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BUSINESS

Business is an economic activity which involves regular production and/or exchange of goods and services with the main purpose of earning profits through the satisfaction of human wants.

Business includes production and exchange of goods with the object of earning profits. All activities concerned with production of goods and services and their distribution are known as business activities. These activities are organised and performed under the framework of an institution known as business organisation/firm/enterprise. Business has been defined in different ways as :

1. Business is an institution organised and operated to provide goods and services to society under the incentive of private gain.
2. Business is a human activity directed towards producing or acquiring wealth through buying and selling goods.
3. Business is an activity in which different persons exchange something of value (whether goods or services) for mutual gain or profit.
4. Business is a form of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activity is conducted. Profit is not the sole objective of the business. It may have other objectives like promotion of welfare of the workers and the general public. Business achieves its objectives by producing and distributing those goods and services which can satisfy human wants.

Thus, business pervades all human activities directed toward earning profits or economic gains. It includes all activities from production to distribution of goods and services. Industry, trade and other activities like banking, transport, insurance, warehousing, advertising etc. are all parts of the modern business system.

SCOPE OF BUSINESS

The scope of business is very wide. It should not be confused with trade. 'Trade' simply denotes purchase and sale of goods whereas 'business' includes all activities from production to distribution of goods and services. It embraces industry, trade and other activities like banking, transport, insurance, and warehousing which facilitate production and distribution of goods and services. The whole complex field of commerce and industry, the basic industries, processing and manufacturing industries, the network of ancillary services : distribution, banking, insurance, transport and so on, which serve and interpenetrate the world' of business as a whole are business activities.

The business activities may be grouped under two broad headings, viz., (1) Industry and (2) Commerce. A business undertaking which deals with growing, extracting, manufacturing or construction is called an *industrial enterprise*. On the other hand, a business undertaking which is concerned with exchange (buying and selling) of goods and services or with activities that are incidental to trade like transport, warehousing, banking, insurance and advertising, is called a *commercial enterprise*.

INDUSTRY

The activities of extraction, production, conversion, processing or fabrication of products are described as industry. The products of industry may fall in any one of the following three categories :

- (a) **Consumers' Goods** : Goods used by final consumers are called consumers' goods. Edible Oils, Cloth, Jam, Television, Radio, Scooter, Refrigerator, etc. come under this category.
- (b) **Producers' Goods** : Goods used for the production of other goods are described as producers' goods. Machine tools and machinery used for manufacturing other products come under this heading. These are also called capital goods.
- (c) **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, aluminium industry, and plastic 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* industries. Primary industry may be either extractive or genetic, and secondary industry may be either manufacturing or construction.

