University of Karachi

INTRODUCTION TO
BUSINESS

For
B.Com. Part-1

(Notes)

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BUSINESS AND OBJECTIONS

The practice of business has been controversial over a long tine. Around 2500 year back Plato did not favor business. His pupil, Aristotle, also disliked it dubbing it an amoral and asocial activity. His main objection was on profit making. He favored activities relating to art, culture, and economics. About 200 years ago, Napolean Bonapart disliked English people as a nation of shopkeepers. IT should be borne in mind that the French have always been acknowledge as the lovers of art, culture, lifestyle, customers of good taste. Even Adam Smith, the founder of modern economics disliked businessmen. He would say they were rival to one another and would not like to sit together. But when happened under certain pressing needs to do so they would disperse having hatched a conspiracy against consumers.

In the modern era, surprisingly in the U.S., there is a section of young men according to whom business if the favorite field for only those with little or limited talent. In other words, gifted and talented people go in for research, management, engineering, and medical disciplines. In a survey in the country, only twelve percent young men preferred business. A big majority disliked it on the plea that the businessmen exploit customers, enslave employees, stress managers to bring profits at any cost, and are always in the mad run for wealth.

Despite all these objections business has its universal importance explained below.

SCOPE OF BUSINESS (BUSINESS FUNCTIONS)

PRODUCTION:

Business function starts with the planning for production which is conversion of materials from one from to another. It requires the purchase of raw materials, machinery, and equipment, and hiring different classes of laborers. Production, which is a commercial activity, has four factors without which it cannot take place. They are land, labor, capital, and entrepreneurship.

BANKING / FINANCE:

Banking and finance are part and parcel of commerce. By performing this service, commerce is able to finance the needs of the business firms. Through banking producers and middlemen get the needed funds. Banking caters to the financial needs of business.

Finance is the lifeblood of business. Every commercial activity requires capital and loans. Funds can be obtained through the following sources:

1. Capital
2. Loans, or bonds
3. Retained earning

TRANSPORTATION:

Transportation is a key function in overall business activities. Once goods are produce they must be sent to the sales point to make them available to customers. Taking goods from the place of production to the place of use is knows as transportation. This function creates place utility because goods where they are produced have little utility but when they are taken to the market their utility is created. Transportation not only helps make the goods available locally but also helps in foreign trade. Just because of this valuable function any foreign product is made locally available.

There are many means of transportation that includes three routes, viz., land, air, and sea. Most commonly used means is marine transport which is the lowest in cost and used for shipping heavy or voluminous goods. Most of the world trade takes place by sea.

The other significant means is air transport which is quick but costly. The goods, light and compact, are dispatched by air, especially, when time is important.

The third means is road transport which is vital for inland trade. Landlocked countries are compelled to undertake foreign trade by land. Land transport requires an efficient network of roads, motorways, highways, carriage ways, and tracks. The means of land transport covers railway carriages, trucks, and animal carts.

It is the blessing of transportation that a product manufactured in one country can be made available anywhere across the world.

STORAGE / WAREHOUSING:

Storage function is a part of a business activity and the result of buying or manufacturing. It refers to holding goods till they are demanded, sold, ripened, or consumed. It has following reasons:

1. Goods are in the form of raw materials or work-in-process.
2. They are not yet demanded.
3. They are held in off-seasons.
4. When goods cannot be sold at a price desired.

Storage causes increase in prices, creates time utility, and facilitates seasonal use. Some goods are produced throughout the year but used seasonally. For instance, fans, air-conditioners, umbrellas, warm cloth, blankets, etc. are produced regularly but consumed seasonally. Conversely, some goods are produced seasonally but used round the year. They are agricultural produces, especially grains. Wheat rice, lentils are grown seasonally but used round the year. In the absence of storage these two problems could not be averted. Hence, it plays a vital role not only in business but in our daily lives. Even shop-keeping is a form of storing.

Business houses use the facility of different types of stores and warehouses, some of which are bonded warehouse, public warehouse, private warehouse, and cold storage.

INFORMATION:

Commerce extends to getting information from various sources and media. It requires information at every stage. In production, in buying, in selling, and in research one needs exact and latest information. Well-informed businessman is more successful than an uniformed person. Information activity of commerce also includes advertising without which a major business activity cannot be successful.

Like finance information is also life-blood of business. The businessman has to gather, classify, and analyze information to make sound decisions. The quality and soundness of decisions depends on having the latest and relevant data.

It is the key to success and no business can thrive without having right and up-to-date information. It provides a charismatic basis for sound decisions leading the business to a great success and voluminous profit. It can be classified as follows:

1) PRIMARY INFORMATION:

It is first-hand information received through research, study, analysis, observation, experimentation, and experience.

2) SECONDARY INFORMATION:

It is obtained through the other sources that include libraries, books, newspapers and data collected by others.

INSURANCE (RISK):

Risk is inherent to business. Business risks include theft, fire, sinking of the ship, change in prices, government policies, and restrictions, strikes, lockouts, change in fashion, inventions, changing taste of consumers, drop in sales.

Risk may be classified as:

a) Insurable risks
b) Uninsurable risks

Those risks which can be covered under an insurance policy are referred to insurable risks and entail theft, fire, and sea hazards.

Risks that cannot have insurance cover are known as uninsurable risks. They include unfavorable changes in prices, fashions, consumer tastes, and competition. These risks arise out of marketing activities and can only be minimized by better and effective management.

For insurable risks the services of insurance companies are hired against the payment of premium.

ECONOMIC SYSTEM

The present world has the following economic system:

1) Islamic economy
2) Capitalism (open market economy)
3) Socialism (controlled economy)
4) Mixed economy

1) ISLAMIC ECONOMY:

INTRODUCTION:

Islam offers a definite economic system based on zakat, ushr, baitulmal, gignity of labor, equity, interest-free economy, legitimate income and avoidance of extravagance, and observing rights and duties.

DEFINITION:

It is the system free from exploitation. It allows every person to earn his or her livelihood from legitimate sources and discourages concentration of wealth and extravagance.

2) CAPITALISM / OPEN MARKET ECONOMY (BUSINESS UNDER PRIVATE OWNERSHIP):

DEFINITION:

Capitalism is an economic and political system which developed after the industrial revolution. Its basic factors include unrestrained ownership of capital, uncontrolled free markets, and unlimited profits. The system allows business to engage freely in production. It may be referred to open market economy or private enterprise system.

Capitalism, keeping its past history in view, can be classified as under:

1. Laissez faire capitalism
2. Modified capitalism

3) SOCIALISM (BUSINESS UNDER PUBLIC OWNERSHIP):

DEFINITION:

Socialism is that economic system in which means of production and distribution are held under collective ownership and control in public interest and where proletariat be the source of power establishing a society free of class conflicts.

4) MIXED ECONOMY:

INTRODUCTION:

There were many individuals, economists, and countries not favoring either capitalism or socialism. They were of the view that both the economic systems are of the extremes, would bring no good to the masses, or fail in the long run. They kept in view the evils of both the systems, and consequently, they evolved an economic system that contains good points of both capitalism and socialism. Hence, the system became popular as mixed economy emphasizing the nationalization of basic and large industries.

DEFINITION:

It is the economic system that carries the characteristics of both capitalism and socialism. The system works well when the well when the evils of both systems are excluded. It was gradually introduced by those who were against socialism, capitalism, or both.

CHARACTERISTICS OF MIXED ECONOMY

NATIONAL OWNERSHIP:

Under the system key and basic industries are nationalized. In addition, public utility companies as electricity, gas, and phone remain in the public (government) sector.

LONG-RANG PLANNING:

Mixed economy follows socialism in that the former adopts the system of long-range planning. In formerly U.S.S.R., seven-year plans were made. In Pakistan, five-year plans were devised. Now this practice has come to an end.

PRIVATE INVESTMENT:

This blended economic system is divided into two parts.

1. Public/Government sector
2. Private sector

Public sector does not aloe the interference of the private sector but the government can enter the private segment of the society. It is a common practice of the government to allocate separate sectors for private investment.

BETTER ECONOMY SYSTEM:

The system can become ideal if all the good attributes of both socialism and capitalism are adopted and evils dropped.

MIDDLE THE ROAD POLICY:

Capitalism and socialism are extremely opposite to each other. Mixed economy offers a mild system abandoning the extremities of both capitalist and socialist economies.

POSSIBILITIES OF EVILS:

Rulers and bureaucrats may infect the system in their personal interest. Such cases are common in most of the developing countries.

DEMOCRACY OR DICTATORSHIP:

Mixed economy flourishes under democratic setup of the government. Countries with long history of dictatorship cannot progress under the mixed economic system as the success of the economy depends on democracy.

GOVERNMENT RESOURCES:

Government resources are increased under capitalism. The government generates its income from taxes from the private sector. It also owns a substantial part of the economy. These two sources, added together, bring more money to the government.

