MOHAMED-CHERIF MESSAADIA UNIVERSITY - SOUK AHRAS
Faculty of Economics, Commerce and Management Sciences
Basic Education Department
Foreign Language 2 (English)
(2nd Semester)

LESSON 02

Introduction to Commerce and Trade

Nadji HARIRECHE

CONTENTS:

1 Nature of Commerce
2 Wholesale vs. Retail trade
3 Brand & Branding
4 International Trade
5 Types of Businesses
6 Adam Smith's invisible hand

1- Nature of commerce

1- Nature of Commerce

Commerce is the activity of buying and selling of goods and services, especially on large scale or quantity. It refers to all those activities which are necessary to bring goods and services from the place of their origin to the place of their consumption. Commerce is branch of production that deals with the distribution; exchange of goods and services and all activities that assist or facilitate trade. Commerce is defined as the study of all the activities concerned with buying and selling and distribution of goods and services.

1-1 Meaning of Commerce:

Definitions:

According to **Geoffrey Whitehead**, "Commerce is the distribution and the exchange of all surplus goods produced in the fields, mines, seas, forests and factories of the earth so that they reach the final consumer in right condition at right time in the right quantity and at the right place."

In the words of **Noel Branton**, "Commerce is concerned with a group of activities, which directly and indirectly involved in distribution of goods between the place where they come from into existence and the person who finally uses them."

Commerce as an Art:

"An art is a system of rules for attainment of a given end." **J.N. Kenes .**

The term Art means the practical application of knowledge for achieving the solution of some practical problems. Art means expertise in applying the knowledge in real life situations to solve the problem. By art we mean to accomplish a work in a better way. Art is an orderly knowledge which gives solution to the major problems or issues.

- An art is the systematic applications of skills or knowledge in effective accomplishment of results.
- It represents the methods or ways of doing specific things and indicates how an objective is to be achieved.
- The function of an art is to accomplish concrete ends, affect results, and produce situations that would not come about without the deliberate effort to secure them.

Commerce as an Art:

Applying these characteristics to commerce we find that:

1- **Application of knowledge**: Commerce put the theoretical knowledge of business, trade, and industry into practical use, and attempt to achieve various goals;

2- **Personal Skill**: Personal skills of various intermediary play an important role in commerce activities success and failure;

3- **Result oriented approach**: marketing, trade agreements, are examples for the results oriented activities in commerce;

4- **Regular practice**: All commerce activities (wholesalers, marketing managers…etc.) are undertaken regularly;

5- **Development of human values**: commerce develops human values like patience, honesty, cooperation, brotherhood etc.

Commerce as a Science:

On the other hand some thinkers are of the view that commerce is a science. The word science means knowledge. It is a body of systemized knowledge acquired by mankind through observation and experimentation, which is capable of verification.

Systematized body of knowledge; Attitude of science is objective; Universal application; Cause and effect relationship; It has power of prediction; Validity

So in science facts should be systematically collected, classified and analyzed. Applying these characteristics to our subject commerce, we find that commerce is:

01-3 Commerce as a Science:

1- Systematized body of knowledge: In commerce the knowledge of trade, banking, transport, insurance, accounting, finance etc. is essential. All these subjects have their own principals and procedures. In this sense commerce is a science.

2- Objectivity: Commerce has a definite goal or objective in all its activities.

3- Studies cause and effect relationship: Theories and principles of commerce help in studying cause and effect relationship in different business situations.

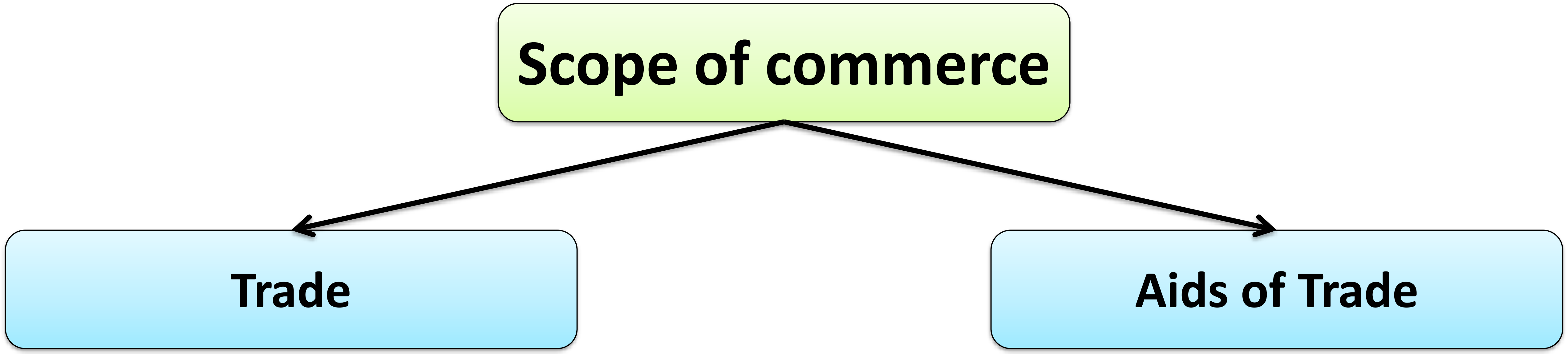
4- Universal application: Several principles of commerce have universal application. For e.g.-concept of depreciation has universal applicability.

