

19/6/2020

Commercial Studies

class - IX

Chap ~~4~~ 2. (Business Activities)

~~2nd~~

Questions

Learning Objectives

After studying this chapter, you should be able to :

- 2.1. Define business and explain its meaning
- 2.2. Explain the characteristics of business activities
- 2.3. Classify types of business activities
- 2.4. Describe the nature and types of industries
- 2.5. Discuss the meaning, nature and importance of commerce
- 2.6. Explain the types of commerce — trade and aids to trade
- 2.7. Explain types of trade
- 2.8. Describe types of aids to trade
- 2.9. Examine the relationship between trade, commerce and industry
- 2.10. Distinguish between organisation, firm and company.

It has been pointed out in the previous chapter that there are two types of human activities — Economic or commercial activities, and Non-economic or non-commercial activities. Economic or commercial activities are of three types.

1. Business
2. Profession
3. Employment.

Let us discuss the meaning, nature and types of business activities.

2.1 MEANING AND DEFINITION OF BUSINESS

Business is an economic activity. It involves sale, transfer or exchange of goods and services with the purpose of earning money. Goods and services are provided to satisfy human wants rather than for personal use. Business is an occupation and it comprises a wide range of activities. It is the sum total of all those activities by which desirable things are extracted from the nature, transformed and processed by man and machine, carried from place to place, stored through times and placed in the hands of those who are willing to pay for them.

Business is different from other economic activities which are professions and employment. A profession is an occupation requiring formal education and training. It involves rendering personal and expert services in exchange of some fee. Chartered accountants, doctors, architects, lawyers carry on professions. Employment is an occupation wherein a person works under an employer to earn wages or salary.

Some popular definitions of business are given below :

L.H. Haney : "Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods. Business consists of those processes by which desirable things are extracted from earth, fashioned and transformed by man and machine, carried from place to place and stored through time and placed in the hands of those who are ready to pay for them."

B.O. Wheeler : "Business is an institution organised and operated to provide goods and services to society under the incentive of private gain."

L.R. Dicksee : "Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted."

Urwick and Hunt : "Business is any enterprise which makes, distributes or provides any article or service which the other members of the community need and are able and willing to pay for."

R.N. Ownes : "Business is any enterprise engaged in the production and distribution of goods for sale in market or rendering services for a price."

A. Keith and Carlo : "Business is a sum of all activities involved in production and distribution of goods and services for private profits."

James Stephenson : "Economic activities performed for earning profits are termed as 'Business'."

W.R. Spriegal : "All the activities involved in the production and sale of goods or services may be classified as business activities."

Koontz and O'Donnell : "Business is any activity concerned with production or purchase of scarce goods and services."

Peterson and Plowman : "Business may be defined as an activity in which different persons exchange, something of value, whether goods or services for mutual gain or profit."

Thus, business may be defined as an economic commercial activity concerned with production and distribution of goods and services with the purpose of earning profits. A person engaged in business is known as businessman. The unit formed for the purpose of carrying on some business is called a business firm or enterprise.

2.2 CHARACTERISTICS (NATURE) OF BUSINESS ACTIVITIES

The salient features of business activities are given below :

1. Sale, Transfer or Exchange : All business activities involve sale or exchange of goods and services for some consideration. Buying and selling of goods and services for a price are the essence of business. If there is no sale, transfer or exchange for price, it will not be a business activity. For instance, cooking food for personal consumption does not constitute business. But cooking food and selling it to others for a price becomes business.

2. Dealings in Goods and Services : Every business enterprise produces or buys goods and services for selling them to others. Goods may be consumer goods or producer goods. Consumer goods are meant for direct use by the ultimate consumers, e.g. bread, cloth, shoes, etc. Producer goods are used for the production of consumer goods, e.g. materials, machinery, etc. Services are intangibles such as electricity, insurance, banking, etc.

3. Regular Dealings : Business involves a series of dealings. A single transaction cannot be called business. Recurring purchase and sale is the hallmark of business. For instance, if a person sells his old scooter, it is not business. But if he sells scooters on a regular basis, it will become business.