ECONOMIC SYSTEM IN PAKISTAN:

Actually in Pakistan we have “Mixed Economy”. We find that there are certain industries and business fully controlled and managed by the government. While many others, such as, almost all producing and distributing industries and organizations are owned and managed by private enterprises. Therefore, it is said that ours is a “mixed economy” pattern in which mostly private persons are encouraged to set up their own business. In our country business has relations with the government in one way or the other. Business is to pay taxes, for instance, income tax, sales tax, excise and custom duties. From time to time government farms laws for regulating industrial and commercial activities in the country.

PRIVATIZATION

Privatization is the process by which public sector industries and organizations including banks are handed over to the private sector.

In Pakistan, the process of privatization of the public sector companies involves the following governing factors and reasons.

REASONS FOR PRIVATIZATION

1) NON-PROFESSIONAL MANAGEMENT:

Before nationalization the management was in the hands of professional, qualified and meritorious personnel. But after nationalization the management came into the hands of the personnel who are non-professional badly affecting efficiency of the organization. It is now the bureaucracy, a system of non-professionalism, that runs the business.

2) MONOPOLY:

Nationalization created monopolistic conditions with its inherent evils. In the fields of banking, oil, cement, monopoly created inefficiency, poor quality, high prices and high cost. No private company could enter in these fields.

3) OVER-EMPLOYMENT:

Nationalization of industries gave rise to nepotism quota system, bribery and jobbery, which ultimately brought over-employment in the nationalized and government organizations. The number of workers and officers in them reached three of four times what actually was needed. Over employment was also the result of undue pressures from labor unions.

4) EXCESSIVE ADMINISTRATIVE EXPENSES:

Nationalization and government organizations incur unnecessary and large expenditures arising out of liberal fringe benefits, allowances, perks, overtime, and bonuses. Managers and non-managers were always interested in the self-aggrandizement and not in the welfare of the company / organization. But these facilities to them could not bring efficiency and quality.

5) RAMPANT CORRUPTION:

In the era of nationalization corruption went rampant and unchecked. This corruption was in the form of work shirking, backdoor appointments, misappropriations, embezzlement, and manipulations in accounts. As a result these organizations always showed continuing losses.

6) INCREASING PRICES:

The prices of the products of nationalized and government organizations went spiraling creating difficulties for the consumer. The incessant increase in the prices also created inflation in the country badly damaging the economy of the country.

7) DECLINING PRODUCTIVITY:

Not only the quality of the product was badly affected but also the quantity of production and productivity of the employees came remarkably down.

8) WORLD BANK PRESSURE:

One of the main reasons of privatization of government business organizations is the World Bank pressure. The World Bank threatened government of Pakistan with the stoppage of economic aid, if the country did not denationalize public sector companies. The purpose of this threat was to create more funds to the government to enable to return interest and loan to the World Bank and other creditors.

9) WRITING OFF LOANS:

Governments in Pakistan have been advancing billions of rupees annually to different favorites persons and companies on political grounds who by using their influence get these loans written off causing great damages to the national exchequer. Due to this exercise quite common during the last decade has emptied the national banks bringing them on the brink of bankruptcy. The culture of writing off loans was first introduced in the era of Gen. Zia-ul-Haque and reached its climax in 1990s.

10) DECLINING INVESTMENT:

The exercise of nationalization in the country stopped private investment in the respective fields to avoid any sort of competition. On the other hand, the investors were reluctant to make any investment in any other field open for the private sector in the country for fear of nationalization. They preferred to invest in foreign countries, especially in the Middle East, Far East, and the United Kingdom. The government could only attract investments on hard terms and conditions.

11) CONTINUING LOSSES:

Most government organizations showed continuing losses. According to a survey out of 150 units only 12 were operating on profits. In 2002 alone, the Karachi Electric Supply Corporation showed a loss of above Rs. 31 billion. The K.E.S.C has been running in such huge losses continuously in previous years.

12) PUBLIC WRATH:

It is another important reason of privatization. The people have become quite disappointed, demoralized and annoyed owing to excessive utility bills, inefficiency of these utility companies, non-receipt of bills, standing in the sun in queues for hours, to pay these bills, the behavior of officers with the public, adulteration in petroleum and other products. Now, the people want to get rid of all such evils which seem only possible with privatization.

CHANNELS OF DISTRIBUTION

CHANNELS:

Channels refer to those ways through which goods move from the producer to the consumer. If the channel is direct, it has no middlemen and the producer and the consumer have direct link. Middlemen, however, are found if the channel is indirect.

MIDDLEMEN:

Middlemen are those traders who supply goods from producers to consumers. Most important of the middlemen are wholesalers and retailers both of whom provide extremely valuable services to producers and consumers. The services include wide distribution, merchandising aid, financial aid, storage facility, and convenience in buying and selling.

Middlemen also include brokers, distributors, agents and occupy important place in business. They may be individuals or small or big organization.

Importers and exporters are also well-placed middlemen found in foreign trade. Because of their existence a company's production can be made available in any part of the world.

The downside of the existence of middlemen between the producer and the consumer in the channel causes increase in the consumer price, on one hand, and decrease in the producers' profit margin, on the other hand.

The following are typical and most common channels in day to day business.

1) Producers → Retailers → Consumers
2) Producers → Wholesalers → Retailers → Consumers

In the examples, it is to be noted that whenever there is a wholesalers in the channel there must be retailer. It is so because the wholesaler has no direct contact with the consumer. It is especially true in case o consumer goods.

WHOLESALING:

Wholesaling is that marketing activity by which goods in bulk quantities are sold to retailers. The wholesaling activity may be assumed by manufacturers also.

WHOLESALERS:

Wholesalers are those middlemen who supply goods in bulk quantities to retailers. These wholesalers have no direct link with final consumers or customers. In defining wholesalers these factors must be borne in mind:

a) The position or status of the buyer.
b) The quantity of goods bought.
c) The method of operation of the buyer. It is important to note that the wholesaler assumes most of the risk.

TYPES OF WHOLESALERS

The following are the kinds of wholesalers who perform different kinds of services.

BROKERS:

Brokers are those middlemen who do not buy or sell in their own names. They bring together the buyer and the seller and help them strike a deal for which they receive the remuneration known as brokerage. The title to the goods is directly transferred from the seller to the buyer.

REPRESENTATIVES OF MANUFACTURERS:

In fact they are the employees of the company. They make contacts with the retailers, show the samples and solicit orders from them. They sell the goods of their principal company.

JOBBERS:

They are large wholesalers who supply goods on a large scale to retailers. Jobbers act as if they are department stores for retailers providing the same type of services to them.

SELLERS' AGENTS:

They do not carry stock of merchandise and sell only a particular company's goods under certain conditions.

RACK MERCHANTS:

They establish themselves within or outside the shop of the other owner and pay commission to him on the amount of goods sold.

TRUCK DISTRIBUTORS:

They are small wholesalers and supply their goods to retailers from their vehicles.

IMPORTERS & EXPORTERS:

These wholesalers deal in foreign trade. Exporters sell to foreign buyers and make goods available that are short in their countries. Importers, on the other hand, buy in large quantities from abroad and make it possible for their countrymen to use the goods that are short or not available locality.

SERVICES OF WHOLESALER TO RETAILERS

Wholesalers also provide invaluable services to retailers, which are as follows:

1) CONVENIENCE IN BUYING:

When the retailer purchases form wholesalers his many problems of purchasing are automatically solved. He is able to purchase maximum variety goods of a number of producers spread across the country or the world. He doesn't have to travel abroad or through the country. His traveling time cost are saved.

2) RIGHT TIME DELIVERY:

Wholesalers are in a far better position to deliver goods in time than manufacturers. Moreover, wholesalers are nearer to the retailers; therefore, prompt delivery is no problem. Some manufacturers

produce to order only because of which immediate delivery becomes not possible. On the other hand, the wholesaler has ready stock to deliver.

3) LOAN OR CREDIT:

Usually producers do not sell on credit. But wholesalers do. If retailers purchase from the wholesaler rather than the producer, they can get credit on the goods purchased.

4) MERCHANDISING AID:

Manufacturers don't have experience in shop keeping. Therefore they are not in a position to provide any advice on merchandising or methods of shop keeping. But wholesalers do have merchandising experience and therefore, are in a position to give advice to retailers on various shop-keeping methods and techniques, such as, general display, window display, decoration, layout of counters and cupboards, lighting, accounting, and salesmanship.

5) STORAGE SERVICES:

If the retailer purchases directly from producers, he will have to buy in larger quantities. These large quantities need spacious warehouses or stores which are costly and require additional capital of incur rental expenses. When the retailer purchases from wholesalers he may buy in smaller quantities which do not require additional storage space. In this way he is relieved of the additional capital or expense necessary for stores or warehouses. Wholesalers actually act as a store or warehouse from where the retailers can purchase any time at his will.