5- Predictions: Profit and losses can be predicted on the basis of accounts.

6- Validity: Validity means truthfulness of something. Various laws and principles of commerce are valid in all sphere. For e.g. Principles of management given by Henery Fayol.

02- Scope of Commerce:

The scope of commerce may be seen as embracing the totality of all activities which ensure the distribution and exchange goods and services for the satisfaction of the people. Commerce embraces trade and aids trade. Commerce has a wider scope. It deals with not only the activities related to transfer goods and services but also with the development and promotion of trade and its all activities.



02- Scope of Commerce:

Trade:

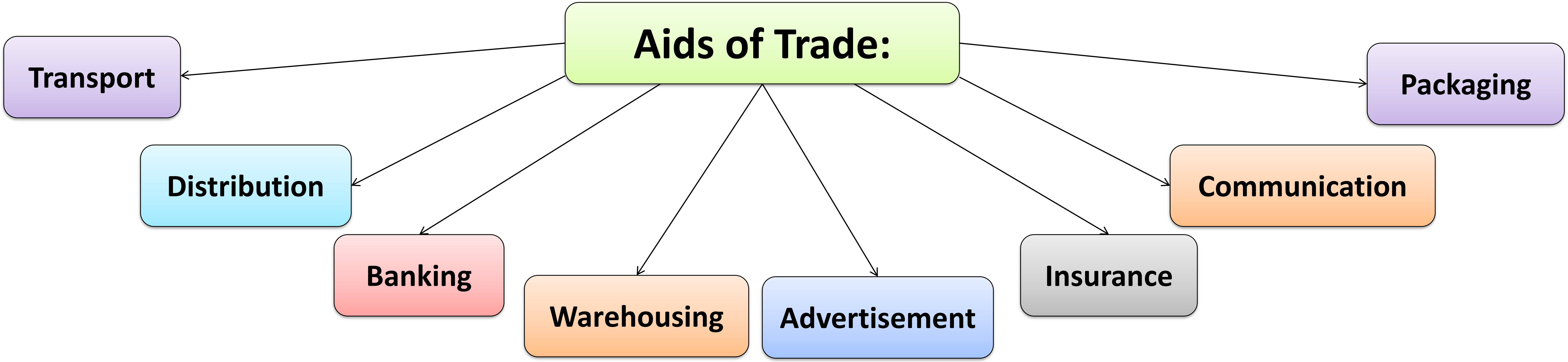
Trade is the process of purchasing or procuring of goods and services and selling them to those who need them.
Trade can be classified in four categories:

Internal Trade (Home Trade)	External Trade (Foreign Trade)	Wholesale Trade	Retail Trade
Local Trade	Import Trade	Link between the producer and the retailer	Link between the Wholesale and the consumer
Provincial or State Trade	Export Trade		
Inter-State Trade/National Trade	Entreport (Entrepôt) Trade (Re-export trade)		

02- Scope of Commerce:

Aids of Trade:

Activities meant for assisting trade are known as auxiliaries to trade. These activities are generally, referred to as service because these are in the nature of facilitating the activities relating to industry and trade Transport, banking, insurance, warehousing, and advertising are regarded as auxiliaries trade.



2- Wholesale vs. Retail trade

2- Wholesale vs. Retail trade

Wholesaling is the process of buying goods **in large quantities** from manufacturers or distributors, storing them in **warehouses**, and then reselling them to retailers for a profit.

Wholesalers purchase **enormous amounts of inventory** at a time **for a low price** and then sell the products in smaller quantities at a higher price.

A **retailer** buys goods **in bulk** from a wholesaler, manufacturer, or distributor and sells them to **end users**. They are the last business in the supply chain.

