

# Lesson 5

## Structure of Business

You may be purchasing several items of your daily need from the local shopkeepers. Have you ever observed their activities? What exactly do they do? Actually they buy goods from different sources and then sell those to you as per your requirement. In this process they earn some profit. We can say that they all are engaged in business. Similarly, you know that individuals who manufacture products for sale, construct roads and buildings, own vehicles and give it on rent for carrying goods and commodities, publish books, magazines and newspapers, are all engaged in business. Some may be running establishments to provide various services like giving cable TV connection, booking rail and air tickets, organising tours & travels etc. These are all examples of business activities. People engaged in business undertake their activities regularly and thereby earn profit. Although, all these businesses have a common objective of earning profit, they differ from each other with respect to their size, nature, volume of transaction, management and ownership, etc. Thus, structurally they are different. In this lesson, let us learn about the structure of business.

### 5.1 Objectives

After studying this lesson, you will be able to:

- classify business;
- explain the meaning of industry and commerce;
- identify various industrial and commercial activities;
- explain the meaning of electronic commerce; and
- describe the advantages of electronic commerce.

### 5.2 Business Activities

Activities undertaken regularly with the object of making a profit are called business

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activities. These activities are performed to (i) produce goods and provide services; or (ii) purchase and sell goods and services. Mining, manufacturing, trading, transporting, banking, etc. are examples of business activities. In every business certain activities are carried on and these activities differ from business to business. For example, activities involved in a manufacturing business are different from that of a banking business. That means there are different types of business. Let us find out what they are and also classify them.

### 5.3 Classification of Business

Broadly, business may be classified on the basis of size, ownership and functions. Let us discuss this in detail.

#### A. Classification on the basis of Size

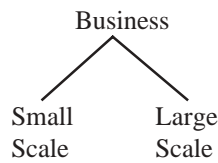
The size of business may be measured by the amount of capital invested, number of persons employed, the volume of transactions and the area of operation. On the basis of these, business activities can be grouped into small-scale and large-scale. Those business units which require less capital, employ few workers, produce and sell limited items within a limited area, are called small-scale business. Small-scale business units are generally owned and managed by a single individual or a few individuals. Grocery stores, stationery stores, restaurants, poultry farms, etc. are some of the examples of small-scale business.

Similarly, business units that require heavy capital investment, employ a large number of workers, produce and sell large volume of goods and services are called large-scale business. Their area of operation and volume of activities are larger as compared to small-scale business. These business units are generally owned and managed by groups of individuals or the government. Iron and steel, aluminium, fertilizer, petrochemicals, and automobile manufacturing units are some of the examples of large-scale business.

#### B. Classification on the basis of ownership

You must have seen the owners of the small shops in your locality. But have you ever seen the owners of Tata Iron and Steel Company (TISCO), Bharat Sanchar Nigam Limited (BSNL) or National Aluminum Company (NALCO), ? As you know, these are large-scale business enterprises and therefore their owners are not single individuals. There may be a group of individuals or the government who own these businesses. So on the basis of owners of business, we can classify business as Private sector enterprise and Public sector enterprise.

Business enterprises owned and managed by the government are called public sector enterprises. These enterprises are formed by government as departmental undertakings, statutory corporations or government companies.



Any unit engaged in business activities is called Business Enterprise or Business Organisation.

Types	Departmental undertakings	Statutory corporations	Government companies
Meaning	These enterprises are directly managed by different departments of Government.	These enterprises are established by special Acts of the parliament or state assembly.	These enterprises are registered as Joint Stock Companies under the Indian Companies Act, 1956. The management and control of these companies also lies with the Government. Majority of share capital of these companies are held by the central/state government.
Example	Indian Railways, Posts and Telegraph.	Unit Trust of India, Life Insurance Corporation of India, Food Corporation of India.	Bharat Heavy Electricals Limited, Bharat Electronics Limited, Hindustan Machine Tools Limited.

Business enterprises owned and managed by individuals or group of individuals other than the Government are called private sector enterprises. These enterprises may be organized in the form of Sole Proprietorship, Partnership, Joint Hindu Family, Joint Stock Company and Co-operative Society.

