Nature and Purpose of Business

Human activities can be classified into two:-

1.Economic Activities
2.Non Economic Activities

1. Economic Activities

Economic activities are those activities which are undertaken by people to earn money. The primary objective behind every economic activity is to earn money. Economic activities may be business, profession or employment.

Examples for Economic Activities

A worker working in a factory

A teacher teaching in a school

A doctor runs his-own clinic

Practice of a lawyer

Farmer cultivates his land

Activities of a business man

Non Economic Activities

Non economic activities are those activities which are undertaken by people without the intention of earning money. They are done for getting psychological satisfaction or as a hobby.

Examples:-

House wife cooking food for her family

Boy helping an old man to cross the road

Gardening as a hobby

Playing Football

Human Activities

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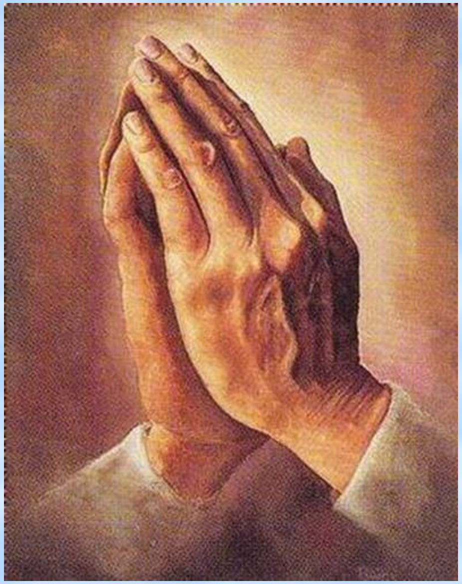
Economic Activities

- Business
- Profession
- Employment

Non Economic Activities

- Religious
- Patriotic
- Social



Business

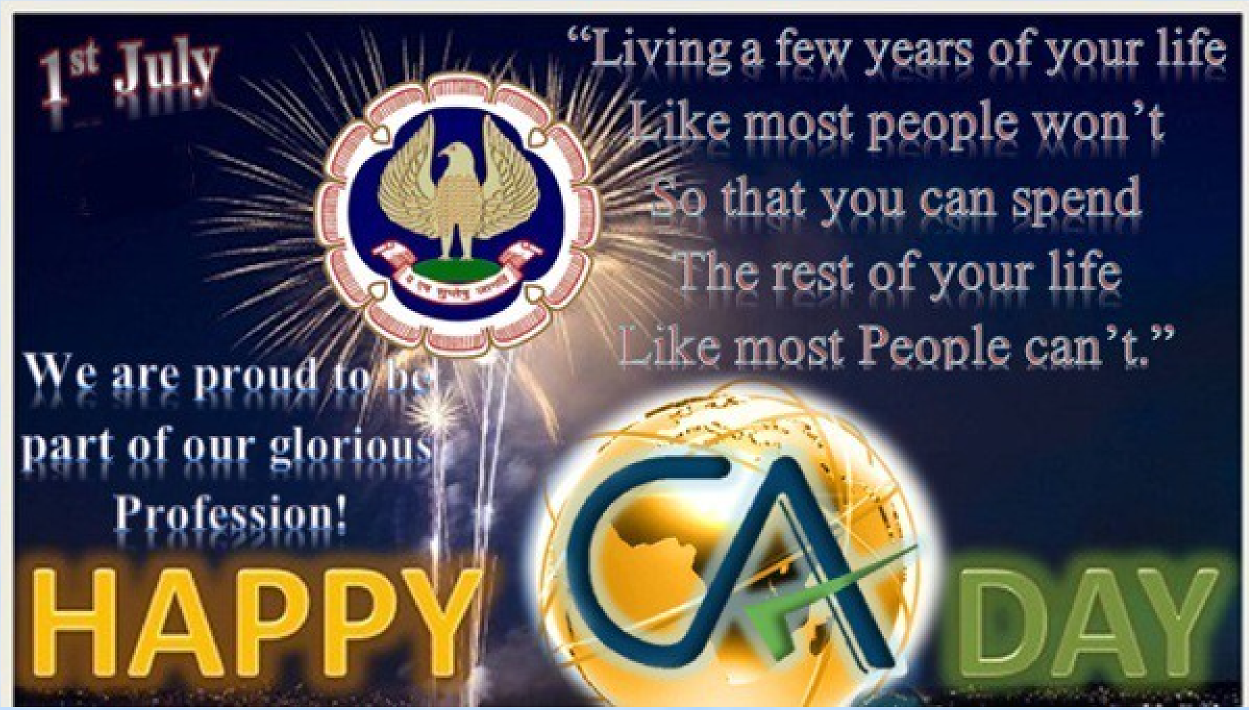
Business is an economic activity carried out regularly with the objective of earning profit. Business carries an element of risk and uncertainty. It is concerned with production, purchase and sale of goods or supply of services to earn profit. Manufacturing, trading, mining, banking, transport, insurance etc. are business activities.

