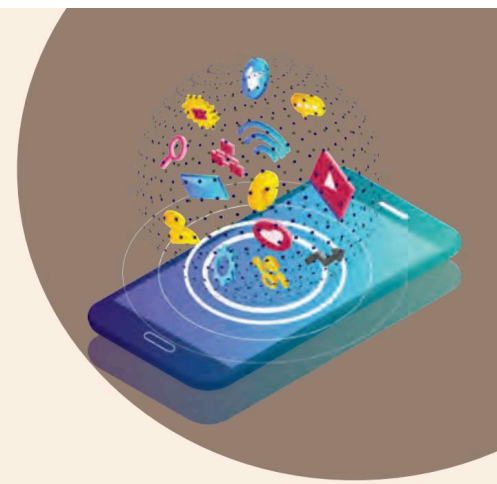


11



Types of Business

What you want to pursue further is the most common question that people ask after graduating from school. One has to make the choice of whether one wishes to explore more employment opportunities, prepare for interviews or competitions, take up private or government jobs, or start their own business. In order to decide correctly, we must first identify our areas of strengths and interests. This is because everyone has a different area of expertise. This enables us to determine our future aspirations.

Entrepreneur

An entrepreneur is a person who recognises potential opportunities, accepts the uncertainties of both successes and failures, and establishes and manages enterprises or initiatives to fulfil the needs of the market. They take the initiative of starting and managing a business with the goal of making a profit. They often possess the quality of innovation, vision, and a strong work ethic, seeking to bring their ideas to life, create value, and achieve financial success. Let us read about the journey of Manik, who became a successful entrepreneur by following his passion and vision.

Manik loved to cook and was well-known at school for his homemade sandwiches and shakes. He had an interest in food. He always wanted to open his own cafe. After finishing school, Manik enrolled in a Hotel Management program and upon graduating, he took a loan and started searching for a place to open his cafe. He also employed his friends, who helped him with managing social media, finances, marketing, and other services. Finally, he opened his own cafe, which quickly became a favourite hangout for all the students near that area. His venture became profitable because he followed his passion and vision, took the right decisions regarding his degree, choosing the correct place for his café, and making a tasty yet affordable menu. With the money earned from the cafe, he has now opened a big dine-in restaurant in the city.

An entrepreneur can be a person from any field, such as arts, education, sports, or culinary arts, who pursues his passion and uses it to transform his skill into an enterprise. An enterprise means a business, project, or endeavour, often involving activities aimed at achieving specific goals, growth, and success. Entrepreneurs have a substantial impact on our society through the generation of employment, the provision of products and services, and an increase in our country's national income.



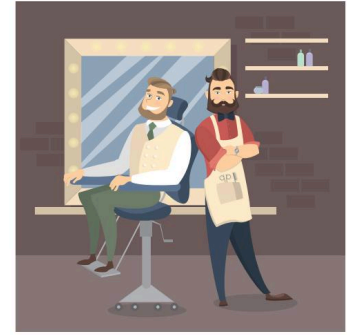
Entrepreneurs Around You

Where can one find an entrepreneur, then? The answer is, all around us. If we look around, we can find many people who are self-employed and working on their own businesses. The dairy where we purchase milk, the grocery stores where we buy our essential goods, the salons where we go to groom ourselves, the boutiques where we have our clothes stitched, dry cleaners, chemist shops, and food outlets are all business entities. While some businesses operate on a small scale, others operate on a large scale, serving both local and global markets.

Error Alert!

No Money, No Business.

It is a common misconception that one needs a large sum of money to start a business, but this is untrue. One can start one's business with a small investment as well.

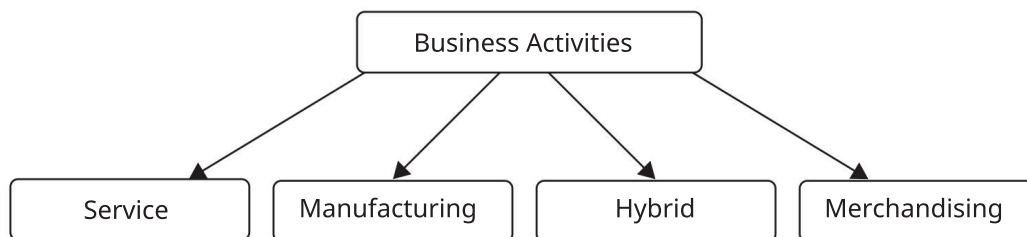


Types of Business Activities

A business is an organised body or activity that engages in commercial, industrial, or professional enterprise with the primary goal of generating profit.