Types	Sole Proprietorship	Partnership	Joint Hindu Family	Joint Stock Company	Co-operative Society
Meaning	These enterprises are owned and managed by single individual.	These enterprises are owned and managed by two or more individuals as partners.	These enterprises are owned by the members of a Joint Hindu Family and managed by the karta- the head of that family.	These enterprises are formed by groups of individuals and governed by the Indian Companies Act, 1956.	These enterprises are formed by a group of individuals and registered under the Co-operative Societies Act, 1912.
Example	Modern Grocery shop, Lal Stationery shop	Dwarika Prasad Jagdish Prasad & co.	Gupta & Sons (HUF)	Reliance Industries Ltd., Amar Construction Private Ltd.	IFFCO, Urban Co-operative bank

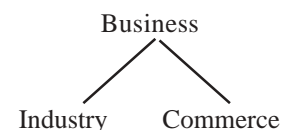
## Intext Questions 5.1

Which of the following statements are true and which are false?

- Government companies are registered under the Indian Companies Act.
- Life Insurance Corporation of India is an example of Government Company.
- More than two individuals are always required to run a partnership business.
- For small scale business the area of operation is always restricted to a residential area.
- National Aluminum Co. Ltd. is an example of Joint Stock Company.

## C. Classification on the basis of Functions

We may classify business as Industry and Commerce on the basis of functions. Industry includes activities involved in conversion of raw materials into useful products. It processes raw materials or semi-finished goods into finished goods. For example, cotton is converted into cloth in textile industries, sugar is extracted from sugarcane in sugar industries, automobiles are produced in automobile industries, and so on. These activities are called industrial activities and the units that undertake these activities are called industrial enterprises.



On the other hand, Commerce includes all those activities which are necessary for the purpose of exchange of goods and services. It refers to various activities that make goods available to the consumers for consumption. Trade, transportation, storage, packaging etc. are all included in commerce. These activities are called commercial activities and the units that undertake these activities are called commercial enterprises. Let us study more about Industry and Commerce.

## 5.4 Industry

Industry refers to all business activities, which are connected with raising, producing and processing of goods and services. They convert raw materials into useful products by the

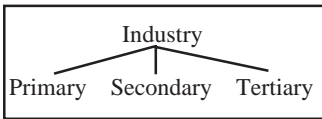
application or use of human or mechanical power. These products are then sold.

Sometimes the term industry is used to represent a group of business enterprises engaged in producing similar products or providing similar service. For example, all units engaged in producing automobiles, whether two wheelers, three wheelers or four wheelers, together constitute automobile industry. Similarly we find film industry, banking industry, telecom industry and many more.

### Types of industry

Industries may be divided into three broad categories

- i. Primary Industries;
- ii. Secondary Industries; and
- iii. Tertiary Industries.



Let us learn further about these Industries.

#### i. Primary Industries

Industries engaged in extracting, producing and processing natural resources like minerals, oil, agricultural products, plants and animals, are called primary industries. These industries use natural resources as their raw material and provide finished goods to the consumers. We may further classify these industries into a) Extractive industries, and b) Genetic industries.

- a) **Extractive Industries**- These industries are engaged in extraction of minerals, oil and natural gas from the earth, fish from the sea, timber from the forest etc. Mining, forestry, fishing are examples of extractive industries. The distinctive feature of these industries is that they use natural resources and the materials once extracted or used cannot be replaced.
- b) **Genetic Industries**- These industries are engaged in rearing and breeding birds and animals and growing plants for sale. Agriculture, dairy farming, poultry farming, pisciculture (breeding fish), horticulture, orchard farming, floriculture (growing flowers) are examples of genetic industries.

#### ii. Secondary Industries

Secondary industries are those industries that engage in the production or processing of items produced by primary industries. They use the products of primary industries as their raw materials and produce a variety of goods for our use. For example- iron ore is extracted from the earth by primary industries. This is used as raw material by the secondary industries to produce iron and steel for our use. Thus, mining of iron ore is a primary industry but manufacturing of iron and steel is a secondary industry.

We may further classify secondary industries as, a) Manufacturing industries, and b) Construction industries.

- a) **Manufacturing Industries**- Industries engaged in conversion of raw materials or semi-finished products into finished products are called manufacturing industries. For example, cotton is converted into textile, timber into furniture, iron-ore into steel, bauxite into aluminium etc.
- b) **Construction Industries**- Industries engaged in erection of buildings, dams, bridges, roadways, railways are called construction industries. They use the products of other industries as their raw materials and construct different types of structures as per the requirements of the consumers.

### iii. Tertiary industries

Industries providing services to consumers are called tertiary industries. These activities may include personal services like medical treatment, nursing, teaching, etc., or commercial services like transport, banking, insurance, etc.