WAREHOUSING / STORAGE / DISTRIBUTION CENTERS

INTRODUCTION:

Storage function is a part of a business activity and the result of buying or manufacturing. It refers to holding goods till they are demanded, sold, ripened, or consumed. It has following reasons:

1. Goods are in the form of raw materials or work-in-process.
2. They are not yet demanded.
3. They are held in off-seasons.
4. When goods cannot be sold at a price desired.

Storage causes increase in prices, creates time utility, and facilitates seasonal use. Some goods are produced throughout the year but used seasonally. For instance, fans, air-conditioners, umbrellas, warm cloth, blankets, etc. are produced regularly but consumed seasonally. Conversely, some goods are produced seasonally but used round the year. They are agricultural produces, especially grains. Wheat rice, lentils are grown seasonally but used round the year. In the absence of storage these two problems could not be averted. Hence, it plays a vital role not only in business but in our daily lives. Even shop-keeping is a form of storing.

OBJECTIVES:

Warehousing or storage has been discussed above briefly. It has already been explained that storage is the holding of goods till they are used or sold. Warehousing is the synonymous term to the storage.

The objectives of warehousing are as under

1. Seasonal production and continuous use.
2. Continuous production but intermittent use.
3. Waiting for the better prices.
4. Short demand compelling warehousing.
5. Uncertain demand or supply.
6. Excessive supply.

KINDS OF WAREHOUSES

From business point of view the following are the kinds of warehouses.

1) PUBLIC WAREHOUSES:

It refers to those that are rental for business and industrial houses. When industrial units manufacture or importers receive goods in bulk quantities they need large spaces to store them. They cannot raise their own storage buildings. So they rent public warehouses for holding their goods. The receipt issued for renting the warehouses can be pledged against getting loans. The receipt contains all information about the goods such as quantity, type of goods, and their value.

2) PRIVATE WAREHOUSES:

Such warehouses are privately owned and used but not rental. They are owned by large business and industrial houses. They may be small or large as the need be. They are owned, possessed, and used by those who can afford them financially and don't thick it feasible to rent public warehouses.

3) BONDED WAREHOUSES:

Those warehouses that are used under the contract with the custom authorities are referred to as bonded warehouses. They are situated near ports to facilitate the warehousing of goods imported from abroad.

Custom authorities have the right to check the warehousing any time. Goods can only be withdrawn after paying custom dues such as duty, tax, demurrage charges. The bond drawn between the customs and the importer takes into consideration type of goods stored, quantity, amount, and other details. Every warehouses only one type of goods. Tea and coffee are considered as one product and are houses in the same warehouses.

4) WHOLESALE WAREHOUSES:

In fact they are large wholesalers who buy in bulk quantities and store them in the warehouse from where they supply goods to other businessmen. Wholesale warehouses are specialized in buying. They possess good knowledge of market conditions and when they smell the impending scarcity of goods they begin stocking and thus earn substantial profit.

ORGANIZATION OF WHOLESALE WAREHOUSES:

Its organizational structure is raised as follows:

1. Department of buying.
2. Department of administration.
3. Sales department.

These departments are headed either by the chairman who is also head of the company, or by the owner. Some warehouses also operate cash and advertising department.

5) AUTOMATIC WAREHOUSES:

These warehouses are automatic in the sense that their paper proceedings, processing, and selecting goods are made automatic. They have been adopted in the US where all system have been made automated and computerized.

ADVANTAGES AND FUNCTIONS OF WAREHOUSES

Warehouses entail many advantages.

1) DURING TRANSPORTATION:

During transportation process storage function continues. First goods are stored in ameans of transportation (i.e. ship, train, truck) and then transported.

2) SAFETY:

Warehouses provide safety to goods and can lengthen their lives, especially when they are air-conditioned. They also save goods from being exposed to dust, rain, sun, and pilferage.

3) LOADING:

Loading aboard and unloading from the ship are facilitated by using warehouses.

4) AGING:

Aging of produces is possible by the process of warehousing. Rice, wine, and agricultural produces are aged to make them better to taste or edible.

5) BALANCE:

Business always needs an optimum balance between demand and supply. Unbalanced demand and supply is normalized by warehousing. When market faces shortage the warehouses starts supplying and when goods are produced to excess the surplus is stored, hence the balance between demand and supply.

6) SALES BY RECEIPT:

The receipts issued by the warehouse can be used to buy and sell without affecting the physical transfer of goods. The receipt can also be used as a pledge against loans.

SALESMANSHIP

DEFINITION:

Salesmanship is the art or technique of selling an idea or one's point of view. It is the process of convincing another person about the desirability of some article, service or idea and persuading him to buy it or accept it as true.

In business salesmanship refers to the art of presenting one's product to a prospective customer with such sound and convincing arguments that the prospect appreciates the need for it and proceed to buy it in preference to other products.

QUALITIES OF A SALESMANSHIP

There are various types of salesmen engaged in the sale of different types of commodities or services which may be tangible or intangible, ordinary or special. Their approach to sell the wide variety of goods or products is different. It is therefore, difficult to lay down the qualities that will exactly fit these different types of salesmen.

The basic qualities required in a salesman to achieve success in selling are briefly described below.

Some of these qualities are external and can be acquired with little difficulty, others are internal and can be developed by diligence and training.

1) EDUCATION:

A good salesman must be educated and must have proper knowledge of salesmanship.

2) PERSONALITY:

It is the foremost quality required in a salesman. It is the capacity attracting and influencing other people without conscious effort. A salesman with personality can easily win the confidence of his prospects and convince him about his point of view. So he must be smart and always cheerful to create favourable impression.

3) INTELLIGENCE, GOOD MEMORY AND POWER OF OBSERVATION:

A salesman has to assess carefully the character and psychology of every individual prospective customer before he plans his sales approach. He has to equip himself with suitable sales technique to suit the particular occasion to achieve the best result. A salesman has to deal with innumerable people with different characters, tastes and fashions; a good memory for facts, faces and names is an essential quality for him.

4) SELF CONFIDENCE AND DETERMINATION:

Salesmanship requires efforts to persuade the prospective customer to one's point of view. Unless the task is approached with courage and determination, efforts are round to fail. This can be done with confidence. A salesman should not lose faith and give up the customer.

5) COMMUNICATIVE ABILITY:

A salesman should be able to speak freely, clearly and in a well pitched voice. He must be a person who has a natural ability for conversation. He must have also technical knowledge in the case of specialty goods.

6) COURTESY:

Politeness, courtesy and good manners help the salesman in attracting the attention of his prospective customer at the very first meeting and winning him.

7) SOCIAL-MIXING QUALITIES:

A successful salesman should never wait for the customers to come to him. He should therefore, be able to mix freely with people of varying nature and status in any environment or place.

8) KNOWLEDGE AND EXPERIENCE:

A salesman should have sufficient knowledge of the products to be sold, the policies and organization of the firm he represents, the extent and nature of the market he has to exploit, the type of prospects he has to face and the technicalities and procedures in general. He must know the effective sales techniques and have some experience in the art of salesmanship.

BUSINESS RISKS

Business today is very complex and subjected to variety of risks through unexpected events not foreseen earlier as a result of which loss may occur due to changes in demand, customs, and cut throat competition of the rivals. Rises in costs and poor management also causes serious loss in sales and overall business activities.

The risks today are much more numerous than those in the olden days. By risk we refer to the danger of loss a businessman can face in handing the business activities, because of the negative aspect of business, businessman have to think times before taking a decision.

Though risks, inherent as they are with economic forces working in the market, can in no way be eliminated at all but certainly reduced to minimum by wise management and prudential measures.

KINDS OF BUSINESS RISKS

On the basis of various reasons the risks can be classified as under:

1) MARKETING RISKS:

Marketing products involve great risks especially when a new product is introduced. If the product fails to create demand, the firm will have to lose his money as well as its effort in business. Even if the product is successful in the market, there is no surety of being continuous existing in the market. Test demand and decrease in turnover pose great exposure to risks. Advertising campaign reduces such risks.

2) EQUIPMENT RISKS:

Due to rapid advancement in technology equipment may become obsolete earlier from the estimated date. Such risks can not be covered even by purchasing insurance policy.

3) CREDIT RISKS:

Of course the credit sales have risk of non-payment. If a sales manager stops someone by buying goods on credit due to past experience of late payments from him, in this case manager creates sales and credit risks. Allowance to cover such risk should be made out besides making advance investigations for reliability of prospective customers. Credit sales be made to these who have finance and social status.

4) INVENTORY RISKS:

Inventories should be well calculated and estimated to meet the market demand in advance. Short of inventory is dangerous in aggressive sales. Whole over inventory create excessive risks. A prudent basis of obsolescence, rusting and dusting, thefts, storage cost, price declines, deterioration and evaporation are some of the true risks which have to be faced and adequate provision is made to cover them up.

5) GOVERNMENT RISKS:

A firm always has risks to be created by government, if government imposes restrictions on sale of certain products. Government may also punish a firm if any thing happens wrong due to use of its products to any customer. Foreign trade is also subject to government intervention.