It involves the production, sale, or provision of goods or services to meet the demands of the customers and achieve social or financial objectives.

There are four categories of business based on their activities:



Did You Know?

According to the World Bank, Small and Medium Enterprises (SMEs) are the backbone of the world economy. 90% of world businesses are SMEs and they provide 50% of employment opportunities worldwide.

Service Business

A service business is a type of business activities that primarily offers services that are not tangible in nature. These services are not in the form of physical goods. They cannot be touched but are experienced by the customers. In a service business, the primary focus is on delivering expertise, skills, knowledge, labour, or solutions to meet the specific needs and demands of the clients or customers.

For example, if you visit a salon for a haircut, then you pay for the service you receive.

Similarly, there are other service businesses like repair shops, housekeeping agencies, schools, coaching institutes, sports academies, hotels and resorts, gymnasiums, tourism services, accounting and law firms. In all these businesses, you don't get anything physical but pay for the services and expertise provided there.



Manufacturing Business

A manufacturing business is a type of enterprise that produces goods through various processes, often involving raw materials, labour, and machinery. Manufacturing firms acquire the necessary raw materials for the production or creation of goods, which are then processed into finished products with the help of labour and machinery. These finished goods are then distributed to wholesalers, who, in turn, supply them to retailers which in turn make them available to customers in the market.

For example, a coconut oil manufacturing unit in Kerala first collects dried coconut and with the help of labour and machinery, they extract coconut oil. The extracted oil is then refined, decolourised, and bleached before being transformed into a finished product. Then, the manufacturing units sell it to wholesalers who in turn sell it to the retailers. Finally, from the nearby retail shops, it reaches the consumer.



Merchandising Business

A merchandising business is the type of enterprise that buys products or goods from manufacturers at a wholesale rate (price paid for buying products in bulk) and sells them to consumers or other businesses at the retail price (price paid to buy an individual entity). The primary focus of a merchandising business is on buying, stocking, and reselling physical products rather than producing or manufacturing them. The difference between the wholesale rate and the retail rate is what a merchandising unit earns as a profit. These businesses play a crucial role in the supply of products by connecting manufacturers or wholesalers with end consumers.



Wholesale



Retail

For example, the famous e-commerce companies, such as Amazon, Flipkart, Ajo, and Meesho, purchase products from manufacturing units at wholesale rate and then sell them to us at a retail price. As a consumer, we are also ready to pay higher prices because we receive products in the comfort of our home.

Hybrid Business

A hybrid business is an enterprise that combines elements from the three business activities, i.e., service, manufacturing, and merchandising, to create a unique and adaptable approach to achieving its goals. Hybrid businesses blend characteristics from two or more types of business to address specific market needs or opportunities.

For example, a restaurant is an example of a hybrid business type. In restaurants, food is made with raw materials (manufacturing), and after it is prepared, they sell it to the consumer (service). In restaurants, they also engage in merchandising by offering bottled water and soft drinks to their customers.



Think and Tell

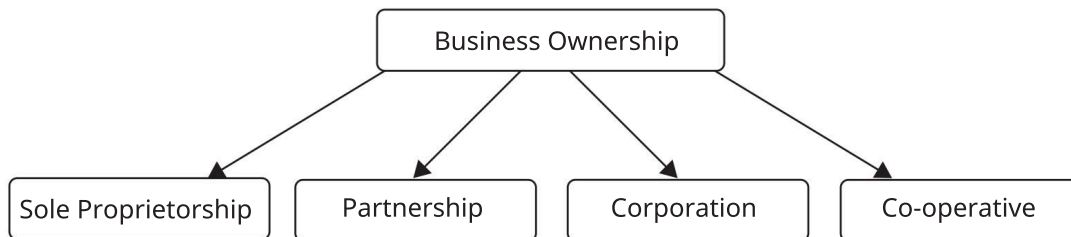
What kind of business would you establish if:

1. You had to produce stainless steel water bottles?
2. You had an agency providing household support?

Types of Business Based on Ownership

It is very essential to know what type of business you want to start. Different structures can be used to organise a business. Every company has a distinct ownership structure (state of possession). When you become an owner, you have a liability (a state of responsibility) and are accountable for both success and failure. Each type of organisation is subject to its own set of laws, regulations, and liabilities. It is necessary to know the different types of business organisations before starting a business.