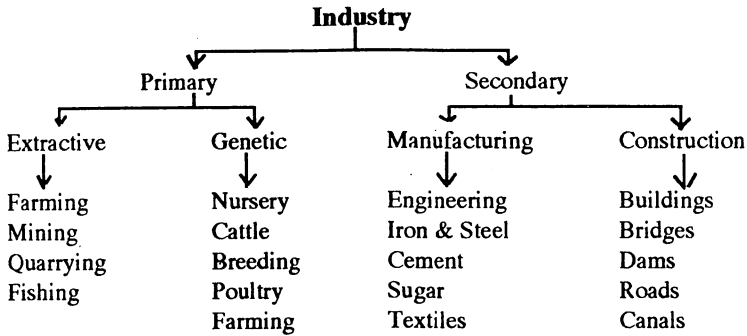


Fig-1. Classification of Industries

1. **Extractive Industries :** They extract or draw out products from natural sources such as earth, sea, air. The products of such industries are generally used by 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 means parentage or heredity. Genetic industries are engaged in breeding plants and animals for their use in further reproduction. For breeding plants, the nurseries are typical examples of genetic industries. In addition, the activities of cattle-breeding farms, poultry farms and fish hatchery come under the category of genetic industries.
3. **Manufacturing Industries :** These are engaged in producing goods through the creation of 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 many assume the following forms :
 - (a) **Analytical :** The basic material is analysed and separated into a number of products. Petroleum refining is an example of analytical industry. The crude oil is extracted from beneath the earth and is processed and separated into petrol, kerosene, gasoline, lubricating oil, etc.
 - (b) **Synthetic :** Two or more materials are mixed together in the manufacturing operations to obtain some new products. Products like soap, cement, paints, fertilisers and cosmetics are produced by synthetic industries.
 - (c) **Processing :** In this case, raw materials are processed through a series of manufacturing operations making use of analytical and synthetic methods. Textiles, sugar and steel are example of this category.

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

4. **Construction Industries** : They are concerned with the making or construction 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 industries such as stone, marble, etc. 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.

COMMERCE

Commercial occupations deal with the buying and selling of goods, the exchange of commodities and distribution of finished products. It may be defined as *an organised system for the exchange of commodities and the distribution of finished products*.

Commerce links producers and consumers. The main object of commerce is to ensure smooth distribution of goods and services to satisfy the wants of consumers. *It is the sum total of all those activities which are concerned with the transfer of goods and services from the producers to the consumers*. Thus, it includes exchange of goods and the services which facilitate exchange of goods. These services are transport, banking, warehousing, insurance and advertising. Both trade as well as aids to trade (i.e., services which facilitate trade) bridge the gap between producers and consumers.

The chief function of commerce is to remove the hindrances of person (through traders), place (through transportation, insurance and packaging), time (through warehousing and storage) and knowledge (through salesmanship, advertising, etc.) arising in connection with the distribution of goods and services until they reach the consumers. By removing these hindrances, commerce ensures a free and smooth flow of goods from producers to consumers or users.

Commerce serves both the producers and the consumers by removing several hindrances existing between them. The role of commerce in removing these hindrances is discussed below :

1. **Hindrance of Person** : The producers of goods and the consumers of goods are not always situated in the same locality. Thus, the producer is not able to have direct contact with the consumers to sell his products. There is a need of persons who could buy products from the producers and sell them to the ultimate consumers. Traders have emerged to serve as a link between the producers and the consumers. Thus, trade plays an

important role in establishing contacts between the producers and the consumers. Wholesalers, retailers and mercantile agents operate to remove the hindrance of person.

2. **Hindrance of Exchange** : Money removes the hindrance of exchange between the producers and the consumers. It serves as a common denominator of measurement of value. In the modern world, exchange of goods for goods is not always feasible. It is the evolution of money (or currency) which has encouraged national and international trade.
3. **Hindrance of Finance** : This problem is solved by the banks and other financial institutions. Consumers need funds to finance purchase of luxury items such as T.V., refrigerator and car. Businessmen need funds for meeting their working capital requirements. Banks facilitate trade by granting loans, cash credit and overdraft facilities.
4. **Hindrance of Place** : Goods may be produced at a place where advantages of location other than the market are available. The barrier of distance between the place of production and the market where these products can be sold is removed by different means of transport. Besides transport, the services of insurance to cover the risk of loss during transit and storage, and packaging to protect goods against damage and pilferage, are also aimed at removing the hindrance of place.
5. **Hindrance of Time** : Goods, in modern times, are produced in anticipation of demand and as such they are to be stored till the demand for the same comes up. The function of storage and preservation is performed by warehouses which remove the hindrance of time by balancing the time lag between production and consumption, thus creating time utility. During the process of storage, insurance plays its role by providing a cover against the risk of loss or damage through theft or fire.
6. **Hindrance of Knowledge** : A producer may find it difficult to sell his products unless and until he brings to the knowledge of the prospective consumers the utility and the distinctive features of his products. Advertising and salesmanship help to remove the hindrance of knowledge on the part of the prospective buyers by bringing to their notice the utility of the goods and services offered.
7. **Hindrance of Risk** : There are a number of risks in any business activity. These can be covered with the help of insurance companies. Insurance companies undertake to make good the loss by receiving a small amount of premium in advance as consideration.