The only way to avoid such type of risks is to know in advance all the after effects of products and necessary rules and regulations made by government from time to time to operate particular type of business.

6) MISCELLANEOUS RISKS:

Changing fashion and faster of consumer mat also creates risk in the same way the over inventory and price changes creates risks.

Every business is also subject to unexpected events like fire, theft, storms, floods, earthquakes, employees accidents, misshapes by cars and trucks take place in course of business etc.

A business firm must take appropriate actions against these type of risks.

METHODS OF HANDING RISKS

As started above business firms take many necessary steps to reduce business risks. These steps and methods are as under:

1) POLICY OF SELF INSURANCE:

Though business risks, inherent as they are with the economic forces working in the market, can in no way be eliminated at all but certainly reduced to minimum by wise management and prudential measures. A sum is set aside to build a reserve that can be drawn to make up the losses. It is sort of self insurance as a self defence measure and risk can be minimized.

2) FLEXIBILITY IN BUSINESS RISKS:

Many firms keep long number of product in their line to meet the impact of obsolescence or an undesirable event. If one product suffers obsolescence, the loss occurred is made good by other product. It is possible only when a company maintain flexibility of good management.

3) SAFETY MEASURES:

There is always a solid reason for every type of risk. These risks can be minimized by eliminating or reducing the reasons. It would be much cheeper to have or need guards, safety equipments, fireproof building, covered operating machinery, automatic sprinkler system or even adequate lightening than to buy insurance.

4) MINIMUM INVESTMENT POLICY:

Firms having uncertain demand of their products due to changing trend in fashions and design try to invest minimum capital in their business and keep minimum possible stock of product to meet the current demand. Heavy investment in machinery and equipment may also be badly effected due to the excessive obsolescence due to new inventions good firm invest minimum capital in machinery and equipments. They acquire these assets on lease rather than to purchase.

5) BUSINESS FORECASTING:

Business forecasting may also reduce the business risk. If a manager of a firm can fully speculate the coming change and adopt necessary measures to face the expected situations, then he can save the business from various risks. It is possible only when there is a proper system of research and facts and figures are collected on scientific basic.

6) HEDGING:

With a view to protect a trading or a manufacturing transaction, it is a practice of making contact of sale and purchase of equal amounts, one in the spot market and other in the 'future' market. If prices in the two markets move exactly parallel, losses arising from the price movement in one market will be offset by profit arising in the other. A hedge transaction furnishes an example of the application of principles of insurance to business.

7) TRANSFER OF RISKS:

This is the usual preferred solution today to transfer risk by purchasing insurance from professional 'risk takers' known as insurance companies. Insurance is a process in which insurer agrees for a sum of many which is paid by insured to pay the insured a specified sum if he should suffer a particular loss. Insurance is considered as a last resort against business risk.

BUSINESS COMBINATION

It is a voluntary association of firms for the achievement of common objectives. To enjoy the monopoly advantages various firms combine themselves. The combination may be formed by a written or oral agreement among the firms. Sometimes firms decide to merge themselves into one unit. The main object of the business combination is to achieve common economic welfare for its members. But it is considered to be unlawful if any of its objectives is against the public interest. Business combination may be permanent or temporary.

CAUSES OF BUSINESS COMBINATION GROWTH

1) ELIMINATION OF COMPETITION:

Due to hard competition among the firms rate of profit decreases. Some firms may suffer a loss also. So the industrialist feels pleasure to setup combination to avoid the competition. It increases his rate of profit.

2) TO SOLVE CAPITAL PROBLEM:

Small units of production face the problems of capital shortage. These cannot expand the business. So small units may form a combination to over come this problem.

3) TO ACHIEVE ECONOMICS:

Some small units combine themselves to achieve the economies of large scale. They purchase the raw material on low prices and sell the product on higher prices. When the goods are produced on large-scale cost of production falls and profit increases.

4) EFFECTIVE MANAGEMENT:

Generally small units are unable to hire the services of experts and experienced managers. So small industrial units combine themselves to hire the services of effective management.

5) TARIFF FACILITIES:

To compete with the external firms some industrial units combine themselves. Government also provides protection and tariff facilities. Government also imposes heavy duties to protect the domestic producers.

6) UNIFORM POLICY:

All the units adopt uniform policy due to bus combination. It regularizes the business activities of all the units.

7) USE OF TECHNOLOGY:

The business combination can use the latest technology and new methods of production because its its sources are sufficient, while a single unit cannot do so.

8) TO FACE CRISES:

It is very difficult for the small industrial units to face crises in the days of inflation and deflation. So the small units combine themselves to face these problems easily.

9) GROWTH OF JOIN STOCK COMPANIES:

The growth of joint stock companies has also made possible for various industrial units of form combination.

10) STATUS IN MARKET:

A big firm enjoys higher status and respects then the smaller. So small business units prefer to combine themselves for higher status.

11) DEMAND AND SUPPLY BALANCE:

Business combination is very useful in controlling the over production. It adjusts the supply according to the demand of the market. So over production cannot take place and prices remain stable?

12) TRANSPORT AND COMMUNICATION DEVELOPMENT ACTIVITIES:

It has made the economic activities fast. Now there is a close contract of businessman with the others. So it has also contributed to the growth of combination.

13) RESEARCH FACILITIES:

A small firm cannot setup the research department; whole through business combination these facilities can be enjoyed.

14) ECONOMIC INSTABILITY:

In case of economic and political instability there is chance of loss in every moment. To reduce the risk small industrial units combine themselves.

TYPES OF COMBINATION

It has the following types:

1) VERTICAL COMBINATION:

When various department large industrial units combine together under single management is called vertical combination. Under this combination from purchasing of raw material to selling of product, the units link all the stages up.

For example, all the business units engaged in publishing book can make vertical combination.

OBJECTIVES:

a) To minimize the cost per unit.
b) To eliminate competition.
c) To hire the services of expects.
d) To supply the goods at lowest price.
e) To avoid over production.
f) To use improved methods of production.
g) To achieve the benefits of large scale.
h) To find proper market for their product.
i) To supervise the management.
j) To reduce the middleman's commission.
k) To earn maximum profit.

2) HORIZONTAL COMBINATION:

It is also a voluntary association when two or more than two similar nature business units combine themselves under the one management. It is called horizontal combination. For example, if four tea industrial units are at the same stage of production. They are engaged is same activity. They sell wholesale. They sell the product in the same market. Their combination will be called horizontal combination.

OBJECTIVES:

a) To minimize the cost per unit.
b) To eliminate competition.
c) To hire the services of expects.
d) To supply the goods at lowest price.
e) To avoid over production.
f) To use improved methods of production.
g) To achieve the benefits of large scale.
h) To find proper market for their product.
i) To supervise the management.
j) To reduce the middleman's commission.
k) To earn maximum profit.

3) CIRCULAR COMBINATION:

When different types of business units combine themselves under the one management, it is called circular combination. If a cloth industry combining with shoes industry and sugar is an example of mixed combination.

OBJECTIVES:

The main object of mixed combination is to secure the benefits of administrative ability through common management.

4) DIAGONAL COMBINATION:

When two or more than two business units perform subsidiary services. If they combine themselves under the main industry it is called diagonal combination. If designing and tailoring business units are combined with the garments industry it is called diagonal combination.

OBJECTIVES:

The main objective and advantage of this combination is to make the business unit very large and delf-sufficient.

FORMS OF COMBINATIONS

POOLS:

A pool may be defined as on association or organization of business established through federation of various units whose members seek control over price by combining some factor in the price making process in a common aggregate distributing aggregate among the units. The income of combining units may be aggregated, and after deducting the expenses of working the pool, the balance may be divided in a certain proportion. A pooling agreement is always make by members unity producing and dealing in similar products.

So pool is a business federation in which a member of business units combine in order to control prices and eliminate competition among themselves by regulation their total output, market or income.

TYPE OF POOLS

On the basis of interest, out put, market or income-pooled or aggregated, pools may be classified into Output Pools, Market Pools or income Pools etc. as given as under.

1) PRICE POOL:

The combining units may enter into a price fixing agreement in which case the resulting pool is called Price Pool. In this way they do away with competition in relation to price by changing a fixed price mutually agreed upon.

2) MARKET POOL:

If the combining units agree to divide the entire market for their products among themselves so that each participation unit may have a virtual monopoly of supply in a particular market segment, the agreement then becomes a Market Pool. The market may be divided on the basis of products, customers or territories served.

3) OUT PUT-POOL:

They may agree to regulate the volume of production for each of them, so as to prevent over-production and loss through fall in price. This is known as Out-Put Pool. The pool fixes quota of production for each of the participating units.

4) INCOME OR PROFIT POOL:

The combining units may also agree to pool together the incomes or revenues earned by each unit and to share it among themselves in un agreed proportion giving rise to the income or Profit Pool.