So whenever you buy something for your own use as a consumer, you're buying from a retailer. This includes the **grocery store, hardware store, and clothes shop**. What's more, retailers usually sell **products individually**.

Comparison: wholesale vs. retail

	Wholesale	Retail
Pricing	Wholesale and retail businesses both make money by buying products at one price and selling them for more. This is called "markup."	
Transaction volume	large quantities of products in fewer deals, each worth a significant sum.	specialize in smaller, more individualized transactions. While the value per transaction is lower
Storage and warehousing	wholesalers have huge warehouses that store a lot of stuff	storage is split between back rooms and storerooms. Although smaller than wholesale warehouses
Range of products	Wholesalers typically stock fewer products, but in larger quantities.	Retailers cater to the diverse preferences of consumers with a wider variety of products.
Fulfillment and expenses	Wholesaling has fewer expenses to track and worry about. With such large clients and the majority of their income coming from repeat business	retailers need to focus most on marketing, branding, selling, and customer service.
Location	located next to a large intersection of highways or near an airport.	need to be where consumers spend the most time, such as high streets and shopping malls.
Purchasing process	The purchase process in wholesale is more formal. Transactions involve contracts, ongoing negotiations, and purchase orders	more straightforward. Customers, whether shopping online or in a retail store, choose what they want and pay for it

Types of wholesalers and retailers

Types of wholesalers	Types of retailers
Merchant wholesalers	Specialty stores
Sales and distribution for manufacturers	Department stores
Discount wholesalers	Supermarkets
Dropship wholesalers	Convenience stores
Brokers	Discount stores
Online wholesalers	Online retailers

Pros and cons of each of wholesale and retail

	Pros (+)	Cons (-)
Wholesale	Good for planners Close client relationships Repeat sales Less marketing needed Business security	Supply chain management Payment on credit Risk of non-payment Dependence on trustworthy clients
Retail	Meeting diverse needs Direct customer interaction Flexibility in sales channels Opportunities for upselling	Need for high customer turnout Heavy reliance on marketing Customer management Complex business model Technological infrastructure Competitive market

3- Brand & Branding

PRADA
MILANO

Calvin Klein

HERMÈS
PARIS

VERSACE

GIORGIO ARMANI

LOUIS VUITTON

FENDI

3- Brand & Branding

A brand is an **intangible** asset made up of many elements. Together these elements help consumers identify a product and give them reasons to buy it rather than its competitors.

According to **marketing professionals**, a brand is a product or a business that has a distinct identity in the perception of consumers. The brand is created through elements of design, packaging, and advertising that, as a whole, **distinguish** the product from its competitors.

Elements of a Brand

A product's <u>**logos and slogans**</u> are elements of its brand and are designed to support a product's brand identity.

Allstate's slogan, "**You're in good hands with Allstate**," was introduced in the 1950s. It suggests that its insurance customers can count on it being reliable and competent when they need its help. Its commercials reinforce the message.

Allstate
You're in good hands.

What is the deference between logo and slogan?
A logo can be described as **images, text or shapes** that work to ***visually represent a business***. A slogan however, **is a series of words that summarize the purpose of a brand or to contextualize the personality of a brand**.

Other slogans are harder to translate but nevertheless become an intrinsic part of a brand's identity. Since the 1930s, the slogan for **Kellogg Rice Crispies** has been "**Snap! Crackle! Pop!**" It says that the product adds a pleasing noise to your breakfast but also evokes images of the cheery elves that serve as the cereal's commercial spokesmen.

Types of Brands:

The type of brand used depends on the entity using it. The following are some of the most common forms of brands:

Corporate Brands: Corporate branding is a way for companies to enhance their ***reputations*** and distinguish themselves from competitors in their industries. The company's ***pricing, mission, target market, and values*** all reflect the corporate brand.

Personal Brands: Social media enabled ordinary people to become ***influencers***. Their financial success depends on their ability to create a brand that ***attracts*** an audience that certain advertisers want to reach. Personal brands are built through ***social media posts, sharing images and videos, and conducting meet-and-greets.***

Product Brands: Introducing a new product or supporting an existing product involves creating and maintaining its brand. Branding a product starts with ***market research and identifying the right target market***.

Companies might choose to create a ***master brand identity***. The Virgin Group, founded by Richard Branson, includes hotels, telecommunications, and airlines, but all sub-brands carry the master brand identity.