Features of Business

- **An Economic Activity**
- **Production and purchase of goods and services**
- **Sale or exchange of goods and services**
- **Regularity in dealings**
- **Profit motive**
- **Element of risk**
- **Uncertainty of return**
- **Creation of utility**

Profession

Profession is an occupation, in which application of special knowledge and skill of a person is necessary. It involves rendering of personal services of a special and expert nature. They get fee as return for their service. Services of doctor, lawyers, charted accountants etc. are example for profession.



Employment

Employment refers to an occupation in which people work for others regularly and get salary or wage in return.

Difference between Business, Profession and Employment

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Basis of Difference	Business	Profession	Employment
Commencement	A business can start at any time	A person can engage in his profession only after getting membership of a professional body.	An employee can work in an office only after getting appointment letter from his employer.
Nature of work	Production or purchase and sale of goods and services	Rendering of personalized expert service	Performing the works assigned by the employer
Qualification	No. minimum qualification is required in business	In profession specialized knowledge and training is required	In employment qualification is decided by the employer.

Basis of Difference	Business	Profession	Employment
Reward	Profit	Fees	Wage or salary
Risk	High risk in business	Fees is generally regular, so there is very little risk	Salary is fixed and regular, so there is no risk
Transfer of ownership	We can sell the ownership of a business to another person	It is not possible in profession	It is not possible in employment.
Capital Investment	In business capital investment is needed	In profession limited capital investment is needed for establishment of office	In employment no Capital investment is needed
Code of Conduct	In business there is no code of conduct to be followed	In profession professional code of conduct to be followed.	Norms of behavior laid down by the employer are to be followed.

Classification of Business Activities

On the basis of function we can classify business activities into two:-

1. Industry
2. Commerce

Industry

It is that part of business activities which is concerned with production of goods and extraction of materials. It includes business activities like raising and processing natural resources, manufacturing or assembling goods, construction of buildings etc. Industries can be classified into three broad categories namely **primary**, **secondary** and **tertiary**.

1.Primary Industries

It includes all those business activities, which are concerned with extraction of natural resources, reproduction and development of living organisms, plants etc. Primary industries can be classified into two namely **extractive industries** and **genetic industries**.

A. Extractive Industry

Extractive industries extract or draw out products from natural sources like soil, water, air etc. It extract timber from forest, fish from sea, coal and iron are from soil etc. Primary industries supply basic raw materials to manufacturing industries.

Eg. Mining, hunting, fishing from natural sources, fruit gathering, agriculture

B Genetic Industries

The industries which are concerned with reproduction or multiplication of certain species of plants or animals to earn profits from their sale are known as genetic industries.

Eg. Agriculture nursery, poultry farming, cattle breeding, pisciculture (fish farming), forestry etc.

2.Secondary Industries

These industries engaged in the process of manufacturing goods or constructing building roads etc. Secondary Industries use the raw materials supplied by the primary industry. Secondary industries can be further subdivided into two:-

A) Manufacturing Industry

B) Construction Industry

A. Manufacturing Industry

Manufacturing Industries are engaged in the process of converting raw materials into finished good and create form utilities. They convert cotton into textile, timber into furniture, iron ore into steel etc. On the basis of methods of operation used for production, we can classify manufacturing industries into **four** categories.