4. Profit Motive : A business is not charity. The primary objective of business is to earn money and acquire wealth. A business that does not earn profits cannot survive for long. Profits are also essential for the growth and expansion of business. Business must, however, earn profits by serving the society.

5. Creation of Utilities : A business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods. In the words of Roger, "A business exists to create and deliver value satisfaction to customers at a profit."

6. Economic Activity : Business is primarily an economic activity as it involves production and distribution of goods and services for the satisfaction of human wants. However, business is a part of society and it reflects the aspirations, values and beliefs of people. Therefore, business may be described as a socio-economic function.

7. Risk : Risk is an essential part of business. It implies the uncertainty of profits or the possibility of loss. In business, risk arises due to several factors, e.g. changes in demand, theft, fire, natural calamities, bad debts, etc., some of these risks (e.g., loss by fire, blood, theft, etc.) can be insured while other risks (e.g., loss due to change in demand, change of fashion, etc.) cannot be insured.

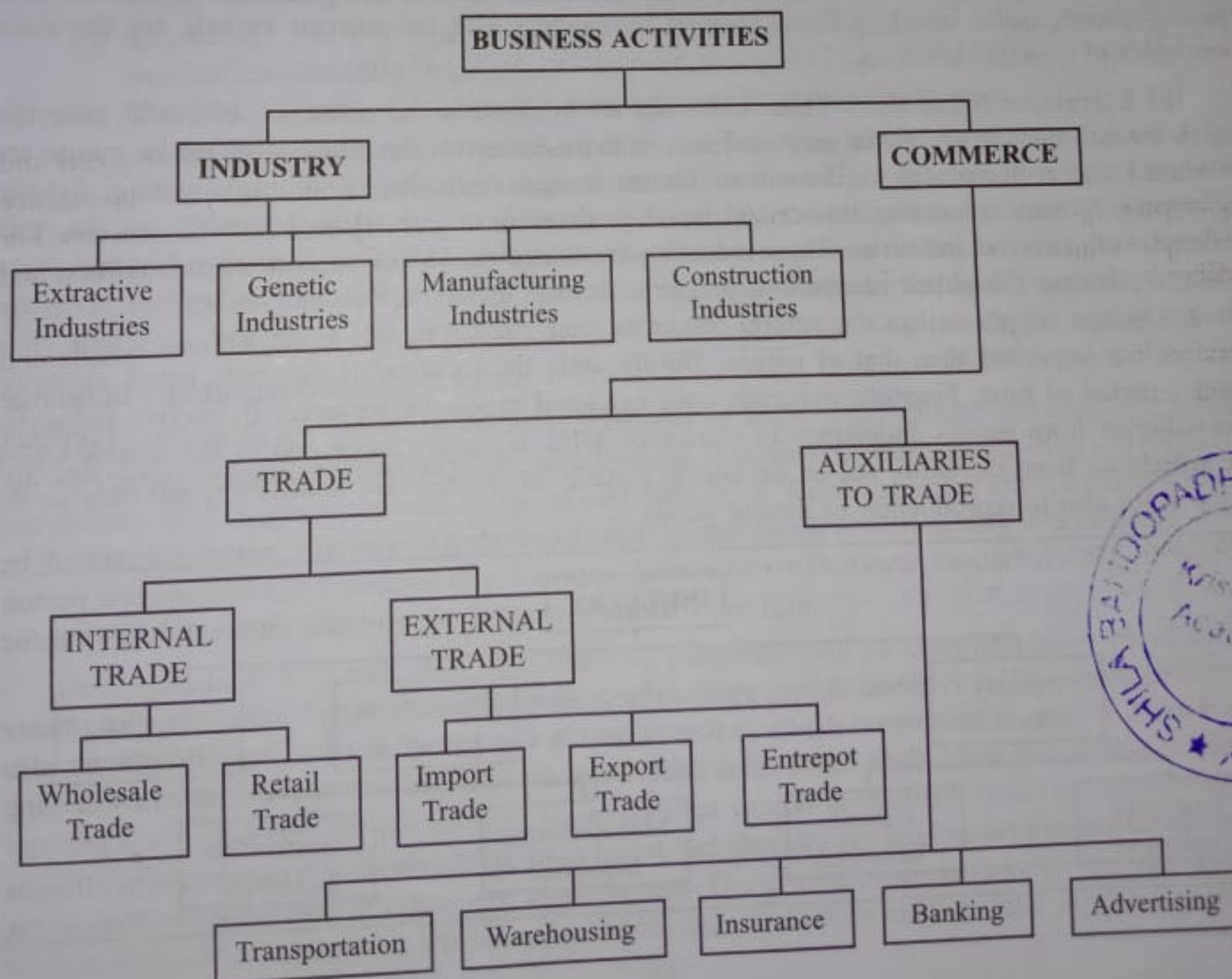
CHARACTERISTICS OF BUSINESS

- (i) Sale, transfer or exchange (ii) Dealings in goods and services (iii) Regular dealings
(iv) Profit motive (v) Creation of utilities (vi) Economic activity (vii) Risk

2.3 TYPES OF BUSINESS ACTIVITIES

Business activities may broadly be classified into two categories :

1. Industry
2. Commerce



Industry involves the production of goods whereas commerce is concerned with the distribution of goods.

2.4 NATURE AND TYPES OF INDUSTRIES

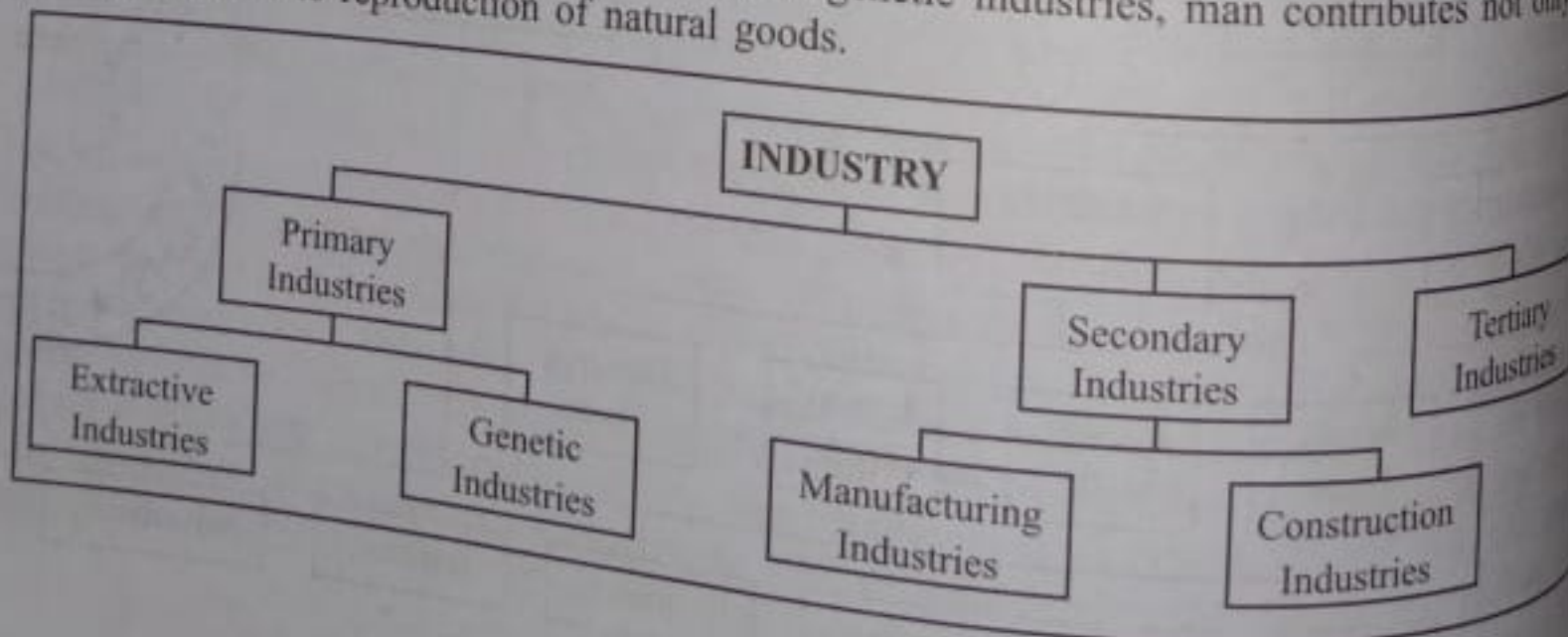
Industry means the production of products with the help of human beings and other resources. It involves the application of men, machinery, materials, and money. Industry refers to that business which produces want satisfying goods. Goods produced by industry may be capital goods or consumer goods. Capital goods, e.g., machine, tools, etc., are used for further production of goods. Consumer goods, e.g., books, toothpaste, etc., are directly used by consumers. Industry is concerned with the processes of extraction, multiplication, processing, conversion, fabrication and construction of products. Industry is of the following types :