Building a brand:

Building a brand consists of these 10 steps:

1- Identifying your audience

2- Research your competitors

3- Brand's purpose and position

4- Develop a personality and a voice

5- Create your brand story

6- Pick a brand name

7- Write a slogan

8- Design your brand look and logo

9- Integrate your brand into your business

10- Don't be afraid to rebrand

4- International Trade

4- International Trade:

International trade is the purchase and sale of goods and services by companies in different countries. Consumer goods, raw materials, food, and machinery all are bought and sold in the international marketplace.
International trade allows countries to expand their markets and access goods and services that otherwise may not have been available domestically. As a result of international trade, the market is more competitive. This ultimately results in more competitive pricing and brings a cheaper product home to the consumer. Some countries engage in national treatment of imported goods, treating them the same as those same products produced domestically.

International Trade Theory:

Classical Country-Based Theories	Modern Firm-Based Theories
Mercantilism	Country Similarity
Absolute Advantage	Product Life Cycle
Comparative Advantage	Global strategic Rivalry
Heckscher-Ohlin	Porter's National Competitive Advantage

Free Trade vs. Protectionism:

Free trade is the simpler of the two theories. This approach is also sometimes referred to as laissez-faire economics. With a laissez-faire approach, there are no restrictions on trade. The main idea is that supply and demand factors, operating on a global scale, will ensure that production happens efficiently. Therefore, nothing must be done to protect or promote trade and growth because market forces will do this automatically.

Protectionism holds that regulation of international trade is important to ensure that markets function properly. Advocates of this theory believe that market inefficiencies may hamper the benefits of international trade, and they aim to guide the market accordingly.

Protectionism exists in many different forms, but the most common are tariffs, subsidies, and quotas. These strategies attempt to correct any inefficiency in the international market.

Benefits of international trade for a business

Increased market presence: International trade allows businesses to expand their customer base and market reach beyond domestic borders. This can lead to increased sales and revenue, as well as opportunities for growth and expansion.
Access to new markets: International trade allows businesses to tap into new markets and connect with a diverse range of customers. This can help businesses diversify their customer base and reduce dependence on a single market or region.
Competitive advantage: Engaging in international trade can give businesses a competitive advantage by allowing them to offer products and services that may not be available in domestic markets. This can help businesses differentiate themselves from competitors and attract customers looking for unique offerings.
Cost savings: International trade can also help businesses reduce production costs by sourcing materials and resources from countries with lower production costs. This can help businesses improve their profit margins and remain competitive in the global marketplace.
Innovation and knowledge exchange: International trade can facilitate the exchange of ideas, technologies, and best practices between businesses operating in different markets. This can spur innovation and drive business growth by helping businesses stay ahead of the curve and adapt to changing market conditions.
Risk diversification: By engaging in international trade, businesses can reduce their exposure to risks associated with operating solely in a domestic market. This can help businesses mitigate risks related to economic downturns, regulatory changes, and other factors that can impact business operations.
Brand exposure and reputation: Engaging in international trade can also help businesses enhance their brand exposure and reputation on a global scale. This can help businesses build credibility and trust with customers in different markets, leading to increased loyalty and repeat business.

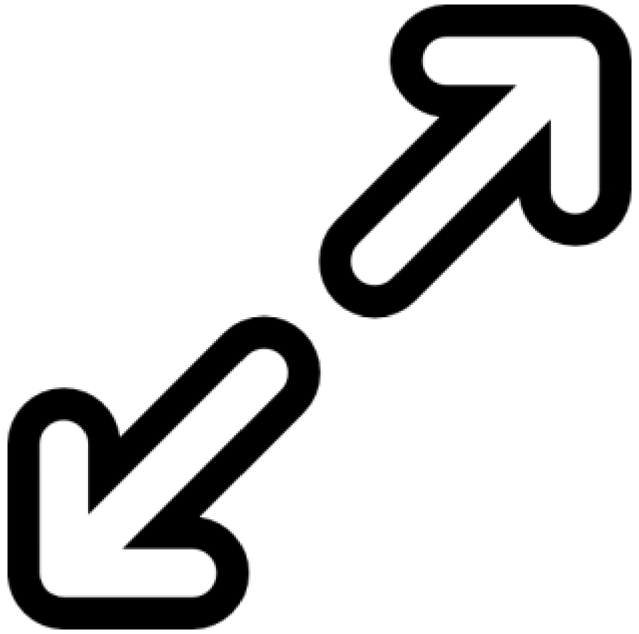
5- Types of Businesses

5- Types of Businesses?