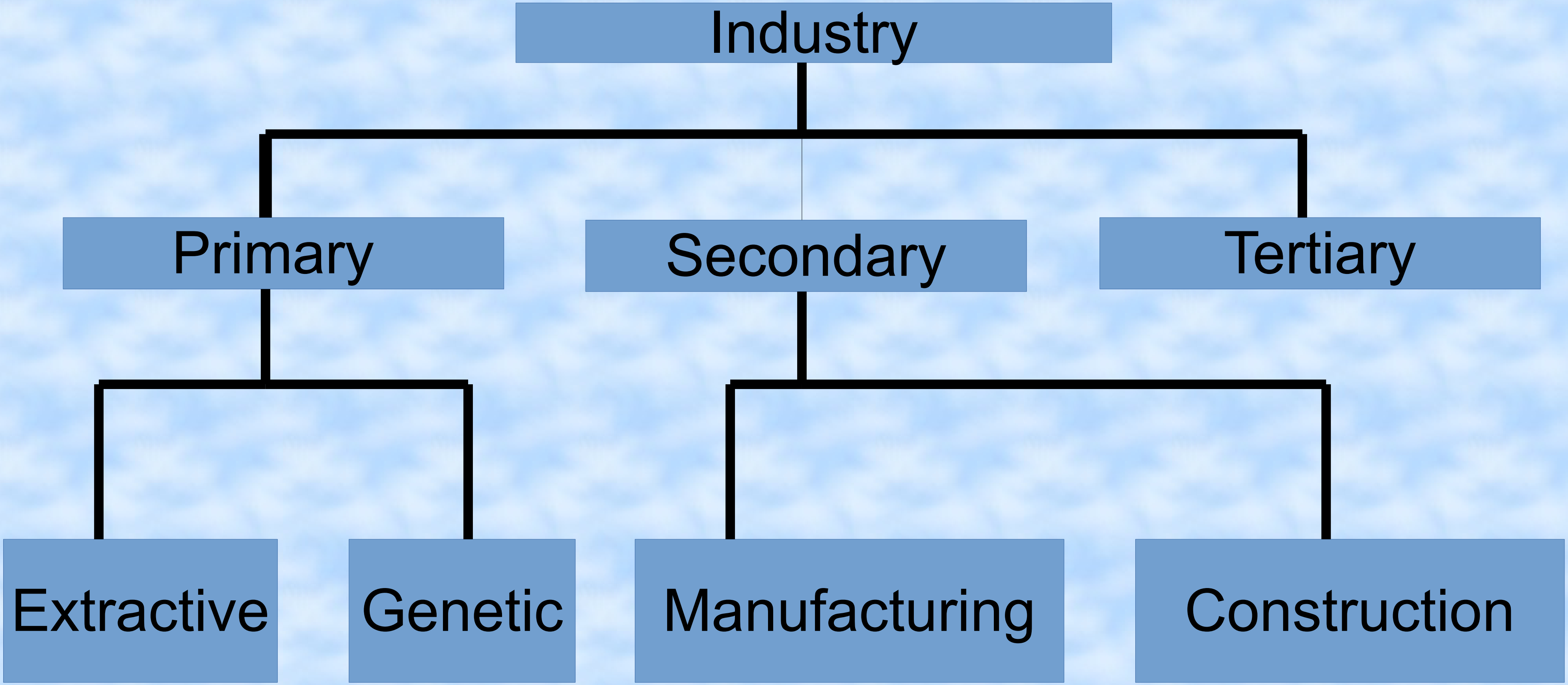
a. Analytical industry
b. Synthetic industry
c. Processing industry
d. Assembling industry

B Construction Industry

These industries are engaged in the construction of buildings, dams, bridges, roads, canals etc. The raw materials required for these industries are supplied by the manufacturing industries and extractive industries. Construction industries outputs are always immovable.

C Tertiary Industry

Tertiary industries are providing support service to primary and secondary industries. Tertiary Industries consists of banking, Insurance, advertising, communication etc.



