5. Gold can be transported easily
6. It retains as well as appreciates in value

#### **3.6.9.5 Real Estate Investment**

Real estate investment has been a major form of investment since the 1970s. It is a major form of capital budgeting and is a very lucrative option for investing. Real estate can broadly be defined as immovable property. Land and things attached to it in permanence, such as buildings, come under the category of real estate. Investment in real estate has its fair share of risks. But one advantage of real estate is that it gives the owner the right to transfer the title to the land.

Other features of real estate investment are as follows:

1. It is a lucrative business opportunity
2. It can be used as a means of generating rental income
3. The burden of other taxable income can be assuaged through the profits obtained from resale of real estate
4. It can be used as a collateral for securing loans for other business ventures
5. Real estate speculators seek profit by trading in real estate futures

Real estate investors often own more than one unit of real estate. The investor uses one unit as his or her residence and accrues rental income from the others. Investment in real estate also involves value appreciation of property over time, which leads to capital gains. The whole program of real estate investment is a long-term process.

#### **3.6.9.6 Mutual Fund**

Mutual funds are supposed to be the best mode of investment in the capital market since they are very cost beneficial and simple, and do not require an investor to figure out which securities to invest into. A mutual fund could simply be described as a financial medium used by a group of investors to increase their money with a predetermined investment. The responsibility for investing the pooled money into specific investment channels lies with the fund manager of said mutual fund.

Therefore investment in a mutual fund means that the investor has bought the shares of the mutual fund and has become a shareholder of that fund. Diversification of investment Investors are able to purchase securities with much lower trading costs by pooling money together in a mutual fund rather than try to do it on their own. However the biggest advantage that mutual funds offer is diversification which allows the investor to spread out his money across a wide spectrum of investments. Therefore when one investment is not doing well, another may be doing taking off, thereby balancing the risk to profit ratio and considerably covering the overall investment. The best form of diversification is to invest in multiple securities rather than in just one security. Mutual funds are set up with the precise objective of investing in multiple securities that can run into hundreds. It could take weeks for an investor to investigate on this kind of scale, but with investment in mutual funds all this could be done in a matter of hours.

#### **3.6.9.7 Debt Instruments**

In financial context, Debentures are Debt Instruments issued for a long term by governments and big institutions for raising funds. The Debenture has some resemblances to bonds but the securitization terms and conditions are different for Debentures compared to a bond.

A Debenture is commonly considered as insecure because there is no pledge or lien on particular assets. Nevertheless, a Debenture is secured by all the assets which are otherwise not pledged.

#### **3.6.9.8 Life Insurance Policy**

Investors prefer Life insurance not only as an insurance cover but also as an investment option according to the policy selection. Due to increasing knowledge and more investment options, investors preferred secure low riskier and maximum return avenues for investment purpose.

Life Insurance Policy was best Investment Avenue for those investors who required high returns at low risk, life coverage and tax benefits. LIC have different plans for different age and income group investors whose needs and wants differ. Plans like Chills Education for career planning, Jivan Shree for regular returns after specific period, pension plan after retirement period and like that. Investors who want pure tax saving benefits, they also satisfied by investing in Insurance.

As an investment avenue Life Insurance Policy includes costs as follows:

Death – benefit coverage.

Built – investment return.

Significant overheads, including commission.

#### **3.6.9.9 Post Office Scheme**

Post Office schemes are generally like the commercial bank schemes. They have a saving account, a recurring account, a ten year cumulative time deposit account, which are also recurring in the same way as commercial banks through cheques and there is no restriction on withdrawals. These accounts which have a minimum balance of Rs.200 in the months of April, Sept, Oct and March have an additional benefit. They qualify for a prize on draw scheme which operates in the next June and July.

#### **3.6.9.10 Equity Linked Saving Scheme (ELSS)**

Equity linked Saving Scheme is mutual funds with a tax benefits. Tax saving is a very important part of financial planning. Post tax returns is what really matters at the end of the day as the real income from investment comes from what is earned after paying all taxes as well as staying invested in equity mutual funds.

ELSS schemes have been introduced in India to promote investments in equity markets by giving tax concessions to the investors. ELSS is basically equity diversified scheme and has a lock in period of three years.

**Advantages –**

1. Possibility of high returns
2. Easy transfer
3. Effective service, especially in the case of private mutual funds.
4. Low tax incidence (10%) a redemption.

**Limitations –**

1. ELSS is high risky avenue, so it is major limitation of it.
2. Due to less awareness it is difficult to choose the right fund of ELSS.