When **founding a business**, you can pick from a variety of business types, each with its own **legal structure and restrictions**. Businesses are often classified into four main types: **sole proprietorships**, **partnerships**, **limited liability companies (LLCs)**, and **corporations**. Before starting a firm, entrepreneurs should **carefully assess** which sort of business structure is ideal for their venture.

In addition, there are many divisions into company types as shown in the table below:

The Main Classifications of Businesses' Types				
By Size	**By Scope**	**By Legal Nature**	**By Possession**	**By Activity**



A- Types of Businesses by Size

Business size refers to **how large the company's operations are**. It may be quantified using a variety of metrics, including **assets**, **revenue**, **production**, **market capitalization (Value)**, **personnel count**, and **capital invested**.

The four common categories of businesses based on their size are:
Micro-sized business; Small-sized business; Medium-sized business; Large-sized business

Some examples:

The **European Commission** combines the number of employees and turnover to categorize businesses:

- **Micro-sized businesses**: less than 10 people and have an annual turnover of not more than €2 million.
- **Small-sized business**; less than 50 people and have an annual turnover of not more than €10 million.
- **Medium-sized businesses**: less than 250 people and have an annual turnover of not more than €50 million.
- **Large-sized businesses**: 250 people or more and have an annual turnover of over €50 million.

In the **United States**, the **Small Business Administration (SBA)** classifies businesses into three categories:

- **Small-sized business**: annual revenue of less than $38.5 million and no more than 1,500 employees.
- **Medium-sized businesses**: annual revenues between $38.5 million and $1 billion and 1,500 to 2,000 employees.
- **Large-sized business**: over $1 billion in revenue and over 2,000 employees.

B- Types of Businesses by Scope

Business Scope refers to the **specific area in which the businesses are working**. The Three common categories of businesses based on their Scope: **Local; National; Global Businesses**

Local Business	National Business	Global Businesses
A local business is a business that operates in a specific area and typically has a physical presence. A local business is usually defined as one that is physically located within the boundaries of a particular community. In other words, it's an enterprise that sells goods or services to its immediate surrounding communities.	A national business is a company that operates in a particular country and provides goods or services to its domestic market. It can be found in every industry and niche, including retail, healthcare, banking, manufacturing, etc. National Businesses have characteristics that make them unique from other types of businesses.	A global business is a company located in one country but has operations and employees in other countries. It may be a multi-national corporation **MNC** with many different subsidiaries or an independent company with operations in multiple countries.

C- Types of Businesses by Legal Nature

Legal Nature refers to the **classification of businesses according to what is stipulated in legal texts and legislation**.

In Algeria, there are 6 types of businesses according to the legal nature :

Joint Stock Company ("SP"):
SPAs can be owned by the public or by private individuals. For publicly traded corporations, the minimum capital base is five million dinars, and for privately held businesses, it is one million dinars (DZD 1,000,000). Seven partners are required for SPAs. A board that includes either a President and Chief Executive Officer or only a Chief Executive Officer must be in charge of the organization. The CEO and president may have a different nationality.

Limited Liability Company ("LLC"):
The majority of small and medium-sized firms have the legal status of a Limited Liability Company (SARL). They are not obliged to be actively involved in the business and can have two to fifty associates. Managers, partners, or employees who are either Algerian or foreign nationals run SARLs.

Publicly Traded Partnership Company("SCA"):
A general partnership and a joint stock company combined to create the SCA.

Limited Partnership("SCS"):
According to their contributions, partners in the SCS are liable for the company's debts. SCS is a limited partnership where it consists of both general partners (with unlimited liability) and limited partners (whose liability is limited to their contributions). Limited partners cannot participate in the management of the company.

General Partnership Company ("SNC"):
In an SNC, all partners are jointly and severally liable for partnership debts and are required to be actively participating in the firm. Shares are recorded and can only be transferred with the partners' agreement. This structure is often chosen when partners have a high level of trust and cooperation.

Limited Liability Sole Proprietorship Company ("EURL"):
An EURL is an LLC that has just one member, called the "sole associate."

D- Types of Businesses by Ownership

Possession refers to the **classification of businesses according to the ownership of the business**.

