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Trade in Business Organizations

AAT Level I

BEN - Business Environment

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BEN – Business Environment

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Trade in Business Organizations

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What is Trade ?

Trade is the act or process of buying, selling, or exchanging commodities, at either wholesale or retail, within a country or between countries

It is an essential to fulfil human needs and wants.

Buyer is the party, who is buying goods and services to fulfil needs and wants

Seller is the party, who is maintaining goods and services in stocks or producing goods and services for selling

Importance of Trade

- Trade allow people to buy goods and services they desire
- Sellers can earn revenue by selling goods and services
- Trade generated new opportunities in an economy
- It facilitates to increase income earned through employment
- It provides opportunity to utilize resources

Distribution Channels

Distribution is the process of placing goods and services in the hands of the customer. Otherwise, the process of consuming a product or service by the parties who expect it can be called distribution.

In the case of delivery of goods, the goods are in the possession of the trader before the delivery is completed. The Services are inseparable from its provider. Services cannot be stored. Consumers consume it while providing services.

Distribution Methods

Direct distribution is the distribution of goods and services directly from the producer to the consumer.

Producer → Consumer

Characteristics:

- Direct relationship with Consumer and producer
- Small scale distributions
- Ideal for highly perishable goods
- Distribution costs are relatively low

Distribution Methods

Indirect distribution - A producer does not supply goods directly to the consumer and supplies goods and services to the consumer through an intermediary party or several parties.

Producer → Retailer → Consumer

Characteristics:

- No direct relationship with Consumer and producer
- Distribution quantity is relatively low
- Ideal for non perishable goods
- Market price of goods are relatively high

Distribution Methods

Indirect distribution - There maybe more than one intermediary between producer and consumer.

Producer → Wholesaler → Retailer → Consumer

Characteristics:

- No direct relationship with Consumer and producer
- Distribution time is relatively high
- Wide market coverage for goods
- Market price of goods are relatively high

Distribution Methods

Disadvantages of disorganized distribution channels:

- Loss of profit
- Adverse transaction relationship
- Damage to reputation
- High legal cost
- Loss of competitive advantage
- Damage to market share

Factors to consider when selecting distribution channel

- Nature of the product
- Volume of distribution
- Distance limit to be transported
- Number of intermediaries
- Cost of distribution
- Market regulations
- Competitive advantage

The two basic types of trades

Trade

Local Trade (Internal Trade)		International Trade (Internal Trade)	
Retail	Wholesale	Import	Export
The process of buying goods from wholesalers and selling them to the final consumer	The act of buying goods in bulk from manufacturers and selling them to retailers	The process of bringing goods from foreign markets to the local market	It is the process of which goods available in the domestic market are sold to foreign markets

Wholesale vs Retail

BASIS FOR COMPARISON	WHOLESALE	RETAIL
Meaning	Wholesale is a business in which goods are sold in large quantities to the retailers, industries and other businesses.	When the goods are sold to the final consumer in small lots, then this type of business is termed as retail.
Creates link between	Manufacturer and Retailer	Wholesaler and Customer
Price	Lower	Comparatively higher
Competition	Less	Very high
Volume of transaction	Large	Small
Capital Requirement	Huge	Little
Deals in	Limited products	Different products
Area of operation	Extended to various cities	Limited to a specific area
Art of selling	Not Required	Required
Need for advertisement	No	Yes

Domestic vs International Trade

BASIS FOR COMPARISON	DOMESTIC BUSINESS	INTERNATIONAL BUSINESS
Meaning	A business is said to be domestic, when its economic transactions are conducted within the geographical boundaries of the country.	International business is one which is engaged in economic transaction with several countries in the world.
Area of operation	Within the country	Whole world
Quality standards	Quite low	Very high
Deals in	Single currency	Multiple currencies
Capital investment	Less	Huge
Restrictions	Few	Many
Nature of customers	Homogeneous	Heterogeneous
Business research	It can be conducted easily.	It is difficult to conduct research.
Mobility of factors of production	Free	Restricted

Reasons for foreign trade

- Access to services and raw materials
- Higher profit
- Competitive advantage
- Tax benefits
- Ability to reach to the global market

The international market is used to define the role of the seller and the buyer in international trade transactions. The following are determined in the agreement between the buyer and the seller.