Business=Industry + Commerce

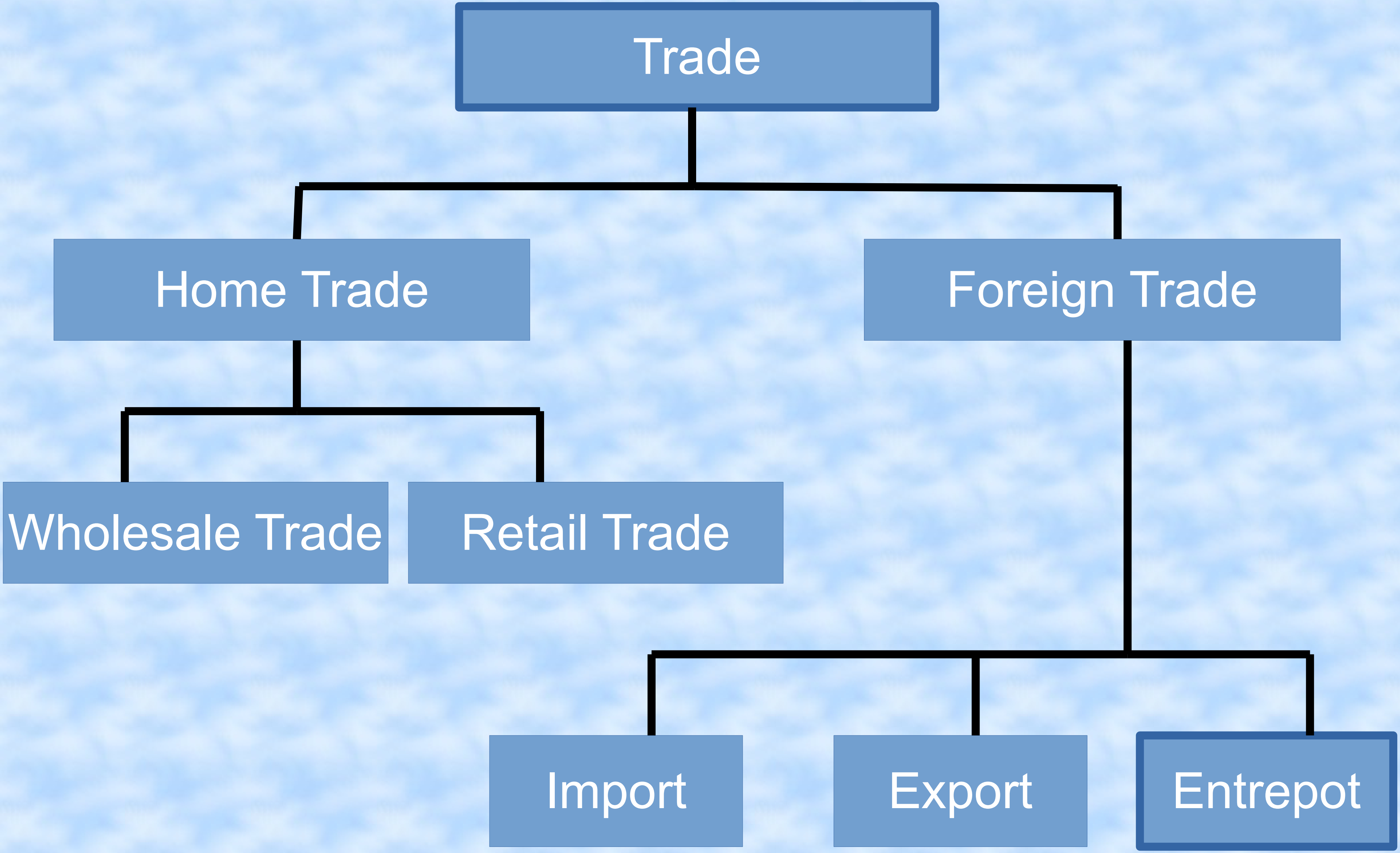
Commerce=Trade + Aids to Trade

2.Commerce

Commerce includes trade and aids to trade. Buying and selling of goods is termed as trade. But there are a lot of activities that facilitates the process of trade. These are called aids to trade (helpers to trade).Aids to trade include banking, insurance, communication, advertisement and warehousing.

Trade

Trade is the central activity (nucleus) of commerce. Trade refers to buying and selling of goods and services with the objective of earning profit. It helps the movement of goods from the producer to the ultimate consumers. Traders are the connecting link between producer and consumer. In the absence of traders, producers will have to go in search of consumers. Trade may be of **Internal Trade** or **External Trade**.


Trade
Home Trade
Foreign Trade
Wholesale Trade
Retail Trade
Import
Export
Entrepot

Aids To Trade

These are services which help in removing various hindrances which arise in the process of trade. The important aids to trade are transportation, communication, banking, insurance, warehousing, and advertising.