The common categories of businesses based on their ownership are Public, Private and Mixed Public-Private businesses:

Public Sector Firms	Private Sector Firms

• Their main goal is usually to **provide a service**
• Public sector firms can operate on a local, regional or national government level
  ◦ E.g. Transport for London (local); Agricultural State Service in India (regional); Caribbean Airlines (national)
• Governments are likely to retain ownership of organisations in the public sector for several reasons
  ◦ They are **strategically important** to the country
    ▪ E.g. defence or justice systems
  ◦ They provide **essential** services
    ▪ E.g. water or electricity supply
  ◦ They are merit goods that may not be provided in sufficient quantities by private businesses
    ▪ E.g education or health services
	• The objective of most private sector organisations is **profit maximisation**
	• This often causes the private sector to be more **efficient** than the public sector with higher levels of productivity
	• Types of business ownership vary from **sole trader** to **partnerships** to **company shareholders**
	• Former public sector businesses (privatised) have become some of the largest companies in many economies
	  ◦ E.g. **British Telecom Plc** is one of the FTSE 100 leading companies in the UK
	  ◦ **Air India**, the country's national airline, was privatised and sold to Tata in 2021 as the Indian government seeks to reduce its commercial involvement in the economy

Mixed Public-Private businesses

Ownership

- Public partner is usually the majority shareholder
- Private operator(s) is/are usually the minority shareholder

Governance

- General Shareholder Assembly (GSA) elects Board Members and approves accounts
- GSA meets at least once a year
- Board of Directors is chaired by the Mayor
- Board of Directors is often comprised by a majority of private partners

Operations

- Management contract for the private owner/operator for day-to-day management and operations
- Private operator proposes a General Manager subject to approval by the Board of Directors.
- Managed in accordance with the country's commercial code

E- Types of Businesses by Activity

There are infinite classifications of businesses according to the nature of their activity. Therefore, this classification can be built on the basis of the **Economic Sector** to which the business belongs, where we can distinguish between five economic sectors:

Sector	Activity
Primary Sector	Work in the primary sector generates raw materials and agricultural products. It covers jobs in farming, mining, fishing, and forestry.
Secondary Sector	Secondary sector employment entail converting basic resources and raw materials into more value manufactured goods. Typically, these activities are done in factories.
Tertiary Sector	Tertiary sector occupations do not include the production of goods, but rather the provision of services to others. This might be everything from a cab driver to a nurse.
Quaternary Sector	The majority of occupations in this sector are service-related, although they demand more knowledge and experience than tertiary professions. Information technology specialists, stock brokers, and product developers are among those represented.
Quinary Sector	This sector often includes government officials, senior executives from big firms, and research scientists, as well as the police, military, and even non-profit organizations or charities.

F- Start-up us a specific type of businesses:

A start-up is a newly established business that is just ***getting off the ground***. These companies typically have ***innovative ideas*** and aim to ***disrupt traditional industries or create entirely new markets***. Start-ups often face challenges such as ***securing funding, attracting customers, and building a strong team***. However, with hard work, persistence, and a solid business plan, start-ups have the ***potential to grow into successful and thriving businesses***.

Characteristics of successful startups:

Strong leadership: Successful startups usually have strong, visionary leaders who can guide the company through its early stages and beyond.

Resilience: Successful startups are able to weather challenges and setbacks, adapting and evolving as needed to stay competitive in the market.

Agile and adaptable: Successful startups are able to quickly pivot and adjust their strategies based on market trends, customer feedback, and internal data.

Scalability: Successful startups have a business model that is scalable and can grow rapidly to meet demand as the company expands.

Strong team: Successful startups have a talented and dedicated team with complementary skills who are committed to achieving the company's goals.

Focus on growth: Successful startups are focused on constantly growing and expanding their business, setting ambitious goals and working towards achieving them.