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## Intext Questions 5.2

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Match the Columns.

Column A	Column B
(i) Construction Industry	(a) Transport services
(ii) Manufacturing Industry	(b) Agriculture
(iii) Genetic Industry	(c) Bridges
(iv) Tertiary Industry	(d) Mining
(v) Extractive Industry	(e) Textile

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On the basis of functions we have classified business as industry and commerce and till now we have discussed industry and its types. Let us find out more about Commerce.

## 5.5 Commerce

You have learnt about various types of industry that deal with the production of goods and services. The question arises, why are these goods and services produced? Actually industries produce goods and services for consumption or use by the consumers. But, how do the consumers get these goods?

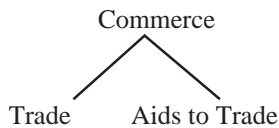
You know that goods and services are of no use unless these are made available to the persons who can use them. Here comes the role of Commerce. Commerce includes all those activities which facilitate transfer of goods and services from one place to another or from one person to another. It deals with the movement of goods from the person who produces them to the person who consumes them.

Commerce is defined as “the sum total of activities involving the removal of hindrances in the process of exchange of goods and services and facilitates the availability for consumption or use”. Thus, commerce includes:

- a. Trade; and
- b. Auxiliaries to trade/aids to trade.

**a) Trade**

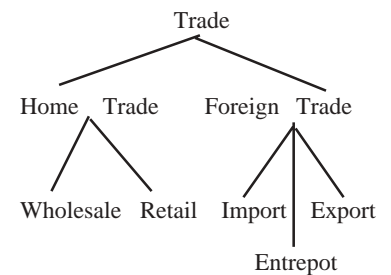
Trade means buying and selling of goods and services on a continuous or regular basis. It refers to the exchange of goods and services for cash or on credit. A person who buys goods for the purpose of selling is known as trader. The shopkeepers of your locality who buy goods from the producers and other shops for the purpose of selling are traders. There are a number of persons engaged in trading activities in different ways. Some traders buy goods in bulk and also sell in bulk. Some sell goods in the local market while others sell in the international market.



So, according to the nature of activities of all these traders we may classify trade as Home trade and Foreign trade.

- (i) Home Trade refers to buying and selling of goods and services within the boundaries of a country. It is also known as internal trade or domestic trade. Payment for goods and services in home trade is made in the currency of the home country. Thus, goods sold by a trader in Chennai or Chandigarh to a buyer in Delhi or Lucknow or the same locality, village or town is called home trade.

Home trade may also be of two types: Wholesale trade and retail trade. “Wholesale trade involves purchase of goods in large quantity from producers for sale to other traders or buyers in smaller quantities. Generally, the wholesale trader deals in a limited variety of goods. The person who does wholesale trading is known as *wholesaler*. Retail trade refers to purchase of goods from the wholesalers or producers for sale to the ultimate consumers in smaller quantities. The retail trader generally has a variety of goods needed by consumers. The person who does retail trading is known as *retailer*.



- (ii) Foreign trade refers to buying and selling of goods or services between people living in different countries. It is also known as External trade or International trade. Payment for goods or services are required to be made in the currency of the seller’s country or in the currency acceptable to the seller.

Foreign trade may be sub-divided into three categories, viz.

- (i) Import Trade
- (ii) Export Trade
- (iii) Entrepot Trade

When goods or services are purchased from a foreign country for selling in our own coun-

try, it is known as import trade. Similarly, when goods and services are sold to a foreign country it is called export trade.

When goods or services are imported into one country for the purpose of exporting the same to some other country with or without making any change, it is known as entrepot trade or re-export trade. Such types of trade may be necessary due to the reason that (a) the exporting country does not have any accessible trade routes connecting the importing country; or (b) the goods imported require processing or finishing before export for which facilities are lacking in the exporting or importing countries.

To understand the nature and types of trade clearly, let us take the following example.

Suppose ready-made garments are produced at Kolkata, and some wholesaler of Chennai buys garments in bulk from Kolkata with the object of reselling them to retailers. This is a case of wholesale trade. Further suppose, traders from different parts of Chennai buy the garments from the wholesaler for selling the same to consumers in different markets. This will obviously be a case of retail trading. And since, all these trading activities take place within India, this will be a part of home trade.

