

Commerce

for Secondary Schools
Student's Book

Form
One

Tanzania Institute of Education



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Commerce

for Secondary Schools

Student's Book Form One

THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF EDUCATION,
SCIENCE AND TECHNOLOGY

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Commissioner for Education

Tanzania Institute of Education

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Dr Aneth A. Komba

Director General

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Preface

This textbook, *Commerce for Secondary Schools*, is written specifically for Form One students in the United Republic of Tanzania. It is prepared according to the *2016 Commerce Syllabus for Secondary Education Form I*, issued by the Ministry of Education, Science and Technology. The book consists of four chapters, namely the basics of Commerce, Production, Entrepreneurship, and Domestic trade. Each chapter contains texts, illustrations, activities and exercises. You are encouraged to do all activities and attempt all the given exercises as well as other assignments provided by your teacher. Doing so will enable you to develop the intended competencies.

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Chapter One

The basics of Commerce

Introduction

Commerce deals with the distribution and exchange of goods and services. In this chapter, you will learn about the concept of commerce, and the elements of commerce. The competencies developed will enable you to identify and engage in some commercial activities that will allow you to earn income.

The concept of commerce

In order to sustain life, people engage in different activities to create something of value. In doing these different activities, they produce different goods and services. Goods that are produced may include agricultural and livestock products, clothes, vehicles, stationeries, and building materials like cement. Meanwhile, services may be those offered in saloons, restaurants, schools, medical clinics, commuter buses and the like. Both goods and services are things of value that are produced for the purpose of satisfying human needs and wants in life.

In real life, these goods and services are neither produced by everybody nor produced in every part of the country or the world. For instance, cement is not produced in every region in Tanzania, it is produced in some regions such as Mbeya, Dar es Salaam, Tanga and Mtwara. The same applies for services too. For instance, port services are only available in some regions along the coast, despite the fact that, people who need these services are all over the country. Hence, there is a gap on how certain goods and services reach people who are in need of them. In all instances production is complete when produced goods and services reach final consumers. Therefore, a proper linkage between producers of goods and services, and those who are in need of them is required and this role is played by Commerce.

The term *commerce*, is derived from the Latin word “commercium” which is formed by two words, “com” meaning “together” and “merx” meaning “merchandise” or “goods”. Therefore, ‘Commerce’ is about exchanging of goods and services together. Commerce entails all activities from distribution and exchange of goods and services, to the point where they reach a final consumer and therefore, satisfying human needs and wants. It is that part of production which comprises distribution of final products to the final consumer. Commercial activities provide a good linkage

between producers of certain goods and services and customers or consumers. It provides producers of goods and services with an access of market for their products.

Commerce is, therefore, defined as all activities involved in the process of distribution and exchange of goods and services between producers and consumers. Areas where products are produced in surplus are able to sell their products to the areas where there is a shortage. It is the branch of production which deals with distribution and exchange of goods and services, and all activities which facilitate the exchange (buying and selling) of goods and services from the producer to the final consumer.

The buying and selling (exchange) of goods and services is called *trade*, and all activities which facilitate exchange (trade) are called *aids to trade*. Therefore, 'Commerce' can further be defined as the branch of production consisting of, trade, and aids to trade.

Trade as part of commerce is categorised into domestic (or home) trade and international (or foreign) trade as shown in Figure 1.1. International trade may involve export trade and import trade. Export trade involves selling goods and services outside the country while import trade involves buying goods and services from outside the country. Home trade includes retail and wholesale trade. Retail traders are those who buy goods and services in large quantities and sell directly to the final consumers; for example, owners of small local shops in the suburbs or local market areas. Wholesale traders are those who buy goods and services in large quantities and sell to the retailers or other wholesale traders.

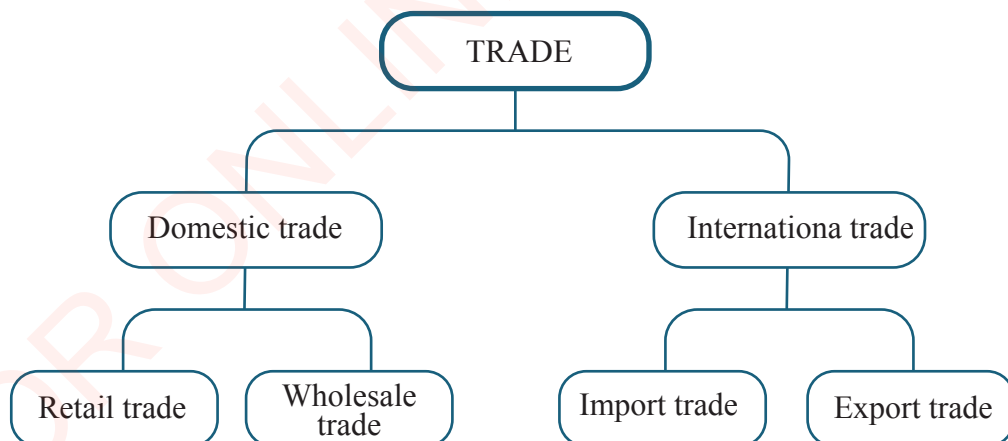


Figure 1.1 Categories of trade

Evolution and growth of commerce

The distribution and exchange of goods and services emerged when people were no longer capable of satisfying themselves with all what they wanted and needed. The failure of satisfying their wants and needs was due to the increase in size and number of their needs and wants. This situation required them to produce extra goods and services so that the exchange of goods and services between those with surplus and those with shortage could be possible.

Initial exchange of goods was based on goods for goods known as a barter trade. The system enabled everyone involved to benefit as they were able to receive goods needed or wanted without using money. The system required an existence of a *double coincidence of wants* between parties involved in exchange. Double coincidence of wants means that buyers were supposed to find sellers who had what they wanted and are willing to trade. At the same time sellers needed to know what buyers had and offered for exchange. For instance, people from Uvinza in Kigoma region could exchange their salt with maize from Tabora. Hence, exchange could easily be possible because each had extra units of what were produced, but was lacking what others were producing.

With barter trade, life was possible and people could satisfy their wants and needs. As time went on, several problems arose with barter trade; these included:

- (a) It was not possible for parties involved in trade to defer payments as the system required instant payments or exchange.
- (b) Certain goods such as milk, meat and vegetables, could not be stored for a long time; thus, any delays in bartering made them unusable.
- (c) Goods used in the exchange lacked a common measure of value.
- (d) Sometimes, it was hard to find equivalent goods to be exchanged with other goods due to difficulty of divisibility; for example, a goat could not be divided in order to exchange with a bucket of wheat grains; and,
- (e) Sometimes, it was difficult to have a point of double coincidence in wants.

As a way of dealing with these barter trade system problems, money was introduced to be a medium of exchange in order to facilitate trade. With the introduction of money, exchange of goods was strengthened to the extent of crossing country borders.

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Factors contributing to the growth of commercial activities

There are several factors that play an important role in the growth of commercial activities as follows:

Differences in the gifts of nature: Different countries or regions have different natural resources. As a result of this, countries cannot produce everything they need or want, such countries can only get what they have in shortage by engaging in exchange with other countries or regions. Hence, this facilitates the growth of commercial activities.

Difference in human needs and wants: Human needs and wants are unlimited and vary widely. People or countries cannot satisfy themselves with all that they want without consulting others who have what they do not have, as a result commercial activities keep on growing.

Specialisation and division of labour: Some countries or regions can efficiently produce specific types of goods and services than others. This brings about the need for specialisation, which in turn lead to an increase in production of goods and services and therefore, accelerating commercial activities.

Invention of money and advancement in banking systems: The invention of money as a medium of exchange has simplified commercial transactions, which could otherwise be impossible by barter system. On the other hand, the advancement in banking systems has enabled banks to provide different services such as money transfer. All these have speeded up the growth of commercial transactions.

Improvement in transport and communication: The improvement in transport and communication network such as roads, railways, water and air transport, information and communication technology (ICT), have accelerated commercial transactions; therefore, the mobility of goods, services and people from one place to another have become easy.

Characteristics of commerce

Commerce has several characteristics that aid to understand properly its nature. Key characteristics include economic activity, profit earning motive, exchange of goods and services, creation of utility, and marketing. These characteristics are explained as follows:

Economic activities: In the first place, it is important to understand that commerce is an economic activity. This is because it involves distribution of goods and services as well as buying and selling of goods and services to earn profit and wealth. The

purpose for which an activity is performed differentiates economic activities from non-economic activities. When a trader buys goods with the aim of re-selling them and earning a profit, it is considered as an economic activity; while a consumer who buys goods from the trader for consumption only has no profit motive.

Profit earning motive: Profit motive is one of the reasons behind undertaking any commercial activity or transaction. For example, a producer produces goods and services for selling and earning profits; likewise, a trader purchases goods or services for the purpose of re - selling them at a price that is higher than the purchase price. Both scenarios are commercial activities because they have a profit-earning motive. Therefore, any activity or transaction that does not have any intention of earning any profit is to be excluded from commercial activities. For instance, one cannot speak of commerce in activities such as giving gifts of goods or services to relatives, friends, orphanages or any person who is in need of help.

Exchange of goods and services: As pointed out earlier, commerce entails an exchange of goods and services. Producers of goods and services exchange their products with customers who are in need of their goods or services. It is important to note that goods or services may be produced for selling or may be purchased from wholesalers for re-sale. All these instances are related to commerce.

Creation of utility: Commerce helps to satisfy customers' needs and wants by creating place, form, and time utilities. Place utility is created when goods and services are transported from areas where production takes place to areas where consumers are. Time utility is created by the act of storing products for future uses. Form utility is created by converting raw materials into finished products during the manufacturing processes; for example, creation of belt and shoes from leather.

All these utilities mean that commerce enables consumers to get goods and services in the place, time, and form that is convenient to them. For instance, cloves is mostly produced in Zanzibar, transportation activities enable the rest of Tanzania to get them. Besides, products that are produced during a particular season only may be stored to be consumed during the rest of the seasons. Likewise, for products which cannot be consumed in a particular form, they may be converted into another form to fit with consumers' needs and wants.

Involvement of regular marketing: Commerce regularly involves promotion of goods and services. Marketing as one of the characteristics of commerce, helps to create awareness to customers as to where and how their needs and wants can be satisfied.

Importance of commerce

Commercial activities are very important in the society due to the following reasons:

Creation of linkage between producers and consumers: Through commercial activities, producers are informed about who needs their products, where, and what products are needed. Consumers get to know about where, how, and at what cost can goods and services be obtained. Besides, through marketing activities, commerce helps to provide a complete product information and specification to consumers. Likewise, producers, get to know the likes and dislikes of consumers.

Creation of employment opportunities: An increase in commercial activities creates job opportunities to a large number of people. These opportunities are created with an increase in production, marketing, and distribution of goods and services activities. Many people are employed in different commercial activities such as banking, insurance, marketing, transportation, communication, retail trade, wholesaling, and stores.

Contribution to economic growth: The growth of any economy is directly related to the rate of its production. People are willing to produce because they are informed about the market for their products. It is commerce that provides such useful information. Commercial activities assist in increasing the rates of production and consumption of products. They also help in the exportation and importation of goods and services. Requirements of raw materials in production industries can easily be met through effective commerce. Considering the great role of productivity in the growth of economies, it is justifiable to say that, commerce has a major contribution in the economic growth of countries.

Enabling satisfaction of human needs and wants: Commerce helps in the satisfaction of human needs and wants. This activity is achieved through enabling the distribution of goods and services from one place to another. Today, one can purchase anything produced anywhere in the world either offline or online because of commerce. Commerce helps in satisfying distance, seasonal and daily demands.

Boosting industrial development: Industrialisation in an economy goes hand in hand with production. Besides satisfying consumers' needs and wants by providing the desired products on time, commerce provides raw materials and goods to the manufacturer so that the industrial production process can be done smoothly. Hence, commerce stimulates the growth in industrial development.

Increasing the standard of living: The standard of living refers to the quantity and quality of material goods and services available to members of a society. Commerce

enables people to consume variety of goods and services so that consumers have freedom of choice. When people consume varied and quality products, their standard of living improves. Thus, commerce helps people to get what they want at the right time, place, form and price; and thus, it helps in improving their standard of living.

Enabling transfer of technologies: Through commercial activities, particularly an international trade; transfer of technology from one country to another is made possible. It is now possible to import not only products that have been produced using advanced technologies but also experts from other countries to enhance technology in their own countries. As a result, commerce helps less developed countries to learn new technologies from developed countries.

Boosting international relationships: Countries that exchange goods and services get into contact with each other. This association creates mutual cooperation, understanding and relations among various countries which are helpful in exchanging culture and tradition among the citizens of friendly countries.

Capital flow: Commerce allow movement of capital between parties. For example, through banking services, one can acquire loans to start and run legal business. Also, through exportation, countries are able to get foreign currencies. For instance, Tanzania can get foreign currencies such as Kenyan Shillings, Ugandan Shillings, and US Dollars by trading with these countries.

Relationship between Commerce as a subject and other subjects

Commerce has a relatively close relationship with Economics to an extent of being considered as a part of Economics. Economics is a social science which deals with allocation of scarce resources to meet desirable human needs and wants. Generally, Economics is concerned with the study of satisfaction of human needs and wants from an individual level, national level, and global at large.

Moreover, Commerce falls within the scope of Economics as it deals with the distribution and exchange of goods and services from producers to consumers for the purpose of satisfying human needs and wants. This means, Economics is relatively broader because besides distribution and exchange of goods and services, it explores public policies and division of labour in the economy.

Despite the fact that, Commerce is closely related to Economics, similar relationship can be done with the other disciplines. For instance, Commerce can be related to Mathematics as mathematical data provide correctness and vividness to various commercial situations. Drawing and interpreting curves, sketches, tables, diagram, and graphs in explaining commercial information depend on the knowledge of mathematics.

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Furthermore, the same relation can be explained with Geography. If geographical conditions are well understood and are favorable, commercial activities will flourish. For example, commercial products from agriculture, mining, forests, industries and trade are all influenced by geographical or physical environments. It is the understanding of geographical factors therefore, which govern most of commercial activities of a country or region.

 **Activity 1.1**

Visit any nearby commercial center, identify commercial activities being undertaken and prepare an explanation on how the available commercial activities help the people around. Thereafter, in groups, present the results in the classroom and compare your results with those of the other groups.

Exercise 1.1

1. Imagine that you are invited in a school's economic committee. Members are about to start discussing the need for your school having some commercial activities to enhance the economic situation of the school. The academic master chooses you to enable the members to first understand the nature and importance of Commerce. What could be your main points in your explanations?
2. Assume you are in a break session, and while waiting to resume the afternoon class sessions, you are holding some casual discussions with your friends. In the middle of your discussion, a friend of yours shows some doubts on whether commerce has any relation to other subjects being studied at your school. Your friend asks for help from you, and you want to help. What explanations would you provide to your friend in trying to relate Commerce to Mathematics, Geography and Economics?
3. Assume your school conducts debates every week and the debate motions differs from one week to another. You happen to be selected as one of the debate members for the next debate and the motion is on the 'means of exchange of goods and services'; that is, bartering and using money as a means of exchange. Briefly explain which points are expected to be discussed by:
 - (a) Proposers of bartering
 - (b) Opposers of bartering

Elements of Commerce

These refer to the essentials of commerce which make-up the whole business process. They include trade and all activities that facilitate trade; also they are known as aids to trade or auxiliary services. The elements of commerce are further explained as follows:

Trade

Trade refers to buying and selling of goods and services for making profit. For an activity to be a trade, it must be done regularly and for the purpose of making profit. For example, a regular activity of buying exercise books or pens in large quantities and selling them to your fellow classmates in small units for making profit is a form of trade.

This means, a person who decides to sell a private car in order to buy a new one or for any other purpose cannot be considered as a trade. Generally, trade occurs when people buy and sell routinely, making the activity part of their occupation from which they earn some income. Trade can be divided into two branches: domestic trade or home trade and foreign trade or international trade.

Domestic trade

This is also known as home trade or internal trade, which refers to buying and selling of goods and services within a country. It can be within one region or district or across regions/districts. For example, buying sunflower seeds from Iramba district in Singida region and selling them in Dar es Salaam city, or buying bananas from Karagwe district in Kagera region and selling them in Dodoma city. Domestic trade is divided into the following two categories:

Wholesale trade refers to the trade where goods and services are bought in bulk from producers and sold to retailers in relatively affordable quantities. Goods and services are not sold to the final consumers.

Retail trade involves buying goods and services in large quantities from wholesalers and selling them in relatively small quantities to final consumers.

International trade

This is also known as foreign trade or external trade, which refers to buying and selling of goods and services across countries. For example, buying and selling of goods between Tanzania and China. Foreign trade or international trade is also divided into two categories as follows:

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Export trade refers to selling goods and services to other countries; for example, when Tanzania sells cashew nuts or coffee to India or when Tanzania sells cotton to China. Goods being exported can be transported to other countries by road (for neighboring countries), air and mostly by sea.

Import trade refers to buying goods and services from other countries; for example, when Tanzania buys cars from Japan or when Tanzania buys machinery from Germany or China. These goods can be transported to Tanzania through air or sea. Figure 1.2 shows a cargo ship arriving at the Zanzibar port with imported goods.



Figure 1. 2: Cargo ship arriving at a port of Zanzibar with imported goods

Source: https://commons.wikimedia.org/wiki/File:Zanzibar_Harbour.jpg

Aids to trade

Aids to trade or auxiliary services are all commercial activities that facilitate the process of buying and selling of goods and services. They are actions which directly or indirectly help to smoothen the exchange of goods and services between parties involved. Examples of aids to trade are services such as banking, insurance, transport, communication, warehousing and sales promotion. The different types of aids to trade are explained as follows:

Banking

Banking services involve all activities related with management and transfer of funds from one place to another or from one person to another. These services provide a safe place to keep money and means of payment. Banking services are offered by various banks and other financial institutions in Tanzania such as NMB Bank, People's Bank of Zanzibar (PBZ), Tanzania Commercial Bank (TCB), National Bank of Commerce (NBC) and CRDB Bank. All these banks are being supervised by the central bank of Tanzania (BoT). Figure 1.3 shows the logo of the Bank of Tanzania.