5) TRAFFIC POOL:

It arrases out of an agreement among transport companies like railways, shipping and truck lines to limit their competition by dividing the area of operation or preventing rate-cutting.

6) OTHER POOLS:

Similarly there are some other pools such as Export Pool, which represent combination of produces for export trade, or Patent Pool formed for pooling the patent rights of the combining units.

Pools come into being through a contracted agreement in writing, which also contains provisions for penalties in case of violation of its terms. In matters outside the agreement the units are free to activities on their own. But they also surrender part of their freedom to the pools in return for a common benefit. The most important common benefit is higher profits.

MULTINATIONAL COMPANIES

These are the companies which have sister companies or branches abroad. Philips, IBM, NCR, SINGER, ABBOT are some of them. Multinational companies are the means of transferring the technology and play a key role in the international trade. They bring foreign investment into a country and offer jobs to the locals.

NATURE, OBJECTIVES, AND ROLES

ECONOMY OF LABOR:

By establishing a sister company abroad, economy of labor becomes the most advantageous factor. This economy reduces the cost of production and increases the profit margin. To achieve this type of saving the US and other developed countries are pouring their investment in to China and Koren where labor is abundant and cheap.

AVAILABILITY OF RAW MATERIALS:

Many of the developed countries are short of raw materials and natural resources which cannot cater to their production needs. When these countries form their companies abroad they become able to get raw materials at quite lower rates. This availability of raw materials in other countries attract them to open a sister company over there to get the advantage of high quality production and low cost.

NEW MARKETS:

Multinational companies not only seize the local markets but also have an access to neighborly and regional countries and thus they are able to expand their market and maximize sales volume.

LOCAL REASONS:

Another reason for multinational companies to invest abroad is their homeland problems that include unfavorable government policies, severe competition, pressure of labor unions, and satiated market. These local difficulties push them to access foreign countries where business conditions are extremely favorable offering them immense opportunities.

PROBLEMS OF MULTINATIONAL COMPANIES

The following are the problems of multinational companies:

LANGUAGE PROBLEM:

The first and foremost problem that a multinational company faces is that of language which badly affects their business. This problem becomes more serious in developing countries where literacy rate is very low. Some companies have to use symbols and pictures to get over the problem.

LOCAL STYLE AND HABITS:

The markets for world goods become limited because of local style, preferences and habits. Therefore, it is necessary to institute local factors in the products. For example, in Pakistan, refrigerators should be tropicalized and television should have PAL system.

LOCAL CULTURE AND RELIGION:

Local culture, fashion, and religion are major constraints for multinational companies. These are the factors which build values of a society. In Muslim countries, the business of liquor (wines etc.) and pork is not allowed. Only kosher (Halal meat) can be sold and consumed.

WEATHER DIFFERENCES:

The weather difference in the manufacturing and consumer countries badly affects their companies' manufacturing and delivery schedules. When Pakistan has winter, Australia sees summer and this seasonal difference creates problems.

LOCAL TARIFFS AND LAW:

Every country imposes tariffs and other restricting laws to discourage especially imports which is a major constraint on multinational companies business. In addition, labor laws, currency, tax system, foreign exchange laws, industrial policy create blocks in the business of multinational companies.

COMMERCIAL PRACTICES AND TRADITIONS:

Different countries evolve different sets of unwritten commercial traditions and practices over a period of time. This work of time cannot be changed by these companies to suit their needs.

LACK OF SKILLED MANAGERS:

In developing countries the shortage of managers creates severe problem of smoothly operating business for multinational companies. If they hire managers from their original countries it becomes very costly.

LACK OF COORDINATION:

Achieving coordination between the multinational company's homeland and consumer countries becomes very difficult because of difference or culture, weather, laws, traditions, commercial practices and language.

COMPLEXES:

Complexes or obsessions exist among nations on colors, wealth, and their past. Inferiority or superiority complexes are a major barrier creating hurdles to multinational companies.

NATIONALISM:

The local staff working for multinational companies become a problem when they get enough experience of work and start resisting dictates from the head offices abroad. This staff tends to favor local people, laws, and try to work in the interest of their own country.

TRADITIONAL IMAGES:

It is another hurdle in international trade. Every nation has strange images and feelings about the others which have nothing to do with realities. These superstitious images have a bearing on foreign trade policies.

MARKETING

Marketing has been defined variously by different authors:

1. Marketing is the process by which goods and services move from the point of production to the point of consumption.
2. Marketing covers all business activities necessary to effect the transfer in the ownership of goods and services to provide for their distribution.
3. Marketing embraces all those activities that start with the production and ends up with the consumption.
4. According to Stanton, "marketing consists of all activities designed to generate and facilities any exchange intended to satisfy human needs or wants.

Making customers or making for customers is referred to as marketing. It may be defined separately as macro marketing and micro marketing.

Jerome McCarthy has divided marketing definition into two parts, viz., macro-marketing and micro-marketing.

1) MACRO MARKETING:

It shows a broad marketing view and is defined as a social process which directs an economy's flow of goods and services from producers to consumers in a way which effectively matches supply and demand and accomplishes the objectives of society.

2) MICRO MARKETING:

Micro marketing carries narrow outlook and is defined as the performance of activities which seek to accomplish an organization's objective by anticipating customer need and directing a flow of need-satisfying goods and services from producer to customer.

Patrick Murphy and Ben Anis define marketing as, 'marketing encompasses exchange activities conducted by individuals and organizations for the purpose of satisfying consumers needs and achieving marketers' goals.

According to the author of this book, marketing is the process of providing goods and services to customers for earning profit. That is, marketing satisfies the needs of producers, sellers, and consumers.

KINDS OF MARKETING

The marketing concept can be divided into the following classes as suggested by marketing scientists.

1) THE PRODUCTION CONCEPT:

This concept is based on the belief that the customer would go for those products which are available at the right price. To meet this end the company should focus on controlling cost of production and distribution and increase the amount of production. The greater the amount of production the lesser will be the cost and vice versa. The concept also suggests that the producer should focus on right quality raw material, minimum wastage, and least downtime to control costs.

2) THE PRODUCT CONCEPT:

This concept takes into account the fact that the customer wants that product which suits his needs. He values the product designing performance, utility, innovation, packing, and functions. So the product should be made to his entire satisfaction.

3) THE SELLING CONCEPT:

It is the guiding factor that suggests the customer will buy those products which are well advertised or of which he is well-aware. Hence the seller must undertake sales promotional activities to reach him.

4) THE MARKETING CONCEPT:

The concept maintains that the company must recognize customers' satisfaction criteria before accomplishing its goats. Selling concept emphasizes the sales promotion activities, while marketing concept identifies a wider scope of efforts including defining marketing goals, identifying customer needs, unifying all activities affecting four Ps and making profits by creating long-term markets.

5) THE SOCIETAL MARKETING CONCEPT:

It suggests that provision of the goals and services by the company should result not only in the welfare of individual customer but also the society as a whole. Consistent with this concept, the company should assume social responsibility by observing law, meeting public expectations, anticipating new demands and leading.

FUNCTIONS OF MARKETING

1) FUNCTIONS OF EXCHANGE:

BUYING:

By the process of marketing, buyers are able to purchase what they need. Buying involves determination of needs, selection of quality and variety, deciding on brand and size, bargaining on prices, determination of quantity, selection of source of supply, method of payment, mode of delivery, and possibility of credit facility.

SELLING:

Selling refers to exchange of goods for money. Selling cannot take place without buying for both are compulsory to each other. By selling transfer of title to goods and service is effected. Selling involves deciding on what to sell, when and where to sell, and at what price. Before selling advertising, publicity, or personal selling is required. This function requires determination of selling price, commission, packing, and sales promotion methods.

2) FUNCTIONS OF PHYSICAL DISTRIBUTION:

STORAGE:

Once the goods have been produced, they must be store until they are delivered or demanded. Storage is holding the goods when they are manufactured. The means of storage includes shops, stores, and warehouses. By the process of storing we hold the goods when they are produced and dispose them of when they are demanded. It creates time utility. Goods are stocked when they are abundant and released when they are short. It also works for aging and ripening.

TRANSPORTATION:

If storage creates time utility, transportation creates place utility for goods and services. By transportation we take goods and services from the place of supply to the place of demand. IT solves the problems of surplus or scarcity. Goods may be transported through sea, land, or air. Modern technology has provided the marketers quick means of transportation such as trains, trucks, airplanes, and ships.

3) FACILITATING FUNCTIONS:

FINANCE:

Finance is the life-blood of a business. Without money no business activity, no matter how small, can be performed. Business needs funds which are available in usually three forms, viz., 1, capital , 2, loans, and 3, retained earnings. Finance is needed to purchase fixed and current assets, pay off liabilities, and meet expenses of the business.