If the manufacturers of ready made garments at Kolkata decide to sell their products to traders of Bangladesh or Sri Lanka or Thailand, or any other country, that will be a part of India's foreign trade. Suppose, goods are purchased by the traders of Kolkata from China, then it would also be a part of foreign trade. What is the difference then between these two types of trade? Obviously in the first case it is export trade and in the second case it is import trade. Suppose, traders in Sri Lanka were unable to import goods from China due to the absence of trade agreements between the governments of Sri Lanka and China then traders in Kolkata can import Chinese goods and export the same to Sri Lanka. This would be a case of entrepot trade.

After having discussion about trade and its types let us read about aids to trade.

### **b) Aids or Auxiliaries to trade**

You know that commerce includes not only buying and selling of goods and services, but also a number of activities that facilitate the distribution of goods and services. For example, a trader who buys goods from a producer, must carry the goods to his shop located in a market. He must hire a cart or truck or some other means of transport. Having carried the goods to his place of business, he must arrange proper storage of the goods to prevent damage or loss. Also he may have to insure the goods as a means of protection against the risk of loss by theft or fire. He will also require money to buy or store the goods before selling the same. He may have to borrow money from the bank. In the process of buying and selling he may have to contact a number of other persons by using the telephone, fax or any other means of communication. Thus, transport, warehousing, insurance and banking, communication, etc., are activities which facilitate the business of a trader. Taken together these activities are known as auxiliaries or aids to trade. Thus, we can say that activities which support trade are the auxiliaries or aids to trade.

### Intext Questions 5.3

Fill in the blanks in the following statements with appropriate words:

- i. Trade bridges the gap between producers and \_\_\_\_\_.
- ii. Commerce consists of activities which include \_\_\_\_\_ and auxiliaries to trade.
- iii. When goods are imported into India from one country to be exported to another country it is known as \_\_\_\_\_ trade.
- iv. When a wholesale trader in Gwalior purchases toys manufactured in Delhi, it is part of \_\_\_\_\_ trade.
- v. If goods are sold by a manufacturer of Patna to the wholesaler of Allahabad the payment is received in \_\_\_\_\_ currency.

## 5.6 Electronic Commerce

You are now familiar with business activities. You have also come to know about commerce, which involves buying and selling (trade) as well as services like transport, storage, insurance and banking (aids to trade). Our everyday experience is that when goods are bought and sold, the buyers and sellers decide about the terms and conditions of the transaction through personal interaction or written correspondence. The nature and quality of goods to be purchased are generally checked physically by the buyer. Sometimes, purchase is made on the basis of a sample of goods supplied by the seller. Thus, direct physical contact or interaction based on oral or written communication between the buyer and seller have been the common practice in the business world so far.

But in recent years, the process of business transactions has undergone change. Electronic commerce or E-commerce has given a new definition to commerce. It refers to the process of conducting business with the help of electronic devices using the computer and inter-connected telecommunication network known as Internet. Here, offer for sale and its acceptance and payment are made electronically through internet. It does not require physical interaction between the buyer and seller. Goods and services are advertised through the internet on the web-site where buyers can access the information. Messages can be communicated through E-mail (Electronic Mail) and the business deal is finalised in the same way. Similarly, bank deposits and withdrawals, loans and overdrafts can be arranged through the internet. Thus, E-commerce can be defined as a process of business transactions in which selling, buying, banking, advertising and other services are conducted electronically.



### Advantages of E-commerce

You may have realised that business transactions conducted electronically have a wide scope. E-commerce is applicable to wholesale as well as retail business. Buying and selling through internet may take place round the clock between business units in different parts of the world. Let us discuss the advantages of e-commerce.

- i. **Wider choice:** With the help of a well-developed computer networking system, business units can operate at the national as well as global level. The customers thus, have a wider choice of products and services. The businessmen also get a wider market for their products and services.

- ii. **Improved customer services:** Suppliers of goods and services can offer a wide range of services to the customers, before as well as after sales such as information about products, guidance for use, responding to customers' queries about quality and usefulness of the product, etc.
- iii. **Quick response to customer needs:** In e-commerce business transactions take far less time as compared to the normal process of buying and selling. This is because the producers cut short the distribution channel and supply products and services directly to consumers.
- iv. **Cost saving and price reduction:** There is substantial cost saving in business transactions conducted through e-commerce. There is no need to display goods in showrooms or keep large stock in godowns. The number of employees required to carry on the business is less. Thus, the cost of operation naturally comes down. So the customers may get goods at a lower rate.
- v. **Market information:** Access to market information available through the internet enables business concerns to identify varied customer needs and produce new goods and better services accordingly.