1. Primary Industries

Industries which are involved in the extraction and multiplication of natural resources are known as primary industries. These industries are the original occupations of people. They provide raw materials for secondary industries. Primary industries are of two types – genetic industries and extractive industries.

(a) Genetic Industries : The term 'genetic' has been derived from the word 'genetics' which refers to the study of heredity. Genetic industries are, therefore, engaged in the reproduction and multiplication of certain species of plants and animals to earn profits from their sale. Plant nurseries, poultry farms, cattle breeding farms (animal husbandry), and commercial kernels are the examples of genetic industries.

(b) Extractive Industries : These industries are engaged in the extraction of useful materials from beneath the surface of the earth and sea. In these industries the products gifted by nature are extracted and collected for the benefit of human beings. Agriculture (farming), mining, fishing, quarrying, forestry (procuring timber and wood products from forests), and hunting are the examples of extractive industries. These industries are characterised by four distinctive features. *Firstly*, these are among the oldest occupations and provide raw materials for other industries. *Secondly*, human beings simply collect the natural resources from the earth, air or sea and, therefore, their role is less important than that of nature. *Thirdly*, only the location of materials keeps changing over a period of time. *Fourthly*, materials once extracted cannot be replaced. Extractive industries are different from genetic industries. In extractive industries man cannot add to the wealth of the earth; he withdraws from the earth, sea or air. But in genetic industries, man contributes not only to the growth but also to reproduction of natural goods.



2. Secondary Industries

The industries which are engaged in the conversion of the materials provided by primary industries are called secondary industries. For example, the mining of iron ore and coal is a primary industry. The conversion of these into steel is known as secondary industry. Manufacturing and construction industries are the two types of secondary industries.

(a) Manufacturing Industries : These industries are concerned with the processing or transformation of raw materials and semi-finished products into finished products. Such industries change the shape and form of materials produced by genetic and extractive industries. They create form utility by making products more useful to consumers. For instance, the iron ore extracted through mining is converted into steel. Engineering, cement, sugar, textiles, fertiliser, etc. are the main examples of manufacturing industries. Manufacturing industries are of the following types :

- (a) *Analytical* : In an analytical manufacturing industry, a basic raw material is broken into several useful materials. For example, in an oil refinery, crude oil is separated into kerosene, petrol, diesel and lubricating oil.
- (b) *Synthetical* : In this type of manufacturing industry two or more materials are mixed to form a new product. For example, concrete, gypsum and coal are mixed to produce cement.
- (c) *Processing* : In the processing industry, a material is processed through various stages. For example, in the cotton textile industry, cotton is passed through the spinning, weaving, dyeing, bleaching and printing processes to produce cloth.
- (d) *Assembling* : In this type of industry, manufactured components or parts are combined together mechanically or chemically to produce a new product. For example, manufacture of radios, TV sets, watches and automobiles are assembling industries.

(b) Construction Industries : These industries are engaged in the construction of buildings, bridges, roads, dams, etc. They utilise the products of manufacturing industries such as bricks, steel, cement, etc. These industries create the basic infrastructure for economic and social development of the country through the process of fabrication. The distinctive feature of these industries is that their products remain fixed at one place and cannot be taken physically to the market for sale. Products of construction industries are very durable.

