

Unit 04

Trade in Business Organizations

Prepared by: Ms. Ruwanthika Jayaweera
B.Sc.(special)Management, Ph.D(Mgt) reading

Intended Learning Outcomes

- **Identify** the meaning of trade and channels of distribution.
- **Explain** procedures in export and import.
- **Recognize** the new trends in retail, wholesale, import and export trade



Meaning of Trade

- Exchange of goods is the starting point of the trade.
- Buyers and sellers are the main parties of trade.
- Trading facilitates transfer of the ownership of the good from one person to another. Goods are exchanged for a price.



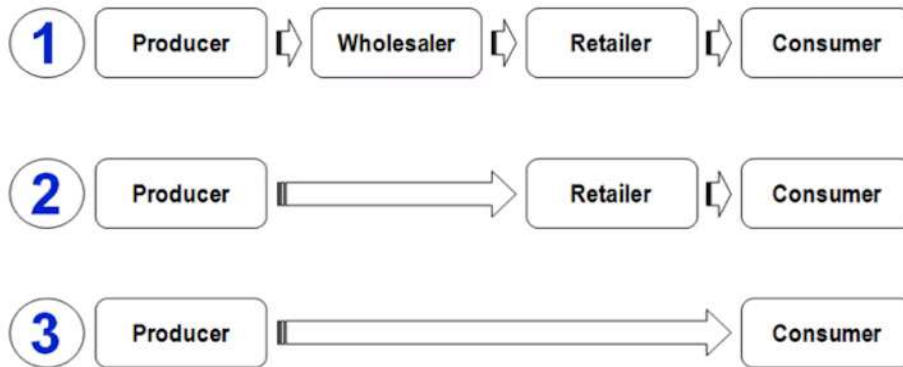
©JMC vLearning

Benefits of Trade

- It will facilitate consumers to buy goods and services.
- Selling goods and services sellers can earn an income.
- Creation of employment opportunities.
- Uplift the resource utilization.



Channels of Distribution



©JMC vLearning

Classification of Distribution

Direct distribution (No intermediaries)

- Small scale distribution
- Close interaction with the customer
- Perishable goods
- Comparatively low cost of distribution

Indirect distribution

- No direct interaction with the customer
- Price of the product is comparatively high
- High market coverage
- Time for distribution is high

©JMC vLearning

Disadvantages of Mismanagement of Distribution Channels

- Loss of profit
- Customer relationship management issues
- Damages to goodwill
- High legal cost
- Loss of competitive advantage
- Reduce the market share

©JMC vLearning

Factors to be Considered When Deciding the Distribution Channel

- The nature of the product
- The quantity of the distribution
- The distance
- Cost of the distribution
- Rules and regulations
- Competitive advantage

©JMC vLearning

Advantages of Distribution Channels

- Assists to enter into the market
- Increase the efficiency of distribution
- Provide additional services like storing and transportation.
- Businesses can focus on core operations
- Increase the speed of distribution

