

# UNIT I FUNDAMENTALS OF BUSINESS

## CHAPTER

## 3

## CLASSIFICATION OF BUSINESS ACTIVITIES



பொருள்கருவி காலம் வினையிடனொடு ஐந்தும்  
இருள்தீர எண்ணிச் செயல்.

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### Couplet:

Do an act after a due consideration of the (following) five, viz. money, means, time, execution and place.

### Learning Objectives

To enable the students to

- describe the classification of business activities
- understand the meaning of Industry:
- classify the industries into primary, secondary and tertiary industries
- compare industry, commerce and trade
- explain the auxiliary activities in commerce

### Introduction

The manufacturers produces the goods for the consumers at one point of location. They distribute the goods to final consumer through intermediaries like wholesaler, retailers, distributors and the like. All these process taking place from the point of production to the point of consumption are collectively called as business activities. All business activities can be classified into two broad categories i.e., Industry and Commerce.

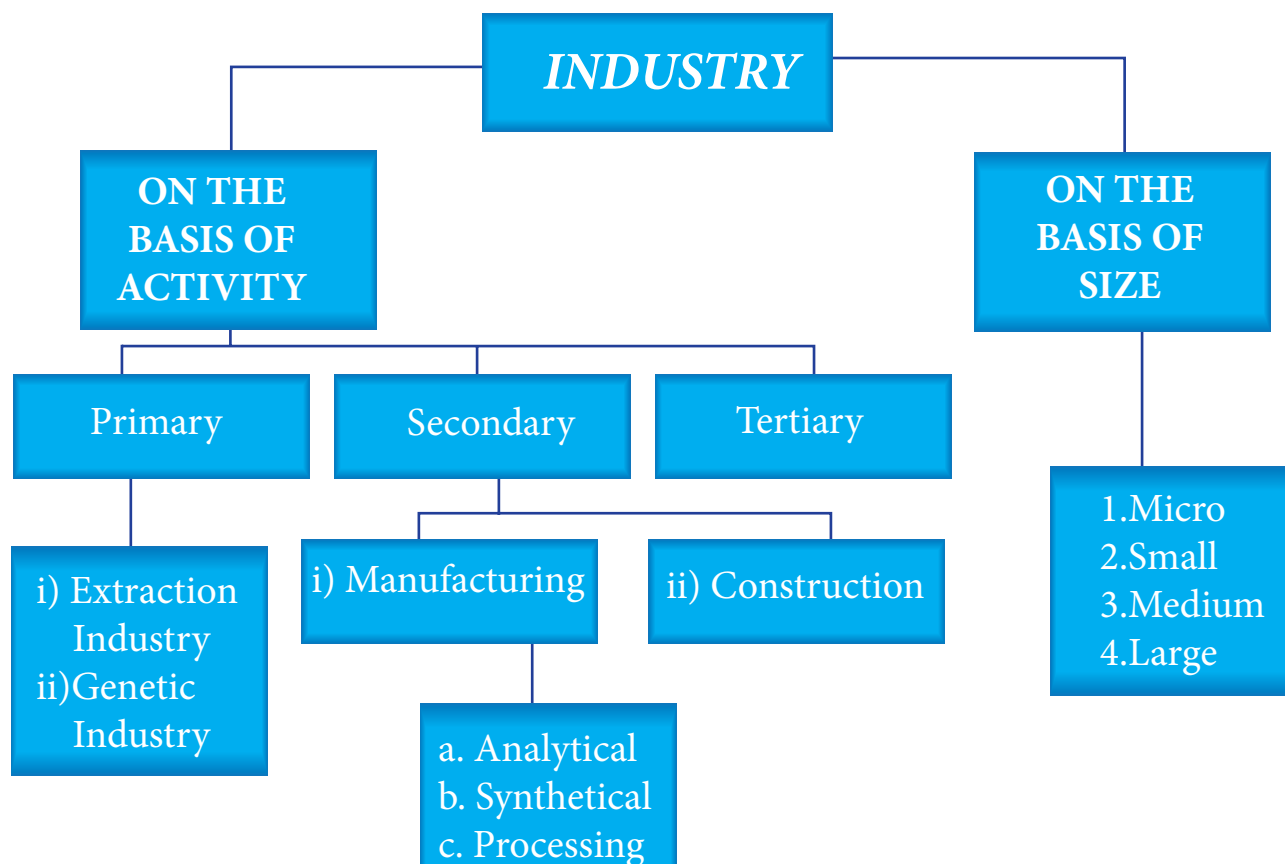
### 3.01 Industry

Industry refers to economic activities, which are connected with conversion of resources into useful goods. The production side of business activity is referred as industry. Generally the term industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods as well as breeding and rising of animals.