GRADING AND STANDARDIZATION:

Grading is the specification of a quality, rank, or class according to value. Standardization is the process of making goods of uniform size and shape. Grading and standardization have made the selling work very easy. Goods produced in one country can be easily sold in another just by quoting grade or standard. The examples of grades are Basmati rice, Mexipak wheat. The examples of standards are measures, horsepower, watts, weights, and volumes. Brand names are used to specify grades and standards. Grades and brands facilitate recognition, advertising, and buying and selling of goods.

INFORMATION:

Successful marketing requires up-to-date and maximum information about markets, technology, demand, supply, public taste and preferences, internal and external environment, competition, national and international situation. Information may be obtained from a primary or secondary source, which must be reliable. Some companies conduct their own research to get first-hand and latest knowledge. Information is the key to success in the human life.

RISK:

Risk must be considered and studied carefully. Risk is an essential factor of every business. Before starting a new business the investor must calculate how much risk he can assume.

Different businesses carry varying amount and nature of it. Some risks are insurable and others are not. The uninsurable are changes in fashion, unfavorable movement of prices, new inventions, competition, consumer demand and taste, death of a key employee. The insurable risks are fire and theft etc. There are various forms of risks which are permanent phenomena of a business. Figuring out risk correctly reduces the chances of loss and improves profitability.

MARKETING MIX

To get the right product or product variation, into a specific market, the firms have to make changes in every phase of its operations. Market decision making (Strategy) involves combination of for strategies which are 4 p's i.e., product strategy, promotional strategy place or distribution strategy, and pricing strategy. The combination of these four strategies forms the Marketing Mix to satisfy choose consumer segment. It is the total package (or mix). That determinates the degree of marketing success.

1) THE PRODUCT MIX STRATEGY:

It includes decision about package, design, brand trade marks warranties, guaranties, produce life cycle and new product development. The product must fulfil wants and requirements of the consumers.

2) THE PLACE OR DISTRIBUTION MIX STRATEGY:

It involves the physical distribution of goods and the selection of marketing channels – the organization of wholesalers and retailers who handle the product distribution.

3) PROMOTION MIX STRATEGY:

It is concerned with activities relating to personal selling, advertising and sales promotion tools. These elements must be skillfully blended to produce effective communication between the firms and market place. This entire packing is also called as communication Mix.

4) PRICING MIX STRATEGY:

It is one of the most different part of the marketing decision making, deals with the methods of selling profitable and justifiable prices. Both government regulations and public opinion must be considered in pricing decisions. This strategy involves with all factors of pricing such as discount, mark ups, services offered duties and sales tax, cost of goods sold, etc. This market strategy is also known as Service Mix.

The marketing mix is the mechanism that allows business to match consumer good with product offerings. Different marketing strategies can be developed by altering the market mix for different markets. Further there are many of possible combinations of these four elements of marketing mix. For example (i) price may be given more importance in the mix for selling perishable commodities. While price may have a little role selling medicines, (ii) Promotion activities are important in case of luxury items, not for necessaries, (iii) Product is important in all cases but is less important for the item like tooth paste than it is for a car.

These four strategies of marketing mix i.e., product, place, price and promotion are to be modified in formulating marketing decisions. But there are other factor which can not be controlled or changed by the firm. These are as follows:

1. Culture, religious and traditional environment conditions.
2. Political conditions and lows relating to business.
3. The Economic situations resulting due to economic monetary and physical policies of government.
4. The prevailing general business condition and the nature of competition in the field of marketing of the product etc.
5. The tide of public opinion.

The marketing manager has no control on these factors prevailing in the society. But he must consider and appraise them and adjust the marketing strategy to fit in the framework of these conditions.

PARTNERSHIP

"Partnership is an association of two or more persons to carry on as co-owners a business for profit". To run a partnership an agreement between the partners is essential.

It is a business ownership, which must have at least two partners. The maximum number is 20 but in the case of banking it is only 10. After sole proprietorship partnership is the commonest form of ownership in the business world.

Partnership cannot be formed until following conditions are fulfilled.

Features / essentials of a partnership:

1. At least two partners must carry on a partnership.
2. There must be an agreement, oral or written.
3. It must be a business to carry on as co-owners.
4. The business must be for profit.

ADVANTAGES OF PARTNERSHIP

Partnership is preferred on the other forms of business due to following advantages:

1) EASY FORMATION:

It can be easily organized without legal formalities. Two or more persons may start the business at any time. Its registration is also very easy.

2) JOINT EFFORTS:

All the partners work jointly to improve the business. The firm distributes the work among the partners according to their ability and experience. It increases the efficiency of the firm.

3) LARGER CAPITAL:

Partnership can collect more capital in the business by the joint efforts of the partners. In the sole-proprietorship the sources and capital remains limited.

4) EASY BORROWING:

The liability of the partners is unlimited in this business. So the banks and other financial institutions provide the credit easily.

5) TAX FACILITY:

In this business every partner pays individually. So the firm is in a better position as compared to the joint stock company.

6) MINORITY PROTECTION:

In this business all the policy matters are decided with the consent of each partner. So there is a protection to the minority partners.

7) FLEXIBILITY:

It is a flexible organization and partners can change their business policy with the mutual consultation at any time.

8) EXPANSION OF BUSINESS:

The business volume can be expanded easily because there are a large number of partners and unlimited liability of each partner.

9) SECRECY:

In this business there is no need to publish its accounts. So the business secrecy remains confined within the partners.

10) SKILLED WORKERS:

In this business a firm can hire the services of qualified and competent persons due to strong financial position. It increases the profit of the firm.

11) SENSE OF RESPONSIBILITY:

In this business the liability of the partner is unlimited. So every partner performs his duties honestly and efficiently.

12) DISTRIBUTION OF LOSS:

If a firm suffers a loss it is distributed among all the partners. So no any single person bears all the loss.

DISADVANTAGES OF PARTNERSHIP

1) DELAY IN DECISIONS:

In the partnership all the decision are made by mutual consultation. Some times delay in decisions becomes the cause of loss.

2) MIS-UNDERSTANDING:

Generally there is a chance of misunderstanding and dispute among the partners. It becomes the cause of business failure.

3) UNLIMITED LIABILITY:

Partners feel risk in the partnership due to unlimited liability, because some times a personal property of the partner can be sold for the clearance of the debts.

4) LIMITED LIFE OF THE BUSINESS:

The life of this business is very limited. If any partner dies or new enters into the business the old partnership may come to an end. In case of internal differences also it can be dissolved.

5) LEGAL DEFECT:

There are no effective rules and regulations to control the partnership activities. So it cannot handle the large-scale production.

6) CARELESSNESS:

In this business the responsibility of the partners is common. So sometimes one partners becomes careless abut his responsibility and creates problem for the firm.

7) TRANSFER OF RIGHTS:

No any one partner can transfer his shares to others without the consent of all the partners. It is a disadvantage in this business.

8) INCAPABLE SERVANTS:

Generally incapable relatives and friendly of the partners are employed. So the efficiency of the firm is affected badly.

9) LACK OF CAPITAL:

No doubt partnership capital is greater than the sole-proprietorship but as compared to the joint stock company it is small. So a business cannot be expanded on large scale.

10) DIFFICULTY IN WITHDRAWAL:

It is very difficult for the partners to withdraw the capital from the business. Generally capital is frozon.

SOLE PROPRIETORSHIP

INTRODUCTION:

It is the oldest type of business ownership. When the mankind emerged out of the stone era he was referred to as 'HOME SAPIEN' who started business in sole ownership. It provides for full ownership of profit, total control, and rouses personal interest.

DEFINITION:

It is the business which is owned by a single owner who is also referred to as sole proprietor. It enjoys many benefits which other ownership cannot. Secrecy and ownership of full profit are some of its chief characteristics. However, it inherently suffers some setbacks embodying uncertain life, limited capital, and difficulty in operations.

ADVANTAGES OF SOLE PROPRIETORSHIP

People prefer the sole-proprietorship on the following grounds:

1) EASY FORMATION:

Its formation is very easy because there is no any legal restriction like registration. So it can be started without the wastage of time.

2) INDEPENDENT:

It is an independent form of business and there is no interference of any other person. He is the supreme authority of his business.

3) PERSONAL INTEREST:

A businessman takes keen interest in the business because he knows that he is responsible of profit and loss.

4) DIRECT RELATIONSHIP:

In this business a businessman has direct relationship with the workers. He can under stand their problems and tries to solve them. It increases the profit of the business.

5) EASY TRANSFER:

This type of business can be easily transferred to another person. At any time a sole trader can transfer his business without any restriction.

6) QUICK DECISIONS:

A sole trader can make quick decisions for the development and welfare of his business. So he saves the time.

7) SECRECY:

It is an important factor for the development of business. A sole trader only can maintain the secrecy in the techniques of production and profit.

8) ENTIRE PROFIT:

A sole trader ship is only business where one enjoys 100 % profit.

9) ENTIRE CONTROL:

The control and supervision of a business remains in the hands of one person. He can do what ever he likes.