3. Tertiary Industries

These industries are concerned with the provision of services to facilitate and assist the primary and secondary industries. Transportation, warehousing, insurance, banking, advertising and packaging are examples of services provided by the tertiary industries. These industries are collectively known as the **service sector**. The role of tertiary industries is increasing as our country is developing. These industries now account for about 70 per cent of India's Gross Domestic Product (GDP). At the time of independence their share in the GDP was only 25 per cent.

On the basis of size and scale of operations, industries may be classified into large-scale and small-scale industries. *Large-scale industries* employ more capital-intensive techniques of production than *small-scale industries*. In India, any industrial unit in which investment in plant and machinery does not exceed ₹ 1 crore is treated as a small scale unit. Small scale units are entitled to certain benefits and privileges. On the basis of the volume of capital investment, industries may be heavy or light. *Heavy industries* involve huge investment and they are engaged in the production of capital goods such as steel, machinery, ships, aircrafts, etc. These industries use complex technology and have a long gestation period. On the other hand, *light industries* require little capital.

and produce consumer products such as stationery, cosmetics, jewellery, food products, etc. Light industries use simple technology and have a short gestation period.

2.5 MEANING AND NATURE OF COMMERCE

Commerce is concerned with the buying, selling and distribution of commodities. It is an organised system for the exchange of goods and services between the members of the business world and the rest of society. Commerce consists of all those activities which are essential for maintaining a free flow of goods and services from producers to consumers. It involves not only the functions of buying and selling but several other activities required to transport, insure, store and finance goods. In other words, commerce comprises trade and the various auxiliaries to trade.

Commerce is that branch of business which involves the buying and selling of goods, the exchange of commodities and the distribution of finished products. In the words of James Stephenson, *"Commerce is concerned with the exchange of goods; with all that is involved in the buying and selling of goods at any stage in their progress from raw materials to finished goods in the consumers' hands. It covers not only the functions of buying, selling and handling goods but also the many services which must be provided to finance, insure, store and transport goods in the course of these exchanges."* All the activities which establish a link between the producers and consumers of goods and maintain a smooth and uninterrupted flow of goods between them constitute commerce.

Production of goods has no meaning unless the goods produced are exchanged between the producer and consumer for mutual benefit. Commerce provides a means for the exchange and distribution of goods. It serves as a link between producers and consumers and thereby bridges gap between them. It provides a pipeline for the movement of goods from producers to users. Production is concentrated at particular places while consumers are scattered throughout the country, sometimes even throughout the world. The purpose of commerce is to provide goods and services at the right time and at the right place. It creates time, place and possession utilities.

2.5.1 Importance of Commerce

The exchange of goods is a complex process beset with several types of hindrances.

According to James Stephenson, *"Commerce embraces all those activities which help to break the barriers between producers and consumers. It is the sum total of those processes which are engaged in the removal of hindrances of persons (through trade), place (through transport, packing and insurance), and time (through warehousing) in the exchange (banking) of commodities."*

Thus, the main function of commerce is to remove the following hindrances.

1. Hindrance of Persons : This hindrance refers to the lack of contact between producers and consumers. The producer is faced with the problem of finding the buyers who need the goods he has produced and who are able and willing to buy such goods. The consumer does not know the source of supply of goods which would satisfy his needs at prices he can afford. Commerce removes this hindrance by means of trade. Trade provides an organised market where the buyers and sellers can contact each other. It saves both producers and consumers from the time-consuming and expensive exercise of locating each other.

2. Hindrance of Place : A major problem faced by producers is to send their goods to distant places without loss through theft, pilferage, damage, etc. Commerce solves this problem by means of transport, packing and insurance. Modern means of transport carry goods to far-off places quickly and safely.

or money's worth. It is the means by which people sell those goods which they do not need. Traders serve as the link between producers and consumers. They help in directing the flow of goods to the most profitable markets. They also bring about the equitable distribution of goods. In the absence of traders, producers will have to go in search of consumers. Trade is the nucleus of commerce. Other parts of commerce such as transport, insurance, warehousing, banking and advertising revolve around trade.