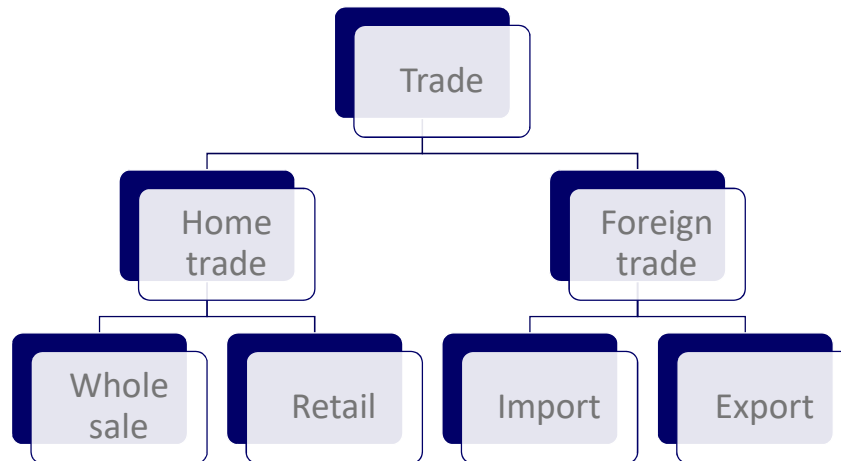
©JMC vLearning

New Trends in Trade

- Use of new technology. Ex: Safety, Payment, Price indication
- Intense competition among super market chains
- Retail outlets which are owned by the producer.
- Combination of retailing with service delivery
- Large scale super market chain development
- Supplying customer additional services within the shop (Restaurant, banking)
- Loyalty cards

©JMC vLearning

Two Basic Trades (Home and Foreign)



©JMC vLearning

Wholesale

Wholesaling is the act of buying a large number of goods directly from a manufacturer and then selling them to retailers. Wholesalers buy in bulk at a discounted price and sell to a retailer for a higher price, which is how wholesalers make their profit.



Services of Wholesale Business to Commerce

- Transportation of goods.
- Sorting and categorizing.
- Buying goods
- Marketing
- Risk taking
- Giving information

©JMC vLearning

Retail

- Sale of goods or service from a business to a consumer for their own use.
- A retail transaction handles small quantities of goods.
- Small scale retail Vs Large scale retail



©JMC vLearning

Super Markets

Characteristics of super markets

- Car parking facility
- Self service
- Use of credit or debit cards
- Comfort to customers
- Long open hours



©JMC vLearning

What are the Services Given by Retailers to Consumers?

- Supply the required quantity at required time.
- Financial support to customers.
- Introduction of new goods.
- Transportation to the door step.
- After sale service



©JMC vLearning

Wholesale Vs Retail

Wholesale	Retail
Sell goods for those who intend to sell again	Sell for the final consumption
Comparatively unit price is low	Comparatively unit price is high
Often discounts are given	Often discounts are not given
A larger stock of limited number of goods	A small stock of different types of goods
A place is selected based on the ability to stock and transport	A place is selected based on the population
Needed investment is comparatively high	Needed investment is comparatively low

©JMC vLearning

Imports and Exports

- An import is a good or service bought in one country that was produced in another.
- Exports are goods and services that are produced in one country and sold to buyers in another.
- Imports and exports comprise the international trade
- International trade is based on the comparative advantage.



Imports vs. Exports

Imports	Exports
One country and one legal framework.	Different countries with different legal frameworks
Single currency	Different currencies
Only local trade taxes	Local and international taxes
Payment with money or related	Complex documents involved

©JMC vLearning

Basic Factors for International Trade

- Resource endowment
- Monopoly for certain goods
- Marketing
- Minimum trade barriers

©JMC vLearning

Import Procedure

- Find a supplier
- Inquire the price
- Receive import license
- Send an indent
- Payment
- Receive documents
- Retirement of documents
- Custom clearance

©JMC vLearning

Export Procedure

- Register as a exporter
- Finding of an importer
- Obtaining export license
- Receive the indent
- Make the necessary arrangement for transport and insurance
- Shipment
- Send the invoice
- Receive goods

©JMC vLearning

Documents Used in Import and Export

- Pro- forma invoice- document with description of product such as price, quantity, weight at a given date.
- Commercial invoice- Legal document that is exchanged between buyer and seller indicating items being sold and price.
- Packing list- This includes invoice number, seller, buyer. Shipper, quantity, description, package type etc.
- Bill of lading- A bill of lading (BL or BoL) is a legal document that's issued by a transportation company to a shipper. It details the type, quantity, and destination of the goods being carried. A bill of lading also serves as a shipment receipt when the carrier delivers the goods at a predetermined destination.

©JMC vLearning

- Indent contains the importer's instructions regarding the quantity and quality of goods required, the method of forwarding them, nature of packing, mode of payment and price, and so on.
- Letter of credit is a guarantee made by the bank of the importer that it will honour payment of export bills to the bank of the exporter up to a certain amount.
- Insurance certificate- Insurance is taken either from exporter or importer when the goods are ready to export.

