

1. Introduction to Commerce

Objective

At the end of this chapter, students should be able to explain the meaning of commerce, define its scope and outline its functions.

1.1 The Meaning of Commerce

Commerce is closely related to buying and selling. Hence, a lot of people define commerce as ‘trade’, meaning ‘buying and selling’ alone. But this is an understatement since commerce is much more than mere trade. The reason is that trade merely means an exchange of goods; but before goods can change hands or change ownership, other auxiliary actions take place. For instance, goods for trade have to be carried or transported from their place of production to the wholesaler, retailer or their final consumers. Also, before goods are exchanged through distribution, they may have to be stocked for a period in the warehouse. The factories and the machines that produce the goods and the products themselves may have been insured against the risks of fire, theft, or damage of any type; and knowledge of the availability of the products in the market may have to be taken care of by advertising services.

In the case of trade within the country, i.e. home trade, payment for sales of goods can be made by issuance of cheques that can only be effected through the banking system. Even when payment is by cash, some of the cash may have been withdrawn from the bank. Furthermore, the producing firm may have resorted to bank loans or overdrafts.

When trade is between two nations, that is foreign trade, the banking system would have to assist in making available the means of payment in foreign exchange (foreign currencies), as against payment in national currencies such as the naira in Nigeria or cedis in Ghana. Consequently, any definition of commerce that fails to take account of the supporting services which help to make trade (buying and selling) feasible will be failing in its scope and relevance. An adequate definition of commerce may be given as: ‘a system of buying and selling of goods and services (trade) and of providing such other related auxiliary (supporting) services like finance, insurance, warehousing, advertising and transport that render the system effective’. In other words commerce is trade and its ancillaries (auxiliaries).

No wonder, therefore, that the syllabus of any examination on commerce underlines the study of trade (home and foreign), and the other aids to commerce. This is the scope that we shall try to cover in this book.

1.2 Scope of Commerce

1.2.1 Trade

Trade is the principal branch of commerce. It is buying and selling of goods or the exchange of goods. Its main function is to distribute goods from the point or place of production to places where they are wanted or needed.

Divisions of Trade

Trade is divided into two broad divisions. These are home trade and foreign trade.

- (i) **Home trade:** This is trade among the people of the same country. There are no customs duties or trade barriers regulating the operation of home trade. Examples are trade between traders in Yola (Taraba State) and Sokoto (Sokoto State), or between traders in Calabar (Cross River State), or

Ikeja (Lagos State) and in Kano (Kano State). The medium of transaction is the naira. Home trade can be subdivided into two: wholesale trade and retail trade.