### **3.6.9.11 Precious Stones**

Precious Stones such as diamonds. Diamonds purchased in raw form and through a wholesaler may be the best investment potential. Since the price of diamonds keep on increasing in the same way as the price of gold, they have good investment value. The price of diamond increases as the diamond carat becomes higher. Diamond is valued in carats. Diamond is to be judged in terms of weight, size, shape and luster. In India, the investor must be cautious to buy diamonds because each jeweler decides the value of the diamond according to his own judgment. The investor must be careful that he is not cheated. It is an extremely risky form of investment because a large extent the value of diamond is based on judgment. Immediate acquisition and sale of diamond will not fetch price increase. Holding a diamond for some years will give it an appreciation. It is used by money speculators for earning profit.

### **3.6.9.12 Art Objects**

Art objects may be in the form of paintings, showpieces etc. the basic advantages of an art objects is that the investor can sell it at any price which he propounds but it is very difficult to find these things and to give a price for which it is worthy. A careful study of this subject and professional advice can give the investor a good return. Investment in Art objects is very risky and long holding pattern investment.

### **3.6.9.13 Non Banking Finance Companies (NBFC)**

The Non-Banking Finance Companies have played a positive role in providing avenue of investment in fixed deposits. This has improved the rate of Savings in the economy. A list of Non-Banking Finance companies is given with their rating, net worth and deposits allowed. The investor may invest in these companies after carefully evaluating them.

The RBI has relaxed ceiling on NBFC deposits since 31<sup>st</sup> Jan 1998. the 'AAA' rated companies are now allowed to raise up to four times net owned funds and 'AA' rated funds can raise up to 2.5 times and 'A' rated companies can raise up to 1.5 times their net owned funds. However, disclosure of 'rating' by non-bank financial companies has become mandatory. There is a ceiling on the rate of interest at 16%. The NBFC's are fully regulated to bring confidence to the investor.

### **3.6.9.14 Systematic Investment Plan**

This is one of the favorite with most investment advisors. A SIP is a low-cost method of investing in the equity market, with a medium to long term view (more than three years). This is best option for all age groups, especially for the young and middle-age group, who are in the phase to build wealth. Also although it is capable of generating high returns, the element of risk constitutes the downside.

### **3.6.9.15 Company Deposits**

Fixed deposit Investment scheme offered by various companies. These schemes are generally offered by public limited companies. Deposits may be cumulative or non cumulative. These deposit schemes are offered through newspaper advertisements and are subject to the provision of the company's rules of 1975. These are offered to the public as well as existing shareholders and employees. A usual fixed deposit scheme of Rs 2000 is payable at Rs 3110 on maturity after three years if it a cumulative deposit. If it is no cumulative, then interest is paid @ 12.5% p.a. in the first year, 13.5% p.a. for two years and 15% p.a .for 3 years.

### **3.6.9.16 Deposits With Savkar**

Professional moneylenders may be called as Savkar. The leading professional moneylenders are Brahmans, Gujaratis, Marwaris, Jains, Lingayats, Marathas, and Musalman. Savkar carries this considerable business in bills or hundis. Their

transactions are on mortgage, personal security, and pawn. These people also keep the accounts termed pathani / tipane (rough memorandum book) and khatavni (ledger). When they intend to show their accounts in court they make their debtors sign each entry to avoid disputes.

### **3.6.9.17 Equity Shares**

Equity shares are usually regarded as corner stone of corporate financial resources. The shares provide a cushion of safety against temporary unfavorable development as the payment of dividends is not compulsory and is depend on the discretion of management.

Equity shares constitute the ownership capital of a company and the equity holder has the right of voting and sharing in profits and assets in proportion to his holding in the total net assets of the company. He is entitled to all rights and obligations of the owners and to residual profits and assets of the company after all the claims of creditors are met. As h is entitled to residual profits, the dividend distributed to him may be uncertain, variable and fluctuating. The equity holders get his return in the form of dividends distributed plus capital appreciation on his shares.

### **3.6.9.18 Pigmi**

Amount of savings are collected daily by appointing agents is called pigmi of credit society. Large number of people takes advantage of this avenue. Same way Cooperative banks also provide this avenue of Investment

### **3.6.9.19 Unit Linked Insurance Plan (ULIP)**

This plan has a benefit saving scheme. It provides life insurance cover and gives a high return as well as tax rebate. This is contractual plan in which Indian Resident not more than 45 years of age and below the age of 18 years can join the plan for 10 years or 15 years.

These are the various investment avenues are available in Indian economy.