©JMC vLearning

International Trade and Global Business Environment Influence

- Limitation of imports/Quotas
- Limitation of exports/Quotas
- Trade sanctions
- Embargoes-An order of a government prohibiting the movement of merchant ships into or out of its ports

©JMC vLearning

Trade Sanctions

Trade sanctions are restrictions on trade with a country for reasons of foreign policy.

Export and import restrictions are the most common type of trade sanction. Tariffs and quotas are also used.

©JMC vLearning

Trade Agreements

- **Bilateral Trade Agreements**

Bilateral trade is the exchange of goods between two nations promoting trade and investment. When engaged in bilateral trade, participating countries may agree to reduce or eliminate tariffs, import quotas, export restraints, and other trade barriers to encourage trade and investment.

Ex: Iran Sri Lanka Bilateral Trade

©JMC vLearning

- **Multilateral Trade Agreement**

Multilateral trade agreement occurs between three or more nations, and they are treated equally, and no one gets a most favoured nation status. The aim is to standardise commerce regulations, encourage exports and imports, reduced tariffs, and quotas between member countries. Multilateral agreements are beneficial to emerging markets developing countries as it makes them more competitive, and trade can be negotiated with more than one country at one time.

EX; North America Free Trade Agreement

©JMC vLearning

European Union (EU)

The **European Union (EU)** is a supranational political and economic union of 27 member states that are located primarily in Europe.



©JMC vLearning

Electronic Business

Electronic Business, is the administration of conducting business through the Internet.

- **Pure-Play:** The business which is having an electronic existence only. Example: Hotels.com
- **Brick and Click:** The business model, in which the business exists both in online i.e. electronic and offline i.e. physical mode.



©JMC vLearning

Forms of E-business

- B2B – The process where buying and selling of goods and services between businesses is known as Business to Business. Example: Oracle, Alibaba, Qualcomm, etc.
- B2C – The process whereby the goods are sold by the business to customer. Example: Intel, Dell etc.
- C2C – The commercial transaction between customer to customer. Example: OLX, Quicker etc.
- C2B – The commercial transaction between customer to the business.

©JMC vLearning

Advantages of E-business to Organizations

- Using e-commerce, organizations can expand their market to national and international markets with minimum capital investment. An organization can easily locate more customers, best suppliers, and suitable business partners across the globe.
- Helps organizations to reduce the cost to create process, distribute, retrieve and manage the paper-based information by digitizing the information.
- Helps organization to provide better customer services.
- Helps to simplify the business processes and makes them faster and efficient.
- Reduces the paper work.
- Increase productivity of organizations.

©JMC vLearning

Advantages of E-business to Customers

- It provides 24x7 support. Customers can enquire about a product or service and place orders anytime, anywhere from any location.
- Provides users with more options and quicker delivery of products.
- Provides users with more options to compare and select the cheaper and better options.
- A customer can put review comments about a product and can see what others are buying, or see the review comments of other customers before making a final purchase.
- Provides options of virtual auctions.
- It provides readily available information. A customer can see the relevant detailed information within seconds, rather than waiting for days or weeks.
- It increases the competition among organizations and as a result, organizations provide substantial discounts to customers.

©JMC vLearning

Past Papers



January 2024

- Which one of the following is a determinant of distribution channel used by a business?

- (1) Nature of product. (2) Cost.
(3) Distance. (4) All of the above.

- State three(03) documents used in foreign trade. (03 marks)

©JMC vLearning

July 2023

Which of the following factor is not an opportunity of the globalization?

- (1) Free Trade. (2) Cheap Labour.
(3) Expanding the Operation. (4) Cultural Differences.

