

18BCO5EL - GENERAL COMMERCIAL KNOWLEDGE– I - UNIT I

Business – Nature, Meaning, Scope- Objectives –
Components of business – Industry – Commerce.

BUSINESS

Introduction

The human activities relating to the production of goods or services for satisfying wants are known as Business. It is a profitable procedure through which individuals and groups exchange goods and services. Human activities may be categorised as economic and noneconomic. Economic activities are undertaken to create utilities. Noneconomic activities do not have economic motives.

Meaning of Business

Business is an activity which is primarily pursued with the object of earning profits. Business activity involves production, exchange of goods or services to earn profits or to earn a living.

The word 'Business' literally means 'a state of being busy'. Every person is engaged in some kind of occupation, a farmer works in the field, a worker works in the factory, a teacher teaches in the class, a salesman is busy in selling the goods and entrepreneur is busy in running his factory. The main motive of all these persons is to earn their livelihood while doing some work.

Definitions of Business

1. L.H. Haney. "Business may be defined as human activities directed towards providing or acquiring wealth through buying and selling goods".
2. K.I. Davis and RL Blomstoom . "The term business refers broadly to both private and public institutions which develop and process, economic values in a society."
3. M.C. Naughton. "The term business means the exchange of goods, money or services for mutual benefits."

So the term business includes all human activities that are directly related to the production, distribution of goods and services and indirectly help in production and exchange of goods such as transport, insurance, banking and warehousing etc.

Nature of business

1. Entrepreneur -The person who recognises the need for a product or service is known as entrepreneur. The quality of entrepreneurship existing in any region determines to a large extent the development of that region. The entrepreneur visualises a business, combines various factors of production and puts them into a going concern.

2. Economic Activities -Business includes only economic activities. All those activities relating to the production and distribution of goods and services are called economic activities. These activities are undertaken with economic motive. Business is carried on with a profit motive.

3. Exchange of Goods and Services- A business must involve exchange of goods and services. The goods to be exchanged may either be produced or procured from other sources. The exchange of goods and services is undertaken with profit motive. Production or purchasing of goods and services for personal consumption is not a business.

4. Profit motive- Any activity undertaken without profit motive is not business. A businessman tries to earn more and more profits out of his business activities. The incentive of earning profits keeps a person in

business and is also necessary for the continuity of the business. The object of starting a business is to earn profit though there may be losses. The business activity will flourish more when the business serves the Society.

5. Risk and Uncertainty- The business involves larger element of risk and uncertainty. In fact a businessman tries to foresee any future uncertainties and plan his business activities accordingly. The factors on which business depends are never certain, so the business opportunities will also be uncertain. There may be a shift in demand, strike by employees, floods, war, fall in prices, fluctuations in money market, etc.

6. Regularity and continuity of Transactions- In business, only those transactions are included which have regularity and continuity. An isolated transaction will not be called business, even if the person earns from that deal.

7. Creation of Utility-The goods are provided to the consumers as per their likings and requirements. Business creates various types of utilities in goods so that consumers may use them. The utility may be form utility, place utility, time utility etc.

8. Organisation- Every enterprise needs an organisation for its successful working .An organisation creates the framework for managerial performance and helps in co-ordinating various business activities. A proper organisation is helpful in the smooth running of the business and helps to achieve its objectives.

9. Financing- Business enterprises cannot move a step without finances. The finances are required for providing fixed and working capital. The availability of other factors of production also depends upon the availability of finances. After estimating its financial requirements, the businessman tries to find out the sources from which these requirements will be met. A proper capital structure is a must for the success of the business.

10. Consumer Satisfaction- The ultimate aim of business is to supply to the consumers. The goods are produced for the consumers. If the consumer is satisfied, then he will purchase the same thing again, otherwise he will go in for an alternative commodity. The business should try to satisfy the consumers so that the demand for his products maintained. The existence and expansion of business depends upon the liking of the consumers for the products of that business.

11. Satisfying Social Needs- The business should aim at serving the society at large. The business is a socio-economic institution. It should give importance to the public welfare. A great emphasis is given to the social aspects of business and social obligations of business. So business enterprises must serve public purpose.