- Transportation
- Communication
- Banking
- Insurance
- Warehousing
- Advertisement
- Insurance

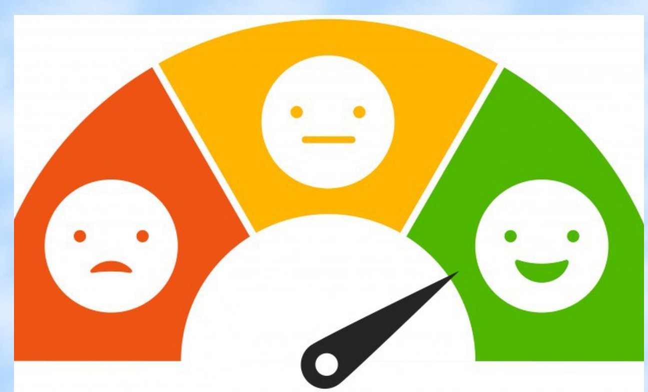
Objectives of Business

Economic Objectives

1. Earning Profit
2. Innovation
3. Creation of Customers
4. Productivity
5. Workers performance and attitude

Social Objectives

1. Supply Quality goods at Reasonable price
2. Welfare of employees
3. Community Service



Role of Profit in Business

Securing profit is the basic requirement of a business. Profit making is essential in business due to the following reasons.

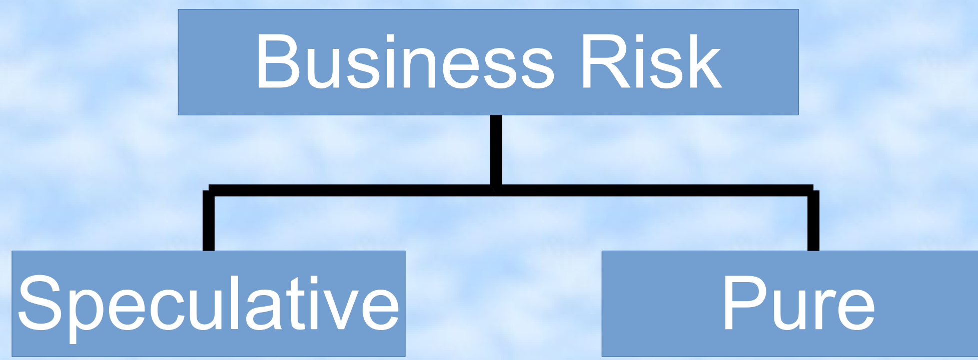
1. **Profit is a source of Income**
2. **Profit is essential for growth and expansion**
3. **Profit is the index of business performance**
4. **Profit Increases the efficiency of business**
5. **Profit enhances prestige**

Business Risks

Risk means the possibility of loss. In business risk is unavoidable. Business enterprises usually face two types of risks. They are:-

1.Speculative risk

Speculative risk involves both the possibility of gain as well as loss. It may arise due to change in demand, change in the price of raw material etc. it may increase or decrease.



2. Pure Risk

Pure risk involves only the possibility of loss or no loss. The chance of fire, theft, etc. are examples of pure risk.

Nature of Business Risk

- Business risk is due to uncertainties
- Risk is an essential part of every business
- Profit is the reward for risk taking
- Risk depends mainly upon the nature and size of business

Methods of dealing with Business Risk

No business enterprise can escape from the presence of risk. There are many ways for a businessman to deal a risk situation.

- Take precautionary measures like firefighting equipments.
- Take an insurance policy to cover various types of risks.
- Decide not to enter into high risk business transaction.
- Take measures like create provisions in the current earning as in the case of provisions for bad debts.

Causes of Business Risk

1. Natural Causes
2. Economic Causes
3. Human Causes
4. Government Causes
5. Physical Causes

Factors to be considered while starting a business

- **Selecting the line of business**
- **Size of the firm**
- **Choice of form of ownership**
- **Location of the business**
- **Financial requirements**
- **Physical facilities**
- **Work force**
- **Launching the enterprise**

OR

LARGE BUSINESS

OR

SMALL BUSINESS

Partner ship

OR

COMPANY

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