The four main business organisations, based on ownership, are:



Sole Proprietorship

1. A sole proprietorship is a straightforward business structure where an individual single-handedly owns and manages the entire enterprise.
2. In this form of business organisation, the owner has complete control over all aspects of the business, from decision-making to daily operations.
3. The owner enjoys the whole profit; however, he is also solely responsible for the debt.
4. This business type can be started and closed at any time, as it only includes the investment and ownership of one person.
5. The owner is personally liable for all the legal obligations.
6. This form of ownership is advantageous for starting a business because it gives individuals complete control, and they are not obligated to follow strict legal procedures to start an enterprise.



Example: Mohan toiled as a worker in a block printing factory, and after working for many years, he finally decided to open his own manufacturing unit. He started with his little savings and soon had a good consumer base. As Mohan is a single owner, he enjoys all the profit he makes and uses it to pay rent, bills, and salaries.

Partnership

1. When two or more people or entities work together to jointly own and run a business enterprise, it is known as a partnership business.
2. In a partnership, partners combine their skills, capital, and resources to accomplish common business goals.
3. To regulate partnerships, legal partnership agreements, which specify the partners' obligations and rights, are used.
4. Each partner contributes to the management and decision-making processes, and they may or may not have an equal share in the business's gains, losses, and liabilities.
5. One key advantage of a partnership is the distribution of responsibilities and resources, which can lead to better output and growth. However, if there is a lack of clear communication or a well-drafted partnership agreement, then conflicts can arise between the partners.

Example: Rajiv, Jashn, and Manoj opened an accounting firm as partners and founders. Their firm offers services like auditing, accounting, tax advisory, and financial consulting to businesses and individuals. They worked together to pool their resources and created a successful venture.



Corporation

1. A corporation is a legal business entity that is separate from its owners, known as shareholders.
2. Shareholders hold shares of stock in the company, which represent ownership stakes in the corporation, and shareholders may buy or sell their shares, easily transferring ownership of the business.
3. The most notable aspect of a corporation is its limited liability, meaning that shareholders are not personally liable for the corporation's debts and legal obligations.
4. This separation of personal and corporate assets provides a level of financial protection for shareholders.
5. A corporation is typically managed by a board of directors which is elected by the shareholders. The directors manage the strategic direction of the company and appoint officers to handle day-to-day operations.

Example 1: In 1964, Indian Oil Company Limited and Indian Refineries Limited merged to establish Indian Oil Corporation Limited, a Government of India company. The corporation is divided into five divisions, one of which is the Refineries Division.

Example 2: A well-known provider of life insurance is the Life Insurance Corporation of India (LIC of India). More than 245 insurance companies and provident societies united to establish this company.



Co-operative

1. The co-operative type of business is a distinct type of business where the members who use its products or services also hold ownership stakes and actively participate in its governance.
2. Co-operatives exist primarily to benefit their members rather than external shareholders.



3. Co-operative members collectively make decisions through a democratic process, ensuring that the business's operations, policies, and profits align with their needs and goals.
4. Members have the right to participate in the decision-making process by voting on important matters, such as electing a board of directors, setting policies, and making strategic decisions.
5. The profits are typically reinvested into the cooperative to improve services or returned to members based on their level of participation or engagement.
6. Co-operative businesses promote self-help ideas while ensuring economic sustainability, empowering communities, and allowing members to collaborate to meet their collective needs.

Example 1: The largest multi-state cooperative society in India, IFFCO, is wholly owned by Indian cooperatives and has its headquarters in New Delhi. It was established in 1967 with 57 members and has since grown to be one of the largest co-ops and a major producer of fertiliser in the nation. The mission of IFFCO is to quickly and efficiently deliver high-quality fertilisers to farmers all over the country while producing and manufacturing fertilisers sustainably to save energy and resources.

Example 2: The Indian Coffee House is a unique restaurant in all of India as the workers are also the employers. The All India Coffee Board laid off its class-four employees in 1957 after deciding to close its coffee houses across the nation. Under the direction of AK Gopalan, the leader of the All India Coffee Board Labour Union at the time, and Member of Parliament Subhadra Joshi, the workers who were laid off established their own co-operative society, which later became known as the "Indian Coffee Workers Co-operative Society". The cooperative society soon opened its own Indian Coffee House locations in numerous states.