Edmond Tea which is a Ceylon tea brand is popular in Russia for several decades. Mr. Edi Hewage, the founder of Edmond Tea was personally engaging in marketing and branding of their products in the Russian market. Trade sanctions have been imposed by Russia on many products due to Ukraine - Russia invasion. Hence, he is in the view that there will be a negative influence on the global political instability on his tea business and is planning to convert it into E-Trade:

You are required to:

- (a) Define what is meant by "Trade sanctions". (02 marks)
(b) State three(03) disadvantages of Electronic Trade to Edmond Tea. (03 marks)

©JMC vLearning

July 2023

Express Logistics is in the business of providing logistic services to Sri Lankan companies who are engaged in international businesses. With the prevailing economic crisis, they are experiencing a drastic decline in their profit margins due to higher costs. Hence the management of the company is planning to start a new business targeting the export market.

You are required to:

- (a) Explain two(02) types of logistic systems used depending on the type of the product of an organization. (04 marks)
- (b) Explain three(03) advantages of moving to International Trade . (06 marks)

(Total 10 marks)

©JMC vLearning

January 2023

- Which one of the following is a feature of the whole sale trade?
 - (1) Involves a considerable level of credit transactions.
 - (2) Buyer's intention is for own consumption.
 - (3) Retailers and consumers are the involved parties.
 - (4) Transactions are completed always by cash or cash equivalents.

A Letter of Credit is a payment method used in international trade. (T/F)

©JMC vLearning

January 2023

E-way is a Malaysian company that is in the business of retail trading of electronic bikes. They advertise their products through their website “www.eway.com”. Potential customers can visit their website and place orders by paying 50% of the price of the bike. Their agents are in several Asian countries. After placing the order by the customers, E-way exports the bikes through the respective agent.

You are required to:

- (a) Explain the type of electronic trade that E-way is engaged in. (02 marks)
- (b) State two (02) advantages and two (02) disadvantages of Electronic Trade for consumers. (04 marks)

©JMC vLearning

July 2022

State three (03) main reasons for entering into the international trade. (03 marks)

©JMC vLearning

January 2022

ODO is an online platform that delivers food items to consumers from restaurants and bakeries with its delivery fleet. The Covid-19 pandemic has caused increased profits of the business since several new restaurants have partnered with ODO to get their deliveries. Using the ODO platform, customers select the preferred restaurant or bakery and place the order after making the payment.

You are required to:

- (a) State three(03) advantages of a properly managed distribution channel. (03 marks)
- (b) State three(03) factors to be considered by consumers of ODO when using an online food delivery system. (03 marks)

©JMC vLearning

July 2021

Dias is a Director of Chamber of Commerce in Sri Lanka. He has been invited to deliver a keynote speech at a workshop conducted by the Department of Agriculture. Nearly 100 small scale spice growers are invited for this workshop. Dias has planned to explain the export potential in Sri Lanka, international trade procedures and current trends in businesses to these small scale spice growers.

You are required to:

- (a) Identify two(02) ways of transportation that can be used by an export-oriented spice grower. (02 marks)
- (b) State four(04) benefits of Electronic Trade (E-Trade) for a spice manufacturer who wishes to export his/her products to the European market. (04 marks)
- (c) Explain two(02) primary documents that are used when exporting spices to foreign countries. (04 marks)

©JMC vLearning

January 2021

MN (Pvt) Ltd. (MN) is a large-scale local producer of bottled fruit jam. Its farms and production factory are located in the Southern Province. MN recently received an invitation from a supermarket chain in Maldives to supply jam bottles. The Managing Director of MN, Mrs. Hemali, is considering the possibilities of further improving the quality of the products and distribution channels of the company.

You are required to:

- (a) State three(03) disadvantages of an improperly managed distribution channel. (03 marks)
 - (b) Identify three(03) factors to be considered when selecting a good distribution channel. (03 marks)
 - (c) Explain two(02) reasons as to why a business needs to expand its operations globally.(04 marks)
- (Total 10 marks)

©JMC vLearning

Thank You

©JMC vLearning