OBJECTIVES OF BUSINESS

Every work is started with an objective. The objective is a goal, the achievement of which is a necessity and all efforts are concentrated for the fulfilment of the objective. The main objective of a business undertaking is to earn profits. Profit earning is considered necessary for the survival of the business. Now-a-days, the values of society have changed and society expects more from the business than merely earning profits. The objectives of the business may be categorised under following headings.

- A. Economic objectives
- B. Human objectives
- C. Social objectives
- D. Organic objectives
- E. National objectives.

A. Economic Objectives

1. Profit earning

Profit is the basic incentive to business pursuits. Profits are needed to face various uncertainties like trade cycle, change in demand pattern and fluctuations in money markets. A business needs profits not only for its existence but also for expansion and diversification. The

businessman should charge a reasonable profit and it will be beneficial both to the business and the society.

2. Production or Goods

The next objective is to produce more goods and sell them to the consumers. The tastes, preferences and paying capacity of consumers must be taken into account. A businessman creates form, place and time utilities and meets the requirements of the society. So, a tangible form of wealth is produced in the form of goods.

3. Creating Markets

Marketing consists of those efforts which effect transfers in ownership goods and care for their physical distribution. Marketing covers all those activities which relate to the creation of time, place and possession utility. An enterprise cannot exist without finding out new markets for its products.

4. Technological Improvements

A businessman should always strive to use latest methods of production. The businessman should try to devise new methods so that he may keep pace with the changing business world.

B. Human Objectives

Human objectives of business require that a workable balance should be maintained among the claims of various interested groups like employees, shareholders, consumers, government etc. These objectives are as follows:

1. Welfare or Employees

The businessman should look after the welfare of his workers. The workers should be provided with physical comforts, material incentives, appreciation, and dignity of labour and conditions which will motivate the workers to give their best.

2. Satisfaction or Consumers

The consumers should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage. So responsibility to consumers means setting up and maintaining standards of quality and service in addition to reasonable price.

3. Satisfaction of Shareholders

The management should give reasonable return on the money invested by the shareholders. The shareholders should also feel that their money is not misused by the management.

4. Helpful to Government

A business owes responsibility to government also. Every industrial house should use methods of controlling pollution at level. It will help in reducing and controlling this problem. Business should also pay various taxes to the government honestly and promptly. A government cannot be run without financial resources. Business is the main contributor to the government funds.

C. Social Objectives

The responsibility of the business is to understand the needs and requirements of the society and then direct its energies to fulfil them. Business should not undertake anything which is against the interests of society. So business and society are meant and exist for each other. The social responsibility of the business are as follows;

1. Availability of Goods. The business should ensure the supply of goods to meet requirements of the society. The business should estimate the total demand for various commodities and adjust the production accordingly.

2. Supply of Quality Goods. The supply of quality goods and services to consumers at reasonable prices is the responsibility of the business. The business should aim at consumer satisfaction. The supply of adulterated business goods, poor ethics. It is the duty of the business to study needs of consumers and provide them with quality goods at reasonable prices.

3. Co-operation with the Government. Business should co-operate with the government in helping to achieve the objective of socialistic pattern of society. The Government has fixed priorities for the execution of major policies for the growth and development of the nation. The business community should adopt a positive approach towards policies of the government and should help it in solving national problems.

4. Creation of More Employment. The business can help the society by creating more and more job opportunities. The expansion of business not only helps in employing more persons in the factory but it has a multiple effect.

5. Utilising National Resources Properly. The business should put the scarce national resources to the best possible use. Wastage of anything will not only be the loss of the enterprise but it will be a national loss.

D. Organic Objectives

A business enterprise consists of people and it is organised to meet social needs. A business has the following organic objectives:

1. Survival. The first objective of business is to survive. It has to ensure that only those activities are taken up which are beneficial to the society. It should try to create demand for its products so that it is able to produce profits. Various factors of production are paid out of profits. A losing concern cannot survive for long.