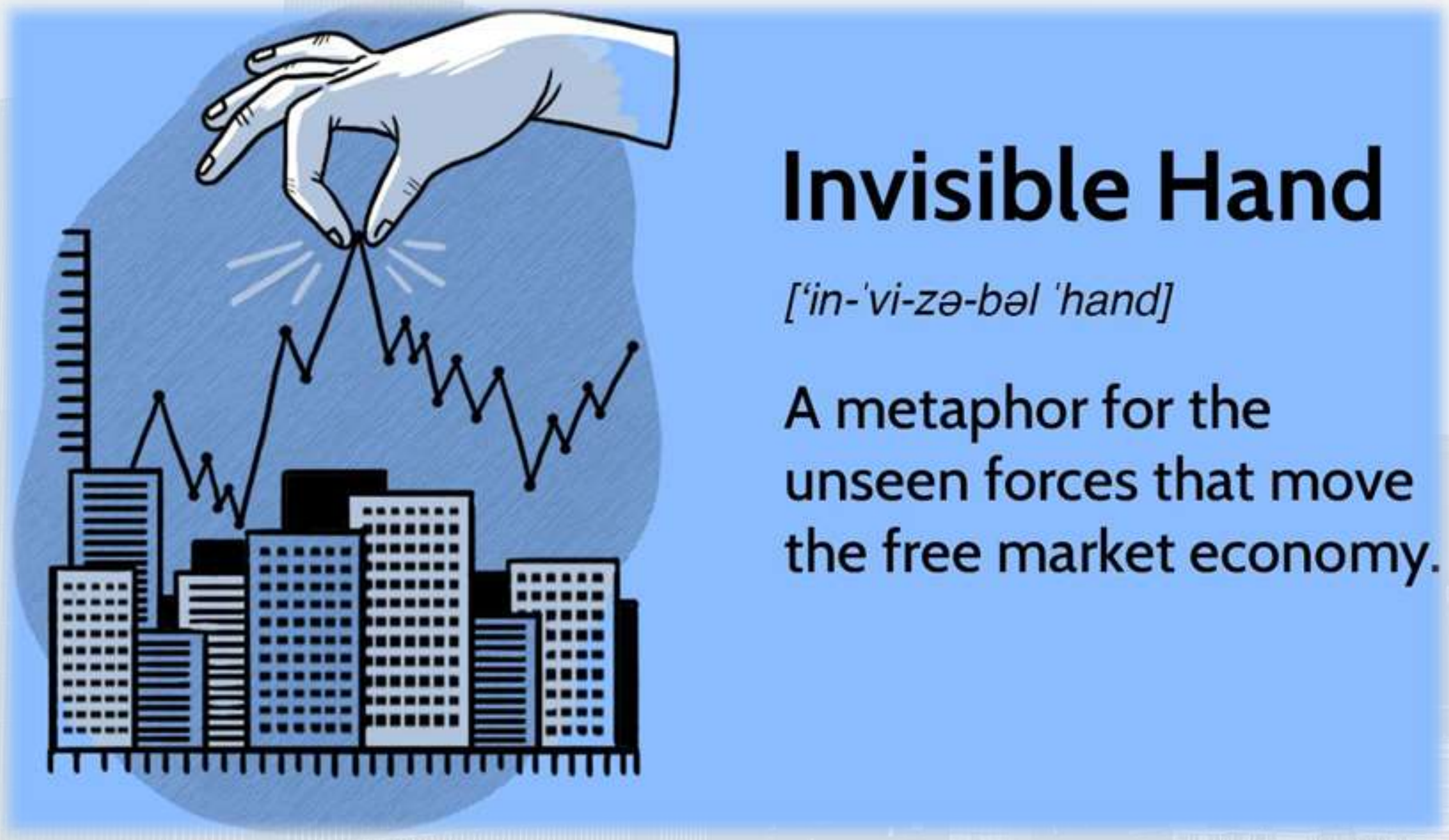
Strong network: Successful startups often have a strong network of mentors, investors, advisors, and partners who provide support, guidance, and resources to help the company succeed.

