

Additional Reading Materials

Class XI

Business Studies

Chapter 1: Business, Trade and Commerce

Meaning of business: Business is an economic activity which involves sale, transfer or exchange of goods and services with the purpose of earning money from the same. It is sum total of all those activities by which raw materials are extracted from nature, transformed and processed by human beings and machines, carried from one place to another and delivered to them who are ready to pay for the same. In simple words business is thus the state of being busy in some economic activity that will lead to creation of utilities and profits.

Characteristics of business: The following are the notable features of business:

- a. Economic activity:** Business is essentially an economic activity as it involves production and distribution of goods and services with the objective of making profits from the same.
- b. Sale, transfer or exchange:** All business activities involve sale or exchange of goods and services for some consideration in return. If there is no sale or transfer or exchange of goods and services for money or its equivalent worth it cannot be business.
- c. Regular dealings:** One single and isolated transaction cannot be called business. In order to constitute as business there should be recurrent dealings. There should be a series of dealings for instance if I sell my mobile phone to someone that cannot be termed as business because it is one single isolated event but if I deal in buying and selling of mobile phones then it is called business.
- d. Profit motive:** The basic objective of any business is to earn profit. Profit is the essential element which will enable the business to survive for a long period of time. Profits are also mandatory for growth and expansion of the business.
- e. Creation of utilities:** Business adds various types of utilities to goods so that these goods become more important in fulfilling the human wants and desires. It adds time, place, form and possession utilities to goods and services.
- f. Element of risk and uncertainty:** There is always an element of risk and uncertainty associated with business. There can be possibility of loss or uncertainty of profits. Factors like change in demand, change in tastes, likes, dislikes, natural calamities, thefts and alike reasons can be associated with risk and uncertainty.

Comparison between business, profession and employment: the following table will help us to compare business, profession and employment:

Sl.No	Basis	Business	Profession	Employment
1.	Nature	Production, sale and exchange of goods and services	Specialized personal services	Performing allocated duties and assignments.
2.	Qualification	No specific or formal qualification is essential	Professional qualification and specific training needed	Depends on the nature of work.
3.	Motive	Earning profits	Service motive but for earning money	Earning remuneration
4.	Capital Requirement	Depends on the size of the venture	Very limited amount of capital is needed	Not required
5.	Risk	High	Negligible	No risk
6.	Reward	Profit	Professional fees	Remuneration

Industry: It refers to production of goods with the help of men and machines. The process of production involves growing, extracting, processing, manufacturing, fabrication, conversion or construction with the help of both human and non-human resources.

Classification of industries: Industries are classified as:

- a. **Primary Industries:** These are the industries which relate to nature or physical environment. This includes industries related to agriculture, forestry, animal husbandry, fishing, mining and quarrying. These industries relate to extraction of resources from nature for the benefit of human race. The primary industries include:
 - i. **Extractive Industries:** These industries are engaged in the extraction of useful resources from underneath the surface of the earth and sea. These are the oldest occupations and provide raw materials to other industries. Agriculture, mining, fishing, quarrying, forestation are all examples of this sector.
 - ii. **Genetic Industries:** These industries are engaged in the reproduction or multiplication of certain species of plants and animals. Plant nurseries, poultry farming, animal husbandry are all examples of this sector.

b. Secondary Industries: These industries use the sources or products produced by primary industries and convert them into finished products fit for use by the human race. Cotton for example is the product of primary industry but the same when converted into a shirt by the textile industry that becomes the product of secondary industries. Secondary industries are further classified as under:

i. Manufacturing Industries: These are industries which are concerned with transformation of raw materials and semi finished products into final products. They change the form and shape of the products and create new products. Manufacturing industries can be further sub-divided as:

- **Analytical:** In this case the basic raw material is broken into several useful products like crude oil is refined and many byproducts are produced like petroleum.
- **Synthetic:** In this case two or more materials are mixed to form a new product like many chemicals and colors are added to form paint.
- **Processing:** In this case a basic raw material is processed through various stages to get a new product like raw cotton is processed through spinning, weaving, dyeing, bleaching and other stages to get the final shirt.
- **Assembling:** In this type of industry already manufactured parts are brought together to form a new product like cars are assembled with the help of various parts.
- **Fabrication:** This industry transforms physical shapes into some specific forms. It mainly involves manual labour to do so.

ii. Construction Industries: These industries are engaged in the development of the infrastructure of the country in the form of roads, buildings, bridges, dams etc. These industries take the raw materials from the primary industries and secondary industries and create durable infrastructure.

c. Tertiary industries: These provide the services, support and link to the ultimate consumers and other industries. The services provided by this sector are helpful to all the other industries. The efficiency of tertiary sector helps in the rapid development of the other sectors and industries.