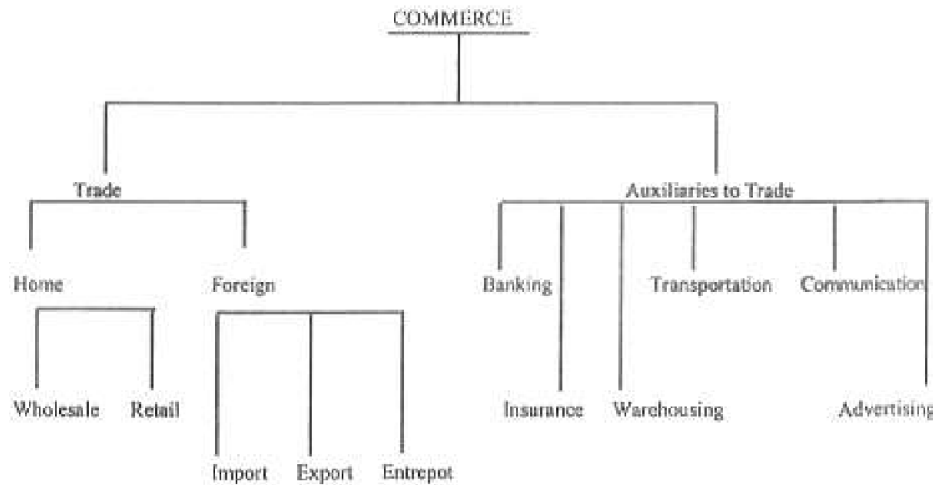


Fig. 1.1: The Various Branches or Components of Commerce

- (a) *The wholesale trade* is characterized by the existence of a set of traders (the wholesalers) who can afford to buy in large quantities from the producers and sell in smaller quantities to the retailers. This is called “breaking bulk”. This means that the wholesalers act as the bridge between the producers and the retailers; this is why they are called “middlemen”. They must have a fairly large capital if they are to buy in large quantities.
 - (b) *The retail trade:* Those engaged in retail trade are known as retailers. They buy directly from the wholesalers and sell personally to the final consumers. While the retailers may not be able to buy in as much large quantities as the wholesalers, they must be capable of buying in fairly large amounts to satisfy their numerous final consumers. By the nature of their trade, they are much nearer the final market than either the producers of goods or the wholesalers. They, too, need medium sized capital.
- (ii) **Foreign trade:** Unlike home trade, foreign trade is between the nationals of two different countries. For instance, trade between a trader in Accra (Ghana) and another trader in Lagos (Nigeria) is foreign trade. Such trade is conducted in foreign currencies. Unless where trade agreements have been reached to the contrary, foreign trade is subject to trade regulations, restrictions and customs duties. Foreign trade can be sub-divided into exports, imports and entrepôt.
- (a) *Exports:* These represent finished goods, partly finished goods, spare parts, raw materials and/or services that are sent out from the home country (for instance from Nigeria) to overseas countries. The national government, in turn, receives some payments in foreign currencies of her choice for such exports. In fact, they form a large size of the revenue of the home national government, e.g. The Federal Government of Nigeria. Some of the export trade of Nigeria include crude petroleum oil, cocoa, rubber, palm oil and palm kernels (palm produce) etc; or any expert personnel services Nigeria makes available to other foreign countries.
 - (b) *Imports:* The import trade consists of the finished goods, partly finished goods, spare parts, raw materials or services of other countries that are brought into a home country (like Nigeria). Examples of import trade to Nigeria are cars, radio and television sets from Japan and Germany, textile goods from Britain, fertilizers from the United States of America, and the services of the expatriates in Nigeria. The Federal Government of Nigeria through the Central Bank, arranges for the payments for all imports of her nationals using the medium of foreign currencies.

Both export and import trades can be further classified into visible and invisible trade.

1. *Visible trade*: This may be either an export or an import. It is that part of foreign trade that deals in physical products like petroleum, cocoa, rubber, diamond, and gold, which amount to our visible exports (i.e. goods sent to other countries). Their characteristics are that they can be handled and counted physically, and can therefore be seen with naked eyes, thus the term 'visible'. Any similar physical products we buy from foreign countries are our visible imports e.g. cars, radio and television sets.
2. *Invisible trade*: It is that part of foreign trade that deals in services. Examples are the services rendered by foreign ships, banks, insurance companies and of foreign expert personnel to our home, (Nigeria) economy. These amount to invisible imports, while similar services which we offer to foreign countries are regarded as invisible exports. For instance, there are Nigerian judicial and economic experts on secondment to some South-East African countries (Zimbabwe, Zambia), and some West African countries (Liberia, Sierra Leone, etc). Naturally, such services can only be felt and not seen, hence the term 'invisible'. In assessing the overall international trading position of a country, it is usual to take into consideration both the visible and invisible trades before forming an opinion.
- (c) *Entrepôt trade*: Entrepôt trade occurs where goods are imported into a country solely for re-export. For instance, goods meant for Chad Republic or Niger from overseas could first be imported into Nigeria (Apapa port) and then re-exported to the country of destination such as Chad Republic or Niger as the case may be.

During the colonial era, most of the goods such as tea, coffee, cocoa and palm produce, going to European countries from the British colonies would first be taken to Britain (London port) and then re-exported to other countries. Duties are not paid on such goods, but where any has been paid, it is usually refunded.

Commodity markets lend themselves to entrepot trade where items like cocoa, palm produce, cotton wool, etc are re-exported by agents or brokers on behalf of their principals where such items are not intended as imports into the country.

1.2.2 Banking and Finance

These play prominent roles in commerce. Through banks, payments are made and received in respect of buying and selling for both local and international trading transactions. Money and other valuables like trade agreement documents, or even valuable personal possessions (gold and diamond chains, necklaces, wills, etc) are kept with the banks.