2. Growth. Every business house aims at its proper growth. A number of plans and policies are framed to facilitate future growth of every unit.

3. Earn Recognition and Prestige. A business enterprise always aims to get recognition from those with whom it deals. This is possible only if it serves them well. A properly run unit may become indispensable for various sections of society.

E. National Objectives

A business enterprise does not exist for itself only, it contributes substantially to the national uplift. It should see the needs and requirements of the nation and meet national priorities fixed by the government. A business has the following national objectives:

1. Helping National Efforts. A business aims at helping the national efforts of improving economic position of the society. Every government fixes national priorities for the business. There may be some areas which are important for the nation but have not developed. The business should enter those fields of industrial activity which remained neglected so far. It is the duty of the business entrepreneurs

to produce goods on the basis of needs and not on the basis of profit margins.

2. Development of Small Entrepreneurs. Big business houses should help in the development of small undertakings. Big units may also help by encouraging ancillary units to sell their products to them and arranging industrial inputs for them.

3. National Self-sufficiency and Export Development. Business can play an important role in produce all those goods which are imported from outside. Efforts should be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange. A self-reliant nation has more prestige in international community.

4. Development of Skilled Personnel. Every country needs trained and skilled personnel for the development of its industry. Business houses can provide technical knowledge and training to their employees. This helps in skill formation .for the country's growth and development.

SCOPE OF BUSINESS

The scope of business is very broad. It covers a large number of activities which may be looked into from two perspectives, namely: Industry and Commerce.

(A) Industry: The activities of extraction, production, conversion, processing or fabrication of products are described as industry. These products of an industry may fall under any one of the following three categories:

(i) Consumers Goods: Goods used by final consumers are called consumers goods. Example of consumer goods Laptop, handset, bags, pencil, biro, cleaner, edible Oils, Cloth, Jam, Television, Radio, Motor Car, Refrigerator, etc.

(ii) Capital Goods: Goods used in the production of other goods are described as capital goods. Steel produced by steel plant is used for fabrication into a variety of products such as motor cars, scooters, rail Locomotive engines, ships, surgical instruments, blades, etc.

Similarly machine tools and machinery used for manufacturing other products also come under this heading.

(iii) Intermediate Goods: There are certain materials which are the finished products of one Industry and become the intermediate products of other industries. A few examples of this kind are the copper industry, the finished products of which are used in manufacturing Electrical Appliances, Electricity Wires, Toys, Baskets, Containers, and Buckets. Broadly speaking, industrial activities may be classified into primary and secondary which are explained in the following lines.

Primary Industries: Primary industries includes the following;

1. Extractive Industries: In extractive industries, the industries extract or draw their products from natural sources such as earth, sea, air. The products of such industries are generally used by other industries such as manufacturing and construction industries for producing finished goods. Farming, mining, lumbering hunting, fishing, etc., are some of the examples of extractive industries.

2. Genetic Industries: Genetic simply means parentage or heredity. Genetic industries are engaged in breeding plants, and animals for their use in further reproduction. For breeding plants, the seeds and nursery are typical examples of genetic industries. In addition, the activities of cattle-breeding farms, poultry farms and the hatchery come under the category of genetic industries.

Secondary Industries: Secondary industries includes the following;

1. Manufacturing Industries: These are engaged in producing goods through the creation of what is known as 'form utility' such industries are engaged in the conversion or transformation of raw materials or semi-finished products into finished products. The products of extractive industries generally become the raw-materials of manufacturing industries. Factory production is the outcome of manufacturing industry. Manufacturing industries may take any one of the following forms: Analytical, Synthetic, Processing, and Assembly Line.

(i) Analytical: This is a situation where the basic material is analysed and separated into a number of products. Oil refining is an example of analytical industry. The crude oil is extracted from beneath the earth and is processed and separated into petrol, diesel, kerosene, gasoline, lubricating oil, etc.

(ii) Synthetic: In this type of industries at least two materials are mixed together in the manufacturing operations to obtain some new products. Products like soap, cement, paints, fertilizers, cosmetics are the products of this industry. A new product will be derived from the combination of two or more products mixed together.