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### Intext Questions 5.4

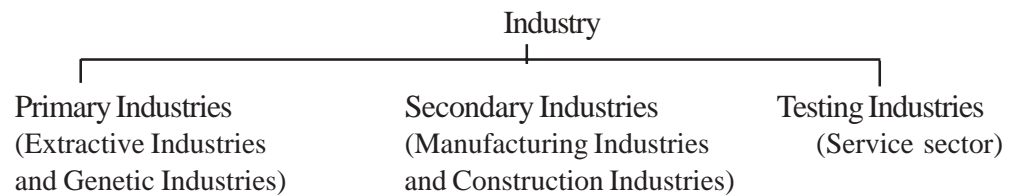
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Which of the following statements are true and which are false:

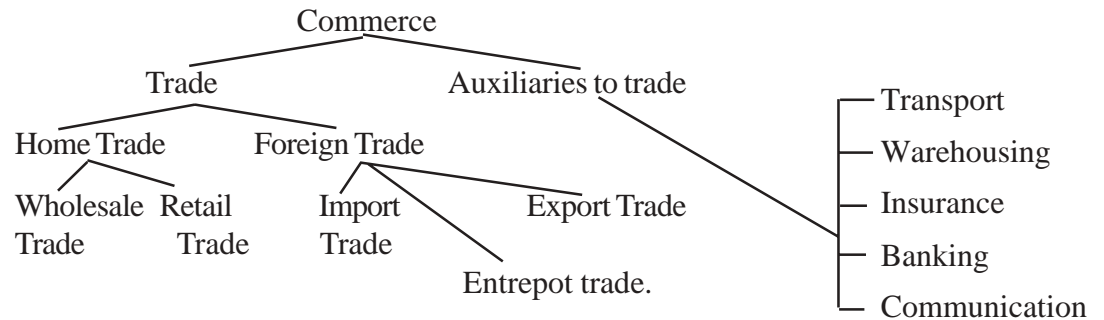
- i. Electronic commerce does not involve personal communication between the parties.
  - ii. Computers are the only instruments which have made e-Commerce possible.
  - iii. Goods and services can be advertised and easily communicated through the internet.
  - iv. E-commerce has enabled companies to expand business at national as well as global level.
  - v. New products and services are now easily available to consumers due to their access to internet.
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### 5.7 What You Have Learnt

- Activities undertaken regularly with the object of making a profit are called business activities. Mining, manufacturing, trading, transporting, banking, etc. are examples of business activities.
- Classification of business—
  - (i) On the basis of size
    - Small scale
    - Large scale
  - (ii) On the basis of ownership
    - Private sector enterprise
    - Public sector enterprise
    - Industry
  - (iii) On the basis of functions
    - Commerce
- Industry refers to all business activities which are connected with raising, producing and processing of goods and services. It may be classified into three broad categories—viz, (i) Primary industries; (ii) Secondary industries; (iii) Tertiary industries.



- Commerce includes all those activities which facilitate transfer of goods and services from one place to another or from one person to another.



- Electronic Commerce refers to the process of conducting business with the help of electronic devices using the computer and Internet.
- Advantages of Electronic Commerce – It gives wider choice and offers wide range of services to the customers. It reduces cost of operation and also make the goods available at less price. It gives quick response to the customers need.

### 5.8 Terminal Exercise

1. What is meant by small-scale business?
2. Distinguish between small-scale and large-scale business.
3. What is a Statutory Corporation? How does it differ from a Government Company?
4. Distinguish between Genetic industry and Extractive industry.
5. What is meant by tertiary industry? Give any three examples.
6. Define Commerce.
7. What is meant by auxiliaries to trade? Give examples.
8. What is home trade? How does home trade differ from foreign trade?
9. What is Electronic Commerce?
10. What are the advantages of E-Commerce?

### 5.9 Key to Intext Questions

- 5.1. (1) True (2) False (3) False (4) false (5) True  
 5.2. (i) c); (ii) e); (iii) b); (iv) a); (v) d);  
 5.3 (1) Ultimate consumers; (2) Trade; (3) Entrepot; (4) Home; (5) home (in this case, Indian)  
 5.4 (1) False (2) False (3) True (4) True (5) True

#### Activity For You

Identify five business activities being carried on in, your locality. Classify them into 'Industry' or 'Commerce'. Further, under Industry, can you tell whether they are primary, secondary or tertiary industries?