1.2.3 Insurance

Without the role of insurance in commerce, it would be difficult for entrepreneurs (businessmen and women) to undertake heavy investments in trading operations. Risks are numerous and can be unexpected. It is the insurance companies that embolden risk-takers and investors to go into business since it undertakes to restore them to their original worth or position should certain accidents resulting in specific damage occur under certain conditions. To perform this expert service, insurance companies provide policies that cover various insurable hazards or risks that may bedevil business fortunes. It is important to note, however, that some risks are uninsurable. We shall deal with such under insurance later on. The following is an outline of insurable risks:

- (i) **Fire insurance**: This provides insurance against the risk of damage caused by fire.
- (ii) **Accident**: This covers damage resulting from accidents on the floors of factories, insurance offices or motor vehicles.
- (iii) **Theft or fidelity**: Theft refers to damage suffered through burglary, while fidelity refers to damage incurred through stealing of cash by the cashier, accounts clerk or the accountant.
- (iv) **Life assurance**: This is taken against the loss of one's life or that of a person whose death may cause one to suffer a loss. Such persons include a wife or business partner(s).

- (v) **Marine:** Since a major portion of trade has much to do with sending or importing goods by sea, marine insurance provides a guarantee against any likely damage to goods on the high seas.

1.2.4 Warehousing

One feat that is still very difficult to perform by producers is to dovetail or synchronize all their finished products into ready demand. Since production is sometimes in anticipation of demand, products may exceed present demand. If well preserved, the excess goods would find their own demand in the future. Consequently, producers, wholesalers, retailers, and even the large consumers are in constant need of storage facilities to accommodate their excess goods. This explains the prominent place of warehousing in commerce.

Uses of a warehouse or commercial importance of a warehouse

- (i) A warehouse creates time and place utilities for goods or products.
- (ii) It helps to maintain a steady rate of production and so allows economy of scale to be enjoyed.
- (iii) It allows reserves to be maintained to meet unexpected fluctuation in consumers' needs or demands.
- (iv) A warehouse provides protection and security for goods or products.
- (v) It ensures that production is kept ahead of demand.
- (vi) It enables retailers and wholesalers to anticipate demand, that is, goods can be held in the warehouse for future demand.
- (vii) It makes batch or seasonal goods available during the intervening periods.
- (viii) It stabilizes the prices of goods i.e. it keeps prices of goods steady.
- (ix) It allows some manufacturing processes to be completed, e.g. blending, bottling and repackaging, while the goods are in transit.

Types of Warehouses

Warehouses are classified into four main types according to ownership and use. These are:

- (i) *Manufacturer's warehouse:* This type of warehouse is owned by the manufacturer or producer for storing his own products.
- (ii) *Wholesaler's warehouse:* This is owned by the wholesaler or importer for storing and handling his particular range of products. It is from here he supplies retailers who buy from him.
- (iii) *Public warehouse:* This type of warehouse is privately owned but is open for use by the general public, that is, anybody can rent and store goods or any other thing in it.
- (iv) *Bonded warehouse:* This warehouse is used for storing goods on which duties have not been paid. The owner undertakes that duties will be paid before the goods are released.

1.2.5 Advertising

This is informing the public about the existence of certain products in the market. Without the role of advertising, nothing would be known about the presence of many useful products in the market. The importance of advertising has been underlined by the failure in the attempts made in America in the 1970s to mark some products as *non-adverts*. The idea was to market such products without any advertisement at all. The result was that there was no recorded substantial sales for these otherwise useful products, since nobody was aware of their presence in the markets. There are different types of advertising, five of which are briefly discussed below:

- (i) **Newspaper or press advertising:** This is an advertisement through the dailies or weeklies. Because of the geographical coverage of national papers, such advertisements have the advantage of wider coverage. But it can be costly.

- (ii) **Radio and television advertising:** This is becoming more readily used with the increased ownership of radio and television sets. It has the advantage of immediate coverage and prompt dissemination. Like press advertisement, it can be expensive for the small business unit.
- (iii) **Cinema advertising:** Since cinema provides a place of relaxation for many people, it is a substantial information carrier and are particularly suitable for local advertisements.
- (iv) **Hoarding:** These are advertisements on posters conspicuously displayed on highways or thoroughfares in such a way that the messages carried on them can reach motorists and passers-by at a glance. These are popular brands of advertisement, although their display may be subject to authorization by the local government. Hoarding is also known as billboard.
- (v) **Window display:** This is advertisement through arrangement of goods in specially prepared spaces which can be viewed by would – be customers through transparent glass windows or openings, both during and after office hours. The location must be central and within the view of prospective customers for this type of advertisement to have maximum effect.