Commerce: It is that branch of business that is related to buying and selling of goods, exchange and distribution of finished goods. Commerce provides means for the exchange and distribution of goods between the producers and consumers. Commerce provides necessary platform and is an organized system for the exchange of goods and services between the members of business world and rest of the society. Like business commerce is also an

economic activity which is undertaken with the motive to earn profit. Commerce has two branches called trade and auxiliaries to trade.

Trade: Trade implies buying and selling of goods and services with the aim of earning profit. It is concerned with the sale, transfer or exchange of goods and services with the intention of earning profits there from. Trade plays a vital role in connecting the producers with the consumers. It is the most vital intermediary between the producers and consumers. Trade can be categorized as:

- a. Internal Trade or Home Trade:** This refers to buying and selling activities which are carried out within the members of the same country. It can be either wholesale trade or retail trade.
- b. Foreign Trade or International Trade:** This refers to buying and selling activities which are carried out with the members of different countries. This can be either import trade, export trade or entrepot trade.

Auxiliaries to trade: Auxiliaries to trade or aids to trade are facilitating services which help in the removal of hindrances or barriers related to trading. These services relate to removal of the following hindrances:

- a. Transportation (*removal of hindrance of place*):** Transport implies movement of goods and people from one place to another. Transportation adds utility to finished products by transferring them from the place of production to the place of consumption. Transport creates place utility and helps in widening the market. Transportation eliminates the hindrance of place.
- b. Banking (*removal of hindrance of finance*):** Banks supply money which will assist smooth functioning of trade. Banks also helps in smooth remittance of funds from one place to another and also gives various forms of financial assistance to traders and thereby removes the barrier of finance.
- c. Warehousing (*removal of hindrance of time*):** There is always a time gap between production and consumption of goods. During this time the goods need to be stored so that quality of the same is not affected. Moreover there are some goods which are produced during a particular season only but consumed all throughout the year so storing the same becomes essential. Again there are goods which are produced all throughout the year but needed only during particular season and so there is a need to store these goods too. Warehousing as such relieves the traders from these associated risks. The hindrance of time is well removed by warehousing.
- d. Insurance (*removal of hindrance of risk*):** There is always a possibility of loss in business due to one or the other reason and as a result insurance becomes unavoidable for any business concern. Insurance removes the hindrance of risk and protects the traders against any type of risk.

- e. **Advertising (removal of hindrance of knowledge):** Advertising informs the consumers about the availability of various types of products. The main purpose of advertising is to create demand for any product and to sustain the same. It educates the consumers about the uses of the products and thereby removes the hindrance of knowledge.
- f. **Communication (removal of hindrance of information):** Communication helps in the efficient operations of commercial activities. Communication is the life blood of any business and it is the way to reach customers and acquaint them of the products and thus removes the hindrance of information.

Objectives of business: Though the basic objective of any business is to earn profit but it cannot be the sole objective. There are other objectives of the business too. We are now going to discuss the objectives of any business:

- a. **Creation of customers:** One of the primary objectives of any business is to create customers for self. A business cannot survive without customers. Creating customers amount to creation of markets to which the business can supply the products they make and hence the same will determine the profitability of any business.
- b. **Innovation:** Innovation means the changes which bring about improvement in the products, process and in the distribution channel. Business can survive in the long run by providing newer products at reasonable prices to its existing and new customers and this can be achieved only through improved method of production and reduced cost of distribution thereby innovation becomes one of the most important objectives of any business.
- c. **Best possible use of resources:** The objective of every business should be to make the best possible use of available resources. This objective can be achieved by employing efficient production mechanism which reduces wastage. Hence, an important objective of business is to find ways and means of making the best possible use of resources at its disposal.
- d. **Avoidance of unfair trade practices:** Activities like hoarding, black marketing, and advertisement making false representations are common and these constitute unfair trade practices. A business should avoid all these unfair trade practices as it may lead to negative impacts on the profit earning capacity of the business.
- e. **Avoidance of pollution:** One of the basic responsibilities of any business is to give back something positive to the society in terms of better quality products at reasonable prices but not at the cost of society itself. The objective of the business can never be to pollute the environment and hence the objective is to avoid creation of slums and all types of pollution.
- f. **Development of human resources:** Business can accomplish its objectives and prosper if it can improve the skills and develop the competencies of its staff. Thus, it is important the business should

arrange for training and development programs for its employees. These training and development programs are important as they motivate the employees, give them better skills to perform jobs and also boost their morale up and create a base of loyal employees.

- g. Economic well-being of the employees:** An important human objective of business is to pay fair remuneration and incentives for better performance to its employees. Satisfactory living and working conditions and security of service are necessary for the whole-hearted cooperation of the employees. Employees should be assured of economic security through the benefit of provident fund as well as pension fund and other retirement benefits.
- h. Promoting social justice:** As a responsible citizen a businessman is expected to provide equal opportunities to all with whom he deals. He is expected to provide equal opportunities to all his employees to work and progress and as such special attention is to be paid to the poor and neglected section of the society.