10) CREDIT FACILITIES:

A sole proprietor can borrow the money easily because the liability of the owner is unlimited.

11) SAVING IN TAXES:

The rate of taxes is very low on the sole-proprietorship, because it is imposed on the income of a single person.

12) SOCIAL BENEFITS:

This form of business reduces the unemployment and provides public the daily necessities like fruits, milk, and vegetables near to their homes.

JOINT STOCK COMPANY

The Joint Stock Company form of business organization has been involved only to overcome the limitations of sole proprietorship and partnership concerns. The growing needs of modern large scale business with advancement in science and technology have all needed a large amount of capital investment and highly specialized managerial skill. Hence a form of organization for running a modern large-scale industry and commerce has been evolved which is known as Joint Stock Company.

DEFINITION:

Joint Stock Company has been defined in various ways:

A simple definition of Joint Stock Company has been given by Lord Justice Lindley of England in these words. "An association of many persons who contribute money or moneys worth to a common stock and employ it for a common purpose."

Another writer defined: "A Joint Stock Company consists of a body of persons united for certain definite purpose under or legislature sanction. In such a manner that they form a corporate body, i.e., an entity recognized in Law as a distinct legal personality capable of holding property in its own right, of incurring obligation, and of suing and being used in its own name."

According to the Company Law a company may be defined as a "Voluntary association for profit with capital divisible into transferable shares with limited liability, having a corporate body and common seal."

From these definitions it can be concluded that: A Joint Stock Company is an association of persons who contribute capital to be used in the business on the understanding that they will share in the profit and losses to the extent of shares they have purchased. The analysis of the above definitions will reveal the following characteristics which distinguish it form other form of business organizations.

CHARACTERISTICS

1) LEGAL ENTITY:

Company has a separate legal entity from its members which constitute it.

2) ARTIFICIAL PERSON:

Upon incorporation it becomes an artificial legal person, enjoying similar rights and owing similar obligations as a natural person.

3) OWNERSHIP RIGHTS:

Company as a Corporate person, is entitled to own and hold property in its own name.

4) TRANSFERABLE SHARES:

Shares in the capital of the company are generally freely transferable.

5) PERPETUITY:

A company has a perpetual existence. Once formed, it continues for an unlimited period until it is formally liquidated. The death or insolvency of any shareholder does not affect its existence. The maxim "men may come and men may go but I go on for eve," applies in the case of the company.

6) LIMITED LIABILITY:

The liability of the shareholders is limited to the extent of the shares they have purchased.

COMMON SEAL:

Since the company is only an artificial person, it can not sign documents by itself. Hence, a common seal of the company will be kept under sale custody of the Secretary and will be used only as per instructions of the Board of Directors.

7) NO CITIZENSHIP AND FUNDAMENTAL RIGHTS:

It is not treated legally as citizen and can act only through natural person, it has no fundamental rights under the constitution.

8) SEPARATION OF OWNERSHIP AND MANAGEMENT:

The shareholders are part-owners of Joint Stock Company. Yet the management is carried on by the Director elected from the shareholders.

Joint Stock Companies are classified into the following kinds:

a) Chartered Companies
b) Statutory Companies
c) Registered Companies
d) Mudaraba Companies

SHORT NOTES

IMPACT OF STOCK EXCHANGE ON ECONOMY OF A COUNTRY

In addition to various economic activities, stock exchange also plays an important role in the economy of a country. It provides a continuous and open market for the purchase and sale of securities and thus, stimulates organization of joint stock enterprises. It supplies an index of social utility of various enterprises and helps the flow of investment funds to the most productive fields by making public the judgment of skilled investors and financers.

Stock exchange gives mobility to saved capital and renders sound investments easier by providing an open and continuous market in securities. Thus, it exercises a steadying influence on their prices. It also widens the basis for social credit and helps the banking system to maintain liquidity by increasing the volume of easily marketable securities.

Stock exchange brings the investors on only profit by way of dividend and interest, but also increase in the capital value of securities themselves. It may result a increase in national dividend. It helps in rapid industrialization of the country. It helps new investors to obtain securities at any time at reasonable prices.

Stock exchange performs a vital economic function by providing a market for capital which is already invested. It promotes international dealings in securities and renders stocks and shares acceptable as cover for loans. The strict rules and regulations to which the market is subject, and the high standard of commercial morality that prevails, create confidence and bring great numbers of people into business relationship. Thus the trend of business in stock markets influences much the community as a whole.

The stock exchange is not in itself the market for now capital, the advantages which it offers, mainly that of ready realizability, are vitally important in stimulating and encouraging the flow of new capital for industrial and other purposes.

Due to the technical improvements securities business and stock exchange or under going very rapid change to meet the new financial needs and challenges of complex business problems. Today we can see a computerized net work which is more efficient and economical.

STOCK EXCHANGE IN PAKISTAN:

In Pakistan, stock exchanges are playing a prominent role in promoting investment climate because of the nature of their business. The first stock exchange started working in 1949 at Karachi.

At the time of independence of Pakistan, economic situations of the country were showing very poor conditions. Karachi was the only big city that could bring life to business and industry. In 1972 another stock exchange was established in Lahore and later on in Islamabad. These stock exchanges indirectly provide the sinews of industry and commerce. In our country stock exchange are organs of capital for speculation and investment, and they give prosperity of our country.

PROSPECTUS

A prospectus is an invitation, advertisement, or circular asking people to invest and subscribe in the share capital or debenture of the company. For a private company prospectus is not required. Even for a public company it is not compulsory. If a public company does not want to issue prospectus, it must, then, file a statement in lieu of prospectus with the registrar. The prospectus must be signed by at least two directors.

ESSENTIALS OF PROSPECTUS:

For the prospectus to be legally valid it must fulfil the following conditions.

1. It must invite public to buy shares.
2. Before its publication a copy of it must be presented to the registrar of the company.
3. Prospectus must be dated.
4. It must be signed by all directors on the board.
5. Prospectus must mention that its copy has been deposited with the registrar.

CONTENTS OF PROSPECTUS:

The salient features of the prospectus are:

1. The contents of the memorandum of association.
2. The number of promoters, shares, the nature and extent of their interest held in the company.
3. Number of redeemable shares.
4. Qualification shares of directors.
5. The name of underwriters of shares, if any.
6. Full description of directors of the company.
7. Allotment, installments, and forfeiture of shares.
8. Preliminary expenses.
9. Promoter's fees.
10. The name, address, and qualification of auditors.
11. Minimum subscription of shares.
12. Nature of debentures, if any and their underwriters.
13. Name and date of material contract relating to the company property.

CHAIN STORE

When a store is organized with four or more branches dealing in same merchandise are referred to as a chain store. As a concept, two or more units bring about a chain of stores. However, in the U.S. a store must have at least 11 units or branches to qualify for a chain store. The units are geographically spread over a different parts of the city and all are owned centrally.

PERSPECTIVE:

The modern concept of the chain store was developed during the First and the Second World Wars. But it was originally evolved in 1859 by Great Atlantic Tea Company, New York, U.S. In its product line were present tea, spices, and coffee. Within ten years of its establishment it had established six units, and in 1910 it had 370. By 1929, in the U.S.A., there were 7061 companies running chain stores with 159,638 units. At present there are millions of units operating as chain stores.

MEMORANDUM OF ASSOCIATION

A memorandum of association is a document issued by a company for the guidance of the general public. It is a charter explaining to the public name, address, capital, objectives, and liability of the company. IT defines its limitations and powers and guides shareholders and creditors of the company. It is divided into five clauses as under:

NAME CLAUSE:

A company may adopt any name subject to the conditions laid down in the Companies Ordinance, 1984. One condition prohibits a company to adopt names like Quaid-e-Azam or Muhammad Ali Jinnah and cannot use words like federal, or state. An already registered name can not be adopted either. The word limited must follow the name of the company.

DOMICILE CLAUSE:

Every company must have a registered office. A memorandum must mention the name of the province where the company has its registered office. A company may shift its registered office within the province without any legal implications.

OBJECTIVE CLAUSE:

A company must mention its objectives for which it has been formed. It has no authority or power to do a business beyond those mentioned in the objective clause of the memorandum. Every objective must be specifically, expressly, and clearly mentioned. To avoid any difficulty in future, a company includes those objectives which it does not have at present but is likely to start any them some times in future.

CAPITAL CLAUSE:

This clause mentions the authorized capital of the company. The company's subscribed, called up, and paid up capital should not exceed it. To avoid any future difficulty ad legal implications most companies get their authorized capital registered in must higher amount than required at present.

LIABILITY CLAUSE:

This clause shows that the liability of shareholders of the company is limited to the amount invested by them in the company. It also means that the liability of the company to pay off its debts is limited to its capital.

DEPARTMENTAL STORES

A departmental store can be defined as a big store engaged in the retail trade of a wide variety of articles under the same roof. It has a number of departments in the same building. Each department deals in one particular type of product. Thus a department store is a combination or collection of many small shops under one roof and one management.