Trade is of the following types.

1. Domestic Trade : Internal trade refers to buying and selling of goods and services within the geographical boundaries of one country. Both the buyer and seller belong to the same country. It is also known as Home Trade or Internal Trade. Payments in this type of trade are made and received in the home currency. Internal trade can further be divided into **two categories**.

(a) *Wholesale Trade :* Wholesale trade refers to buying of goods in bulk from manufacturers and selling them in large quantity to retailers and industrial users in relatively small quantities. The persons engaged in wholesale trade are called '**wholesalers**'. They serve as a link between producers and retailers.

(b) *Retail Trade :* Retail trade refers to buying of goods from wholesalers and manufacturers and selling them in small quantity directly to the ultimate consumers. Persons engaged in retail trade are called '**retailers**'. They serve as a link between wholesalers and final consumers.

2. Foreign Trade : External trade refers to buying and selling of goods and services between different countries. In this trade, the seller and buyer belong to different countries. It is also known as International Trade or External Trade. It may further be divided as follows :

(a) *Import Trade :* It means purchasing goods and services from other countries. For example, India imports petroleum products from Iran and Iraq.

(b) *Export Trade :* It involves selling goods and services to other countries. For example, India exports tea to USA and UK.

(c) *Entrepot Trade :* It means importing goods from one or more countries with the purpose of exporting them to some other country or countries. For example, India may export some of the oil imported from Iraq to Bangladesh.

Quite often the terms trade and commerce are used interchangeably. In reality, commerce is a wider term and trade is a part of commerce. Trade implies buying and selling of goods and services. On the other hand, commerce includes all the activities which ensure a free flow of goods from producers to ultimate consumers. In addition to trade, commerce consists of transportation, warehousing, banking, insurance and other activities which facilitate trade. Commerce plays a vital role in the distribution of products all over the world. Without commerce industry cannot develop.

2.8 TYPES OF AIDS TO TRADE

Aids to trade refer to those activities which facilitate buying and selling of goods and services. The main aids to trade are as follows.

1. Transportation : Transport refers to the conveyance of goods and passengers from one place to another. It facilitates trade by assembling and distributing goods. It overcomes the barrier of distance and creates place utility. Transport widens the market and helps to equalise prices at different places. It results in the equitable distribution of goods among far-flung areas. Goods are produced at a few places but are needed at all places. For example, tea is grown in Assam and Darjeeling but is used throughout the country. Various means of transport help to bridge this distance

gap between producers and consumers. Quick and economical means of transport such as railways, roadways, airways and shipping have widened the scope of trade to include international transactions.

2. Warehousing : Nowadays goods are produced in anticipation of demand. It is, therefore, necessary to store the goods until they are sold. Many products such as wheat, sugar, rice, etc. are produced in a particular season but they are needed throughout the year. Proper storage arrangements must be made in order to make the goods available throughout the year. Besides, it is necessary to store commodities such as woollen garments and umbrellas to meet the desired seasonal demand. Warehousing removes the hindrance of time and thereby creates time utility. It helps to stabilise prices. Warehouses are of three types, namely, private, public and bonded. *Private warehouses* are owned by merchants and producers for their own storage needs. *Public warehouses* are owned by wharfingers, port trusts, etc. *Bonded warehouses* are set up by customs authorities to store goods which are liable to custom duty.

3. Banking : There is usually a time gap between production, purchase and sale of goods. During this period businessmen need funds to carry on their business. Banks and other financial institutions provide required credit in various forms. Banks also facilitate business activity by providing safe and quick means for the remittance of money. Banking removes the hindrance of raising finance and credit on one's own.

4. Insurance : Business involves several types of risk. Insurance removes the hindrance of risk. With the help of insurance, a businessman can protect himself from several types of risks. Insurance is based on the "pooling of risks". A large number of people who are subject to a particular risk contribute to a common fund, out of which compensation is paid to those few who actually suffer the loss. There are various types of insurance, e.g. fire insurance, marine insurance, workmen's compensation insurance, life insurance, etc.