Figure 1.3 *Bank of Tanzania logo*

People can access financial services by visiting any branch of a bank or an Automated Teller Machine (ATM) as shown in Figure 1.4 that are available in numerous places. People can also access financial services through online banking. Financial services include savings and credit facilities for financing start-up businesses or continuing businesses. Credit facilities are very important in business start-up and development. For example, big businesses rarely conduct business by using their own capital as compared to small businesses. They depend on the borrowed funds from banks and other financial institutions to start and or expand their businesses.

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Figure 1.4 *An example of ATM*

Insurance

Insurance refers to an arrangement to contribute some amount in a common risk pool for the purpose of being compensated in the event of actual business or property loss caused by unforeseen events. It can alternatively be defined as a system of pooling risks together by contributing some small sum of money to a common risk pool. These events can be such as eruption of fire, road accidents or natural disasters like floods, drought, or earthquake. Therefore, people who conduct commercial activities can insure their businesses or properties so that they can be compensated by insurance companies when such disasters occur. Figure 1.5 shows the forms of insurance services offered by insurance companies in Tanzania.

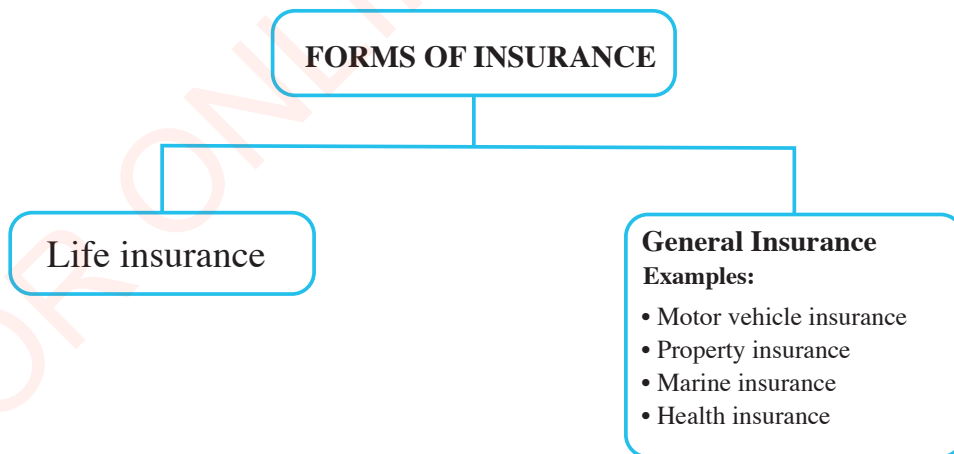


Figure 1.5 *Forms of insurance*

Transportation

Transportation service involves the movement of goods, services and people from one place to another. It involves the movement of goods and services from the place of production to the place of consumption or from the place of surplus to where there is a shortage of goods and services. For example, raw materials are transported from where they are produced to factories, and processed goods are transported from factories to final consumer's destinations. Examples of means of transportation includes, road, railway, air and sea.

Communication

Communication service involves conveying information or ideas from one place to another or from one person to another. In business, communication is necessary due to the distance between people who sells and buys from each other. For example, a businessperson in one location cannot efficiently and effectively transact with another businessperson in another location without communication.

Therefore, the need for communication goes parallel with the transfer of goods and services from one place to another. Communication can be through letters, e-mails, fax mails, telephone, radio, television, word of mouth, signs, memos, body language or recorded messages. Figure 1.6 shows two entrepreneurs communicating with their through a mobile phone.



Figure 1.6 Entrepreneurs communicating with their customers through mobile phone

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Warehousing

The warehousing service is the storage of goods or raw materials in secured place waiting for consumption or further processing. Examples of warehouses includes private warehouses, public warehouses and bonded warehouses. The storage of goods helps to secure them from theft, pests, or bad weather conditions before they are sold to customers as shown in Figures 1.7.



Figure 1.7 *A warehouse for crops storage*

Sales promotion

This type of service refers to all activities aimed at expanding or maintaining the existing market for goods and services by adding value or making them clearly known to the public. This can be done through trade fairs, branding, exhibition and packaging. Figures 1.8 shows students at the Dar es Salaam trade fair looking at different books. There are also different other people in the picture looking at different products being promoted by businesspersons.



Figure 1.8 Different people at the Dar es Salaam international trade fair

To sum up, commerce entails trade and all activities that facilitate trade. Trade includes domestic and foreign trade. Domestic trade is further, categorised into retail trade and wholesale trade as shown in the commerce flow chart in Figure 1.9. Trade is facilitated by a number of commercial activities such as transportation, insurance, communication, warehousing, sales promotion and banking services.

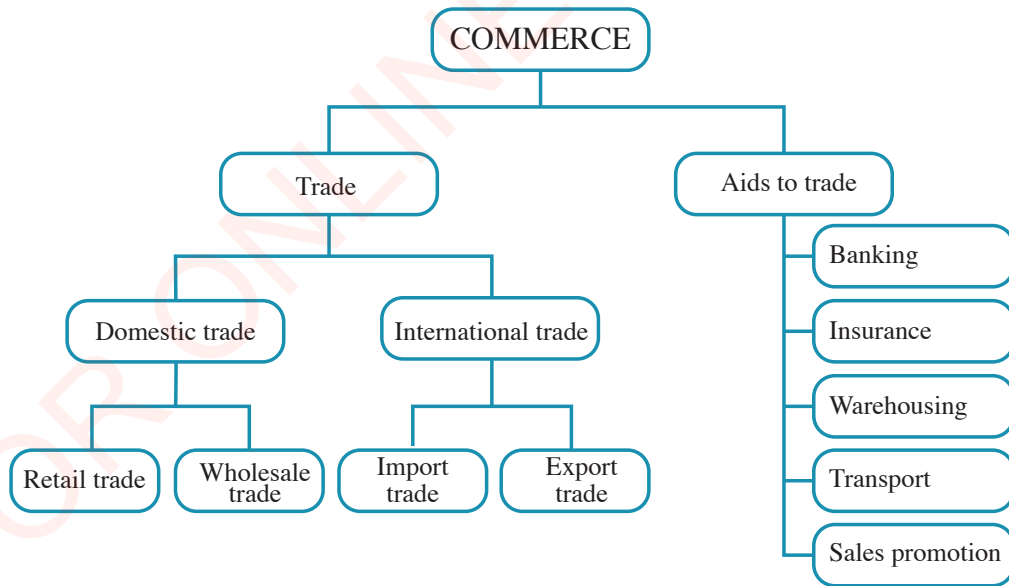


Figure 1.9 Commerce flow chart



Activity 1.2

1. Mr. Mambwe and Mr. Chande of Katavi region have just started a business, they are planning to buy locally 2,000 bags of maize and sell them outside their region. They made that decision because there were few customers in the region who could buy their products. Considering the above scenario, in groups, identify options available based on your knowledge of elements of commerce. Thereafter, present the results in the classroom and compare your results to the other groups.
2. In groups, suggest at least three (3) domestic trade ideas that can be done between your home region and any region of your choice in the country. Thereafter, present the results in the classroom explaining the reasons for the suggestion. Compare your suggestions to those offered by your fellow groups.

Exercise 1.2

1. Assume you are selected to represent your class in a 'school academic committee' and one of the activities is to prepare presentations from a subtopic of your choice. You happen to choose to prepare a presentation on elements of commerce. During your preparation, how will you explain the relationship of trade to each of the aids to trade?
2. Imagine you have been invited in one of the important trading meeting in the country and you are required to give a presentation on the differences between domestic trade and international trade. Which points do you think should not be overlooked in your presentation?

Functions of commerce in the community

Commercial transactions or businesses carried out in the community have several functions. These functions are solutions to several hindrances or difficulties facing people in their day-to-day lives. Thus, commerce;

- (a) Helps in establishing a link between producers and consumers through distribution channels.
- (b) Enables the transportation of goods from production areas to where they are needed for consumption. Without transportation, goods would not reach the consumers, and excess production would be useless. It therefore, eliminates place hindrances.

- (c) Helps to bridge the gap between the time of production and the time of consumption. Goods are produced in large quantities and stored until needed for consumption. This would otherwise require production of goods on demand which may not be practicable.
- (d) Provides an avenue for those who have shortage of capital to run their business smoothly by borrowing money from those who have surplus capital. It therefore, eliminates the financial hindrances in the community.
- (e) Provides an avenue for covering the potential risks through insurance services. This enables business persons to conduct their business smoothly without fear of risks since in the event of loss they will be compensated.
- (f) Helps to make people aware about the availability of goods and services through sales promotion such as advertisement. So, it eliminates the knowledge hindrances in the community.

In eliminating these hindrances, people engage in various commercial or business activities such as transportation, banking services, insurance, and warehousing. Transportation as one of business activities is responsible for moving goods, services and people from one place to another; for instance, food stuff being transported from Mbeya, Iringa, Morogoro, Kagera, Tanga and Kilimanjaro to Kariakoo market in Dar es Salaam.

Furthermore, there are business activities in the form of banking services such as those offered by banks like NMB Bank, People's Bank of Zanzibar (PBZ), CRDB Bank, Tanzania Commercial Bank and other registered commercial banks. Additionally, there are microfinance institutions offering small loans to micro businesses. There are also those which offer mobile financial services like M-pesa, Tigopesa, Airtel money and the like. Moreover, in our communities, one may find insurance companies which provide risk management services to the public, aimed at managing several potential risks to property.

Further, there are also people who build large warehouses wherein people can store goods such as crops for future use. The sales promotions helps to provide awareness to people on the availability of goods and services being sold by businesspersons. It is through this awareness that businesspersons can increase the sales volume of their goods and services.



Activity 1.3

In groups, visit any of the local community that you are interested with and identify at least five business obstacles or problems that hinder the proper functioning of commerce. Visit two or three websites and search for alternative solutions to business obstacles. Thereafter, prepare a summary of solutions to the identified obstacles for proper functioning of commerce and present your work in the classroom.

Chapter summary

1. Commerce is the branch of production which deals with distribution, exchange of goods and services and all other activities which facilitate the exchange (buying and selling) of goods and services from the producer to the final consumer.
2. Trade is categorised into two groups: home or domestic trade and international or foreign trade. Home trade includes retail and wholesale trade whereas foreign trade includes importation and exportation of goods and services.
3. In the early days, exchange of goods and services was based on barter system (bartering). Through this system, consumers could get goods they needed without using money.
4. Main characteristics of commerce include profit making, exchange of goods and services, economic activity, regular marketing and utility creation.
5. Commerce is very important in any country as it creates employment opportunities, provides linkage between producers and consumers, boosts economic growth through production, boosts international trade, boosts international relationships, boosts industrial development, enables transfer of technology, and helps to increase standard of living.
6. Commerce as a subject is part of Economics. Economics is relatively broader because besides distribution, exchange and distribution of goods and services; it explores the entire process of production, public policies and division of labour in the economy.
7. Elements of commerce include trade and aids to trade. Trade refers to buying and selling of goods and services while aids to trade are all activities that facilitate the exchange of goods and services. These activities include banking services, insurance, transportation, communication, and warehousing. These activities are also considered as functions of commerce as they help to eliminate several hindrances towards improving peoples' lives. Sales promotions aids in

providing awareness to people on the availability of goods and services being sold by businesspersons. It is through this awareness that businesspersons can increase the sales volume of their goods and services.

Revision exercise

From question 1 to 5, choose the correct answer and write its letter in your exercise book.

- Which one of the following alternative explain the main purpose of commerce:
 - Bridge a gap between wholesalers and retailers
 - Bridge a gap between producers and retailers
 - Bridge a gap between producers and consumers
 - Bridge a gap between consumers and wholesalers
- Imagine your father deals with distribution and exchange of goods and services. Which type of activity is conducted by your father among the following?
 - Warehousing
 - Insurance
 - Trade
 - Commerce
- From the following list who is a final user of goods and services?
 - Distributor
 - Retailer
 - Manufacturer
 - Consumer
- Which of the following is not correct about commerce:
 - Commerce is a part of production
 - It is divided into trade and aids to trade
 - Commerce is part of trade
 - Commerce is a part of economics
- Suppose your fellow student asked you to identify two branches of commerce. Which alternative would you choose among the following:
 - Trade and direct services
 - Wholesale trade and retail trade

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- (c) Home trade and foreign trade
(d) Aids to trade and trade
6. Match the description of commerce basics concepts in group A with the corresponding commerce basics concept in group B, by writing the letter of a correct answer besides the item number in your exercise book.

GROUP A	GROUP B
i. Transfer of goods from one place to another	A. Warehousing
ii. Selling goods to final users	B. Import trade
iii. Storing goods until they are needed for use	C. Transportation
iv. Involves all activities that facilitate trade	D. Advertising
v. Buying from other countries	E. Trade
vi. Buying and selling outside the country	F. Retailing
vii. Mobilisation of savings and safeguard peoples' funds	G. Specialization
viii. Informing the public about the availability of goods in the market	H. Banking
ix. One of the factors contributing to the development of commerce	I. Retailer
x. Selling goods to other countries	J. Foreign trade
	K. Aids to trade
	L. Export trade
	M. Wholesale trade
	N. Commerce
	O. Communication

7. Based on your local context and by giving real examples, briefly explain the following terms in relation to commerce:
- (a) Goods
(b) Service
(c) Barter trade
(d) Wants
(e) Trade
(f) Wholesaler
(g) Export trade
(h) Retail trade

- (i) Import trade
 - (j) Communication
8. One of form one students argued that, “aids to trade plays an important role in trade” Justify the validity of this statement.
 9. Assume you are invited to a nearby school to explain about the development of commerce, what will be included in your explanations?
 10. Imagine you have been invited in one of the important business meeting in the country and you are required to give a presentation on the differences between commerce and trade. Briefly, explain the points that you will include in your presentation.
 11. Suppose you find people with the stand that Economics and Commerce have the same meaning. As an expert in commerce, briefly rule out their stand.
 12. Assume you are invited in one of the form one classes to give your brief view on the applicability of branches of commerce. By the aid of a well labelled diagram, describe the applicability of branches of commerce.
 13. With examples, explain different commercial activities carried out in your community.
 14. Briefly explain the importance of commerce in daily life.

Chapter Two

Production

Introduction

Human needs and wants determine the nature of economic activities in any given economy. In order to satisfy those needs and wants, production of goods and services have to be made. In this chapter, you will learn about the concept of production, factors of production, stages of production, needs and wants, productivity and costs for profit determination. The competencies developed in this chapter will enable you to engage in any production activity effectively and efficiently.

The concept of production

Production is a process of extracting and transforming inputs into outputs. The process involves creating goods and services that have ability to satisfy human needs and wants. It comprises of a variety of processes involved in initiating the creation of what is needed and/or wanted by final consumers. Production involves extraction, transformation of raw materials into finished goods, and provision of services like those provided by managers, drivers, teachers, lawyers, consultants, and accountants.

Production includes all services performed by transporters, wholesalers, and retailers that enable the distribution of products to reach to final consumers. In other words, the process of production is complete only when goods and services reach the final consumer. This implies that production is not just a process of creating goods and services but also a process of making them available to final consumers. In so doing, production as a process tend to satisfy human needs and wants.

Examples of production process include extraction of building materials such as sand and stone; crushing stones into gravel; mixing sand and cement with water to make bricks; converting cotton into clothes; and making breads in a bakery by mixing flour, water, yeast and baking powder. Figure 2.1 shows an example of a brick making machine used in the production of bricks.



Figure 2. 1 *A brick-making machine*

Source: <https://madeintanzania.co.tz/products/33/>

Types of production

There are two types of production: direct and indirect production.

Direct production: This type refers to the creation of goods and services for personal consumption. For example, a farmer can grow vegetables for personal use. Similarly, a parent can personally drive children to school.

Indirect production: This type refers to the creation of goods and services for selling purposes. For example, a farmer who grows vegetables in order to sell them in a market. Similarly, think of a parent driving public transport like a bus to earn a living. Figure 2.2 illustrates the types of production with their respective examples.

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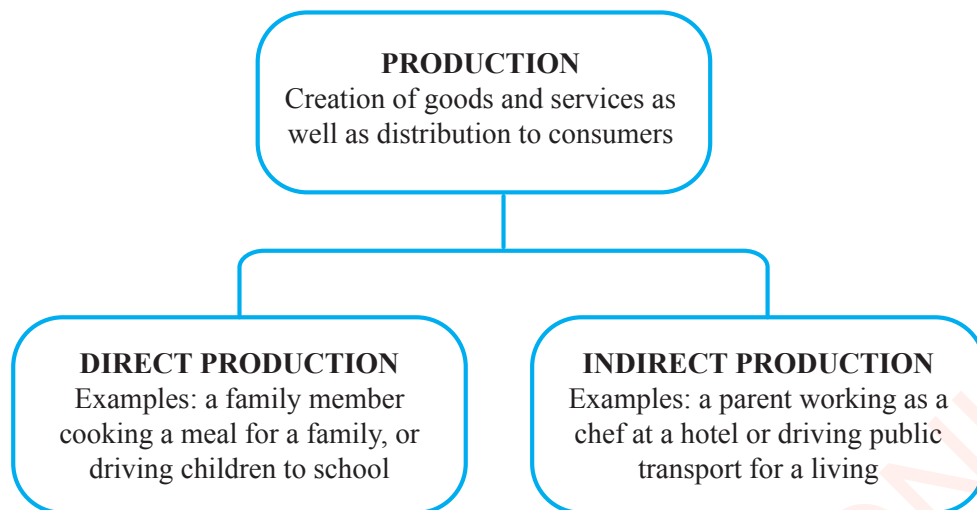


Figure 2.2: *Types of production*

The importance of production

The importance of production brings about a need for the study of production. The study of production helps in determining and managing the best use of resources or inputs such as labour, capital, and land. It can also help policy makers in shaping public policies that influence resource use, the quality and quantity of outputs produced as well as profits. Moreover, the study of production can help in determining technical and institutional frameworks that are necessary for stimulating productivity.

