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CHAPTER 1st

Business, Trade and Commerce

INTRODUCTION

All human beings, wherever they may be, require different types of goods and services to satisfy their needs. The necessity of supplying goods and services is done by different set of people engaged in various economic activities such as production, manufacturing and distribution and exchange so that the needs and wants of customers are satisfied. Business is a major economic activity which is concerned with the production and sale of goods and services required by people.

CONCEPT OF BUSINESS

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits.

These activities may be broadly classified into two groups — economic and non-economic activities. Economic activities are those by which we can earn our livelihood, whereas, non-economic activities are performed out of love, sympathy, sentiment, patriotism, etc.

Economic activities may be further divided into three categories, namely business, profession and employment.

CHARACTERISTICS OF BUSINESS ACTIVITIES

(i) An economic activity: Business is considered to be an economic activity because it is undertaken with the objective of earning money or livelihood and not out of love, affection, sympathy or any other emotion.

(ii) Production or procurement of goods and services: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or acquires them from producers, to be further sold to consumers or users.

(iii) Sale or exchange of goods and services: Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but for personal consumption, it cannot be called a business activity.

(iv) Dealings in goods and services on a regular basis: Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business.

(v) Profit earning: One of the main purpose of business is to earn income by way of profit. No business can survive for long without profit.

(vi) Uncertainty of return: Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned.

(vii) Element of risk: Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event.

CLASSIFICATION OF BUSINESS ACTIVITIES

Various business activities may be classified into two broad categories —industry and commerce.

1. INDUSTRY

Industry refers to economic activities, which are connected with conversion of resources into useful goods. Generally, the term industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods, as well as, breeding and raising of animals.

Industries may be divided into three broad categories namely primary, secondary and tertiary.

(i) Primary industries: These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc. These are divided as follows.

(a) Extractive industries: These industries extract or draw products from natural sources. Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment.

(b) Genetic industries: These industries are engaged in breeding plants and animals for their use in further reproduction. In addition, activities of cattle breeding farms, poultry farms, and fish hatchery come under genetic industries.

(ii) Secondary industries: These are concerned with using materials, which have already been extracted at the primary sector. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. Secondary industries may be further divided as follows:

(a) Manufacturing industries: These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities.

Manufacturing industries may be further divided into four categories on the basis of method of operation for production.

Analytical industry which analyses and separates different elements from the same materials, as in the case of oil refinery.

Synthetical industry which combines various ingredients into a new product, as in the case of cement.

Processing industry which involves successive stages for manufacturing finished products, as in the case of sugar and paper.

Assembling industry which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

(b) Construction industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.

(iii) Tertiary industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industry included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.

COMMERCE

Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods is termed as trade. But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called services or auxiliaries to trade and include transport, banking, insurance, communication, advertisement, packaging and warehousing. It embraces all those activities, which are necessary for maintaining a free flow of goods and services.

Auxiliaries to trade includes: -

(i) Transport and Communication: Production of goods generally takes place in particular locations. The obstacle of place is removed by transport through road, rail or coastal shipping. Transport facilitates movement of raw material, to the place of production and the finished products from factories to the place of consumption. Along with transport facility, there is also a need for communication facilities so that producers, traders and consumers may exchange information with one another. Thus, postal services and telephone facilities may also be regarded as auxiliaries to business activities.

(ii) Banking and Finance: Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance.

(iii) Insurance: Business involves various types of risks. Factory building, machinery, furniture, etc., must be protected against fire, theft and other risks. Material and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

(iv) Warehousing: Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required.

(v) Advertising and Public Relations: Advertising and public relation activities are one of the most important methods of promoting the sale of products and services in a market place. Advertising and Public Relations activities helps in providing information about available goods and services and inducing customers to buy particular items.