The term industry is also used to mean group of firms producing similar or related goods. For example, cotton textile industry refers to all manufacturing units producing textile goods from cotton. Similarly, electronic industry would include all firms producing electronic goods, and so on. Further, in common parlance, certain services like banking and insurance are also referred to as industry, say banking industry, insurance industry etc.

### Kinds of Industries

Industries may be classified into two broad categories,



- A) On the Basis of Activities and  
B) On the Basis of Size

### A) On the Basis of Activities

Industries may be divided into three wide categories namely 1. primary industries, 2. secondary industries and 3. tertiary industries.

#### 1. Primary Industries

Primary industry is concerned with production of goods with the help of nature. It is a nature-oriented industry, which requires very little human effort, For example Agriculture, farming, forestry, fishing, horticulture, etc. These industries may be further sub divided as follows:

##### (i) Extractive Industries

These industries extract or draw out products from natural sources. Extractive industries



supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, oil drilling, hunting and fishing operations.

##### (ii) Genetic Industries

These industries remain engaged in breeding plants and animals for their use in further reproduction. The seeds,



nursery companies, poultry, dairy, piggery, hatcheries, nursery, fisheries, apiary etc are classic examples of genetic industries.

## 2. Secondary Industries

These are concerned with using the materials which have already been extracted at the primary stage. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. For example mining of an iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry. Secondary industries may be further divided as follows:

### (i) Manufacturing Industries

These industries are engaged in producing goods through processing of raw materials and thus creating form utilities. They bring out diverse finished products, which we consume or use, through the conversion of raw materials or partly finished materials in their manufacturing operations. Manufacturing industries may be further divided into four categories on the basis of method of operation for production.

- a. **Analytical Industry** which analyses and separates different elements from the same materials, as in the case of oil refinery.
- b. **Synthetic Industry** which combines various ingredients into a new product, as in the case of cement.

- c. **Processing Industry** which involves successive stages for manufacturing finished products, as in the case of sugar and paper.
- d. **Assembling Industry** which assembles different component parts to make a new product, as in the case of television, car, computer, etc.

### (ii) Construction Industries

These industries are involved in the construction of building, dams, bridges, roads, as well as tunnels and canals.

## 3. Tertiary industries or Service industries

They do not produce goods. These industries produce utility services and sell them at a profit. They help trade, industry and commerce. This term also includes auxiliaries to trade like banking, insurance, warehouse, advertisement etc.

### Classification of Tertiary industries

- i. **Personalised service:** Individuals and private institutions selling their services to others. E.g. plumber, servant maid, etc.
- ii. **Public Service:** Government hospitals, schools, police, Government offices, etc. provide services to the people on behalf of the Government without profit motive.
- iii. **Distributive Service:** Transportation, warehousing, logistics, salesmanship, etc. come under this type of service.
- iv. **Financial Service:** Banking, factoring, accounting, and insurance, etc. are grouped under this type of service.
- v. **Quaternary Service:** Professional or specialised skills and high technology are used to provide this type of service.



E.g. Software development, Auditing, Research and Development, etc.

- vi. **Quinary Service:** New ideas are generated, new technologies are evolved, new policies are implemented by selected individual experts. Their decisions influence nations, international institutions, etc. i.e., Inventors.