The following reasons provide a summary on why production is important:

- (a) *It provides goods and services to satisfy human needs and wants.* Production closes the gap between producers and consumers as it creates goods and services and also makes them available to customers;
- (b) *It provides employment.* During production, labour is employed both to produce goods or services and in making them available to the final consumers. In turn, labour is rewarded through wages or salaries;
- (c) *It expands the scope of division of labour and specialisation.* In production, people engage in different economic activities to make goods and services available to the final consumer. Therefore work is divided into small pieces and each piece is assigned to a person who can specialise in this type of production and efficiently produce the commodity;

- (d) *It improves the living standards.* Production makes it possible for human wants to be satisfied both in quantity and quality;
- (e) *It increases the wealth of a country.* Production is the process of creating goods and services thereby creating utility, money and value; and
- (f) *Boost economic development,* the total amount of output produced determines the extent of economic development of a country which is measured by Gross Domestic Product (GDP).



Activity 2.1

Visit any factory that you are familiar with; then, identify activities involved in the process of making goods until the product reaches a final consumer. Based on your observations, in groups, prepare a description of the identified activities. Thereafter, present the results in the classroom.

Exercise 2.1

1. Based on activity 2.1 above, help a friend who has no idea about production:
 - (a) Explain to your friend what production is all about as well as the types of production.
 - (b) Convince your friend that engaging in production is important in our daily life.

Factors of production and their rewards

Resources or inputs used to produce goods and services are known as factors of production. Specifically, in order for production to take place, inputs or resources should be available in the form of land, labour, capital and entrepreneurship. Among these, land, labour, and capital are the basic factors of production since no production can take place if any one of these is missing. On the other hand, entrepreneurship organises all other factors of production. These types of factors of production and their rewards are further explained as follows:

Land

Land refers to all natural resources made available to mankind by nature. It includes everything on earth; it may be underneath, on and above the ground. Examples of resources that represent land include sunshine, water, soil, minerals, and trees.

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Land is considered to be a basic factor of production since all production activities such as transportation, trade, and manufacturing take place on it. In addition, land provides space for extraction of minerals, construction, and cultivation. Moreover, land is an important source of energy, water, and minerals deposits.

It is important to note that land is usually referred to as a gift of nature; in practice, it is not necessarily free. There is usually some payment to be made before one can access land. This payment or rather the price for using land is known as rent. Figures 2.3 and 2.4 show an example of various forms of the use of land in production activities.



Figure 2.3: On the left, forestry harvesting and on the right, a man cultivating land



Figure 2.4: Two people cultivating the land

Main features of land

The features of land as a factor of production include the following:

- (a) It is a gift of nature since no human can create it;
- (b) It is a basic factor of production because all production activities take place on land;
- (c) It is fixed in supply, meaning that human beings cannot create more land;
- (d) It lacks mobility, that is, land cannot be moved from one place to another;
- (e) It can be used for alternative uses such as fishing, mining, farming, and transportation;
- (f) Its productivity can be increased through greater use of labour and capital;
- (g) Its productivity can be affected by improper usage like overgrazing and poor mining practices; and
- (h) Different pieces of land have different fertility and productivity levels.

Labour

Labour refers to any mental or physical efforts of a human being used in the production process. Labour is an indispensable or the main factor of production in all forms of production. This is because any economic activity needs human effort in order to produce goods and services. Unlike land, labour can be varied over time given the number of the total population, labour force and the number of hours or days worked in a given period (experience) and education level.

However, for a factor of production to be regarded as labour, a particular effort must be rewarded. For example, playing football for leisure cannot be regarded as labour even if an effort is being applied while doing so. The reward for labour is called *wage or salary*. Labour can be categorised into three types: skilled, semi-skilled, and unskilled labour. More details about these types are explained in the following section.

Types of labour

Skilled labour: This type includes all workers who use more of their intelligence or mental efforts in the production process. They use less of their physical efforts than mental efforts. This is because they are highly educated, trained, and well experienced in performing their tasks. Examples of skilled labour are accountants, doctors, engineers, teachers, and lawyers.

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Semi-skilled labour: This category includes workers who make use of both mental and physical efforts in performing their tasks during production process. Under this category, less of advanced education or specialised skills are required. They only require certain ability and training so as to perform their tasks well. Examples of semi-skilled labourers are shopkeepers, saloon attendants, bus drivers, and hotel attendants.

Unskilled labour: This type of category is characterised by workers who use more of physical efforts than mental efforts in doing their tasks during production process. These are labourers who have not acquired any specific training or experience of the tasks they are doing. Examples of unskilled labourers are cleaners, janitors, packagers, assemblers, farm workers and apprentices.

Main features of labour

The features of labour as a factor of production include the following:

- (a) It cannot be separated from a labourer;
- (b) It is the most mobile factor of production, both geographically and occupationally;
- (c) It cannot be stored, meaning that if a worker is idle, labour is wasted; and
- (d) It is indispensable; meaning that all other factors of production require labour to be manipulated.
- (e) It can be varied, meaning it can be skilled, semi-skilled or unskilled.

Capital

Capital refers to all man-made resources that are used in producing and providing goods and services. It also denotes a stock of producers' resources used to facilitate production of goods and services. Examples of capital include buildings used for production, working tools, machinery, and cash savings in hand or at bank. The capital can increase productivity of land and labour because it can help in producing at greater quantity. It can also enable businesses to buy modern technology, which improves the efficiency of workers. Furthermore, efficient workers can increase the amount of goods produced and provision of quality services.

Moreover, some capital can enable businesses to acquire raw materials needed for production of goods and services. It finally enables the entrepreneur to hire skilled labour, which in turn improves the quality of goods and provision of quality services. The owner of capital is paid a reward called *interest*.

Main features of capital

The features of capital as a factor of production include the following:

- (a) It is man-made;
- (b) It results from accumulated savings; that is, savings that have been collected and stored over time;
- (c) It can depreciate; its value can decrease;
- (d) It consists of wealth (assets); and
- (e) It can render service in a given period.

Entrepreneurship

Entrepreneurship describes managing ability of the owner of a business or firm to organise other factors of production. The person who undertakes entrepreneurial role is known as an entrepreneur. Usually, an entrepreneur initiates an idea of starting a business. The entrepreneur then combines, organises and controls the other three factors of production (land, labour and capital). It means that an entrepreneur decides on what to produce, how to produce and when to produce goods or services. Consequently, an entrepreneur bears risks and uncertainties surrounding the production process. In the end, an entrepreneur or entrepreneurship is rewarded through *profit*.

Main features of entrepreneurship

The features of entrepreneurship include the following:

- (a) Ability to plan, organise, manage and allocate other factors of production;
- (b) Ability to define business objectives clearly;
- (c) Ability to bear risks and uncertainties for the success of the enterprise;
- (d) Ability to innovate and adopt modern techniques of production; and
- (e) Ability to take prompt and informed decisions.



Activity 2.2

In groups, visit any person who specialises on keeping domestic animals such as cows and observe how animal keeping operates. From your observations, describe how each of the factors of production has been fully employed. Thereafter, present your results in the classroom.

Exercise 2.2

1. From the results you have presented in activity 2.2 above, provide an account of how each factor of production is rewarded as a result of being deployed in the domestic animal keeping.
2. During your casual discussions as you walk back home from school, a friend of yours argues that all other factors of production depends on factor land. Do you agree with your friend's argument? Defend your answer with vivid examples.
3. Explain the importance of each factor of production.

Stages of production

There are different stages of production. The stages are also known as levels of production. These stages have clear links as each stage is connected to the previous one thereby forming a pattern called the *chain of production*. The stages include primary production, secondary production, and tertiary production. They are further explained as follows:

Primary production

This is the first stage of production which is mainly concerned with obtaining or extracting raw materials from the land. These materials can be obtained through fishing, hunting, mining, forestry, and farming. Examples of raw materials are minerals, trees, wild animals, and fish. The output at this stage includes raw materials, which can in turn be used as inputs for producing finished goods in the secondary stage of production. For example, minerals such as gold are used to make jewellery; or construction minerals like sand may be used to make bricks for constructing houses.

Secondary production

This is the second stage of production process, which mainly involves conversion of raw materials produced in primary production into semi-finished or finished goods. This stage mainly consists of manufacturing and construction industries.

Manufacturing industries are responsible for converting raw materials into semi-finished or finished goods. For example, cotton from primary production can be converted into clothes; sunflowers into cooking oil, and sugarcane into sugar.

Construction industries involve assembling of raw materials into a complete or a whole product. For example, house building, road construction and car assembling.

Tertiary production

This is a third stage of production which deals with provision of services such as distribution of goods and services; produced in the previous stages of production to final consumers. The distribution is done without changing the original form of produced goods and services. Such services include personal or *direct services* and *indirect services*.

Personal services or direct services are the services provided directly to final consumers by the service provider. In this category, service providers are paid directly by those who enjoy the services provided. Examples of direct services include private security (by security companies), private teaching (by teachers), private legal assistance (by lawyers), warehousing (by private operated warehouses), and treatment in private hospitals (by medical doctors).

Indirect services refers to services that are provided to consumers without direct interaction with the service provider. It includes services that are paid by the government through public funds. Therefore, indirect service providers provide services to the general public and are paid indirectly by the general public through taxes paid to the government. Examples of indirect services include treatment in government hospitals (by medical doctors), teaching in public schools (by teachers), warehousing (by government warehouses) and security services (by military army and police). Figure 2.5 represents stages of production as explained in this section with examples of some activities that take place in each stage of production.



Activity 2.3

In groups, visit any nearby building which is under construction, observe how each of the stages of production has contributed to the construction activity. Based on your observations, prepare a description of how each of the stages of production has contributed to the construction activity. Thereafter, present the results in the classroom.

Exercise 2.3

1. As a reflection on tertiary production, identify the services that you are getting as a student on your day to day undertakings. Your identification should distinguish direct from indirect services and provide reasons for such a distinction.
2. Describe activities practiced at each level of production.

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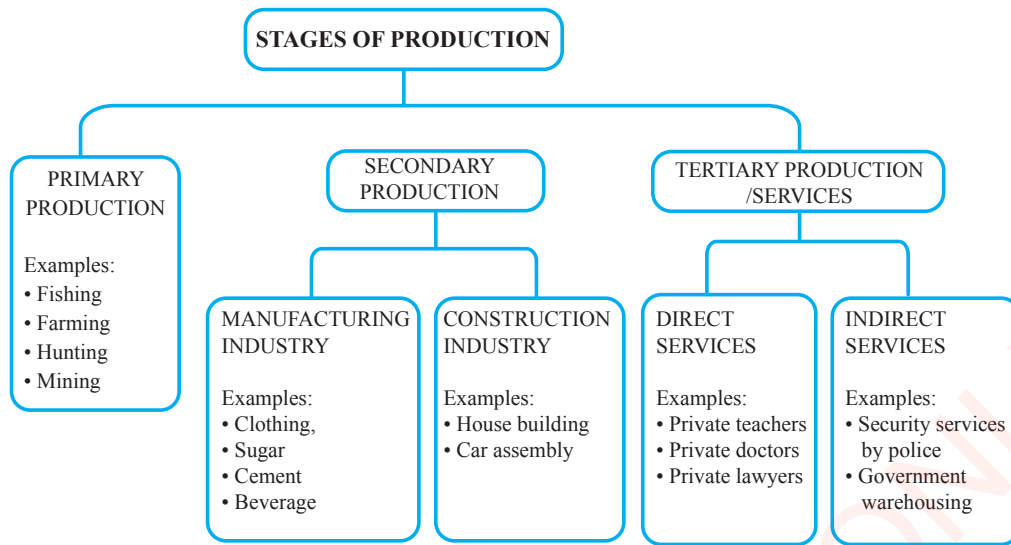


Figure 2. 5: *Stages of production*

Needs and wants

A need is anything necessary for humans to live. Examples of human needs include food, clothing, shelter and medical care. On the other hand, wants are desires or interests that can improve the quality of human life; for example; a luxurious car, a big chunk of land and an expensive mobile phone. It is easy to confuse needs and wants but the best way to differentiate between them is by assessing them through the aspect of time. Usually, the desire for needs grows stronger with time while the desire for wants weakens as time passes.

Human needs and wants are unlimited, and therefore, cannot be all satisfied because resources are scarce. All economic activities depend on human needs and wants. These needs and wants are the real motive behind economic activities. This is because human needs and wants give rise to efforts, which in turn create goods and services that are produced to give satisfaction.

For example, a teacher, a doctor and a farmer; all of them need food to satisfy their hunger or jewellery to satisfy their wants to be attractive. Thus, they need to participate in economic activities in order to earn income that will enable them to satisfy these needs and wants. Therefore, a teacher will teach, a doctor will treat and a farmer will engage in crop production or raising animals. They engage in such occupations to earn some money that makes them afford to satisfy their needs and wants; and in so doing, it stimulates economic activities.

Characteristics of needs

The following are characteristics of needs:

- (a) Needs are necessities for human to live; and
- (b) Needs are demanded repeatedly. For instance, if you eat food to satisfy hunger or drink water to satisfy thirst, hunger and thirst will be felt again later.

Characteristics of wants

The following are the characteristics of wants:

- (a) *Wants are unlimited*: For instance, humans have appetites for goods and services which cannot be completely satisfied.
- (b) *Human wants are complementary*: In order to satisfy a certain want, a combination of commodities are necessary. For example, to transport goods from one place to another, a combination of driver, vehicle, and fuel has to be in place.
- (c) *Wants are competitive*: It is not possible for a person to satisfy all wants as resources are scarce. Thus, consumers have to make choice on which want to satisfy at a given time.



Activity 2.4

In groups, identify and discuss the needs and wants in your families. Thereafter, present the results in the classroom.

Exercise 2.4

1. Based on your results in Activity 2.4, for each need and want explain how they create business opportunities.
2. Consider your society, identify two (2) factories which offer similar products. Explain different ways that each factory addresses similar needs and wants of consumers.
3. Outline five (5) examples of needs and five (5) examples of wants and elaborate the general characteristics of each outlined need and want.

The concept of productivity

Productivity represents efficiency with which inputs are transformed into outputs. In other words, productivity is output per unit of input. Thus it shows a relationship between inputs and outputs. For instance, productivity in maize production can be expressed as 2,000 kgs of maize output per unit of hectare.

An entrepreneur would want to attain productivity to maximise profit. Efficiency in production is very important to an entrepreneur. Efficiency means optimising results in the production process with minimal wastage of resources. There are three forms of efficiency: technical, economic, and allocative efficiencies.

Technical efficiency indicates effectiveness with which inputs are converted into outputs. It denotes the ratio between output and input. Technical efficiency addresses the issue of how maximum outputs can be attained at the least cost.

Economic efficiency refers to a situation where goods and factors of production are allocated to their most valuable uses while removing or minimising waste. It is concerned with maximisation of profit per unit of input. Thus, this is a description of technical efficiency in monetary terms.

Allocative efficiency: This type occurs when goods and services are optimally distributed in an economy. Thus, it depicts efficient use of resources. It typically reflects decision making on how to utilise resources as informed by accurate and readily available data.

Productivity can be improved in several ways like using better tools, technology, human capital and management practices. Figure 2.6 shows how greenhouse technology can revolutionise agriculture by increasing productivity in vegetable farming.



Figure 2. 6: Greenhouse technology revolutionising production in agriculture

Source: <http://farmersmarket.co.tz/zifahamu-aina-za-greenhouse/>



Activity 2.5

In groups, visit a school garden or any garden in the neighbourhoods; and observe how such a garden can produce lots of products. Based on your observation, discuss the concept of productivity and factors that have been used to increase productivity. Thereafter, present the results in the classroom.

Exercise 2.5

1. Based on what you have done in activity 2.5 above, at what situations do we consider that there is productivity in the production process?
2. With examples, briefly explain the types of efficiency.

The concept of cost

The main objective of an entrepreneur is to maximise profit. Entrepreneurs should not make a mistake of thinking that all proceeds (revenues) from selling goods and services constitute profit. A profit is what remains after deducting business operational costs from total revenues. Thus, it is important to understand the basic concept of costs. By definition, a cost comprises all expenditures incurred by an entrepreneur or a firm in order to purchase and process factors of production necessary for converting inputs into goods and services.

Types of production costs

Generally, there are two main types of production costs: explicit and implicit costs.

Explicit costs (money costs): These are all costs relating to purchasing the factors of production. They include wages or salaries for labour; rent for use of land; interests for use of capital and profits for entrepreneurship. In accounting, only the actual money expenditures are considered as costs. This is why in most businesses, cost is used synonymously with explicit costs.

Implicit costs (imputed costs): These are hidden costs of production incurred by an entrepreneur. They are regarded as hidden since it is not always the case that an entrepreneur purchases factors of production from the market. Indeed, in some instances, an entrepreneur provides inputs to the business that, in turn, are used to produce outputs.

There are many examples of implicit costs. For instance, a business may be located in the building owned by an entrepreneur, who, avoids paying rent. Moreover, a cultivated land may belong to the farmer making it unnecessary for the business to pay rent; or an entrepreneur may inject cash to the business, thus, avoiding paying interest to the financial institution. Similarly, an entrepreneur may also play the role of business manager; hence, avoiding the need to pay the manager a salary.

In such cases, a perfect practice is to calculate all of an entrepreneur's self-owned and self-supplied inputs using respective prevailing market prices to ascertain the true cost of production. It is in this context that in addition to explicit costs, economists add implicit costs to determine the actual total cost of production. Figure 2.7 shows a couple selling different goods in their shop whereby they are incurring implicit costs of management and sales since they have not hired employees.



Figure 2. 7: A couple selling goods at their shop



Activity 2.6

Visit any nearby shops and discuss with the shopkeepers on how they calculate their profit. Prepare the lessons learnt and thereafter, present the results in the classroom.

Exercise 2.6

1. As you take an evening walk you encounter two business owners having a serious discussion over what should be considered as a business profit. One businessperson believes that all the collection from sales represents profit to the business. Do you think the argument is correct? If not, provide a correct explanation to end the discussion.
2. Briefly explain the main types of costs of production.
2. How could you explain to your friend who confuses productivity and business profit?

Chapter summary

1. Production is a process of transforming inputs into outputs to satisfy human needs and wants. It is important because it helps in determining and managing optimal use of inputs such as labour, capital and land.

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2. Utility refers to the total satisfaction derived from consuming a good or service.
3. There are two types of production namely direct and indirect production. Direct production is the creation of goods and services for personal consumption. Indirect production is the creation of goods and services for selling purposes.
4. Land, labour, and capital are the basic factors of production because no production can take place if any of these is missing. Entrepreneurship is the fourth factor of production that organises all other factors of production.
5. There are three levels of production: primary, secondary and tertiary levels of production. Primary production involves obtaining or extracting raw materials from the land. Secondary production involves turning raw materials produced in primary production into semi-finished or finished goods. Tertiary production deals with provision of services such as distribution of goods and services produced at all other stages of production, to final consumers.
6. Needs refer to anything necessary for humans to live while wants include every other human desire that is not a need.
7. Productivity denotes efficiency with which inputs are transformed into outputs. Efficiency denotes effective use of resources in production.
8. Profit is what remains after deducting business operation costs from total revenues.
9. Costs comprise all expenditures incurred by an entrepreneur or a firm in order to purchase factors of production necessary for converting inputs into goods and services.
10. There are two main types of production costs: explicit and implicit costs. Explicit costs comprise all costs relating to purchasing factors of production. Implicit costs are hidden costs of production incurred by an entrepreneur.

Revision exercise

In each of the questions 1 to 5 below, choose the correct answer among given alternatives and write its letter in your exercise book.

1. Which of the following represents the ability of goods to satisfy human wants?
 - (a) Scarcity
 - (b) Production
 - (c) Utility
 - (d) Productivity

2. Which among the following refers to the process of making goods and services to satisfy human needs and wants?
 - (a) Utility
 - (b) Production
 - (c) Commerce
 - (d) Whole selling
3. Which of the following are types of production?
 - (a) Primary and secondary production
 - (b) Primary and tertiary production
 - (c) Secondary and tertiary production
 - (d) Direct and Indirect production
4. One of the following is not part of production.
 - (a) Industry
 - (b) Commerce
 - (c) Economics
 - (d) Retailing
5. Which factor of production pays other factors of production?
 - (a) Land
 - (b) Labour
 - (c) Entrepreneurship
 - (d) Capital
6. One of the following represents a reward of capital.
 - (a) Interest
 - (b) Wages
 - (c) Profit
 - (d) Rent
7. One of the following is an advantage of productivity:
 - (a) Decreases cost per unit of output
 - (b) Decreases efficiency
 - (c) Decreases production
 - (d) Decreases the quality of goods produced

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8. Which one among the following represents a physical and mental efforts of a human being applied in production of goods?
- (a) Land
 - (b) Labour
 - (c) Power
 - (d) Entrepreneurship
9. One of the following is not a disadvantage of specialisation:
- (a) Increase in quality of products
 - (b) Increase in the cost of production
 - (c) Increase in the cost of training workers
 - (d) Increase in unemployment
10. One of the following activities is involved in tertiary production:
- (a) Fishing
 - (b) Tailoring
 - (c) Hunting
 - (d) Teaching

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11. Match the description of production concepts in group A with the corresponding production concept in group B by writing the letter of correct answer beside the item number in your exercise book.

GROUP 'A'	GROUP 'B'
i. The process of making goods to satisfy human needs	A. Tertiary production
ii. Selecting and placing labourers according to their skills	B. Specialisation
iii. Production by providing services	C. Division of labour
iv. Production for exchange	D. Production
v. Deals with extraction of raw materials	E. Primary production
vi. Production for personal use	F. Direct production
vii. Industries which assemble already manufactured goods to make finished goods	G. Secondary production
viii. Involves services of private doctors, advocates, teachers etc	H. Indirect production
ix. Government services offered by doctors, advocates, and teachers to the public	I. Constructive industries
x. Anything which satisfies human wants	J. Manufacturing industries
	K. Extractive industries
	L. Direct services
	M. Indirect services
	N. Goods

12. Explain the benefits of specialisation and division of labour?
13. With vivid examples, explain the relation between entrepreneurship and other factors of production.
14. "Production plays an important role in people's daily lives". Justify this statement using five points.

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15. Wants and needs create business opportunities. Explain how the following needs and wants create opportunity:
 - (a) Food
 - (b) Clothes
 - (c) Shelter
 - (d) Need for communication
 - (e) Need for a gardener
16. Briefly, differentiate wants from needs.
17. Suppose your family is involved in crop cultivation. Briefly explain two types of production activities in which your family can be involved in.
18. As an expert of production, briefly, identify factors which are employed in production process.
19. Briefly explain the importance of production.
20. Discuss how an entrepreneur can help a firm attain productivity.
21. Relate the following terms as used in production process:
 - (a) Production and productivity
 - (b) Costs and profits
 - (c) Production and costs
 - (d) Productivity and costs

Chapter Three

Entrepreneurship

Introduction

Economic and social challenges facing many developing countries like Tanzania have promoted a need to stimulate entrepreneurial activities. As a result, entrepreneurship has become one of the sources of employment and economic growth in these nations. The concept has become part of economic and social policy, science and technology, and public debates. In this chapter, you will learn about the concepts of entrepreneurship and self-employment. The competencies developed will enable you to demonstrate entrepreneurial attitudes essential for creativity and innovation.

The concept of entrepreneurship

The term entrepreneurship comes from French word “entreprendre”, which means “to start” or “to undertake”. It was introduced by Richard Cantillon in 1759 to mean *the process through which individuals take risks of combining factors of production for profit making purposes*. Presently, entrepreneurship is mostly defined as the process of taking risk to initiate, organise and control factors of production to start an income generating activity or business. Entrepreneurship comprises the process whereby individuals become aware of the existing business opportunities (opportunity identification), develop commercial ideas, and take personal responsibility and initiatives to start and manage a business. The business opportunities can either be created or discovered by individuals who have unique mental abilities. Identified business opportunities are then exploited for profit making.

An entrepreneur is a person who undertakes entrepreneurial activities. An entrepreneur risks time and other resources to start and manage a business. The entrepreneur may be a highly educated, trained, and skilled person or an illiterate person possessing remarkable business skills that help them to identify opportunities and start a business.

Traditionally, entrepreneurship is categorised into four main types: small businesses, scalable startups, large companies and social entrepreneurs. These models cover the fundamentals of starting a business and focus more on the business itself, rather

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than on qualities of the entrepreneur. However, the dynamic nature of business means new opportunities for risk-taking and innovation are always emerging; as a result, there are different types of entrepreneurship based on different business models. Figure 3.1 presents four traditional classifications according to the type of organisation.

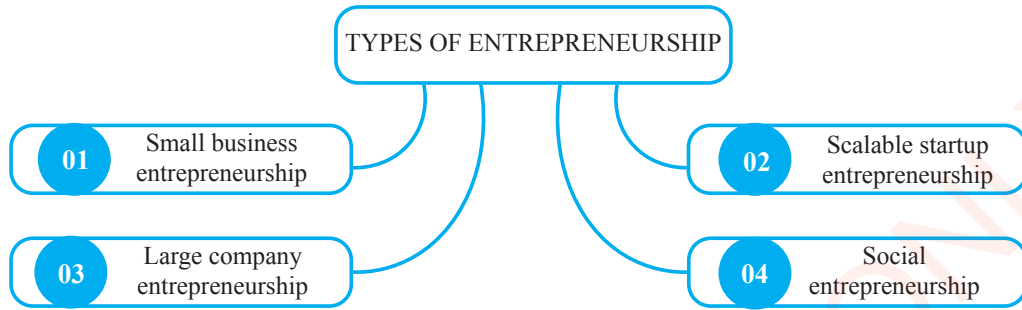


Figure 3.1: *Types of entrepreneurship*

Small business entrepreneurship: This type of entrepreneurship is the most common and widely seen in the world. The reason for this is that most of the enterprises are small businesses where innovation is typically more modest and are based on a new twist of available products or simply on doing a well done job. With small business entrepreneurship, people usually want to earn enough profit to feed their families and meet their basic needs.

These small businesses which are mostly owned and operated by individuals are likely to expand into a large scale business. In this kind of entrepreneurship, the business owner usually employs local employees or family members; examples of these businesses are local grocery stores, tea shops, plumbers, electricians, barbers, carpenters, consultants, and more. In small business entrepreneurship, entrepreneurs typically start their businesses using their savings or small loans from banks, friends or family.

Scalable start up entrepreneurship: These are not as popular as small business entrepreneurship. Entrepreneurs who create this type of entrepreneurship have an idea of making changes in the world. Although enterprises in scalable start-ups typically start on a small scale, they often attract plenty of media and other outside investors who work to encourage and support those entrepreneurs. This means that scalable start-ups typically receive funds that are used for research, development, and growth. They hire the most highly skilled and educated professionals purposely

for managing their businesses, exploring market opportunities and finding ways to combat any disruption in the industry through research. With money and continued growth, such enterprises become large and popular.

Besides, scalable start up entrepreneurs work primarily to find missing products in the market and then develop something new to fill the missing gap. Scalable start-up entrepreneurship typically seeks rapid expansion over time and earns huge profits. Some of the most popular examples of scalable start-up entrepreneurship are Uber, Bolt, Omega and Indrive transport, and the use of social media like Facebook and Instagram.

Large company entrepreneurship: This is a kind of business usually created from an existing company through innovation to address certain needs. For example, existing company may be well placed to branch out into other sectors or it may be well placed to become involved in new technology. Similarly, as small businesses grow over time, they can expand further and turn into large company entrepreneurship. Such companies usually hire advanced professionals who maintain their innovation and quality.

This means that large company entrepreneurship enterprises are responsible for creating new products or technologies from time to time due to changes in market needs and competitive atmosphere. These companies usually aim to launch more products revolving around their core products. However, to cope with rapid technological changes, they also try to produce innovative products to attract new customers in the developing market. Companies such as Google, Microsoft, and Adobe constitute the category of large company entrepreneurship.

Social entrepreneurship: This is the creation of enterprises that provide innovative solutions to solve social problems; such as access to food, money and education. The stated goal of these enterprises is to make the world better. Therefore, in this type, an entrepreneur sets up an enterprise primarily to produce products that can be profitable while solving social problems. Social entrepreneurs are more focused on implementing positive social changes with their products rather than generating profits. This model sometimes is described as non-profit organisations which generally start as non-profit businesses or enterprises and work towards social good. Such enterprises include garbage collection, recycling, environmental conservation, and community microfinance initiatives.

Characteristics of entrepreneurs

Entrepreneurs have many characteristics that affect their entrepreneurial behaviour and enterprising tendencies. The main characteristics of entrepreneurs are as follows:

Creativity: This is an ability to produce new and unique ideas. It involves spontaneous development of new ideas and out-of-the-box thinking. Creativity is a great idea that is not yet a reality. Creative inspiration comes from various sources through the ideation process. *Ideation* is the purposeful process of opening up the mind to new ways of thinking related to a given purpose or problem in order to generate new ideas. Business without creativity may not be able to survive in a competitive business environment. In general, creativity is important to a business because it helps a business to create new ideas for competitive advantage. It is the first step of identifying something important for the business success.

Innovation: This is the process of capturing value from creativity that result in the introduction of new or improved goods or services. For example, before the outbreak of COVID-19 in 2019 there was neither vaccine nor drugs for the disease. Later on, medications like NIMRICAF and COVIDOL were created in Tanzania, while vaccines like Johnson & Johnson were created in the United States of America. Businesses without innovation cannot survive in a competitive environment. Innovation, therefore, is the action of subjecting things into practical reality despite the existing challenges and resistance.

Risk taking propensity: This is a tendency of a person accepting to work under dangerous or unfavourable environment in order to achieve a certain goal. Entrepreneurs need courage and self-confidence to engage in a particular business without fear of any uncertainties. In practice, there is no risk-free business; any business has some degrees of risks due to uncertainties. Entrepreneurship is highly risky but also can be highly rewarding, as it serves to generate economic wealth, growth, and innovation.

Curiosity: This is the desire to know or learn through investigation, and inquiry. Curiosity is crucial to an entrepreneurial success because a naturally *curious* person is more likely to learn from mistakes, try new things, and explore new ideas.

Perseverance and endurance: Perseverance is persistence in doing something despite difficulty or delay in achieving success, while endurance is the ability to suffer from something painful or difficult patiently, without giving up. Success does not happen or come easily, there will always be some challenges in starting and managing businesses. Entrepreneurs do not give-up easily during times of

challenge and hardship. They keep moving and managing the challenges until they overcome them.

Tolerance for ambiguity: This is an ability of being open to uncertainty. It enables an entrepreneur to deal with more than one interpretation of a situation in a sensible and calm way, and even perceive ambiguous situations as desirable for entrepreneurial success. The business environment is unpredictable, and dynamic. To manage a business in such environment, it requires an ability to live in such situations without clear outcomes. Entrepreneurs do not leave the game or business when things get tough but they endure and keep the business running.

Vision: This refers to the designed thoughts for achieving certain goals or objectives. An entrepreneur must have an ability to form thoughts, concepts or objects by imagination. Entrepreneurs must have a clear vision, then set goals and objectives to achieve that vision. Doing business without clear goals and objectives is like walking without knowing where one wants to go. Entrepreneurs set goals to clearly know what they want to achieve, where they want to be, how they will achieve their goals, and when they will achieve those goals. Good goals should be specific and simple to understand, measurable in visible indicators, realistic, and with time limit given the resources and materials.

Therefore, goals should be Specific (S), Measurable (M), Achievable (A), Realistic (R), and Time-bound (T); that is SMART. For example, the vision of a juice manufacturer could be, *to become the main supplier of juice in Tanzania*. The goal set could be *to increase market share of juice supplied by at least 10% in the next 12 months*. This goal is clear and measurable as it states exactly what is to be achieved (that is increase in market share by at least 10%), it is timely (that is, the goal is to be achieved in the next 12 months), and understandable. An entrepreneur can easily evaluate if the goal has been reached after the lapse of 12 months, and whether the vision has been fulfilled.

Need for achievement: This is the internal drive to excel and achieve in relation to a set of self-imposed goals. Individuals with high need for achievement desire significant accomplishment, mastering of skills, control, or high standards. Entrepreneurs have an internal desire to accomplish and achieve business success.

Passion: This refers to having love for what one is doing. Passion helps entrepreneurs to work hard and handle challenges faced in running a business. Passion makes entrepreneurs enjoy doing their work. Passion is important because it ensures that the entrepreneur is ready to learn and iterate, work hard for extended time,

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overcome setbacks and noise, receive feedback on business and personal limitations positively, persevere, and persist when things get tough.

Self-motivation: This refers to personal initiatives to pursue goals and complete tasks. Entrepreneurs have internal desire to succeed in a particular business without relying on external motives. They are self-driven to initiate and try different alternatives to reach their goals without being told to do so by others.

Hard working: This is the use of extra efforts to achieve a certain goal. Entrepreneurs are always ready to do any job in the business and to commit any amount of time to succeed in their ventures. Their passion makes them determined to counter many challenges and they regard them as part and parcel of their work and life at large. Therefore, successful entrepreneurs are neither lazy nor idle. They make strong efforts to achieve their works, activities, targets, and tasks.

Optimism: This refers to being positive minded, maintaining high expectations even in hard and challenging situations. Entrepreneurs aim and hold high expectations about their businesses. That means, those entrepreneurs who aim higher make more efforts to their activities with expectations of achieving more.

Open mindedness or flexibility: Open-mindedness is an ability to receive arguments or new ideas. Flexibility is the willingness to change, compromise and adjust to the changing environment. Business factors like technology, price of products, costs of acquiring factors of production, resources, laws and regulations, value of money and purchasing power varies with time. Entrepreneurs are flexible and ready to learn from both failure and success.

Networking: This is an ability to connect with people and identify opportunities for partnership or collaboration. It is one of the greatest personal characteristics entrepreneurs need, and which is crucial for success. Meeting new people gives an access to resources and knowledge required in the enterprise. It gives entrepreneurs opportunities to learn from the success and failure of others, meet new clients, and promote goods or services.

 **Activity 3.1**

In groups, visit different websites and read information pertaining to entrepreneurs around the world. Identify any two good examples of entrepreneurs operating in Tanzania and thereafter, write a report on at least three characteristics that differentiate them from other business people and make a presentation in the classroom.

Entrepreneurship skills

Skills are talents, competencies, or abilities of doing something. The nature of entrepreneurship skills is still debatable of whether entrepreneurs are born or made. Some argue that people are born with entrepreneurial skills suggesting that there are naturally ‘born’ entrepreneurs. For example, some tribes or people from some regions are seen to be born with entrepreneurial traits. Others argue that people can acquire those skills through learning. Implying that entrepreneurship is a skill that can be learned.

The prominent American economist Peter F. Drucker (1909 -2005) argued that entrepreneurship is a practice and that, “most of what you hear about entrepreneurship is all wrong. It is not magic; it is not mysterious; and it has nothing to do with genes. It is a discipline and, like any discipline, it can be learned”. In this regard, education and training can play a key role in the development of entrepreneurship skills. The entrepreneurship skill set are divided into three groups: entrepreneurial, technical, and management skills as shown in Figure 3.2. Further explanation of these skills is provided thereafter.



Figure 3. 2: Entrepreneurship skills

Entrepreneurial skills: These skills involve the ability to identify opportunities and working on them to establish a business. These skills include inner or self-discipline which means skills related to personal maturity like integrity, self-awareness, accountability, persistence, and emotional skills. Moreover, there is a risk-taking propensity which involves calculated exposure to danger.

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Additionally, entrepreneurial skills include innovative skills involving creative thinking, critical thinking, and analytical thinking. Finally, it involves change-orientation that comprises flexibility and openness to new ideas and experiences.

Technical skills: These are skills necessary to produce the business product. Entrepreneurs require technical skills since they are involved in creating, manufacturing, value addition, and processing activities. Some of the technical skills include operations of specific industry depending on the choice of entrepreneurial career. Besides, it involves communication which includes verbal, non-verbal and particularly the use of Information and Communication Technology (ICT). Moreover, it embraces research and development including observing environment for opportunities, experimentation and product development.

Management skills: These are expertise which are essential for administration and operations; without them, the business is likely to fail. Management skills include the ability to plan, organise, direct and control business resources in order to realise the targeted output. This includes the ability to guide people to work as a team. Some business management skills include the following:

- (a) Planning; which is the process of arranging how to do something;
- (b) Team work; which is the ability to organise, coordinate, and work with teams (team building).
- (c) Decision making; which is ability to make strategic and operational decisions;
- (d) Being motivational; which is the ability to influence and rise inner desires of other people to work and act in favour of the business or organisation.
- (e) Marketing; which is the ability to search for customers, promote and sell products profitably;
- (f) Financial management; which includes the ability to budget, mobilise funds, investment of funds and keep financial records of business operation as well as the assets and liabilities of the business.

Importance of entrepreneurship

Entrepreneurship activities are important for individuals, nations, and the world at large. The importance of entrepreneurship include:

Creating employment: Entrepreneurial activities create employment opportunities through establishment of enterprises. An entrepreneur creates job for oneself as well as for others who will be employed in that business in different capacities. For example, by constructing flour mills; several people will be required to operate the

facility. Similarly, when a catering service is established, several jobs emerge for people to work as cooks, and waiters. As shown in Figure 3.3, another example is a person who walks around the street selling hand-held products (popularly known as *machinga*) employs himself and earns a living for the family.



Figure 3. 3: A “machinga” selling goods to his customer

Promotes innovation and development of products: Innovation is a key element in creating competitive advantage for any business. Entrepreneurship fosters innovation; hence, new products, markets, sources of raw materials, production systems, and organisations are established. Through innovation, organisations survive and compete in markets, elongate their business life cycles and acquire competitive advantage.

Fosters economic development: Entrepreneurs perform important roles of combining factors of production to create a balance of supply and demand in production and the market. Moreover, entrepreneurs improve money circulation as they work to meet people’s unsatisfied needs and wants through trade. They also create employment opportunities; hence, pay wages and salaries which enhance circulation of money. All these activities accelerate production and economic growth in the country.

Promotes social change: Some social problems are due to rigid ways of thinking and acting. Entrepreneurs think beyond ordinary ways of doing things and bring social changes such as improved lifestyles, generous thoughts, morals, and better financial options in the society.

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Encourages investment and enterprise development: Through market research, entrepreneurs establish new types of businesses in different locations, which lead into increased investments across different economic sectors.

Stimulates competition: Entrepreneurs often compete for the same market and resources; hence, ensure enough quality, quantity and affordable prices of goods and services to win the market. The competitive environment in turn stimulates entrepreneurship whereby individuals or companies innovate new ways of doing things to remain competitive.

Functions of entrepreneurs

Entrepreneurship as a process of identifying opportunities and converting them by organising resources to produce a product or offer a service, is undertaken by an entrepreneur. For entrepreneurs to achieve their goals, they need to perform the following functions:

Idea generation: it is the function of the entrepreneur to generate as many ideas as possible for the purpose of selecting the best business opportunities which can subsequently be taken up as a commercially viable business venture. This is done through conducting market research and environmental scanning in order to investigate new business ideas and opportunities for investments. Research is also done during the course of business in order to get ideas which may result into either maintaining markets or finding new markets; hence, promoting sales for business development.

Planning, organising, controlling and coordinating the use of other factors of production: entrepreneurs normally plan, organise and coordinate other factors of production namely land, labour and capital. Without this function, such factors will not be used efficiently and effectively.

Mobilising resources such as finance, human resources, equipment and infrastructures: it is the role of entrepreneurs to seek for the most convenient source of finance, human resources, equipment and infrastructures required to run the business.

Taking risks related to business uncertainties: every business has a certain degree of risk at all stages of its development. The entrepreneur has to be ready to take risk by developing alternative measures to be taken when encountering a loss in the business.

Rewarding other factors of production: entrepreneurs pay wages or salaries for labour, interest on borrowed capital and rent for land or housing.

Leading: entrepreneurs hold the vision of the business. They are visionary leaders of the business. Entrepreneurs lead by examples and by drawing the best out of human resources. As a leader, the entrepreneur must ensure employees commitment and motivation in the business.

Keeping business records: entrepreneurs keep records of labour, materials, production, sales, inventories as well as damages or loss for the business. These records are important for both business operations and external users such as government tax authorities.



Activity 3.2

In groups, visit and explore any four small business entrepreneurs in your local community and thereafter, write a report covering the following issues to be presented in the classroom:

- (a) Required skills to be successful in their business undertaking.
- (b) Importance of entrepreneurship to them and to the country.

Exercise 3.1

1. Imagine you have met people who assume that entrepreneurship and entrepreneur have the same meaning and can be used interchangeably. Banking on your knowledge in commerce, briefly explain to them:
 - (a) The relationship that exist between entrepreneurship and entrepreneur.
 - (b) The characteristics of an entrepreneur.
 - (c) The contributions of entrepreneurs to the community.
 - (d) At least six (6) ways to ensure success in an entrepreneurship business.
 - (e) Factors that can help to stimulate entrepreneurial ideas among youths in Tanzania.

The concept of self-employment

Before studying about self-employment, it is vital to understand the difference between being an employee and being self-employed.

The employee versus the self-employed person

An employee works to be compensated by someone, or institutions such as a company or organisation. This involves a work agreement between an employer

and employee that the employee will provide certain services in return for a salary or wage depending on the type of work. Employees can negotiate certain terms in an employment agreement; however, the terms and conditions are primarily determined by the employer. Both parties may also terminate the agreement. The employer also typically controls what the employee does and where the employee works. Employees usually receive benefits like pensions, health insurance, housing, and transport.

A self-employed person works for oneself. The state of working for oneself is known as *self-employment*. Self-employed people are those who obtain income from their own trade or business, set own-path, time and place of work. They also assume all risks and responsibilities of the business. Self-employment provides work primarily for the founder of the business. There are some professions in which self-employment is the typical means of income generation like legal, medical, media, and arts. Entrepreneurship and self-employment are often used interchangeably, but they have several differences.

Difference between entrepreneurship and self-employment

Entrepreneurship typically involves creativity, risk-taking as well as innovation or invention to create new or improved products that usually disrupts the current market. It requires ambition, endurance and strong leadership skills. Furthermore, entrepreneurship may start as a small business but the long-term vision is much greater, to seek high profits and capture market share with an innovative idea.

Self-employment on the other hand does not necessarily involve “invention” of a product or profession. Most often, self-employed people are engaged in businesses to utilise opportunities which are linked to existing inventions. Self-employed individuals generally perform the same job performed by people they supervise. However, some entrepreneurial characteristics like passion, persistence and motivation apply to the self-employed. Therefore, an entrepreneur with an innovative idea can be their own boss as a self-employed individual. There are several types and benefits of self-employment as explained in one of the following sections.

Types of self-employments

Self-employed workers are categorised as sole traders or proprietorship, partnerships, independent contractors, and consultants.

Sole proprietorship is a form of business owned by one person or single person. Therefore, a sole proprietor is a person who owns and runs a business as an individual without any legal distinction between the trader and the business.

A partnership is a form of business whereby two or more people combine resources to form a business and agree to share risks, profits and losses.

An independent contractor or a freelancer is a person or entity engaged in a work performance agreement with another entity as a non-employee. They usually work for a short period of time and they are earning a fee for tasks performed.

A consultant is a person who provides expert advice professionally for a fee. For example, a pharmacist who works in a self-owned pharmacy, a lawyer working in self-owned consulting firm, or a business management expert providing expert advice through their own consulting firms.

Benefits of self-employment

Self-employment is very important as a means to solve unemployment challenge in the country and developing self-dependence behaviour or entrepreneurial culture. The following are some benefits of self-employment:

Independent decision making: Self-employed people have flexibility in making business decisions. They can decide quickly about business partners, suppliers, products, wages, and salaries. However, decisions should consider rules, regulations, and interest of the country and other employees. This benefit saves time and energy since it does not require official meetings to discuss and reach consensus.

Job satisfaction: In most cases, self-employed people are highly motivated and contented with their jobs. It is very satisfying to get rewarded for own efforts while at the same time having the autonomy to do one's favorite things. High motivation for the self-employed is obvious because they often work on their dreams, and not on another person's dreams.

Higher earning potential: Earning potential is higher to self-employed people compared to employed ones since everything is in their own hands. They can extend working hours or do anything to generate more income; hence, higher earnings can be generated for themselves. These earnings contribute to wealth creation by self-employed people. Owning the business provides an opportunity to acquire or accumulate wealth. They also have exclusive rights to business assets and liabilities.

Flexibility of work: The self-employed can change or adapt timeframes and office location depending on the business needs, trends, customers, rental costs and type of business or services. For example, they can even use a room at home as an office to reduce rental cost. They are also free to work at their own pace, set own standards, and control their workloads.

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Variety of experiences: Self-employed individuals have an opportunity to work on various projects and develop new skills with different clients. They can also gain entrepreneurial practical experience in different fields, including finance, human resources, marketing and management.

Social recognition and respect: Self-employed people can be appreciated and acknowledged publicly for great work, status and merits. The self-employed are valued as business owners, investors, and employers. Social recognition often does not entail financial reward, rather, it is just a positive view, and words of appreciation like “thank you”.

Risks associated with self-employment

Although self-employment is important as a means to enhance entrepreneurial culture and reduce unemployment challenges, it has some associated risks. Risk is the possibility of exposure of someone or something to danger, harm, or loss. The following are some of the risks associated with self-employment:

Possibility of business failure: Failure to generate sufficient income may result into loss of resources or business shut down due to failure to meet some costs like tax and renting costs of a building or premise. Self-employed people are responsible for everything in the business, such as initial costs, tax, employees’ remunerations, rental cost, advertising costs and other costs.

Unpredictable income: A self-employed person can have irregular income whereby sometimes they can earn exceptionally well while at other times they run the business at a loss. Yet they always have to pay running costs such as rent, insurance and internet access. This may result in periodic non-payment of salaries, wages and other business costs.

Family interference with business: Self-employed people face challenges of separating business and family affairs. The interference of family issues in the business may result into wastage of time and even misuse of funds.

Lack of proper succession plan: Most of the businesses owned by self-employed people are managed by business owners themselves. In event of improper succession plan, these businesses tend to fail.

Natural calamities: depending on the nature of the business, sometimes natural disasters can pose risk to businesses. These risks include droughts, floods, earthquakes and many others.

Risk management in self-employment

Entrepreneurs do not fear to take risks in businesses. What they normally do is to have short-term and long-term plans on how to manage risks once they happen in the course of doing their business. The following are some of the risk management measures that entrepreneurs use to reduce chances and impacts of risks in the businesses:

Acceptance or retention refers to acknowledgment of a risk as it is and taking no action. Usually, this accepted risk is a cost incurred to help offset larger risks down the road. The self-employed person simply accepts that the risk might happen and decides to deal with it, if it does. This strategy is best for very small risks that will not have much impact on the business if they happen and can be easily dealt with if or when they arise. An example of risk acceptance is to quit the salaried work and become self-employed. This means that the person has accepted to contain any risks and challenging situations associated with self-employment.

Avoidance is a method of not participating in activities that may result damages to the business. A business can change plans completely to avoid the risk. This is a good strategy when a risk has a potentially large impact on the business. For example, to avoid non-payment by customers, a business may implement a rule that customers must pay first before being served, which will avoid complications of non-payment.

Transfer and sharing. In this case, action is taken to transfer or share a portion of the risk through insurance or outsourcing. Transfer tends to be more common in projects where there are several parties. Insurance is a good example of risk transferring policy. If a business is involved in transporting some insured equipments and an accident occurs, the insurance company would be liable for repairing or providing new equipments as per the insurance contract.

Prevention. This method of risk management attempts to minimise the probability of loss, rather than completely eliminating it. The focus in this approach is to deter the happening of risk events. An example of this in business is using separate accounts for different sections in order to prevent using funds allocated for other activities if the accounts are pooled. Another example would be to establish a security infrastructure such as installation of CCTV (Closed Circuit Television) cameras to deter any possible theft attempts. Moreover, one can reduce the magnitude of the likelihood or impact of a risk of fire by establishing safety measures such as installation of fire detectors and fire-fighting equipments.

Exploitation. The previous mentioned strategies are good to use when the risk has a negative impact on the business. However, exploitation strategy is the best if the risk has a positive impact that would have a benefit to the business. Here, the action would be to look for ways to make the event to occur or for ways to increase its impact if it does. For example, a business can train a few extra waiters to serve tables and do lots of extra marketing; hence, increasing the chance of many people to be interested to the restaurant. Therefore, if many people visit the restaurant, then, the extra waiters will be available to provide services whenever needed.

Business opportunities

Entrepreneurship is driven by perception of opportunity. A business opportunity is an attractive economic idea which could be implemented to create a business; hence, earning profits and ensuring further growth. These definitions inform that business opportunities are creative plans of entrepreneurs to convert business ideas into commercial reality.

Elements of a business opportunity

A business opportunity consists of five elements which should mostly be present within the same domain or geographical location, before it can be considered to be a business opportunity. These elements include assured market scope; an attractive and acceptable rate of return on investment; practicability of the idea; competence of the entrepreneur to exploit it; and scalability, which is the potential of future growth.

It is desirable that the combination of elements should be unique. Hence, the business person should have as much control as possible over the elements in order to exploit well the opportunity and become a market leader.

Business opportunities in Tanzania

There are many business opportunities in Tanzania. Some require large capital while others need relatively small initial capital. Table 3.1 presents some of the opportunities found in different sectors.

Table 3.1: *Examples of business opportunities in Tanzania*

Sector	Opportunities
Agriculture	<ul style="list-style-type: none"> (a) Crop farming (b) Horticulture (c) Forestry (d) Machine hiring, maintenance and repair (e) Pesticides and fertilisers sales
Health	<ul style="list-style-type: none"> (a) Hospitals (b) Dispensaries (c) Pharmacies (d) Traditional medicines (e) Fumigation
Tourism	<ul style="list-style-type: none"> (a) Tour guides (b) Camping (c) Safaris (d) Handicrafts (e) Rental services (f) Accommodation
Transport (water, land, and air)	<ul style="list-style-type: none"> (a) Public transport, e.g. buses (b) Private transport, e.g. taxi (c) Bulk haulage and cargo (d) Vehicle maintenance and repair (e) Delivery service
Fisheries	<ul style="list-style-type: none"> (a) Aquaculture (b) Fishing (c) Processing (d) By-products

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Sector	Opportunities
Livestock	<ul style="list-style-type: none"> (a) Animal husbandry (b) Hides, skins, milk and other by products (c) Agro vets (d) Veterinary services (e) Feeds (f) Butcher
Industrial	<ul style="list-style-type: none"> (a) Manufacturing (b) Processing (c) Textile (d) Service industries
Education	<ul style="list-style-type: none"> (a) Pre-primary and secondary schools (b) Colleges and universities (c) Vocational training centres (d) Online or virtual training (e) Books and stationery (f) Tuition
Trade	<ul style="list-style-type: none"> (a) Wholesaling (b) Retailing (c) Importing (d) Exporting
Finance	<ul style="list-style-type: none"> (a) Banking (b) Microfinance institutions (c) Point of sales agents /mobile transaction agents (d) Insurance and risk management services (e) Consulting
Gender and Children	<ul style="list-style-type: none"> (a) Childcare (b) Social services (c) Household cleaning (d) Dry cleaning

Sector	Opportunities
Energy and Minerals	<ul style="list-style-type: none"> (a) Mining (b) Fuel importation and distribution (c) Alternative energy solutions (d) Lapidary
Land	<ul style="list-style-type: none"> (a) Estate agency (b) Rental (c) Sale
Legal	<ul style="list-style-type: none"> (a) Consulting (b) Certification and oaths (c) Law firms
Information Communication Technology	<ul style="list-style-type: none"> (a) Printing (b) Journalism (c) Radio (d) Television (e) Media production (f) Advertising (g) Internet and networking (h) Software development (i) Maintenance and repair (j) Digital marketing (k) ICT system installation (l) Security system installation (m) Telecom engineering
Water and Sanitation	<ul style="list-style-type: none"> (a) Plumbing (b) Drilling (c) Supply (d) Sewage disposal

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Sector	Opportunities
Construction	<ul style="list-style-type: none"> (a) Building (b) Landscaping (a) Architecture (b) Interior design (c) Warehousing (d) Carpentry (e) Electrical installation (f) Painting (g) Welding
Entertainment	<ul style="list-style-type: none"> (a) Music (b) Performing arts (c) Non- performing arts (d) Radio (e) Television (f) Event management (g) Talent management (h) Sports person (i) Coaching (j) Influencer business
Miscellaneous	<ul style="list-style-type: none"> (a) Recycling plastic, glass, metal and wood (b) Beauty and cosmetics (c) Fashion modelling (d) Fashion design (e) Consultation services (f) Security services (g) Garbage collection (waste pickers)



Activity 3.3

In groups; reflect business environment in your local community and then prepare a report covering the following issues to present in the classroom:

- (a) Business opportunities available in your local community.
- (b) Influence of business opportunities on self-employment.
- (c) The risks associated with each business opportunity identified in (a)
- (d) Ways to mitigate the risks identified in part (c)

Exercise 3.2

1. Imagine you have been invited to give a speech on self-employment during a graduation ceremony. Briefly prepare a speech to be presented to the graduates that covers:
 - (a) Meaning of self-employment.
 - (b) Benefits of self-employment
 - (c) Risks of self-employment.
2. Suppose your friends are planning to start an entrepreneurship activity soon after completing form four, but they are not familiar of the ways they can use to manage risks in their business. Briefly explain ways in which they can use to manage business risks in their business.
3. Assume that you are self-employed; then, explain how you will manage risks in your field of work

Chapter summary

1. Entrepreneurship is associated with the establishment and operation of business enterprises. Its study provides important skills and tools to empower people in order to build sustainable and prosperous futures for themselves, their communities and entire nations.
2. An entrepreneur is a person who is able to actualise the innate (inborn) potentials (abilities) and expand a character that is not dependent but independent. Entrepreneurs have the characteristics and capabilities to build something from practically nothing; that is, taking risk to create, tolerate, achieve, and build an enterprise. Entrepreneurs convey a sense of purpose and determination. Entrepreneurs continually create, discover, and exploit innovative opportunities, products and strategies to maintain or extend their market.

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3. Entrepreneurs require entrepreneurial, technical and management skills to succeed.
4. Entrepreneurship is important because it promotes job creation, innovation, economic development, social change, competitiveness as well as investment and business development for promotion of quality of life.
5. Self-employment is a state in which people works for themselves as business owners or freelancers. They run businesses themselves and are responsible for the success or failure of such businesses.
6. Benefits of self-employment include independence of decision making, job satisfaction, high earning potential, freedom to work at own pace, wealth creation, flexible work, varied experience, setting own standards, high motivation, social recognition, and freedom to choose business partners.
7. Self-employment risks include possibility of business failure, family interference, natural disasters as well as unpredictable income.
8. Business opportunity refers to the potential for doing something to create commercial value. Opportunity is defined as entrepreneur's knowledge and recognition of commercial value of products to be sold in new markets for profit. Such opportunities in Tanzania come from various sectors including agriculture, tourism, manufacturing, and energy, minerals, and information and communication technology.

Revision exercise

In each of the questions 1 to 5 below, choose the correct answer among given alternatives and write its letter in your exercise book.

1. Which one of the following alternatives does not explain the abilities possessed by an entrepreneur?
 - (a) Innovation
 - (b) Invention
 - (c) Risk avoidance
 - (d) Motivation
2. Mr. Hussein is an entrepreneur who is buying goods in large quantities, keeps in a warehouse and take all responsibilities of losses that arises before dispatching to the consumer. Which function of an entrepreneur is not conducted by Mr. Hussein among the following?

- (a) Planning and controlling
 - (b) Risk bearing
 - (c) Discovery of an idea
 - (d) Risk avoidance
3. Suppose your sister is identifying business opportunities and gathering resources required to start and run a business. What is the collective name of activities being conducted by your sister?
- (a) Coaching
 - (b) Consulting
 - (c) Manufacturing
 - (d) Entrepreneurship
4. Which one of the following alternative describes the situation in which individuals employ themselves and earn income?
- (a) Personal selling
 - (b) Self-employment
 - (c) Self-reliance
 - (d) Personal contact
5. Which one of the following term is used to describe the possibility for suffering loss due to unexpected future events
- (a) Opportunity
 - (b) Skills
 - (c) Insurance
 - (d) Risk
6. Ms. Salama has taken property insurance to her business in order to protect her properties from unexpected risks. Which type among the ways of managing risk was taken by Ms. Salama?
- (a) Reducing risk
 - (b) Preventing risk
 - (c) Transferring of risk
 - (d) Accepting risk

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7. The following are the advantages of self-employment, except:
 - (a) Dependency
 - (b) Independency
 - (c) No dressing codes
 - (d) One's own boss
8. Which of the following term explains an attractive and excellent economic idea which can be implemented by an entrepreneur?
 - (a) Business plan
 - (b) Self-employment
 - (c) Business opportunity
 - (d) Business capital
9. Mama Leah bears all risks in her business, but she has not taken any measure to prevent risks and no insurance has been taken to protect her business. Which way of managing risks Mama Lea's approach falls in among the following?
 - (a) Transfer of risks
 - (b) Reducing for risks
 - (c) Preventing of risks
 - (d) Accepting of risks
10. Which one of the following term describe the process of identifying, analysing and taking steps to reduce or eliminate risk of loss?
 - (a) Risk avoidance
 - (b) Risk identification
 - (c) Risk reduction
 - (d) Risk management

11. Match the description of Entrepreneurship concept in group A with the corresponding entrepreneurship concept in group B by writing the letter of correct answer beside the number in your exercise book.

GROUP A		GROUP B	
i.	Minimising the frequency of risk occurrence	A.	Risk reduction
ii.	A possibility for suffering loss	B.	Fixing price of goods
iii.	It is a situation of employing yourself	C.	Entrepreneur
iv.	Analysing risk and taking measures to eliminate those risks	D.	Risk prevention
v.	A person that pays other factors of production	E.	Entrepreneurial skill
vi.	A method of risk prevention	F.	Entrepreneurship
vii.	Different abilities possessed by entrepreneurs	G.	Risk
viii.	A process of identifying business opportunity and obtaining resources to run the business	H.	Self-employment
ix.	Efforts taken to reduce the probability of loss	I.	Risk management
x.	Any attractive and excellent economic ideas that can be implemented by an entrepreneur	J.	Fixing CCTV cameras
		K.	Business opportunity
		L.	Independence

12. Write short notes on the following terms as applied in entrepreneurship:

- Entrepreneurship
- Business opportunity
- Self-employment
- Risk management
- Entrepreneurial skills

13. Assume you are an entrepreneur in one of the regions of Tanzania. Briefly, explain at least five functions that you are doing.

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14. Imagine that your friend has already established entrepreneurship activity at Matopeni business center, but is not aware about the risks and how to prevent them. Assist your friend to know the following in the established business:
 - (a) Two risks which can face the business.
 - (b) Three ways in which your friend can use to prevent risks in the business.
15. Imagine your family has engaged in one of the businesses. Describe at least two business risks that your family business can face and explain how to prevent them.
16. As an expert in risk management and referring to one business organisation that is prone to risk, write a brief report on risk management that covers the following:
 - (a) Risk reduction
 - (b) Risk prevention
 - (c) Risk acceptance
 - (d) Risk transfer
17. Briefly explain five entrepreneurship skills possessed by an entrepreneur.
18. In five points briefly differentiate entrepreneurship from self-employment.
19. Explain three advantages and disadvantages of self-employment.
20. Creation of employment is among the contribution of an entrepreneurship activities in Tanzania economy. In five points, briefly explain other contributions of entrepreneurship to the Tanzanian economy.
21. Briefly explain five characteristics possessed by an entrepreneur.

Chapter Four

Domestic trade

Introduction

Buying and selling of goods and services take place either through domestic or international trade. Domestic trade involves buying and selling of goods or services within the national boundaries. This trade does not only expand market of the country's produced goods and services, but also facilitate the increase of production in a particular country. In this chapter, you will learn about the retail trade and wholesale trade. The competencies developed will enable you to participate in activities involved in establishing any business which facilitates exchange of goods and services within country boundaries.

Domestic trade

Trade entails an exchange of goods and services. Trade can be between individuals, companies or countries. Domestic trade, also known as home trade or internal trade is the exchange of products that are locally produced within the boundaries of a country. In this type of trade, the market is constrained by the borders of that country; and all products are bought and sold by persons living within the local market. Domestic trade is categorised into retail trade and wholesale trade.

Retail trade

Retail trade is one of the branches of domestic trade which involves buying of goods and services in larger quantities mainly from the wholesaler and re-selling of those goods and services in relatively smaller quantities to the final consumer. Retail trade links between wholesale trade and final consumer. Essentially, retail means small. Therefore, retailing means buying and selling in small quantities. The one who undertakes retailing is called a retailer. Types of retail trade include bookstore, grocery store, canteens, kiosks, small shops, automatic vending machines, departmental stores, cooperative stores, multiple shops, and supermarkets.

A Retailer

A retailer is a person who buys goods and services in relatively large quantities and sells such goods and services in small quantities to the final consumers. Retailer links between the wholesaler and the final consumer. A retailer makes profit from a difference between re-selling price and buying price. However, there are scenarios

where a person may engage in retail trade without being a retailer. For example, when a person who is a manufacturer sells goods and services directly to the final consumers without linking with wholesaler and retailer, means the person is performing retailing function without being a retailer.

In some cases, a retailer may buy directly from producers and sells them to final consumers. For example, a retailer who deals with vegetables and fruits may buy them directly from farmers and resells to the final consumer. A retailer who deals with mobile money, may also buy enough balance (float) from a super dealer and serve final users of the service.

Functions of a retailer

The role of a retailer is to make right goods and services available to the final consumer in the right condition, at the right time, place, quantity, quality and price. A retailer performs the following functions:

Market survey: To avoid unnecessary losses, the retailer strives to supply goods according to what is needed by buyers in the market (market demand). In order to achieve this, a retailer conducts market survey or research in order to know the real kind, quality and quantity of goods demanded by consumers at a given acceptable price and place before purchasing goods for re- selling.

Buying and assembling: In this case, the retailer has to buy and stock variety of goods from either the manufacturers, wholesalers or other large scale retailers. They assemble and stock these items according to customers' needs which are identified through market research.

Transportation: When the retailer purchases goods from the wholesaler, producers or other large-scale retailers; arrangement to transport those goods to the retailers' premises or final consumer is very important. Retailers may provide transport facilities for the purchased goods so that the consumers acquire them at the price and time they want. Transportation can either be done through road, railway, water or air. The choice of mode of transport depends on a number of factors including the quantities, nature of the products, place of delivery, and the value of the commodity acquired.

Warehousing or storing: The goods purchased or assembled by the retailer are stored in the warehouse until when they are needed by customers. This makes goods to be available to the consumers all the time. The goods must be well protected from various risks like theft, bad weather, fire, insects and the like. For example, some agricultural products are produced seasonally but demanded throughout the year. These need proper storage facilities.

Sales promotion: In this case, the retailer promotes goods so as to let potential consumers be aware of the availability of goods, where they can be found, and at what price. This persuades them to buy and therefore, boosting the sales volume. The retailer promotes goods by attracting customers through suitable and attractive packaging, exhibitions, special displays outside the store and provision of gifts to the consumers.

Selling: The retailer sells goods and services to consumers in small quantities to meet customers' demand. Based on the information received, a retailer buys goods and services from wholesalers/or producers and sells them according to customers' demand and specifications.

Stock control: In this case, the retailer checks and keeps records of the quantity and value of goods in the warehouse. This helps the retailer to know whether sufficient supplies are available to execute orders. On the basis of available stock, the retailer can plan the purchase so that they are kept in line with sales. This function goes hand in hand with keeping proper books of accounts. The retailer has to keep accounting records in order to ascertain the profit and loss in any trading period. For example, knowing the costs incurred in the business and ascertaining sales will enable the retailer to find actual profit.

Risk taking: In the process of retailing, the retailer bears risks such as fire, theft, frauds, spoilage and deterioration depending on the nature of the goods. They also take such risks as change in demand or fall in price levels of goods or services.

Financing: Retailers may either sell products to their customers and receive cash payments, or allow customers some time before they can pay for the goods or services bought. The latter is known as sales on credit or credit sales. Retailers, therefore, finance trustworthy customers' purchase by offering them credit facilities.

Provision of market information to wholesalers: Retailers provide market information to wholesalers, making them a useful link between the consumers and wholesalers. The retailer is able to inform the wholesalers on the consumers' behaviour, change in taste, fashions, demand, and marketing problems so that wholesalers are capable to work on such information for better business decision making. Moreover, the retailer inform the consumers on the full description of goods with regard to price, quantity and quality for consumers to make economical and beneficial buying.

Provision of advice to their customers: Retailers advise their customers about how certain goods are used. For example, customers are given guidance on how to use some new machines that they buy. Sometimes, they allow customers to request for further information about the products bought even after purchase.

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Breaking the bulk: Retailers buy in large quantities from wholesalers or large-scale retailers and break those large quantities into smaller quantities when selling to consumers. This enables consumers to buy in quantity they can afford. For example, a consumer of soap who does not have enough money to buy dozens of soaps is given a chance to buy not only a bar of soap but even a piece of a soap bar.



Activity 4.1

In groups, visit any canteen or kiosk nearby, observe the activities performed by particular traders and write a short report on how their activities relate to commerce. Thereafter, present the results in the classroom.

Reflect on whether the activities compares to what you have learnt in the class and point out differences, if any.

Importance of retail trade

Retail trade provides an important link between manufacturers and consumers or final users. It, thus enables goods produced by manufacturers to reach the intended final consumer. The consumer, therefore, buys goods to satisfy needs and wants; whereas, retailers, wholesalers and manufactures get revenues that will be used to employ people and pay wages or salaries. Hence, retail trade is a source of employment for a retailer and other people.

Moreover, through retail trade, retailers have an opportunity to know about the views of consumers on certain products. In turn, this feedback is channelled to wholesalers and ultimately to producers. This helps them to be aware of the market demand of a particular product.

Retail trade enables the purchase of goods from wholesalers, break them down into small pieces and resell them to the final consumers as per their requirements. In this way, it provides convenient form of selling desired quantities to consumers. Because retail stores are located in convenient areas for consumers to reach, retail trade makes goods available to where they are demanded; hence, contributes to the development of country's economy.

Activity 4.2

In groups, search in websites and read different supplementary materials from the library about the importance of retail trade. Write down the major points and discuss the importance of retail trade in your local community. Thereafter, present the results in the classroom.

Exercise 4.1

1. With vivid examples, briefly explain the following terms:
 - (a) Domestic trade
 - (b) Retail trade.
 - (c) Retailer
2. Reflect on the services provided by the local shops around your community. What do you consider to be the main functions played by shop owners as retailers?

Types of retail trade

The retail trade is categorised based on the amount of capital, the number of employees, volume of sales, space occupied by the shop, number of branches, the method of operation, and the amount of tax paid by the business. Therefore, based on these factors and several others, retail trade can be classified into two main groups: small-scale retailers and large-scale retailers.

Features of small-scale retailers

Small scale retailers consist of those traders characterised mainly by small amount of initial and working capital and employ few workers. They also hold relatively small amount of stocks and serve small markets. However, small scale retailers may use their own labour, family members, relatives or friends in running the business.

Types of small-scale retailers

There are different types of small-scale retailers. Retailers who do not have fixed premises are called non-stationed retailers while those with fixed premises are referred to as stationed retailers.

Non-stationed retailers

This category incorporates small-scale retailers who move from one place to another to search for customers. These retailers without fixed premises are further classified into itinerant traders and barrow boys.

Itinerant traders: These are the ones who carry goods to customers around villages and sub-urban areas mainly in more populated residential areas. The common places where they visit include doors of consumers' houses, beaches, hospitals, bus stands, and football pitches. Items that are normally sold include simple utensils, fruits, breads, vegetables, and children's wear.

Itinerant trading is said to offer several advantages that include a need for small amount of capital to start the business and having some permanent customers. It also allow customers to easily access the goods or services they need. On the other hand, disadvantages include that itinerant traders may be exposed to extreme weather condition and dust. This in turn may adversely affect the sales and conditions of some products.

In some cases, itinerant traders have been accused of selling defective goods to consumers; and they do not pay relevant taxes to the government since it is not easy to control them. Itinerant traders constitute different categories namely hawkers, peddlers, and mobile shops operators.

Hawkers are small scale traders who move from place to place carrying their goods using simple means of transport like bicycles and motorcycles to search for potential customers. They sell variety of goods like ice-cream, vegetables, fruits, fish, books, magazines, and newspapers. Figure 4.1 shows a hawker selling ice cream using his bicycle in the streets.

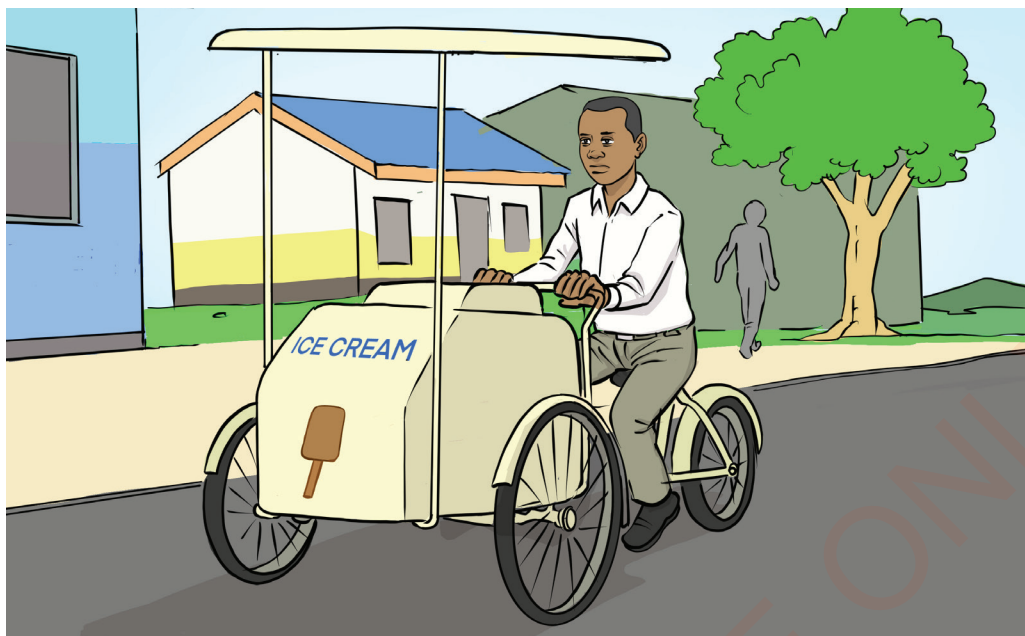


Figure 4.1: *A hawker in a bicycle selling ice cream to customers*

Peddlers are small scale retailers who move from place to place selling goods on their shoulders as shown in Figure 4.2. These are common in villages and busy streets in towns; often they sell consumer goods such as clothes, kitchen utensils, musical instruments, toys, fruits, vegetables, milk, and fruits.



Figure 4. 2: *A peddler carrying goods in a busy street searching for customers*

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Mobile shop operators use different modes of transport, it can be a van or a lorry or a bicycle; and they have a certain place to meet with their customers. Goods are well arranged and displayed in the van for customers to choose and buy according to their needs. They have scheduled visits where goods such as utensils, shoes, fruits, and clothes are sold. This is commonly seen in the cities like Dar es Salaam, Mwanza, Zanzibar, Arusha, Mbeya, Tanga, and Dodoma in Tanzania

A two wheel Barrow: This involves the use of carts or wheel barrows through which they transport and sell their goods. They mainly deal with food stuffs, stationery items, and fruits as shown in Figure 4.3.

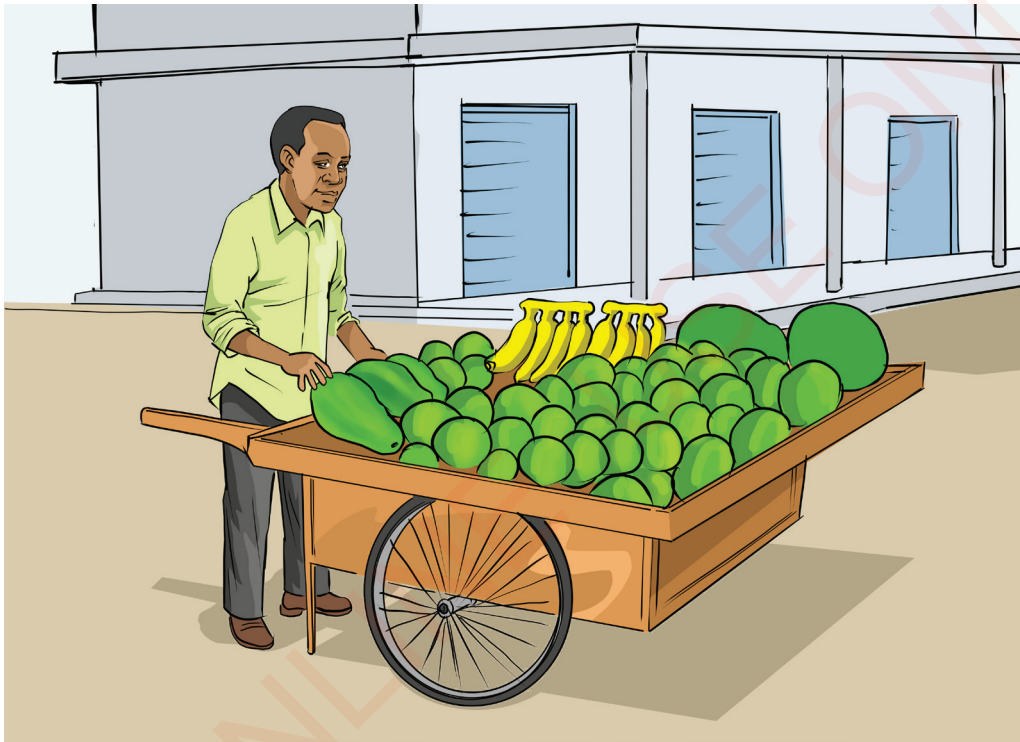


Figure 4. 3: *A two wheel barrow cart*

Stationed retailers

These are types of retailers who have permanent place for conducting their business; they tend to be stationed in particular places. Thus, they are not moving from one place to another selling their products. These include road side retailers, small fixed shops, kiosks, canteen, tied shop, automatic vending machines, and single shops.

Street traders or road side retailers: These are stationed retailers who set up their businesses along the street in large cities where there is heavy traffic such as at bus

stops, public halls, highways, and railway stations. They use trays, movable stalls or cardboards to display their goods mainly the fast-moving ones. For example, cigarettes, sweets, and soft drinks. Street traders offer major advantages in that their operating costs are significantly low. That is, fixed costs like rent, water charges, and electricity bills tend to be low. They therefore, sell goods at low prices; and also need small amount of capital to operate.

Small fixed shops: These are the retail outlet shops mostly owned by sole proprietors. Examples of small fixed shops are kiosks and canteens. Small fixed shops offer a number of advantages; these include their overhead costs such as rent, water charges, and electricity bills tend to be low. Moreover, personal contact with customers is possible. They also sell on credit to their customers which results into increased sales; thus, the shop can be operated permanently.

Kiosks: These are the retail units in the form of make-shift structures. The structure can be shifted from one place to another. Kiosk is a French word which means pavilion. In business, kiosks are often used in locations with high foot traffic. Kiosks are only one shop under one particular name and they have no branches elsewhere. They are constructed with timber and metal sheets on the road sides of busy town streets or shopping malls. For example, kiosks belonging to soft drink companies located along the roads or in taxi and bus parking lots. Figure 4.4 presents small booth in the walkway of Mlimani City Mall which is a good example of a kiosk.

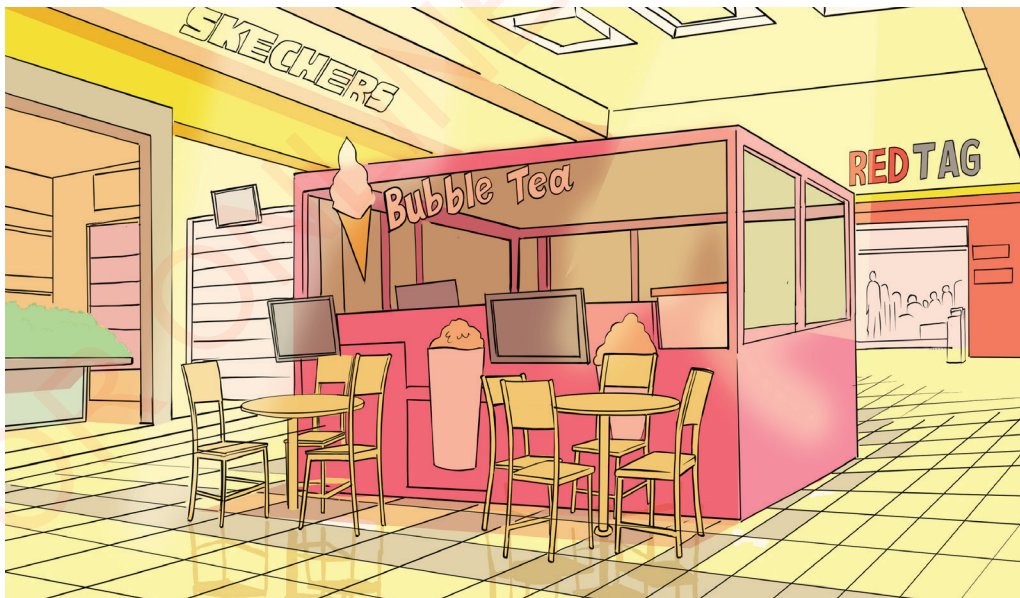


Figure 4. 4: Small booth in the walkway of a City Mall

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Canteen: As opposed to kiosks, canteens operate within fixed premises and are normally located in populated areas such as schools, hospitals, churches, factories or other public areas or shop where the workers can have meals. Canteens provide food, tea and cold drinks to persons working in offices, students, industrial areas and other enterprises.

Tied shops: These are retail sales agencies selling products of a particular manufacturer only, such as, petrol stations which sell petroleum products of specific oil companies. Figure 4.5 shows an example of a tied shop.

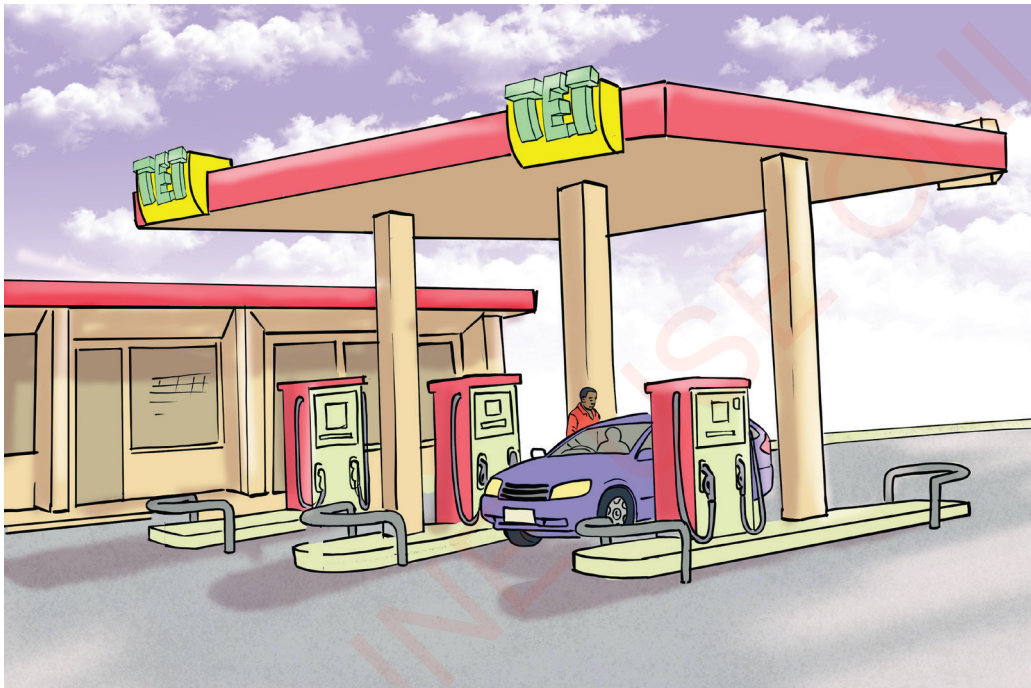


Figure 4. 5: *Filling station*

Automatic vending machines involve the sale of goods like snacks, beverages, cigarettes, soft drinks, lottery tickets to the final consumers through coin or paper money operated machines, credit card or a designed card inserted into the machine. This method is usually used for goods like stamps, magazines, cigarettes, sweets, and soft drinks. In terms of services, people can withdraw money using Automatic Tellers Machine (ATM) of various commercial banks including those that exists in Tanzania. Figure 4.6 present the examples of vending machines. Automatic vending machines serve the customers without any attendant and save the labour cost for the seller.



Figure 4. 6: *Snack food vending machine*

Source: [freepic.com](https://www.freepic.com)

Large scale retailers

These are well-established retailers with fixed premises businesses operating in large scale where they carry large stocks and the volume of sales is bigger. Large-scale retailers possess large amount of initial and working capital; the sources of finance are many since they tend to possess a lot of wealth. They also hold large stocks and tend to make many sales, and they are large tax payers to the government.

Large scale retailers are characterised by employing qualified personnel to perform day to day activities and have centralised management. Moreover, they tend to have branches regional or country wise. Large scale retailers are mainly classified into five (5) types which are mail order shops, departmental stores, multiple stores, supermarkets, and consumers' cooperative stores.

Mail order shops

These are the retail shops that sell their goods through post office. The trader has only warehouses, showrooms and offices where potential customers place their order through post and payments are made through posts. After receiving the order and confirmation of payments, the product will be supplied or delivered to the customer through posts. A good example would be a student who orders books from a bookshop, makes payments and receives books through post office. Apart from ordering books, customers can also order some other stuffs like clothing, jewellery, food stuff, computers and their accessories, and office supplies, by making payments and receiving them through post office.

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In this business, there is no physical or personal contact between the buyer and the seller. In mail order shops, the trader does not hold a large stock of goods, but holds stock depending on the orders received from customers. Therefore, there is no need to establish a huge warehouse or storage facilities. Because goods are delivered to the customer after payments have been confirmed; there are no possibilities for bad debts losses (non-payment for goods delivered).

Departmental stores

A department store is a large-scale retail establishment offering a wide range of consumer goods in different areas of the same store, with each area (“department”) specialising in a product category. All sales take place under one roof and one management. In this business, each shop is regarded as a department with its departmental manager who decides the size and type of stock to be held. In clothing stores, for instance, this may include children’s department, ladies’ department, men’s department, and sports department.

Departmental stores provides a complete range of services to enable customers do all shopping under one roof; also, customers are given wider chance to select goods. Departmental store is usually located in one area enabling the shops to be accessed by different customers from different places; hence, increasing sales volume.

Multiple shops

Multiple shops or chain stores refer to a series of shops under the same ownership, multiplied in different places, stocking similar class of merchandise and often similar in appearance. In a multiple shops, each shop is called a branch. It has a manager who has limited power. Purchasing is centralised where all goods are bought for all departments from the manufacturers, but selling is decentralised through all branches.

The manufacturers themselves open these shops and deal in few items only. Selling prices are fixed by the head office where all branches sell goods at the stated price. All sales are on cash basis. Examples of multiple shops include mobile phone and soft drink companies. All branches need licences and necessary documents to operate business in a particular place and taxes will depend on each branch sales.

Supermarkets

These are large service stores whose size per each supermarket is normally large that sells primarily food and household products. A common feature of this type of retail business is ‘self-service’. They sell food groceries, clothing, utensils, edible

goods, cleaning materials, drinks, and light electrical appliances. This means that every item carries a price tag; a customer simply moves through the shop from shelf to shelf, picking up any item that is needed. Customer then proceeds to the exit counters where a cashier lifts all items from the trolley and informs customer about the total amount due. Then, the customer makes payments before leaving the supermarket.

Consumer cooperative stores

This is the retail trading business set up by consumers themselves who purchase goods or services in large quantities and at a favorable price for reselling them to their members at the minimum economic price. This business differs from others as it is owned, managed and controlled by the consumers themselves. Members contribute money to run their organisation and they purchase goods directly from producers or wholesalers. To join the organisation is voluntary and free to those who are interested. Further, members elect representatives who run the business on behalf.

Existence of consumer cooperative stores eliminate disadvantages associated with middlemen from the chain of distribution. This elimination protects members from exploitation, inefficient and dishonest trade actions by the middlemen whose main aim is to maximise profits. Therefore, members are able to acquire goods at a relatively low price.

Consumer cooperative stores are characterised by a number of features such as membership is open and free to all adults who are interested as every member must be a shareholder. The profit is shared to members according to their purchases. Every member has equal rights on shares held by everyone. Moreover, every member has one vote irrespective of the number of shares held by a member. In addition, members have limited interest on capital invested; and cooperatives tend to sell goods on cash basis only.

Activity 4.3

In groups, read textbooks and other supplementary materials from different sources including websites on the types of retailers, then, visit some retail shops in your nearby community. Classify the shops into small- and large-scale retailers giving reasons for your categorisation. Thereafter, present your results in the classroom.

Exercise 4.2

1. What distinguishes small scale retailers from large scale retailers?
2. Briefly, explain the types of small-scale retailers.
3. Differentiate between non-stationed and stationed retailers.
4. Distinguish multiple shops from departmental stores.

Attributes of a good retailer

Should be polite in dealing with customers: One of the important qualities is that a good retailer should avoid being rude when dealing with customers. Good retailers should therefore be polite and respectful when dealing with customers. This encourages customers to visit the business again.

Should be a good buyer: A retailer is also a good buyer, meaning that he/she can do efficient buying by considering what to buy, where to buy, when to buy, at what price to buy, and what amount of profit to earn.

Should be able to forecast customers' demand: a good retailer should be able to foresee the customers' demand so that he/she can avail right supplies, at the right price, quality, quantity, brand, package, time and taste. For example, correct quantity of products should be stocked according to forecasted demand.

Should be a good administrator: A retailer should be able to effectively manage and control workers as well as the movement of stocks and other properties of the business.

Should be honest to customers: A good retailer should also be honest and should be selling goods at fair prices, a retailer is not expected to take advantage of ignorance of customers or sell fake products to earn excessive profits.

Should be cooperative to suppliers: In this case, a retailer should cooperate well with suppliers by paying them promptly to ensure efficient supplies of the business.


Activity 4.4

In groups, visit retail shops in your nearby community, talk to the shopkeepers and their customers and observe their behavior towards customers and their business. Discuss and write down features that characterise retailers in as far as their business are concerned. Thereafter, make a presentation in the classroom.

Exercise 4.3

Pleasant language is one of the attributes of a good retailer. Briefly explain other good attributes that should be possessed by the retailer.

Wholesale trade

In daily lives, people usually buy goods to satisfy wants from retail traders and not from manufacturers. They cannot afford to buy goods in large quantities from the wholesalers or manufacturers for the purpose of consuming. Therefore, wholesale trade refers to a trade where goods and services are bought from manufacturers in large quantities and are sold to retailers in relatively affordable quantities. Retailers are able to sell to final buyers at affordable quantities.

Wholesalers on the other hand, are persons or traders who carry out wholesale trade. They are the middlemen who links between producers and retail traders. Moreover, wholesaling means the act of buying goods and services in large quantities and sell them in relatively affordable quantities to the retailer.

Types of wholesalers

Wholesalers are classified according to the type of goods they sell, geographical location or area they cover, and methods of operation or services they provide. The following are the types of wholesalers:

General merchandise wholesalers: These are wholesalers dealing with varieties of goods. They deal with at least two distinct product lines and they operate even in the remote areas.

Nationwide wholesalers: These are wholesalers who operate in all major towns in the country and have warehouses in which they offer a wide range of goods.

Specialised wholesalers: These are the wholesalers who are specialised in a particular field but offer a variety of products within that field. For example, a wholesaler dealing with hardware may offer products like nails, cements, and iron sheets. Other wholesalers may deal with drinks of different kinds.

Cash and carry wholesalers: These are wholesalers who sell their goods to retailers on cash basis and not offering transport service to the retailers. Customers come to their warehouses and pick what they want, then paying in cash before carrying away their purchases.

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Regional wholesalers: These are wholesalers who serve a particular region or district where they offer a variety of goods or a specialised range of goods.

Rack jobber: This is a wholesaler that has an agreement with a retailer to display and sell products in a retail store. A rack jobber rents space in a retail store such as supermarket to display and sell products. This kind of business is beneficial to both the rack jobber and the store owner. The jobbers are able to expose their products to a wide customer base, while the store owners get to share profits without the burden of taking inventory or restocking items. As the job title implies, rack jobbers usually bring their own rack to display goods. A retailer may also be willing to allow the jobber to use store shelves if space is available.

Activity 4.5

In groups, visit any nearby wholesaling trade, observe and write down activities or services provided. Categorise the wholesaler business while giving reasons for your choice. From your observations conducted, prepare a detailed discussion on the importance of wholesale trade. Thereafter, present your results in a classroom.