5. Advertising : Advertising and publicity inform the consumers about the availability of various products and services. They remove the hindrance of knowledge. The main purpose of advertising is to create and sustain demand. In the absence of advertising, consumers may remain ignorant of the availability of goods and services and businessmen may not be able to sell their products. There are various forms of advertising and publicity such as the press, outdoor displays, radio, television, letters to customers, fairs, exhibitions, cinema, etc.

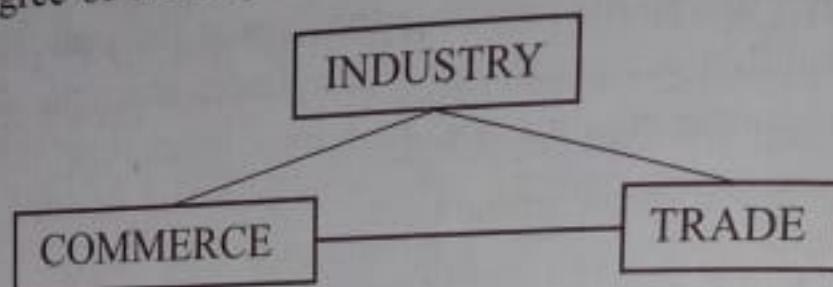
6. Packaging : Packaging means designing and producing suitable packages for different products. Packing means putting goods in wrappers, containers, etc. Packing helps to protect the goods from damage during transport and warehousing. It also makes the goods attractive. Packing helps in the conveyance and handling of goods. It removes the hindrance of risk by keeping goods safe and free from spoilage. Trade and transport of goods have become easier and safer due to improvements in the art and methods of packaging.

2.9 INTER-RELATIONSHIP BETWEEN TRADE, COMMERCE AND INDUSTRY

Trade, industry and commerce are elements of business. Trade implies buying and selling of goods and services in order to earn profits. Trade refers to sale, transfer or exchange and it is a part of commerce. Commerce consists of trade and auxiliaries to trade or services which facilitate trade. Industry is concerned with the production of goods.

Trade, commerce and industry are closely related to each other. Each of these components of business depends upon the other for the realisation of its objectives. Industry produces goods which are distributed by commerce. No commercial activity is possible in the absence of industry. At the same time, industrial production is meaningless without the distribution of goods through commerce. If industry is the back-bone of commerce, commerce serves as the lifeline of industry.

Trade provides the necessary support to industry and maintains a smooth flow of commerce. Trade and commerce provide support to industry by maintaining a smooth flow of goods from producers to consumers. Trade is the nucleus of commerce as all commercial activities revolve around sale and exchange. Trade provides the solid foundation upon which the super structure of commerce is built. Thus, there is a high degree of interdependence between industry, commerce and trade.



Interdependence between industry, commerce and trade

Despite this interdependence, there are following points of difference between trade, commerce and industry :

- (i) Industry creates form utility by moulding resources into useful products. For example, cotton is converted into cloth. On the other hand, trade creates exchange utility by providing a link between producers and consumers. Commerce creates time, place and possession utilities through storage, transportation, insurance, etc.
- (ii) Trade depends upon industry and there can be no trade without industry. At the same time, industry cannot function without trade and commerce.
- (iii) Trade depends largely upon auxiliary services like transportation, warehousing, insurance, advertising, etc.

