

MODULE 1

BUSINESS AND TRADING BASICS



The principles of business and trading were established many thousands of years ago and were applied globally by overland travellers, camel caravans, then by ships, taking spices and valued raw materials like copper and gold to other communities and countries which needed them and were therefore willing to pay good prices to the vendors.

The most fundamental principles for successful trading or business which have always applied and which are still vitally relevant today are:

- 1. That people have a need or use for the product or service, which means it can be sold.**
- 2. Products or services are offered for sale at a price that recovers all the costs involved and also generates a surplus income called profit which is usually retained by the trader.**
- 3. The nature and quality of the product or service meets the customers expectation which encourages them to buy again**
- 4. The trader has sufficient money to meet all costs and any debts when they are due**

A focus on profit as being the only reason for trading has been replaced in recent years by wider concerns. The triple 'bottom line' of financial profit, social and environmental responsibility is now adopted by many large companies.

Many Christian agencies are asserting that the spiritual welfare of employees is so important that it should be included to make a 'Quadruple Bottom Line' as the best basis for successful business.

Selling goods grown on a farm which are surplus to family needs, or making simple home made products like jams and pickles, to generate income, or to exchange for other goods or services is one of the oldest types of trading and is still very widely used today especially by small subsistence farmers. These goods may be sold to others in the community, to travellers at the roadside or to a 'third party' who undertakes to sell the goods into other markets on behalf of the producer.



How to Trade

A 'trade' often refers to an individual's learned skill which he sells as a 'tradesman' to help others who do not have these skills. Creative abilities like art, photography, knitting or embroidery can produce goods for sale and personal giftings like caring for children, old people or those with special needs can be used to provide a service to generate income, although often rather low.

A trader can also be defined as an individual or business which who sells goods

Any activity that sells good or services can be called a 'business' or 'enterprise'

In most if not all countries there is a formal and an informal business sector. It should be a fundamental principle that all legal obligations are met in full when starting any business, whether in the formal or informal sectors.

The formal sector are registered businesses (Usually called companies) which pay taxes on profits and whose employees also pay taxes due plus state welfare payments and therefore receive state welfare and pension benefits and employee rights, such as for redundancy. (90% or more of these formally registered businesses employ less than 10 people showing how important small businesses are to any economy.) Sadly also in many countries registration of a business as a formal entity, can be difficult, time consuming and costly.

The informal sector is where very many trading enterprises start, especially those which are home based and which have no employees. The informal sector by its nature is unregulated, probably operates in cash economy, may only trade seasonally and the total contribution they make to an economy is a matter of speculation as there can be no reliable statistics. They are however vulnerable as they pay no taxes, so owner and any staff they do employ will have no access to state welfare provision, redundancy or sickness provision. The informal sector businesses are in Western countries called 'sole traders' or 'self employed' although in the West everyone who generates any income above certain levels is liable to tax and social welfare contributions – which is not the case in many developing countries. Working in the informal sector may still require a licence of some sort to trade especially if food products are involved. Local and national licence requirements need to be known and followed.

Formally registered businesses are usually then called companies and will find it much easier to gain distribution and sales than an unregistered business. In general it is preferable and more responsible to enter the formal sector as soon as this can be managed and certainly as soon as staff are employed. In most countries, trading in the formal sector as a registered business means there is limited financial liability of the owners should serious problems occur – so they do not find themselves personally liable to pay business debts. This is called being a 'limited' company and is in effect a quite separate entity from the people who run the business.

Other organizational options for a new business which should be considered as they engage you with the skills or experience of others are :-

- A partnership. this involves two or more people agreeing, often with a formal contract to collaborate in the business development, sharing the work and benefits of trading

- A co-operative. This is a business which is collectively owned and controlled by the people who work in it. At least two people must be involved
- A franchise. A franchise is an agreement which allows the person buying the franchise the right to run a branch of a business that someone else has set up.

Becoming a franchisee can greatly reduce the risk of failure as you will be replicating a successful proven business, but finding and choosing a franchise can be difficult. We hope to provide some model businesses that can be replicated in this way. People who take out a franchise are called 'Franchisees' usually pay a fee 'up front' plus a share of profits

Usually it is people who are called entrepreneurs who are the sort of people who start businesses.

The term *Entrepreneur*, translated from its French roots, means "one who undertakes." The term is used to refer to anyone who undertakes the organization and management of an enterprise involving independence and risk as well as the opportunity for profit. An entrepreneur, typically, is inspired to start a business because the entrepreneur perceives a need that is not being adequately filled. This area of need - sometimes called an "opportunity niche"

A business is established to produce goods or services to sell at a profit – but new businesses often take up to three years to become profitable, during which time the personal income generated may be small.

Many new businesses do fail within three years, most usually due to one or more of:

- 1. Low sales - no market for the goods or service, quality or price not meeting customer expectation**
- 2. Run out of money – poor cash flow control or lack of financial planning**

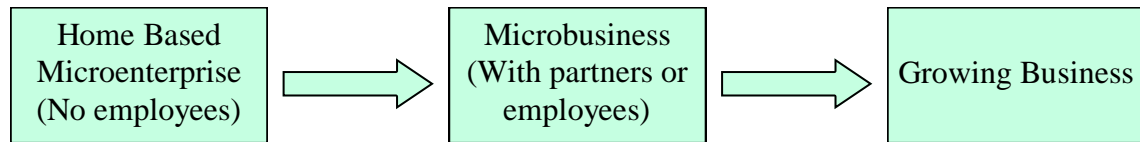
These are probably the two most important issues for you to consider before starting your own business - that is how confident are you that you can sell the product or service you plan to provide and will you have enough money to be able to keep going as you build your business?

Many businesses underestimate their costs and overestimate their sales –with serious consequences.

It can be very important especially if you are planning to enter an unknown or new market to test that market with your goods or services for the minimum possible cost to see if it works or not before committing to start up of the business. Goods for market test must be as close as possible to what you plan to produce, if not you risk losing credibility and your customers.

You may well find it easiest to start a business already shown to be successful by others as a lower risk approach. Aid for Trade is planning to make good examples available to you and there currently a list of about sixty [microenterprise concepts](#) you might like to look through as you consider what business you want to start.

Keep in mind that even very small enterprises can grow!



A comprehensive glossary of 'Western' business start up guidance is available on line at [Business link UK](#). (This includes many terms which may not be relevant to your national situation)

There are very many terms used in business, and it will be helpful to know at least those relevant to your business. A good 'glossary' of 2,000 business terms is on [Dictionary of Business Terms](#). There is a lot of common sense in these terms and don't think you have to know very many of them to start a business