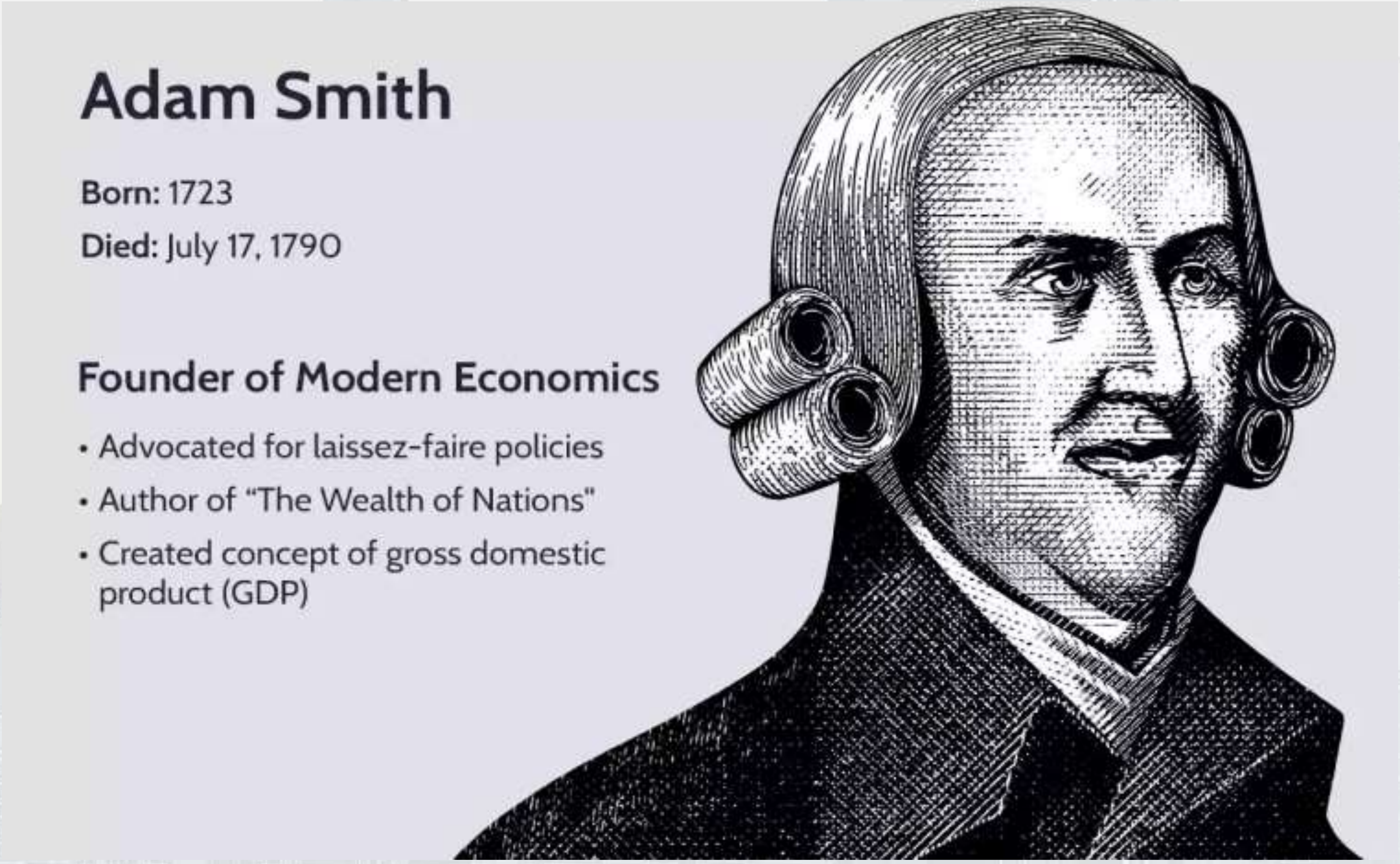
Customer focus: Successful startups prioritize meeting the needs and preferences of their customers, constantly seeking feedback and making improvements based on customer insights.

Innovative idea: Successful startups often have a unique and innovative idea that sets them apart from competitors and provides value to customers.

Efficient use of resources: Successful startups are able to effectively manage their resources, making smart decisions about where to invest time, money, and effort to maximize growth and profitability.

6- Adam Smith's Invisible Hand





What Is the Invisible Hand?

The term "***invisible hand***" first appeared in **Adam Smith's famous work**, The **Wealth of Nations**, to describe how free markets can motivate individuals, acting in their own self-interest, to produce what is societally necessary. The invisible hand is a **metaphor** for the **hidden forces that drive the free market economy**. Individual self-interest and the freedom to produce and consume benefit society as a whole.

Consider the case of a **tiny business** facing intense competition. To gain a competitive advantage, the tiny business plans to invest in **higher-quality materials** for its manufacturing process while also lowering its pricing. Though the small firm may be taking these actions for self-interest (i.e., to increase sales and market share), the invisible hand is at work because the market **will have access to more affordable but higher quality items**.

Another example of the invisible hand is the ripple effect that a retail organization may experience when **attempting to meet consumer demand**. Consider a hardware store that anticipates the need for yard maintenance tools. The hardware store **will work with a manufacturer** to get the necessary items. Meanwhile, the manufacturer **will interact with a raw materials distributor to verify that it has enough things to suit the hardware store's needs**.
The invisible hand model illustrates how retail companies can use the ripple effect to meet consumer demand, such as a hardware store coordinating with manufacturers and raw materials distributors.

KEY TAKEAWAYS

- The invisible hand is a metaphor for how, in a free market economy, self-interested individuals operate through a system of mutual interdependence.
- This interdependence motivates producers to make what is socially necessary, even though they may care only about their own well-being.
- Adam Smith introduced the concept in his 1759 book *The Theory of Moral Sentiments* and later in his 1776 book *An Inquiry Into the Nature and Causes of the Wealth of Nations*.
- Each free exchange signals which goods and services are valuable and how difficult they are to bring to market.
- Critics argue that the invisible hand does not always produce socially beneficial outcomes, and can encourage greed, negative externalities, inequalities, and other harms.