It is very important to understand the type of business and who owns it since that influences how much planning is required to launch a venture. Every business model has unique advantages and challenges. Running a successful business involves various factors which impact on its operations, growth, and performance. These factors interact and require consideration and management to build and run a successful business.

Activity Time

Activity 1: Poster Making

(Individual Work)

Prepare a poster of business activities which are found in your city/village. You can use pictures from magazines, newspapers, and the internet. Pictures should be pasted and labelled properly on colourful chart paper.

Activity 2: Class Discussion

(Group Work)

In a group of 4–5 students, discuss various types of activities that are generally adopted by small businesses in your local community.

Activity 3: Shark Tank in Class

(Group Work)

Divide yourselves in groups of 5 students each. Make your own 'Best out of Waste' product. You must set a selling price for your product. Create an appropriate brand name and tagline for your product. Each group has to showcase their product in the class.

Activity 4: Service vs Product

(Group Work)

The class will be divided into two groups. One group will name Indian businesses that offer services in exchange for money, while the other group will name businesses that offer goods in exchange for money. Record your names on a chart paper by dividing it into two categories.

Chapter Checkup

A Select the correct option.

- Which of the following is an example of a service business?
 - Grocery shop
 - E-commerce
 - Salon
 - Footwear shop
- If you are buying a product from the grocery shop, then you become a?
 - Wholesaler
 - Manufacturer
 - Retailer
 - Consumer
- Ramesh has a shoe store where he produces his own shoes, which he then sells to the customers. Which kind of ownership does Ramesh have?
 - Sole proprietorship
 - Partnership
 - Corporation
 - Co-operative

B Fill in the blanks with the most suitable words.

- rate is the price paid for buying products in bulk.
- is a mixed type of business with qualities of all three types.
- When two or more people or entities work together to jointly own and run a business enterprise, it is known as a business.
- Manufacturers use to make the final product.

C State whether the following is *True* or *False*. Correct the statements that are false.

- Co-operatives are owned by shareholders.
- The difference between the wholesale rate and retail rate is merchandising unit's loss.
- Merchandising includes the characteristics of different types of businesses.
- Co-operative business models empower communities.

D Answer the following questions. (Solved)

Q1. Differentiate between the types of business on the basis of their nature.

A1. The following is the difference between the types of business on the basis of their nature.

Basis	Manufacturing	Service	Merchandising	Hybrid
Nature	Produces physical products	Provides intangible services	Buys and sells products	Combines features

Q2. Differentiate between sole proprietorship and partnership business.

A2.

Basis	Sole Proprietorship	Partnership
Ownership	Owned by an individual.	Owned by two or more people.
Profit or losses	Owner enjoys the whole profit and also bears the whole loss.	Both profit and loss are shared equally by the number of partners based on the terms.
Liability	The owner has all the liabilities.	Split between the partners based on the terms.
Decision making	Owner can take each and every decision.	Decisions need to be taken after every partner or majority is in favour of them.
Legal obligations	Due to one owner, fewer and clear legal obligations.	If legal obligations are not clearly defined, then it can create differences among partners.

Q3. Mukesh is a farmer who is a part of a small agricultural community that relies heavily on farming for income. Mukesh and his fellow community members have decided to establish a business organisation to improve the rates of crops and other resources. Suggest the type of organisation they can start.

A3. Mukesh and his fellow community members can consider starting a Farmers' Co-operative to collectively improve the rates of their crops and resources.

- By forming a cooperative, the community can negotiate better prices for their crops and agricultural resources when dealing with buyers, suppliers, and distributors.
- Members can pool their resources to invest in better agricultural practices, equipment, and technology.
- The co-operative provides a platform for knowledge sharing among farmers. Members can exchange information about best practices, innovative farming techniques, and crop management strategies, leading to improved agricultural outcomes.
- A farmers' co-operative can contribute to the overall development of the community by generating income, creating jobs, and fostering economic stability.

Answer Key

- A** 1. c 2. d 3. a
- B** 1. Wholesale 2. Hybrid 3. partnership 4. raw material
- C** 1. False. Corporations are owned by shareholders.
2. False. The difference between the wholesale rate and retail rate is what a merchandising unit earns as a profit.
3. False. Hybrid includes the characteristics of different types of businesses.
4. True.