### **B) On the basis of Size**

On the basis of size or scale of operations industries may be classified as follows

1. Micro Industries
2. Small Industries
3. Medium Industries and
4. Large Industries

### **3.02 Commerce**

Commerce refers to all those activities which are necessary for bringing goods from the place of production to the place of their consumption. According to Evelyn Thomas, “Commercial operations deal with the buying and selling of goods, the exchange of commodities and the contribution of finished products”. Commerce includes not only trade but also services such as transport, warehousing, packaging, insurance, banking and sales promotion which are incidental or auxiliaries to trade. Refer to chapter 2. Commerce includes the following activities as briefly explained below

### **3.03 Trade**

#### **i) Trade**

Trade is an essential part of commerce. The term ‘trade’ is used to denote buying and selling. It helps in making the goods produced available to ultimate consumers

or users. Therefore, one who buys and sells is a trader. A trader is a middleman between the producer and the consumer. Trade may be classified into internal trade and external trade, wholesale trade or retail trade.

#### **ii. Transportation**

Selling all the goods produced at or near the production place is not possible. Hence, goods are to be sent to different places where they are demanded. The medium which moves men and materials from one place to another is called transport.

#### **iii. Banking**

Now-a days we cannot think of business without bank. To start the business or to run it smoothly we require money. Banks supply money. Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from bank. Thus, banking helps business activities to overcome the problem of finance.

#### **iv. Insurance**

Business involves various types of risks. Factory building, machinery, furniture etc, must be protected against fire, theft and other risks. Materials and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury if any, can be recovered from the insurance company.

## Comparison between Industry, Commerce and Trade

INDUSTRY	COMMERCE	TRADE
1. <b>Meaning:</b> Extraction, reproduction, conversion, processing and construction of useful products	Activities involving distribution of goods and services	Purchase and sale of goods and services
2. <b>Scope:</b> Consists of all activities involving conversion of materials and semi-finished products into finished goods.	Comprises trade auxiliaries to trade	Comprises exchange of goods and services
3. <b>Capital:</b> Generally large amount of capital is required	Need for capital is comparatively less	Small capital is needed to maintain stock and to grant credit
4. <b>Risk:</b> Risk involved is usually high	Relatively less risk is involved	Relatively less risk is involved
5. <b>Side:</b> It represents supply side of goods and services	It represents demand side of goods and services	It represents both supply and demand
6. <b>Utility creation:</b> It creates form utility by changing the form or shape of materials	It creates place utility by moving goods from producers to consumers	It creates possession utility through exchange

### v. Warehousing

Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed. Prices are thereby maintained at a reasonable level through continuous supply of goods.

### vi. Communication

Communication means transmitting or exchange of information from one person to another. It can be oral or in writing. It

is necessary to communicate information from one to another to finalize and settle the terms of sales such as price of goods, discount allowed, the facility of credit and so on. Internet, telephone, teleconference, email play an important role in establishing contact between businessman producers and consumers.

### vii. Advertising and salesmanship

Advertising frisks knowledge cap and it solves the difficulty of information. Advertising helps consumers to know about the various brand manufactured by several manufacturers. The media used to advertise products for Radio, Newspapers, Magazines, Television, Internet, Billboard and so on.



Salesmanship is a skillful art of selling commercial goods. It facilitates personal selling. Many times the sales force is required to book orders directly from dealer or customers.

It is very much required in the sales of services and industrial goods

### Key Terms

Industry

Commerce

Trade



### Exercise



#### I. Choose the Correct Answer

1. The industries engaged in extraction of iron ore are known as

- a. Construction Industries
- b. Manufacturing Industries
- c. Extraction Industries
- d. Genetic Industries

2. Production which involves several stages for manufacturing finished products is known as

- a. Analytical Industry
- b. Synthetic Industry

c. Processing Industry

d. None of the above

3. Normally high level risk involved in

- a. Industry
- b. Commerce
- c. Trade
- d. All of the above

### Answers

1. c 2. c 3. a

#### II. Very Short Answer Questions:

- 1. Define Commerce.
- 2. What do you mean by Industry?
- 3. What is trade?

#### III. Short Answer Questions:

- 1. What do you mean by tertiary industries?
- 2. Write a short note on Transportation.

#### IV. Long Answer Questions:

- 1. Compare Industry, Commerce and Trade. (any 5)
- 2. Write a short notes on:
  - a. Analytical industry
  - b. Genetic industry
  - c. Construction industry