In brief, commerce is that part of business which seeks to facilitate exchange of goods by removing various hindrances, namely, those of person through trade, of exchange and finance through money and banking, of place through warehousing and storage, and of lack of knowledge through advertising.

Importance of Commerce in Modern Economy

Commerce has gained tremendous importance in the economic system of all countries of the world. The need of commerce is felt because there is generally no direct contact between the producer and the consumer. Moreover, it is of no-use to produce goods unless they could be transferred to the consumers or users. Industry cannot survive if trade, transport, warehousing, insurance, banking and other allied services do not exist. In fact, it is dynamic commerce which has encouraged the industrialists to produce on a very large scale by ensuring them ready supply of raw materials and other inputs and ready market of their output. With the help of commercial activities, international trade has also been possible.

Modern commerce is dynamic in the sense that it helps the consumers to get want-satisfying products. It does not matter where the consumers live. Commerce works to remove all hindrances between the producers and the consumers. It helps in increasing standard of living of the people by providing them various goods which would not have reached them in the absence of commercial activities. In fact, commerce is the *nerve system* of the economy of a nation. It helps both in production and distribution of want - satisfying products.

SCOPE OF COMMERCE

Numerous activities are necessary to remove the obstacles or hindrances in the way of exchange of goods and services. Each group of activities undertaken to remove a particular obstacle takes the form of a branch of commerce. The branches of commerce can be classified into two broad categories, viz., (i) Trade, and (ii) Aids to trade.

TRADE

Trade refers to the sale, transfer or exchange of goods and services. It constitutes the central activity around which the ancillary functions like banking, transportation, insurance, packaging warehousing and advertising cluster. Trade is actual purchase and sale of goods in a market. It may be a *barter* exchange or a *monetary* exchange. Barter exchange means a system of exchanging goods for goods directly, e.g., wheat for cotton. Monetary exchange means a system of exchanging goods against money. Monetary value of a product is known as its price. Money as a medium of exchange and a common measure of value plays an important role in the modern economies.

Kinds of Trade

Trade may be classified into the following two broad categories :

1. **Internal or Home Trade** : It consists of buying and selling of goods within the boundaries of a country and the payment for the same is made in national currency either directly or through the banking system. Internal trade may be further sub-classified into :

- (a) **Wholesale Trade** : It involves purchase and sale of goods belonging to a specific type or variety in bulk. A wholesaler buys in larger quantities from the producers or manufacturers and sells comparatively in smaller quantities to the retailers. The wholesaler constitutes a link between the producers on the one hand and the retailers on the other.
- (b) **Retail Trade** : It refers to the selling of goods by the retailer to the customers, thus acting as a link between the wholesaler and the final consumer. Retail trade is conducted through a variety of forms: shops, vendors, pedlars, mail order houses, etc. Retail trade is also conducted in the form of departmental stores, multiple shops, co-operative stores, super bazars and self-service stores.
- 2. **International or Foreign 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). It facilitates the payment of the price of the exported goods and services to the domestic exporter in domestic currency, and for making payment of the imported goods and services to the foreign exporter in that country's national currency (foreign exchange). To facilitate this payment, involving exchange transactions, a highly developed system of international banking under the overall control and supervision of the central bank of the concerned country (Reserve Bank of India in our case) is involved.

International trade may be further sub-classified into :

- (a) *Import trade*, involving purchase of foreign goods for use or sale in the domestic market.
- (b) *Export trade*, involving supply of domestic goods to foreign buyers or markets; and
- (c) *Entrepot or re-export trade*, involving the import of foreign goods with a view to re-exporting them and making a profit in the process.