1.2.6 Transportation

Transport has been described as giving utility of place to goods. Buying and selling effect change in ownership of goods, and thereby accord utility of ownership. But this is only in legal terms. It is only the transport system that can give utility of physical ownership of goods. Unless goods can be physically carried to the final consumers, the ownership of goods may be an academic exercise only. Transport system is usually in three broad categories:

- (i) **Transport by land:** This includes walking, use of trolleys, motor vehicles and trains.
- (ii) **Transport by water:** This includes the use of canoes, launches, ferryboats, engine-boats and ocean-liners.
- (iii) **Transport by air:** This consists of the use of helicopters, cargo and passenger aeroplanes.
- (iv) **Pipeline:** Transport through pipelines is a fast means of transporting liquids and gasses from one place to the other. For instance crude oil can be transported from the oil well to the refinery or to the coast for export.

In summary, judging by the totality of the services of all the branches of commerce, effective commerce must be capable of delivering ‘The right goods to the right people, at the right place, at the right time, and at the right price.

1.3 Functions of Commerce

In any given modern society, commerce performs the following functions.

- (i) Commerce facilitates human satisfaction in an exchange economy.
- (ii) It provides a medium for easy exchange of goods and services.
- (iii) It aids improvement in the living standard of a people through the provision of various items of food, clothing and shelter.
- (iv) Commerce creates time and place utilities by making goods and services available where they are wanted and when they are needed.
- (v) It makes it possible for people to live in a modern society characterised by inter-dependency.
- (vi) It facilitates other activities that add comfort to life.

Summary

- Trade is the principal activity in commerce; while other activities or services are transportation, advertising, warehousing, insurance, banking and finance.

- Trade can be divided into home and foreign trade, exports, imports, entrepôt; wholesale and retail trade are its sub-divisions.

Revision Questions

A. Essay Questions

1. Mention the principal branches of commerce.
2. What are likely to be the effects on commercial activities if facilities for warehousing and transportation are lacking?
3. What are the differences between hoarding and window display as media of advertising?
4. Commerce is more than a trade, but without trade there would be no commerce:
 - (a) Explain the statement above.
 - (b) With the aid of a diagram show the various components of commerce.
5. (a) With the aid of a diagram, illustrate the scope of commerce.
 (b) Explain four commercial activities that facilitate buying and selling.

(NECO 2001)

(WASSCE June 2001)

B. Objective Questions

1. The word "Commerce" means
 - A. buying and selling of goods and services
 - B. exchange and distribution of goods and services
 - C. life-blood of every nation
 - D. production of utilities
 - E. trade and all the services which assist trade
2. The pivot on which the wheel of commerce rotates is
 - A. price
 - B. taxation
 - C. trade
 - D. tariff
3. Which of the following best describes the scope of commerce?
 - A. Buying and selling and the construction industry
 - B. All occupational exchanges relating to industries and commercial activities
 - C. Buying and selling as well as the extraction of natural resources
 - D. All forms of commercial exchanges and the manufacturing industry
4. Commerce makes it possible for man to live in a
 - A. complex and organized society
 - B. society characterized by subsistancy
 - C. society characterized by dependency
 - D. simple and organized society

(NECO 2001)

(UME JAMB 2001)

(UME JAMB 2002)

(UME JAMB 1999)

5. Entrepôt trade refers to

- A. importing for industrial use
- B. importing for re-exporting
- C. counter trade
- D. importing for domestic consumption

(WAEC 2002)

- 6. The principal branch of commerce is
 - A. trade
 - B. banking and finance
 - C. insurance
 - D. warehousing
- 7. Import and export refer to
 - A. retail trade
 - B. wholesale trade
 - C. foreign trade
 - D. home trade
 - E. counter trade
- 8. Hoarding is also known as
 - A. billboard
 - B. window display
 - C. radio advertising
 - D. outdoor advertising
 - E. professional advertising
- 9. Trade by barter disappeared with the introduction of
 - A. international trade
 - B. civilization
 - C. money
 - D. coins as medium of exchange
- 10. Commerce has to do principally with
 - A. buying and selling and distribution of goods and services
 - B. advertising and promotion of goods and services
 - C. money and banking in a commercial world
 - D. marketing and distribution of goods and services
 - E. packaging and branding of products

Project

Write a full list of activities around your locality that could be regarded as commercial activities. Mention should be made of the persons and organizations that are engaged in such commercial activities.