OBJECTIVES OF BUSINESS

Objectives are needed in every area that influences the survival and prosperity of business. Since a business has to balance a number of needs and goals, it requires multiple objectives. It cannot follow only one objective and expect to achieve excellence. Objectives also enable the business to analyse their own performance and take steps as necessary to improve their performance in future.

(i) Market standing: Maintaining goodwill and reputation of ones' business is paramount to succeed and prosper. It helps in forming a distinct identity in the market and is referred to as market standing in relation to its competitors.

(ii) Innovation: Innovation is defined as an introduction of new ideas or methods in the way something is done or made. However, it does not imply that a new product is to be manufactured. Any modification in the existing product to enhance its operation also denotes innovativeness.

(iii) Productivity: Productivity is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency. In order to ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources.

(iv) Physical and financial resources: Any business requires physical resources, like plants, machines, offices, etc., and financial resources.

The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.

(v) Earning profits: One of the objectives of business is to earn profits. Every business must earn a reasonable profit which is so important for its survival and growth.

(vi) Social responsibility: Social responsibility refers to the obligation of business firms to contribute resources for solving social problems and work in a socially desirable manner.

BUSINESS RISK

The term 'business risk' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

Business enterprises constantly face two types of risk: speculative and pure Risk.

Speculative risks involve both the possibility of gain, as well as, the possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers.

Pure risks involve only the possibility of loss or no loss. The chance of fire, theft or strike are examples of pure risks. Their occurrence may result in loss, whereas, non-occurrence may result in absence of loss.

NATURE OF BUSINESS RISKS

Nature of business risks can be understood in terms of their peculiar characteristics:

(i) Risk is an essential part of every business: Every business has some risk. No business can avoid risk. Risk can be minimised, but cannot be eliminated.

(ii) Business risks arise due to uncertainties: Uncertainty refers to the lack of knowledge about what is going to happen in future. Natural calamities, change in demand and prices, changes in government policies and prices, improvement in technology, etc., are some of the examples of uncertainty which create risks for business.

(iii) Degree of risk depends mainly upon the nature and size of business: Nature of business (i.e., type of goods and services produced and sold) and size of business (i.e., volume of production and sale) are the main factors which determine the amount of risk in a business.

(iv) Profit is the reward for risk taking: Greater the risk involved in a business, higher is the chance of profit. An entrepreneur undertakes risks under the expectation of higher profit. Profit is thus the reward for risk taking.

CAUSE OF BUSINESS RISKS

Business risks arise due to a variety of causes, which are classified as follows:

(i) Natural causes: Human beings have little control over natural calamities, like flood, earthquake, lightning, heavy rains, famine, etc., property and income in business.

(ii) Human causes: Human causes include such unexpected events, like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.

(iii) Economic causes: These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc.

(iv) Other causes: These are unforeseen events, like political disturbances, mechanical failures, such as the bursting of boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

STARTING A BUSINESS — BASIC

Starting a business enterprise is similar to any other human effort in which resources are employed to achieve certain objectives. The process of setting up one's own business is called entrepreneurship. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called a business enterprise.

(i) Selection of type of business: The first thing to be decided by an entrepreneur is the nature and type of business to be undertaken. He/she will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.

(ii) Size of business: Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Whether the business is for MSME sector or a large scale enterprise.

(iii) Location of business enterprise: An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in high cost of

production, inconvenience in getting, right kind of production inputs or serving the customers in the best possible way. Availability of raw materials and labour; power supply and services, like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.

(iv) Financing the proposition: Financing is concerned with providing the necessary capital for starting, as well as, for continuing the proposed business.

(v) Physical facilities: Availability of physical facilities is an important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.

(vi) Competent and committed worked force: Every enterprise needs competent and committed workforce to perform various activities so that physical and financial resources are converted into desired outputs.

(vii) Tax planning: Tax planning has become necessary these days because there are a number of tax laws in the country and they influence almost every aspect of the functioning of modern business.

(viii) Launching the enterprise: After the decisions relating to the above mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise.