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Chapter 1: Business, Trade & Commerce

Business is defined as an economic activity involving the production and sale of goods and services to satisfy the needs and wants of people with the main objective of earning a profit. It involves the coordination of various resources like capital, labor, land and entrepreneurship to produce goods and services.

Here are the characteristics of a business:

1. Economic activity: A business is an economic activity as it involves the production and distribution of goods and services, which are aimed at generating income and fulfilling people's needs and wants.
2. Production or procurement of goods and services: Businesses are engaged in either the production of goods (manufacturing) or procurement of goods for sale (trading) or providing services (service-oriented businesses). Goods refer to tangible products, while services are intangible activities.
3. Sale or exchange: The main objective of a business is to sell the goods and services produced or procured to customers in exchange for money. Sale or exchange is an essential characteristic of a business.
4. Profit motive: One of the key characteristics of a business is the pursuit of profit. Businesses aim to generate revenue that exceeds the cost of production, resulting in a profit. Profit serves as a reward for the risks undertaken by the entrepreneur.
5. Uncertainty and risk: Business activities are subject to uncertainties and risks. Uncertainties arise due to factors such as changing customer preferences, competition, government policies, etc. Businesses must take calculated risks to earn profits.
6. Legal entity: A business can be a separate legal entity distinct from its owners. It can operate under different legal structures like sole proprietorship, partnership, or a company. This allows businesses to enter into contracts, sue or be sued, and enjoy legal protection.
7. Continuity: Businesses are established with the intention of operating for the long term. They aim for continuity and sustainability, seeking to overcome challenges and adapt to changes in the market environment.
8. Customer satisfaction: Meeting customer needs and ensuring their satisfaction is crucial for the success of a business. Businesses strive to understand consumer preferences, provide quality products/services, and maintain good customer relationships.
9. Multiple objectives: While profit is the primary objective of most businesses, they also consider other goals such as growth, market share, customer loyalty, employee satisfaction, and social responsibility.

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10. Employment generation: Businesses play a significant role in generating employment opportunities. They provide jobs to individuals with diverse skills and contribute to the economic development of a nation.

Business, Profession and Employment

1. Business: A business refers to an organization or enterprise engaged in commercial, industrial, or professional activities. It involves the production, sale, or exchange of goods or services with the primary goal of earning a profit. A business can range from a small-scale operation, such as a local store, to a large multinational corporation. It typically involves multiple stakeholders, including owners, employees, customers, suppliers, and shareholders.
2. Profession: A profession refers to a specialized occupation that requires advanced knowledge, expertise, and skills in a particular field. Professions often have specific educational requirements and may require licensing or certification to practice legally. Examples of professions include doctors, lawyers, engineers, accountants, architects, and teachers. Professionals are typically bound by a code of ethics and are expected to provide services to clients or society with a high level of competence and integrity.
3. Employment: Employment generally refers to the act of being engaged or hired by an employer to perform work or services in exchange for a wage, salary, or compensation. It involves a contractual relationship between an employer and an employee, where the employee agrees to provide labor or services, and the employer agrees to provide remuneration and certain benefits. Employment can take various forms, including full-time, part-time, temporary, or freelance work. It is typically governed by labor laws and regulations that define the rights and responsibilities of both employers and employees.

Comparison Point	**Business**	**Profession**	**Employment**
Basis	Ownership and management of assets	Specialized knowledge and expertise	Agreement to work for an employer
Example	Opening a restaurant	Practicing law	Working as a software engineer
Income	Profit and loss	Fees or charges for services rendered	Salary or wages
Risk and Liability	Personal liability	Professional liability	Limited liability
Control and Autonomy	High level of control and autonomy	Medium level of control and autonomy	Low level of control and autonomy
Qualifications	Not mandatory, but experience helps	Higher education or specific training	Skills and qualifications required
Investment	Significant investment required	Minimal investment or none required	No investment required
Clientele	Can have diverse or broad clientele	Targeted clientele or specific market	No direct interaction with clients

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Scope of Work	Can vary widely	Specialized scope of work	Defined tasks and responsibilities
Growth Potential	Can scale and expand	Can advance within the profession	Opportunities for promotion or growth
Decision Making	Sole decision-maker or team	Autonomy in decision-making	Limited decision-making authority
Legal Formalities	Various legal requirements	Licensing or registration required	Employment contract and regulations

Classification of Business activities

Business activities are classified into three categories: industry, commerce and services. Let's understand each of these categories and their sub-classifications.

I. Industry:

Industry refers to economic activities that are concerned with the production or manufacturing of goods. It involves the transformation of raw materials into finished products.

Industries are further classified into three types:

1. Primary Industry:

Primary Industry: Primary industry refers to economic activities that involve the extraction or production of raw materials directly from nature. This type of industry involves the extraction and production of natural resources directly from the earth. Examples include agriculture, mining, fishing, and forestry. It is the initial stage of production and is often categorized into two types:

a. Genetic Industry: Genetic industry involves activities related to the cultivation, propagation, and development of plants and animals. It includes activities such as farming, forestry, horticulture, and animal husbandry. Examples of genetic industries include crop cultivation, livestock rearing, poultry farming, and fishery.

b. Extractive Industry: Extractive industry involves activities focused on extracting or mining natural resources from the earth's surface or subsurface. It includes activities such as mining, quarrying, drilling, and fishing. Examples of extractive industries include mining of coal, oil, gas, minerals, quarrying of stones, and fishing for commercial purposes.

2. Secondary Industry:

Secondary industry refers to economic activities that involve the transformation of raw materials obtained from the primary industry into finished or semi-finished goods. It adds value to the raw materials through various manufacturing processes. Secondary Industry: Secondary industries involve the processing and manufacturing of raw materials obtained from primary industries. Examples include manufacturing, construction, and processing industries. Secondary industry can be classified into two categories as follows:

A. Manufacturing: Manufacturing is the process of producing goods by utilizing raw materials and transforming them into finished products. It can be further classified into the following types:

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a. Analytical Manufacturing: Analytical manufacturing involves the production of goods by breaking down and separating various components. Examples include the production of chemicals, pharmaceuticals, and laboratory equipment.

b. Synthetical Manufacturing: Synthetical manufacturing involves the production of goods by combining different raw materials or components to create a new product. Examples include the production of automobiles, electronics, and textiles.

c. Processing Manufacturing: Processing manufacturing involves the conversion of raw materials into finished products through various processing techniques. Examples include food processing, oil refining, and textile processing.

d. Assembling Manufacturing: Assembling manufacturing involves the process of putting together various components or parts to create a final product. Examples include the assembly of automobiles, electronics, and machinery.

B. Construction: Construction refers to the industry involved in the building, development, and maintenance of infrastructure and structures. It includes activities such as building construction, road construction, bridge construction, and real estate development. Examples of construction projects include the construction of houses, commercial buildings, roads, bridges, and dams.

3. Tertiary Industry: The tertiary industry encompasses a wide range of services that cater to the needs and wants of individuals and businesses. These services are intangible and do not result in the production of physical goods. Instead, they facilitate the smooth functioning of the economy and enhance the overall well-being of people. Tertiary industries provide services to both primary and secondary industries as well as to the general public. Examples include transportation, communication, banking, tourism, healthcare, and entertainment.

Examples of Tertiary Industry:

1. Banking and Financial Services: This sector includes banks, credit unions, insurance companies, investment firms, and other financial institutions. They offer services like accepting deposits, providing loans, managing investments, and offering insurance protection.
2. Healthcare Services: Hospitals, clinics, medical practitioners, and healthcare professionals are part of this sector. They provide medical treatment, diagnostics, and other health-related services to maintain people's well-being.
3. Education: Schools, colleges, universities, and educational institutions fall under this category. They offer various educational services to students, such as teaching, training, and skill development.
4. Transportation Services: Companies engaged in transportation services like airlines, railways, shipping, and logistics firms are part of this sector. They facilitate the movement of people and goods from one place to another.
5. Retail Industry: This sector includes all kinds of retail stores, supermarkets, departmental stores, and online retailers. They sell goods directly to consumers, offering a variety of products.
6. Hospitality Industry: Hotels, restaurants, cafes, and catering services are examples of the hospitality sector. They provide accommodation and food services to travelers and tourists.

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7. Communication Services: Companies involved in telecommunications, internet service providers, and media organizations are part of this sector. They enable communication and dissemination of information.
8. Entertainment Industry: This sector includes movie theaters, amusement parks, sports facilities, and other recreational services. They provide entertainment and leisure opportunities for people.
9. Real Estate Services: Real estate agents, property developers, and property management firms fall under this category. They deal with buying, selling, and managing properties.
10. Legal Services: Law firms and legal practitioners are part of the legal services sector. They provide legal advice and representation to individuals and businesses.

II. Commerce:

Commerce refers to activities related to the exchange of goods and services. It includes buying, selling, and exchanging of goods and services at different stages or levels of trade. Commerce is further classified into the following two types:

A. Trade:

Trade refers to the exchange of goods and services between buyers and sellers. Trade involves buying and selling goods and services. It is further classified into two types:

a. Internal Trade:

Internal trade involves the buying and selling of goods and services within the boundaries of a country. This type of trade takes place within the geographical boundaries of a country. It includes wholesale trade (selling to retailers) and retail trade (selling to consumers). It can be further divided into wholesale trade and retail trade.

i. Wholesale Trade:

Wholesale trade involves the purchase of goods in large quantities from manufacturers or producers and selling them in smaller quantities to retailers. Wholesalers act as intermediaries between manufacturers and retailers. Example: ABC Wholesale Inc. purchases 5000 smartphones from a mobile phone manufacturer and then sells them to various retailers.

ii. Retail Trade:

Retail trade involves the sale of goods and services directly to the final consumers. Retailers buy goods from wholesalers or directly from manufacturers and sell them to individual consumers. Example: XYZ Retail Mart purchases clothes from a wholesale supplier and sells them to individual customers in their store.

b. External Trade:

External trade refers to the exchange of goods and services between different countries. External trade, also known as international trade involves the exchange of goods and services between different countries. b. Aids to Trade: Aids to trade are activities that facilitate smooth functioning of trade. They include transportation, warehousing, banking, insurance, advertising and packaging.

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i. Import Trade:

Import trade involves bringing goods and services into a country from foreign countries for domestic consumption or use. Example: A company in India imports electronic components from China to use in the production of smartphones.

ii. Export Trade:

Export trade involves selling goods and services to foreign countries for their consumption or use. Example: A company in Brazil exports coffee beans to various countries worldwide.

iii. Entrepot Trade:

Entrepot trade refers to the import and re-export of goods without much processing in the intermediary country. This type of trade is common in free trade zones or ports. Example: Singapore acts as an entrepot for various goods coming from different countries, storing and re-exporting them to other nations without much processing.

B. Auxiliaries to Trade:

Auxiliaries to trade are the services that facilitate the smooth functioning of trade activities. They do not involve the actual production or sale of goods, but they play a vital role in the distribution process. Some of the major auxiliaries to trade include:

i. Transportation: Transportation involves the movement of goods from one place to another. It includes various modes such as road transport, rail transport, air transport, water transport, etc. Example: A shipping company transporting goods via sea containers from China to the United States.

ii. Warehousing: Warehousing provides storage facilities for goods before they are sold or distributed further in the supply chain. Warehouses help in maintaining a steady supply of goods to meet demand. Example: A logistics company operates a warehouse to store and manage inventory for a retail chain.

iii. Insurance: Insurance provides protection against various risks during transit or storage of goods. It compensates for any loss or damage that may occur to the goods during their journey from the seller to the buyer. Example: A shipping insurance policy covering potential damage to goods during international transportation.

iv. Advertising: Advertising is a form of communication used by businesses to promote their products or services to potential customers. It creates awareness and generates demand for goods. Example: A soft drink company runs a TV commercial to promote its new cola product.

v. Banking & Finance: Banking and finance institutions play a crucial role in providing financial services such as loans, credit facilities, foreign exchange, and payment processing to facilitate trade transactions. Example: A company avails a loan from a bank to expand its manufacturing capacity.

3. Services:

Services refer to economic activities that are intangible in nature and are provided in exchange for a fee or payment. Services are further classified into the following types:

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a. Business Services: These services are provided to other businesses to support their operations. Examples include accounting, legal services, consultancy, advertising and information technology services.

b. Social Services: Social services are provided to improve the well-being and quality of life of individuals. Examples include healthcare, education, sanitation, housing and welfare services.

Objectives of Business

In business, there are various objectives that organizations strive to achieve. These objectives can be broadly categorized into economic objectives, social objectives, and personal objectives.

1. Economic Objectives: Economic objectives primarily focus on maximizing profitability and financial performance. The main aim is to ensure the growth and sustainability of the business. Some common economic objectives are:

a) Profit Maximization: This objective aims to generate the highest possible profits for the business. It involves increasing revenues, reducing costs, and maximizing the return on investment. For example, a manufacturing company may implement cost-cutting measures to improve profitability.

b) Sales Growth: Businesses may set objectives to increase their sales revenue over a specific period. This can be achieved through marketing strategies, expanding market reach, launching new products, or enhancing customer relationships. For instance, a retail store may aim to increase its sales by 15% in the next quarter.

c) Market Share: Market share refers to the percentage of the total market that a business controls. Companies often strive to increase their market share to gain a competitive advantage. For example, a smartphone manufacturer may aim to capture 30% of the market share in a specific region.

2. Social Objectives: Social objectives involve the responsibility of businesses towards society and their impact on various stakeholders. These objectives aim to contribute positively to the well-being of society and promote ethical practices. Some examples of social objectives are:

a) Environmental Sustainability: Businesses can adopt practices that minimize harm to the environment and promote sustainability. This may involve using eco-friendly production methods, reducing carbon emissions, or implementing recycling programs. For instance, a manufacturing company may invest in renewable energy sources to reduce its carbon footprint.

b) Corporate Social Responsibility (CSR): CSR involves voluntary actions by businesses to benefit society and contribute to social welfare. It may include activities such as supporting education, healthcare initiatives, or donating to charitable organizations. For example, a company may sponsor a local school's infrastructure development or provide scholarships to deserving students.

c) Employee Welfare: Ensuring the well-being and development of employees is another social objective. This can be achieved by providing a safe working environment, fair wages, training and development opportunities, and work-life balance. For instance, a software company may offer flexible working hours and employee wellness programs.

3. Personal Objectives: Personal objectives relate to the aspirations and goals of individuals associated with the business, such as the owners, managers, and employees. These objectives focus on personal growth, satisfaction, and achievement. Some examples of personal objectives are:

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a) Career Growth: Individuals may have objectives to advance their careers within the organization. This could involve acquiring new skills, taking on higher-level responsibilities, or being promoted to managerial positions.

b) Job Satisfaction: Personal objectives may include finding fulfillment and contentment in one's work. This can be achieved through a positive work environment, recognition, challenging assignments, and opportunities for personal and professional growth.

c) Work-Life Balance: Personal objectives often include maintaining a healthy balance between work and personal life. This may involve setting boundaries, managing time effectively, and prioritizing personal well-being and relationships.

Business Risk

Business risk refers to the potential for losses or negative outcomes faced by a business when operating in a dynamic and uncertain environment. These risks arise due to various factors and can impact a business's ability to achieve its objectives and financial goals. Understanding and managing business risks are essential for making informed decisions and ensuring the long-term sustainability of the business. In the CBSE Class 11 Business Studies syllabus, students are introduced to the concept of business risk and its characteristics.

Nature / Characteristics of Business Risks:

1. Uncertainty: Business risks are associated with an uncertain outcome. The future is unpredictable, and businesses face uncertainties regarding market conditions, customer preferences, technological advancements, and competitive landscape.
2. Profit and Loss: Business risks can lead to either profit or loss. While some risks may result in increased profitability, others may cause financial losses for the business.
3. Inherent Part of Business: Risks are an integral part of any business activity. No business can completely eliminate risk, but it can take measures to mitigate and manage them effectively.
4. Subjectivity: The perception of risk can vary among different individuals and organizations. What may be considered a significant risk for one business might not be as concerning for another.
5. Controllable and Uncontrollable Risks: Some risks are within the control of the business, such as operational risks, while others, like changes in government policies or natural disasters, are beyond the business's control.
6. Rewards and Risks Relationship: Generally, higher risks are associated with the potential for higher rewards. Businesses willing to take greater risks might have the chance of gaining significant profits.

Examples of Business Risks:

1. Economic Risk: Changes in economic conditions, such as inflation, recession, or changes in interest rates, can impact a business's profitability. For instance, a construction company may face reduced demand during an economic downturn, leading to lower revenues.

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2. Technological Risk: Advancements in technology can render existing products or services obsolete. Companies that fail to adapt to new technologies may lose their competitive edge and market share.
3. Market Risk: Fluctuations in demand, changes in consumer preferences, and intense competition can affect a business's market position. For example, a mobile phone manufacturer may face market risk if its products become less popular due to the introduction of better alternatives by competitors.
4. Credit Risk: When a business extends credit to its customers, there is a risk of non-payment or delayed payment. This can affect the company's cash flow and liquidity.
5. Operational Risk: Internal issues such as inefficient processes, equipment breakdowns, or employee errors can disrupt business operations and impact productivity. A manufacturing company might face operational risk if its machinery breaks down frequently, leading to production delays.
6. Legal and Regulatory Risk: Changes in government regulations or legal actions against the business can have significant financial and reputational consequences. For instance, a pharmaceutical company may face legal risks if its products are found to have harmful side effects.

Managing business risks involves identifying potential risks, assessing their impact, and implementing strategies to mitigate or minimize their effects. This could include diversification, insurance, contingency planning, and effective financial management. By understanding and addressing business risks, companies can enhance their resilience and improve their chances of long-term success.

Causes of Business Risks

Business risks refer to uncertainties or potential threats that can affect the operations, profitability, and overall success of a business. These risks can arise from various internal and external factors. Here are some common causes of business risks -

1. Natural Disasters: Natural disasters such as earthquakes, floods, hurricanes, or wildfires can cause significant damage to businesses. For example, a manufacturing company located in a flood-prone area may face the risk of its production facilities being destroyed, leading to a halt in operations and loss of revenue.
2. Economic Factors: Economic factors such as inflation, recession, changes in interest rates, or fluctuations in exchange rates can impact businesses. For instance, a rise in interest rates can increase borrowing costs for businesses, affecting their profitability and expansion plans.
3. Technological Changes: Rapid advancements in technology can create risks for businesses that fail to adapt or keep up with the changes. For example, the emergence of online streaming platforms disrupted traditional video rental stores, leading to the bankruptcy of companies like Blockbuster.
4. Competitor Actions: Competition in the market can pose risks for businesses. Aggressive pricing strategies, innovative product offerings, or effective marketing campaigns by competitors can erode a company's market share. For instance, a new entrant offering a similar product at a lower price may attract customers away from an established brand.

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5. Legal and Regulatory Changes: Changes in laws, regulations, or government policies can create risks for businesses. For example, stricter environmental regulations may require companies to invest in costly equipment upgrades or adopt new practices, impacting their profitability.
6. Supply Chain Disruptions: Disruptions in the supply chain, such as shortages of raw materials, transportation issues, or supplier failures, can pose risks to businesses. For instance, a manufacturer heavily dependent on a single supplier for a critical component faces the risk of production delays or quality issues if that supplier encounters problems.
7. Human Resource Factors: Human resource-related risks can arise from factors like employee turnover, labor strikes, or skill shortages. For example, a company heavily reliant on a few key employees may face operational disruptions or loss of expertise if those employees leave the organization.
8. Financial Risks: Financial risks include factors such as cash flow problems, excessive debt, or inadequate financial planning. For instance, a business that relies heavily on short-term loans to fund its operations may face the risk of insolvency if it cannot meet its repayment obligations.

Factors to be considered while starting a business:

When starting a business, there are several factors that need to be considered to ensure its success. Here are some key factors -

1. Business Idea:
    - Choosing a unique and viable business idea is crucial. For example, starting an online marketplace for handmade crafts or launching a specialized fitness studio.
2. Market Research:
    - Conducting market research helps in understanding customer needs, preferences, and competitors. For instance, surveying potential customers to determine demand for a new restaurant in a specific location.
3. Target Market:
    - Identifying the specific group of customers who are most likely to purchase your product or service. For example, a company selling luxury skincare products targeting affluent consumers.
4. Competition Analysis:
    - Analyzing competitors' strengths, weaknesses, and strategies to develop a competitive advantage. For instance, studying other local cafes' menu, pricing, and ambiance before opening a new café.
5. Legal Structure:
    - Choosing an appropriate legal structure for the business, such as a sole proprietorship, partnership, or corporation, based on factors like liability and taxation. For example, registering a partnership firm for a law practice.

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6. Location:
    - Selecting an optimal location that aligns with the target market and offers convenience and visibility. For instance, opening a grocery store in a densely populated residential area.
7. Capital Requirements:
    - Assessing the initial and ongoing financial needs of the business, including investment in assets, inventory, marketing, and operational expenses. For example, estimating the cost of equipment and raw materials for a manufacturing startup.
8. Sources of Finance:
    - Identifying potential sources of funding, such as personal savings, loans, or investors. For instance, seeking a business loan from a bank or approaching venture capitalists for funding a tech startup.
9. Human Resources:
    - Determining the number and type of employees required, defining their roles and responsibilities, and planning for recruitment and training. For example, hiring skilled chefs, servers, and kitchen staff for a restaurant.
10. Marketing and Promotion:
    - Developing a comprehensive marketing plan to reach the target audience effectively. This may involve advertising, social media campaigns, public relations, or influencer marketing. For instance, using social media platforms to promote a fashion boutique.
11. Risk Analysis:
    - Identifying potential risks and developing strategies to mitigate them, such as insurance coverage or contingency plans. For example, assessing the risk of inventory damage due to natural disasters and securing appropriate insurance.
12. Government Regulations:
    - Complying with legal and regulatory requirements, such as licenses, permits, taxation, and labor laws. For instance, obtaining necessary permits to operate a food truck business.
13. Ethical Considerations:
    - Ensuring business practices align with ethical standards, respecting customer privacy, and practicing fair trade. For example, sourcing materials from certified suppliers who follow ethical labor practices.
14. Technological Integration:
    - Incorporating technology into business operations to enhance efficiency and competitiveness. This could include using digital payment systems, implementing customer relationship management (CRM) software, or utilizing automation tools.

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These factors should be carefully evaluated and planned to increase the chances of success when starting a business. It's important to note that the specific requirements may vary based on the nature and scale of the business.

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