- Responsibility of buyer and seller.
- Who will carry out insurance, licensing and approvals related to trade activities?
- By whom and to what extent will the transport arrangements be made?
- At what point costs and risks etc. are transferred from the seller to the buyer

Shipping Methods

- FAS – Free Alongside Shipping
  The seller will take care of the transportation until the goods are placed in the vessel at the named port
- FOB – Free On Board
  The seller is obliged to transport the goods up to the shipping strip at the named port
- CIF – Cost Insurance and Freight
  Cost, insurance and shipping charges related to the goods until they are brought to the named port are borne by the seller
- DAT – Delivered at Terminal
  Freight charges related to the transportation of goods to the container terminal are paid by the seller, excluding the costs related to import clearance.
- DAP – Delivered at Place
  Freight charges for carriage of goods up to a named place are paid by the seller excluding the cost of import clearance.

Import and export Procedures

Export Process

1. Registration of Exporter
2. Identifying importer
3. Export license
4. Indent of importer
5. Arrange transport and insurance
6. Shipping
7. Invoicing
8. Accepting

Import Process

1. Selection of supplier
2. Price inquiry and demand
3. Import license
4. Placing the order
5. Payments
6. Accepting documents
7. Clearance
8. Issuing goods

Documents related with foreign trade

1. Nominal Invoice	(Exporter)
2. Commercial Invoice	(Exporter)
3. Certificate of origin	(Exporter)
4. Bill of loading	(Exporter)
5. Insurance Certificate	(Exporter / Importer)
6. Letter of indemnity	(Exporter)
7. Sanitary Certificate	(Exporter)

Impact of global environment on foreign trade

The Global Business Environment can be identified as the environment in different sovereign countries with factors exogenous to home environment of the organization influence in decision making on resource use and capabilities.

Under the political, economic and social conditions of the world, there are various policy changes in the trade between countries.

As well as friendly trade deals between countries, various trade barriers and sanctions are being imposed due to rivalry

Impact of global environment on foreign trade

Trade Sanctions	Trade sanctions are legal restrictions on trade with a country. Trade sanctions are a subcategory of economic sanctions, which are economic penalties imposed on a country to accomplish policy goals beyond the sanctioned economic activity
Unilateral Trade Agreements	It is a treaty that benefits only one state, imposed on one nation by another, that has the potential to aid developing nations' economies.
Bilateral Trade Agreements	A formal agreement involving commerce between two countries. Such agreements sometimes list the quantities of specific goods that may be exchanged between participating countries within a given period.

Impact of global environment on foreign trade

Multilateral Trade Agreements	Multilateral trade agreements are made between two or more countries to strengthen economy of member countries by exchanging of goods and services among them. The multilateral trade agreement builds commercial relationship, trade facilitation and financial investments among member countries of such multilateral trade agreement
European Union	The European Union (EU) is a political and economic alliance of 27 countries. The EU promotes democratic values in its member nations and is one of the world's most powerful trade blocs. Nineteen of the countries share the euro as their official currency.
Brexit	Britain's decision to leave the European Union on 23 June 2010 as a result of a referendum

Impact of global environment on foreign trade

BRICS	BRIC is an acronym for the developing nations of Brazil, Russia, India, and China. China and India will become the world's dominant suppliers of manufactured goods and services. Brazil and Russia will become similarly dominant as suppliers of raw materials. In 2010, South Africa joined the group and it became known as BRICS.

Electronic Trade

E-commerce is the buying and selling of goods or services via the internet, and the transfer of money and data to complete the sales. It's also known as electronic commerce or internet commerce.

Online selling has changed tremendously since it began; the evolution and history of e-commerce is fascinating – and it's advancing at an even quicker pace today.

	Business	Consumer
Business	**Business to Business B2B**	**Business to Consumer B2B**
Consumer	**Consumer to Business B2B**	**Consumer to Consumer B2B**

Electronic Trade

- **Business to Consumer (B2C):** B2C e-commerce is the most popular e-commerce model. Business to consumer means that the sale is taking place between a business and a consumer, like when you buy something from an online retailer.
- **Business to Business (B2B):** B2B e-commerce refers to a business selling a good or service to another business, like a manufacturer and wholesaler, or a wholesaler and a retailer. Business to business e-commerce isn't consumer-facing, and usually involves products like raw materials, software, or products that are combined. Manufacturers also sell directly to retailers via B2B ecommerce.

Electronic Trade

- **Consumer to Consumer (C2C):** C2C e-commerce refers to the sale of a good or service to another consumer. Consumer to consumer sales take place on platforms like eBay, Etsy, Fivver, etc.
- **Consumer to Business (C2B):** Consumer to business is when an individual sells their services or products to a business organization. C2B encompasses influencers offering exposure, photographers, consultants, freelance writers, etc..