Functions of wholesalers

The main function of wholesalers is to make goods available to retailers at a quantity they can afford. These products are primarily bought from manufacturers or producers and sold to retailers before they are sold to the final consumers. Essentially, a wholesaler acts as an intermediary between the manufacturer and retailer.

In so doing, a wholesaler buys goods in bulk and accumulate them to serve retailers and consumers. As the wholesaler purchase goods in bulk from manufacturers or producers and stores them, bears all the risks such as spoilage, theft, eruption of fire, and loss of value. These risks could have been borne by manufacturers or producers or retailers. Therefore, in performing such functions, a wholesaler offer several specific services to manufacturers, retailers and consumers.

Wholesaler's functions based on services rendered to manufacturers or producers

Provide ready markets: Different services are rendered by wholesalers to manufacturers or producers. They do this by providing ready markets of their products. When wholesalers buy products from manufacturers and make these products available to the retailers through nearby warehouses, they enables manufacturers to continue with production and enjoy the economies of scale.

Provides transportation service: Wholesalers provide transport facilities for goods bought from manufacturers or producers to their premises. This serves the transport expenses which could be incurred by manufacturers or producers.

Provides marketing service: In this regard, wholesalers usually advertise goods which they have in their warehouses on behalf of the manufacturers. They also make manufacturers aware of the market demand. Wholesalers inform manufacturers or producers on actual market demand so that they are able to produce in anticipation of consumers' demand in terms of taste, price, quality, and convenience.

Helps in ensuring price stability: Wholesalers help in keeping prices of producers or manufacturers stable through storing and supplying goods from their warehouses constantly to the market in response to demand.

Helps to provide space of production: Wholesalers relieve the manufacturers or producers with the duty of carrying large stocks by buying the goods from them, and lock up in their big warehouses which will enable manufacturers to have enough space in the factories.

Provides warehousing facilities: Wholesale traders buy goods from manufacturers and store them in their warehouses to make them available to retailers. Thus, they provide a useful link between manufacturers and retailers.

Most of the small-scale retailers do not afford to purchase goods from manufacturers because of low capital to run their businesses.

Helps in the distribution of goods: Manufacturers depend on wholesalers to distribute their products to retailers and consumers.

Performs financing function: The wholesaler normally pays cash promptly to the manufacturer for the goods bought, where it helps the manufacturer to acquire enough money for day to day operations (working capital) to ensure continuity in production.

Wholesaler's functions based on services rendered to retailers

Breaking the bulk: In this case, wholesalers supply goods to retailers as per their affordable quantities. They do this by breaking the large quantities of products to small quantities according to requirements of retailers.

Provides storage facilities: Wholesalers store goods from different manufacturers in their warehouses enabling retailers to pick goods they need at any time they want from the wholesalers.

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Provides transportation service: Wholesalers offer transport facilities in case needed in the transportation of goods from their warehouses to retailers' premises. This leads to saving transport and packing costs to retailers and consumers.

Provides market information: Wholesaler provides marketing advice to retailers on dealing with several product lines for better marketing. The wholesalers are in good position to inform the retailers on the type of goods produced by the manufacturers; hence, enabling the retailers to be aware and make informed choice of existing products in the market.

Provides credit facilities by selling goods on credit: The wholesaler has an access to acquire large quantities from manufacturers, thus, they are able to offer them on credit to retailers. This enables retailers to operate with small amount of capital.

Wholesaler's functions based on services rendered to consumers

Ensures constant supply of goods in the market: One of key services offered by wholesaler to consumers includes availability of goods in the market. Wholesalers ensure constant supply of goods in the market where consumers acquire goods demanded and at the reasonable price.

Provides a linkage between manufacturers and consumers: In this case wholesalers provide a reliable link between the manufacturers and consumers enabling them to be supplied with goods according to their actual demands. Through retailers, wholesalers provide the consumers with variety of products from different manufacturers which enable them to have a chance of selecting what they need.

Conveys consumers' feedback to producers: Wholesalers convey the consumer related information from the public to the managers of production units so that production can be done in favour of consumers' tastes. They also relay to the public information from the producers regarding the changes in the product through retailers.

Exercise 4.4

1. Briefly explain wholesale trade
2. How can you justify the contention that the functions of wholesalers are clustered around linking manufacturers or producers to the consumers?
3. Describe the importance of wholesale trade

Attributes of a good wholesaler

The success of the wholesaler depends on a number of factors which need to be considered as provided in the following paragraphs:

Ordering in large quantities: In this case, a good wholesaler should be able to order a large quantity of goods in order to accommodate all retailers depending on the market demand.

Providing information: Wholesalers should have the ability to communicate information. In this case a good wholesaler should be able to communicate information from retailers or consumers which can help a manufacturer to be aware of the market demand related to change in fashion and taste. Moreover, a wholesaler makes customers aware on the type and price of the products available from the manufacturer.

Placing orders consistently: A good wholesaler should be placing orders consistently over a long period of time by replacing issued stock from the warehouse to satisfy customers' demand without running out of stock.

Financing: A good wholesaler is willing and has the ability to finance the business. This means that a good wholesaler should let the business grow by providing credit facilities to retailers in order to increase sales as well as paying cash to manufacturers for the purchases to let production continue by covering different costs.

Activity 4.6

Visit two wholesale shops available in your community, then in groups, list down attributes of good wholesalers that you consider appropriate. Thereafter, present your results.

Exercise 4.5

1. You have been approached by a friend studying in a nearby secondary school. Your friend is confused to hear that wholesale trade functions need to be explained in line with producers, retailers and consumers of goods and services. How could you help your friend to get out of the confusion?
2. Placing orders consistently is one of the many qualities of a good wholesaler. Briefly and with examples describe the other attributes of a good wholesaler.

Channel or chain of distribution in domestic trade

Channel of distribution refers to a path through which products flow from manufacturers to final consumers. Generally, products flow from the manufacturer or producer to the final consumer or user through different channels of distributions. In domestic or home trade, the path or route consists of a set of business entities like retailers, wholesalers, and other agencies. These are also called intermediaries. The most commonly used channel of distribution is where products move from a manufacturer or a producer to a wholesaler to a retailer and finally to the final consumer.

Forms of distribution channels

In the domestic trade, channels of distribution are classified according to the number of stages in ownership. The path or route can be direct or indirect channel of distribution. Direct channel of distribution is when goods are sold directly to the final consumer without the use of middlemen. Indirect channel of distribution on the other hand, is the path in which goods reach the final consumer through the use of middlemen. The following are the stages involved in the distribution of goods from the manufacturer or producer to the final consumer as presented in Figure 4.7:

Manufacturer to final consumer (M→C): This implies that the manufacturer supplies goods directly to the final consumer. This is called a direct channel of distribution.

Manufacturer to retailer to final consumer (M→R→C): This implies that the manufacturer supplies goods to the retailer and then the retailer supplies to the final consumer.

Manufacturer to wholesaler to retailer to final consumer (M→W→R→C): This implies that the manufacturer or producer supplies to the wholesaler, then, the wholesaler supplies to a retailer who ultimately supplies to the final consumer.

Manufacturer to wholesaler 1 to wholesaler 2 to retailer to final consumer (M→W1→W2→R→C): This implies that the manufacturer or producer supplies to the first wholesaler, who supplies to the second wholesaler, the second wholesaler supplies to a retailer who ultimately supplies to the final consumer. The first wholesaler acts like an agent of the producer.

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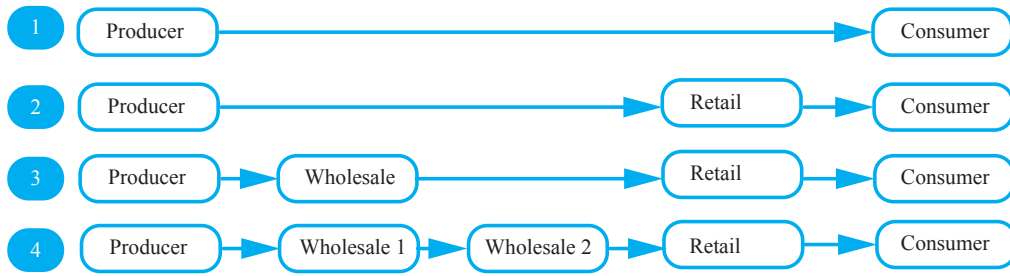


Figure 4. 7: Channels of distribution

Importance of distribution channels

Channels of distribution are important as they play a key role in financing the business. In this case, they serve as a means of financing the entire process of supplying goods from the manufacturer or producer to the consumer which could have been done by manufacturers. They are the intelligence agency for the manufacturer or producer. Flow of information along distribution channels enables manufacturer to change their goods according to the market demand. Such changes include those of fashion and taste. They also play significant role in price determination, promoting the products and filling the gap between producers and consumers in the modern economic system.

Factors to be considered when selecting the channel of distribution

In some cases, it may be difficult to choose a channel of distribution to be used when supplying goods from manufacturers to the final consumer. Some of the manufacturers or producers may use more than one channel of distribution. The following factors determine the selection of appropriate channel of distribution to use in the business:

The nature of the goods: The nature of goods can influence the manufacturer or supplier to choose the kind of channel of distribution to use in distributing particular goods. Heavy, bulky, perishable, and expensive goods need short channel to reach immediately to the final consumer. Expensive goods like aircrafts need a short channel of distribution to minimise the cost. For example, when the government of Tanzania bought its Aircrafts from Canada, they were bought straight from manufacturers. On the other hand, horticultural products such as tomatoes need a short channel especially because those products are highly perishable.

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Size and nature of the market: If the size of the market is large and widely spread, a long channel will be used because wholesalers and retailers will automatically be involved in the distribution of products. However, if the market of the particular product is small and geographically concentrated, then, a short channel will be used. For example, the distribution of products such as sugar will need a long channel because of its widely dispersed market.

Risks avoidance: Some manufacturers sell their goods through intermediaries to avoid the distribution risks like change in fashion, fall in the value of the products and spoilage. Therefore, a short channel will be most appropriate for the most risk products and vice versa.

Scale of production: Some producers with small capital who cannot afford distribution costs will prefer to sell their products through intermediaries. For example, small scale farmers, would prefer use of a long channel of distribution

Urgency and speed: When the commodity to be distributed is needed urgently by the consumers, then, a short channel is preferable. For example, distribution of vaccines to consumers in case of outbreak of a communicable disease.

Exercise 4.6

Reflect the basis for choosing distribution channels and then select the appropriate channel for any product of your own choice. State reasons for your selection.

Chapter summary

1. Domestic or home trade is divided into retail and wholesale trade.
2. Retail trade involves buying goods in larger quantities mainly from the wholesaler and re-selling of those goods in relatively smaller quantities to the final consumer.
3. The main functions performed by a retailer include market survey or research, buying and assembling, transportation, warehousing or storing, sales promotion, stock control, accounting, risk taking, credit facilities, supply of market information, giving advice, and breaking the bulk.
4. The significance of retail trade is in terms of convenient forms of selling desired quantity, convenient location, contribution to country's economy, source of employment and supply of market information.

5. There are two main groups of retailers: small scale retailer and large-scale retailer.
6. Small-scale traders can either be stationed retailers or non-stationed retailers.
7. Stationed retailers include road side retailers, small fixed shops, kiosks, canteen, tied shop, and automatic vending machines.
8. The non-stationed retailers include itinerant traders and barrow boys.
9. Large scale retailers are well-established retailers with fixed business premises operating in large scale where they carry large stock and there is a big volume of sales.
10. Large scale retailers include five (5) main types which are mail order business, departmental stores, multiple stores, supermarkets, and consumers' cooperative stores.
11. Attributes of a good retailer include pleasantness, demand forecasting, efficient administrator, good buyer, co-operative and honesty.
12. Wholesale trade refers to trade where goods are bought from the manufacturers or producers in bulk and reselling them to retailers in quantities they can afford.
13. There are different types of wholesalers: general merchandise wholesalers, nationwide wholesalers, specialised wholesalers, cash and carry wholesalers, regional wholesalers, and rack jobber.
14. Qualities of a good wholesaler include ordering in large volume, ability to communicate information, placing order consistently, willingness and ability to finance the business.
15. The importance of channels of distribution include financing the business, intelligence agency for the manufacturer or producer, price determination, promoting the products, and filling the gap in modern economic system between producers and consumers.
16. Factors to be considered when selecting the channel of distribution include the nature of the goods, marketing costs, size, and nature of the market, risk, scale of production, urgency and speed.

Revision exercise

In each of the questions 1 to 5 below, choose the correct answer amongst the given alternatives and write its letter in your exercise book.

1. Which of the following set represents branches of domestic trade?
 - (a) Retail trade and import trade
 - (b) Wholesale trade and export trade
 - (c) Import trade and export trade
 - (d) Retail trade and wholesale trade

2. Which one of the following types of large scale retail trade characterised by self-service system?
 - (a) Supermarket
 - (b) Discount stores
 - (c) Cooperative stores
 - (d) Department stores

3. Suppose your uncle is a retailer who is using vehicles, bicycles and vans moving from one place to another selling his goods. Which type of retailer your uncle belong in the following list:
 - (a) Hawker
 - (b) Peddler
 - (c) Cheap jacks
 - (d) Market trader

4. Which of the following set represent correct types of retailers without fixed premises?
 - (a) Street traders, peddlers, tied shop sellers
 - (b) Street vendors, road side sellers, mobile shop traders
 - (c) Single shops sellers, chain store sellers, tied shop sellers
 - (d) Cheap jacks, market stall traders, peddler

5. Which types of large scale retail shop are under control of one concern, selling one class of goods and they look similar in appearance?
 - (a) Departmental stores
 - (b) Multiple shops
 - (c) Supermarkets
 - (d) Glossaries

6. Which of the following term refers to the path through which goods are passed from producers to consumers?
 - (a) Communication channel
 - (b) Distribution channel
 - (c) Transportation ways
 - (d) Advertisement channel
7. Which one of the following represent the classification of distribution channel?
 - (a) Direct channel and indirect channel
 - (b) One and two stage channel
 - (c) Indirect and two stop channel
 - (d) Three stage and direct channel
8. From the following alternatives who is the last in the chain of distribution?
 - (a) Producer
 - (b) Consumer
 - (c) Organiser
 - (d) Retailer
9. Suppose your sister is a wholesaler who deals with various types of goods. In which type of wholesaler does your sister belong?
 - (a) Specialised wholesalers
 - (b) Rack jobbers wholesalers
 - (c) General wholesalers
 - (d) Wagon jobbers wholesalers

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10. Match the description of domestic trade concepts in group A with the corresponding domestic trade concept in group B by writing a letter of correct answer besides the item number in your exercise book.

GROUP A	GROUP B
i. Agents who bargain between buyers and sellers to receive brokerage	A. Hypermarket
ii. Large supermarkets which offer wider range of goods	B. Supermarket
iii. A self-service retail stores	C. Departmental store
iv. Traders who move from one place to another searching for customers	D. Multiple shops
v. Traders who sit next to road side selling small items	E. Itinerant traders
vi. A path through which goods pass from producers to final users	F. Road side retailers
vii. Retail shops under one ownership selling similar class of goods	G. Retailing
viii. Trade which involves selling goods directly to the ultimate consumers	H. Wholesaling
ix. Always sells goods in larger quantities to traders	I. Distribution chain
	J. Single shops
	K. Instalment selling
	L. Middlemen
	M. Brokers
	N. Direct Channel
	O. Wholesalers

11. With examples, explain the types of small-scale retailers without fixed shops.
12. Elaborate the functions performed by retailers.
13. Reflect the functions of retailers in Tanzania, then, explain their importance in daily life.
14. Describe the contributions of wholesalers to retailers.
15. Briefly explain six types of wholesalers.
16. Suppose your friend is planning to start a retail trade activity. Which features he/she should possess in order to run a retail trade smoothly.

17. (a) Briefly describe the distribution channel.
(b) With the aid of diagram, describe the components of distribution channel.
18. Explain the attributes of a good wholesaler.
19. Give out the difference between multiple shops and departmental store
20. Multiple shops is among the types of large scale retail. Briefly explain other types of small scale retail trade.
21. Briefly explain the following concepts:
 - (a) Domestic trade,
 - (b) Retail trade and
 - (c) Wholesale trade.
22. (a) Assume you are a trader dealing with retail trade for a long time, briefly, explain the functions of a retail trade.
(b) Suppose your brother is engaging in wholesale trade at Mabondeni market. Which function is he performing in his daily trade activities.
23. Assume you have been assigned an assignment to go to the market to observe types of wholesalers. Which types would you include in your assignment after the observation at the market?
24. Mr Mhelella has been involving himself in retail trade for more than 10 years. He is planning to convert his retail trade to whole sale trade. Which good attributes he should possess in order to succeed in his planned new business.
25. Identify and briefly explain the channel of distributions used in supplying products like vegetables and fruits.

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Glossary

Accounting	refers to a process involving recording financial transactions pertaining to a business.
Capital flows	refer to movement of money for the purpose of enhancing trade, or business operations. The money could also be intended for investment activities.
Economics	is a study of scarcity and its implication on production, distribution and consumption of goods and services.
Financial institutions	are business entities which act as intermediaries between savers and borrowers. They include banks, insurance, pension funds, and microfinance institutions.
Gross Domestic Product (GDP)	is a monetary measure of all goods and services produced in a country within a particular period, usually a year.
Insurance	is a tool to manage risks. Buying an insurance, means purchasing protection against unexpected losses due to negative or bad events. Insurance companies is where insurance are bought and pay back the insured persons in an event they confronts a problem. Without insurance, when an accident happens, the victim will be responsible for all related costs.
Marketing	refers to activities that promote the buying or selling of goods and services to consumers.



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Money

refers to any object that is generally accepted as payment for goods and services and repayment of debts in a given country or socio-economic context.

Risk

is defined as a possibility that an event or outcome will differ from an expected or an outcome. It is therefore, a possibility of unexpected event to happen, for instance, a possibility of occurrence of events such as car accidents, death, buildings or any other property catching fire, floods, and earth quake.

Utility

refers to the total satisfaction received from consuming a good or a service. It may also be used to mean the usefulness or enjoyment people get from consuming goods and services.



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