Comparison between Industry, Commerce and Trade

<i>Basis of Comparison</i>	<i>Industry</i>	<i>Commerce</i>	<i>Trade</i>
1. Meaning	Extraction, reproduction, processing and construction of useful products.	Activities concerned with distribution of products to consumers.	Buying and selling of goods and services.
2. Scope	Consists of all activities concerned with the production of commodities.	Comprises trade and auxiliaries to trade and sale.	Consists of activities involving purchase
3. Capital	Generally large capital required for large-scale industry.	Comparatively less capital required.	Capital required to keep stocks.
4. Risk	Greater degree of risk involved.	Comparatively less risk involved.	Comparatively less risk involved
5. Nature of utility	Creates form utility.	Creates time and place utilities.	Creates possession utility.
6. Classification	a. Genetic b. Extractive c. Manufacturing d. Construction	a. Trade b. Auxiliaries to trade	a. Home Trade b. Foreign Trade

7. Beginning of utility

8. Ownership and control

2.10 DISTINCTION

Organizational Structure

The membership of an organization is divided into different parts which perform specific functions. D. Mooney defines organization as "purposeful arrangement of people and vertical relationships of authority between them". It is a top to bottom relationship of responsibility.

An organization is a group of people who are working together to achieve a common purpose. The activities of an organization are divided into different parts and then the raw materials are converted into profits, taxes, etc.

Comparison of Industry, Commerce and Trade

Industry is concerned with the production of goods or money's worth. It is the stock so that the company can pay the members who contribute to it. A member is elected to the board and it is created to establish it. It is generally limited by law. Directors are elected by the members.

Every firm has a purpose. On the other hand, a college, a hospital, a club, etc., have none of these characteristics.

A firm is a business enterprise controlled by its owners and partners. A company is a legal entity.

Hindrance removed	How commerce removes the hindrance
1. Hindrance of person	Commerce removes this hindrance by creating a link between producers and consumers. Traders establish a contact between producers and consumers.
2. Hindrance of place	Commerce removes this hindrance by moving goods from the places of production to the places of consumption through various modes of transport.
3. Hindrance of time	Commerce removes this hindrance by holding and preserving goods in warehouses until they are sold to consumers.
4. Hindrance of risk	Commerce removes the risk of loss or damage due to theft, fire, accidents, etc., by means of insurance.
5. Hindrance of finance	Commerce removes this hindrance by providing finance through banking.
6. Hindrance of knowledge	Commerce removes this hindrance by providing information about goods and services to prospective customers through advertising.

3. Hindrance of Time : In modern industry, goods are produced on a large scale in anticipation of demand. There is usually a time gap between the production and consumption of goods. Therefore, it becomes necessary to store the goods until they are sold. This problem is solved by warehousing or storage. Warehouses provide suitable storage facilities to protect the goods from fire, rain, pests, etc. Warehousing is, thus, an integral part of commerce.

4. Hindrance of Risk : During transit and storage, goods may be damaged or destroyed by fire, flood, earthquake, etc. Packing of goods helps to preserve their quality in transit. With the help of insurance, businessmen can cover the risk of loss due to damage and destruction during transit. Thus, transportation, packing and insurance are useful commercial activities.

5. Hindrance of Finance : Buying and selling of goods between persons living in different places requires a common medium of payment. Money serves as a common medium of payment. However, convenient and safe means of payment are required to settle the transactions. Banks help to remove this obstacle in the process of exchange by making and collecting payments on behalf of their clients. Now businessmen can send money from one place to another in the form of bank-draft, cheque, etc. without facing any risk. Banks also provide credit in the form of overdrafts, letter of credit, cash credit, discounting of bills, etc.

6. Hindrance of Knowledge : Often a producer or merchant finds it difficult to sell his goods and services because consumers are not aware of their benefits and uses. Advertising and sale promotion remove this hindrance by bringing goods and services to the knowledge of consumers. Advertising also persuades people to buy the goods and services.

2.6 TYPES OR BRANCHES OF COMMERCE

Commerce consists of (i) trade and (ii) aids to trade.

2.7 TRADE AND ITS TYPES

Trade means buying and selling of goods. It involves the exchange of commodities for money

Commercial Studies

19/6/2020

class - IX

Chap 2. (Business Activities)

Questions

- Q1. Define the term Business.
 - Q2. Discuss the characteristics of business activities.
 - Q3. Classify the different types of business activities.
 - Q4. Classify and explain the various types of Industry.
 - Q5. Define the term Commerce.
 - Q6. Classify the Branches of Commerce and explain each.
 - Q7. Distinguish between Trade, Industry and Commerce.
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