A manager is incharge of each of the departments. Every departmental manager may be assisted by sub-managers or assistants according to the size of store and the volume of business done.

As regards the sale, it is generally done. Credit is given only to good customers who relatively buy from the store in considerable quantities.

LOCATION:

To attract a large number of customers it must be large a departmental store is generally located at a very convenient place in a busy shopping locality where traffic is busiest. Huge buildings are built which are exclusive, luxuriously furnished and provided with all facilities for the customers.

ORGANIZATION:

A departmental store is usually organized as a limited company. There is centralization of control and management, which rests in the hands of the Managing Director, but the actual management in every direction is delegated to a General Manager and a Secretary. The General Manager looks after the supervision of the various departments comprising the store while the Secretary is responsible for office staff and supervision of finance and accounts.

The office and management activities of departmental store may be divided into different sections, such as purchases department, sales department, dispatch department, estate department, establishment department, according and finance departments etc.

PRODUCT LIFE CYCLE

The product life cycle is a concept that attempts to describes a products sales, profit, customers, competitors and marketing emphasis from its beginning until it is removed from the market.

The product life cycle enables a firm anticipate changes in consumer tests, competition, and support from distribution intermediaries and to adjust the marketing plan accordingly.

The exact path traced by the product life cycle varies. For some, the product proves a fad and has short life cycle, perhaps only a month a so. For others, such as plumbring fixers or building materials, life cycle span decades. In between are most products with life cycle ranging from a few months (e.g. fashion apparel) to several years. (e.g. washing machines and home freezers). All products are at some stage in their life cycles at any particular moment in time.

TARIFFS AND OBJECTIVE

Tariff is system of duties which is set up to tax imported goods and less often on exports. The system is used to achieve the following ends.

1. To increase the income of the government (Note: Economists suggest that duties should not be used as a source of income).
2. To give protection to the local industries.
3. To gain business benefits.
4. To discourage competition.
5. To pressurize other nations.

KINDS OF TARIFFS:

Tariffs are of the following types.

1) SPECIFIC DUTY:

This type of duty is imposed on the quantity, for instance, per kilo, per ton, per pound, per yard or meter, or according to number.

2) AD VALOREM DUTY:

It is imposed on the rupee value of the goods.

3) COMPOUND DUTY:

This type of tariff includes both kinds of duties. On certain goods partial specific and partial ad valorem duties are imposed.

TRANSPORTATION

Transportation is a key function in overall business activities. Once goods are produce they must be sent to the sales point to make them available to customers. Taking goods from the place of production to the place of use is knows as transportation. This function creates place utility because goods where they are produced have little utility but when they are taken to the market their utility is created. Transportation not only helps make the goods available locally but also helps in foreign trade. Just because of this valuable function any foreign product is made locally available.

TRANSPORTATION ROUTES:

In transporting goods and services many routes are used.

Air route: It includes airplanes, copters.
Land route: It takes trains, trucks, animal carts
Sea route: Most of foreign trade uses this route which includes ships, launches, and motorboats.

MEANS / KINDS OF TRANSPORTATION

Following are various means of transportation.

1) TRAINS:

They are used in both national and foreign trade to transport light and heavy products including machinery, cars, trucks, and raw materials. This means is especially important in land-locked areas. Its use is geographically limited.

2) TRUCKS:

Their use is also geographically limited and mostly used in local trade. They are also used in foreign trade with the bordering countries.

3) WATERLINE:

It refers to ships by which heavy and voluminous goods are transported. They are mostly used in foreign and overseas trade.

4) PIPELINES:

It is a means of transportation to carry oil and gas from drilling places to refineries and also used to transport them from one country to the bordering country. The pipelines may be laid underground or under sea.

5) AIRLINES:

They are most costly means of transportation and only light and small items are transported. They are used in both local and foreign trade.

Q. Differentiate between the following?

MEMORANDUM OF ASSOCIATION	ARTICLES OF ASSOCIATION
1. The Memorandum is the charter or constitution of the Company.	1. Articles are the rules and regulations for the conduct and management of its business.
2. Memorandum limits the activities which the company can undertake.	2. The Articles set forth the rules or bye-laws whether those activities can best be carried out from the very birth of the company till its death.
3. Every company must have a memorandum.	3. Companies can be incorporated without the Articles of their own.
4. The alteration of the memorandum can be effected only under certain exceptional cases as laid down in the Law after obtaining the approval of the Court.	4. Articles can be changed as many times as the shareholders may chose by special resolution in general meeting.

PRIVATE COMPANY	PUBLIC COMPANY
1. Number of shareholders: The minimum number of shareholders is two.	1. Number of shareholders: It must have at least seven members.
2. Maximum number is fifty.	2. No upper limit of the shareholders.
3. Marketability: It can not sell its shares to general public.	3. Marketability: In most cases they sell shares to the general public.
4. Documents: Commencement certificate from the register is not required for starting the business.	4. Documents: It must get a commencement certificate to start its business.
5. Reports: Annual or half-yearly accounting statements are not required to be submitted with the registrar.	5. Reports: Accounting statements must be submitted with the registrar.
6. Prospectus: Issuance of prospectus to the public is not required.	6. Prospectus: Prospectus or a statement in lieu of prospectus must be issued for the general public if it wants to sell its shares on the open market.
7. Auditors: The auditor's appointment is not compulsory for a private company with the capital less than three million rupees.	7. Auditors: It must appoint an auditor.
8. Stock exchange: Private companies are not listed on the stock exchange.	8. Stock exchange: They are allowed to become a member of the stock exchange facilitating trading for their shares.

PARTNERSHIP	JOINT STOCK COMPANY
1. Owners: Owners are referred to as partners.	1. Owners: Owners are known as shareholders or stockholders.
2. Number: Minimum number of partners is two and maximum twenty, and in banking business it is only ten.	2. Numbers: In private company minimum number of shareholders is 2 and maximum 50. In public company the least number is 7 with no upper limit.
3. Agreement: Partnership agreement may be oral or written.	3. Agreement: Prospectus, articles and memorandum of association, etc. must be in writing.
4. Kinds of capital: There is only one type of capital.	4. Kinds of capital: Here capital is referred to as authorized, subscribed, issued, called-up, and paid-up capital.
5. Liability: The liability of partners is not limited.	5. Liability: The liability of shareholders is limited up to their investment.
6. Management: The management of business is in the hands of partners.	6. Management: The management is run by employees under the control of board of directors elected by shareholders.
7. Stability: It lacks stability and is dissolved on retirement, insanity, bankruptcy, admission, or death of a partner.	7. Stability: Company is not liquidated on these factors.
8. Transferability: Ownership or share of a partner cannot be transferred or else it would be dissolved.	8. Transferability: Shares are easily transferred from one person to another.
9. Mode of operation: The business is operated under the partnership agreement.	9. Mode of operation: It is run in accordance with the memorandum and articles of association.
10. Legal status: It can not enter into an agreement in its name.	10. Legal status: The company can enter into an agreement and can sue and be sued in its own name.
11. Liquidation: It can easily be liquidated at the discretion of the partners.	11. Liquidation: It has to pass through a legal formality and process to liquidate the company.
12. Change in capital: The amount of capital can easily be changed any time.	12. Change in capital: To change its authorized capital the company has to undergo a long legal procedure.
13. Limited: The word limited cannot be used with the firm's name.	13. Limited: The word limited must be used with the name of the company.

14. Profit: The net income distributed to partners is known as profit.	14. Profit: The net income distributed to shareholders is known as dividend.
15. Right to profit: Partners have the right to draw their profit.	15. Right to profit: Shareholders cannot receive dividend unless declared by the board of directors.
16. Taxation: Income tax is reduced because of division of profit among partners.	16. Taxation: Tax is imposed twice, first, as profit of the company, second, as the income of shareholders.

ADVERTISING	SALESMANSHIP
1. It is non personal method of presenting goods and services.	1. It is a personal method of presenting goods and services.
2. It addresses a group of persons.	2. It is one-to-one contact.
3. It fails to attract individual attention.	3. It is successful in drawing individual attention.
4. Customers cannot get immediate response to their questions and doubts.	4. Immediate satisfaction is possible by meeting customer's questions and dispelling doubts.
5. Advertising message is fixed for everyone irrespective of education, age, sex, status, caste, and need, etc.	5. Salesman's message, talks, pitch, slogan can be adjusted to age, sex, status, caste, education, and need.

PUBLICITY	ADVERTISING
1. It is in the form of a news item, articles, or editorials on the mass media.	1. It is a public notice or a device for obtaining public favor or popularity.
2. It is free of cost. For it a space or time is not needed to buy.	2. It is a paid from and requires space or time that must be bought to advertise.
3. Sponsor is unknown.	3. Sponsor is known.
4. It may be negative.	4. It is always favorable.