(iii) Processing: In this type of industry, raw materials are processed through a series of manufacturing operations making use of analytical and synthetic methods. Textiles, sugar and steel are examples of this category of industries.

(iv) Assembly line: In assembly line industry, the finished product can be produced only after various components have been made and then brought together for final assembly to be converted into final or finished products. Production of automobiles, watches, televisions, bicycles, railway wagons, etc., are the typical examples of the industry.

2. Construction Industries: These types of industries are focused on the making of constructing of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries such as Iron and Steel, Cement, Lime, Mortar, etc., and also the products of extractive industry such as stone, marble, granite, etc. one of the remarkable feature of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

(B) Commerce: It is an interchange of goods or commodities, especially on a large scale between different countries (foreign commerce) or between different parts of the same country (domestic commerce) trade; business. It can also refer to the process of buying and selling. It covers wholesale, retail, import, export trade and all

those activities which facilitate or assist in such buying and selling such as storing, grading, packaging, financing, transporting, insuring, communicating, warehousing, etc. The main functions of commerce is to remove the hindrance of (i) persons through trade; (ii) place through transportation, insurance and packaging; (iii) time through warehousing and storage; and (iv) knowledge through salesmanship, advertising, etc., arising in connection with the distribution of goods and services until they reach the final consumers.

Components of commerce :The concept of commerce usually covers two important areas: (i) Trade (ii) Service business or Aids to trade

(i) Trade: The term trade refers the act or process of buying, selling, or exchanging commodities, at either wholesale or retail, within a country or between countries. It is also the process of transferring of goods and services. It is the central activity around which the ancillary functions such as banking, transportation, insurance, packaging, warehousing and advertising are surrounded.

Classification of trade:

Trade can be categorized into two classifications:

1. Domestic Trade: this is also refers to as internal trade. It is internal because, it only focuses on buying and selling of goods within the boundaries of a country and the payment for the same is made in national or local currency either directly or through the banking system. Domestic trade can be further sub-divided into

Wholesale trade - Buying of goods in large quantities from producers and selling the same in small quantities to retailers.

Retail trade - activities involved in the selling of commodities directly to consumers, i.e. an industry that sells primarily to individuals, not corporations

2. Foreign Trade: it is also known as international trade. It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency (called foreign exchange) ensuring the payment of the price of the exported goods and services to the domestic exporters in domestic currency, and for making payment of the price of the imported goods and

services to the foreign exporter in that country's national currency (foreign exchange). International trade allows expansion of markets for both goods and services that otherwise may not have been available.

Aids to trade

There are certain function such as banking, transportation, insurance, ware-housing, advertising, communication, etc. which constitute the main auxiliary functions helping trade both internal and international. These auxiliary functions are discussed below.

(a) Banking: A financial institution licensed as a receiver of deposits. Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Commercial banks are mainly concerned with managing withdrawals and deposits as well as supplying short-term loans to individuals and small businesses.

(b) Transportation: it is any device used to move business item from one location to another. Common forms of transportation include planes, trains, automobiles, and other two-wheel devices such as bikes or motorcycles. It involved carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of business. It has linked all parts of the world together thereby enhancing international trade.

(c) Warehousing: A warehouse is a planned space for the storage and handling of goods and material. There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one location to another.

(d) Insurance: Insurance industry provides intangible products in the same way as banks, hotels, etc. therefore the firms in the industry are regarded as service companies. Insurance provides a cover against the loss of goods in the process of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, thief and the hazards of sea, transportation and thus protects the traders

form the fear of loss of goods. It charges insurance premium for the risk covered.

(e) Advertising: Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor. When effectively advertising is better placed to meet the needs of its customers, consumers and stakeholders. Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods produced by businessmen would not have been sold to a widely scattered market and customers would not be aware of the new products because of the paucity of time, physical-spatial distance, etc.

(f) Communication: This is another service area that aid business. It helps because up-to- date information is required. This information can be accessed through computers, satellite links and fax machines.