Auxiliaries to Trade or Aids to Trade

There are certain functions such as banking, transportation, insurance, warehousing, advertising, etc. which constitute the main auxiliary functions helping trade. These auxiliary functions have been briefly discussed hereunder :

- 1. **Transport** : It performs the useful function of carrying goods from producers to wholesalers, to retailers, and finally to customers. Transportation provides the *wheels of commerce*. It has linked all parts of the world with the help of efficient means of transport.
- 2. **Warehousing** : There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses. Storage creates *time utility* and removes the

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hindrance of time in trade. It performs the useful function of holding the goods for the period they are not demanded. Thus, warehousing discharges the function of storing the goods both for manufactures and traders for such time till they decide to sell the goods.

3. **Insurance** : It 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, theft, flood and the hazards of sea transportation. It, thus, protects the traders from the fear of loss of goods. It charges a nominal insurance premium for the risks covered.
4. **Banking** : Banks provide a device through which payments of goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Banks also perform the useful economic function of collecting the savings of the people and business houses and making them available to those who may profitably use them. Thus, banks may be regarded as traders in money and credit.
5. **Advertising** : It performs a useful function of bridging the knowledge or information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods would not have been sold to a widely scattered market and customers would not have come to know about many of the new products because of the paucity of time and physical spatial distance between the producers and the consumers.

The terms 'commerce' and 'trade' do not carry the same meaning. The points of distinction between the two are as follows :

1. Commerce includes all activities engaged in distribution of goods and services from producers to consumers. Trade indicates the act of exchange or purchase and sale of goods. Trade helps in passing ownership and possession of goods from seller to buyer.
2. The scope of the term 'commerce' is wider than the term 'trade'. Trade is a part of commerce. Commerce includes trade and various services which facilitate trade.
3. Commerce creates time and place utility whereas trade creates possession utility through buying and selling.

Interrelationship Between Trade, Commerce and Industry

There is a great need of coordination between trade, commerce and industry for the economic development of any nation. Trade, commerce and industry are important segments of the business system. They are interdependent and interrelated. If any of these is weak, the whole business system will be adversely affected.

Difference between Industry, Commerce and Trade

Industry	Commerce	Trade
1. It means production of goods and services.	It means distribution of goods and services supplied by industry.	It means actual exchange or process of purchase and sale of goods.
2. It represents supply side of goods and services.	It represents demand side of goods and services.	It represents exchange of goods and services.
3. It requires huge fixed and working capital in production.	It requires limited fixed capital, but huge working capital.	It requires limited fixed capital. Limited working capital is enough if turnover is quick.
4. It includes genetic, extractive, manufacturing and construction industries.	It includes trade and auxiliaries to trade.	It includes inland and international trade.
5. It may be carried on at home, workshop, factory or mine.	It involves movement of goods from the place of production to the place of consumption.	It is carried on where buyers and sellers exist.
6. It creates form utility by changing the form or shape of materials.	It creates place utility and time utility through preservation of goods and their movement from one place to another.	It creates possession utility through exchange of goods and services.

Industry is the backbone of trade and commerce. The problem of distribution of goods and services will arise only when the goods are produced by the industry. Thus, if industry is well developed, there will be a greater need of trading and commercial activities like transport, banking, insurance, storage, packaging, etc. At the same time, it should also be noted that industry depends upon trade and commerce to a great extent. Raw materials, capital and services like transport, banking and storage are almost indispensable for the survival and growth of industry. The goods and services produced by industry are distributed among the customers only with the help of trade and commerce.

Traders help the industry in determining what to produce, when to produce and for whom to produce. They facilitate procurement of raw materials by the industry and marketing of goods and services produced by the industry. Trade is also the nucleus of business since all commercial and industrial activities revolve around exchange of goods and services. Higher the volume of trade, higher will be the need for production of goods and services and rendering of allied services such as transport, storage, banking

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and insurance. The existence of sound industrial base in the country and infra-structural activities also facilitate trade to a great extent.

Thus, trade, industry and commerce are interdependent and interrelated segments or activities of modern business. None of these can exist in isolation. Each facilitates the other activities of business. For instance, trading and commercial activities help in the growth of industry. Similarly industry stimulates the growth of trade and commercial activities like warehousing, transport and banking.