

Towards the Importance of Theories of Trade as Part of Trade Science¹

Zuzana Francová² – Daniela Breveníková³

Abstract

Theory of trade is a name dealing with trade as a scientific discipline, which is made up of a set of generalised knowledge of trade, of laws determining its essence and operation. This scientific discipline also includes the knowledge of the origin of the relations, operation of these relations, and their means and tools in trade. Theory of trade is a summary of numerous interrelated and partial theories of trade, which are based on the pillars of general economic theory and general trade theory. The aim of the paper is to highlight the importance of some of these theories with focus on their historical retrospective as well as to evaluate to what extent each of these theories is justified.

Keywords

Trade, theories of trade, concept of theory of trade, partial theories of trade

JEL Classification: M19, M00, M39

Introduction

Science as a systematic and theoretical cognition process is a basic form of social consciousness. The science of trade (trade science) focuses on the construction of a systematic set of knowledge about trade. The creation of knowledge about trade is supported by conceptual structure of trade and developing trade theories. Theory of trade is part of science of trade and at the same time a partial subject of interest of economics. Its theoretical fundamentals are the pillars of general economic theory. Theories of trade as a set of truthful statements have passed a long-time development and were formulated and modified contingent on the evolution of trade. Theories of trade have to fulfil certain criteria; they have to correlate with contemporary experience and results of experiments, and have to be internally consistent. Theory of trade is a generalisation of knowledge of trade; it explains essential aspects of reality of trade and a logical construction of trade, and it is by means of these aspects that conclusions are drawn. The aim of the paper is to identify, define and compare several theories of trade, which justify the nature of trade and existence of trade firms. The paper aims to also demonstrate a theoretical value of formulated theories of trade and

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² Ing. Zuzana Francová, PhD., University of Economics in Bratislava, Faculty of Commerce, Department of Marketing, Dolnozemska Rd. 1, 852 35 Bratislava; E-mail: zuzana.francova@euba.sk

³ Doc. PhDr. Daniela Breveníková, CSc.; University of Economics in Bratislava, Faculty of Applied Languages, Department of Linguistics and Translatology, Dolnozemska Rd. 1b, 852 35 Bratislava; E-mail: daniela.brevenikova@euba.sk

cognition. Formulation and application of theories clarify the existence of trade firms *per se*, and points out a success of trade firms, and highlight selected problem areas of their existence. The reflection of theory of trade in practice highlights a normative and explanatory character of this theory.

1 System of Commerce Functions

Trade is a specific economic activity focusing on the exchange of products by means of money. It is a connecting link between various industries of the economy and is directed to turnover of goods. Characteristic features of laws of trade are based on the one hand on the fundamentals of general economics, and on the nature of trade, which involves rationalising, increasing effectiveness and synergy, on the other hand.

Exploring functions of trade and the system of these functions clarifies the essence and operation of trade. The system of trade functions is a crucial basis of theories oriented to explaining the essence of trade.

The system of trade functions consists of the following functions (after: Kulčáková, 1991 in: Viestová, 2001, p. 30):

1. *Functions of material groupings*
 - a) Assortment functions
 - Creation of production-oriented assortment or, alternatively to further business;
 - Creation of consumption-oriented assortment
 - b) Quantity functions
 - concentration of goods of material nature
 - distribution of goods
2. *Functions of adjusting to conditions*
 - a) Bridging functions
 - spatial
 - temporal
 - b) Functions of security
 - security of subject of business
 - security of business entity
3. *Functions of market balancing*
 - a) Market processing functions
 - investigating the market
 - affecting the market
 - b) Functions of procedure of turnover realisation
 - acquisition of earnings
 - realisation of earnings
4. *Functions of material preparations of goods*
 - a) Quality functions
 - sorting
 - combination
 - b) Improvement functions – completing

- manipulation
 - assembly, maintenance
5. *Cultural, or promotional function* can be explained by means of the following examples:
- In the world trade there are producers and consumers who belong to various races and religions, and differ from each other in terms of morals, customs, legal relations, social structures, and other characteristics.
 - Modern department stores offer concerts, refreshment premises, libraries, and cultural activities, which are at the same time a parameter of competitiveness.

In the year 1930 Karl Oberparleiter replaced the term cultural function with that of promotional function. By the year 1989 social function was used in theory of trade, and its role was to operate in the area of the customer education in terms of rationalising customer consumption, while the focus was on cultivated consumption and on participation of trade in the creation of the environment and lifestyle.

2 Theories of Commerce

The origin of term *theory of trade* goes back to the second half of the 20th century, and it denotes a scientific discipline which is made up of a set of generalised knowledge of trade and the laws that determine the essence and operation of trade. At the same time, theory of trade deals with the origin of these relations, with functioning of these relations and of their means and tools that determine its functioning. Theory of trade is an aggregate of numerous interrelated theories of trade which are based on the general theory of economics and theories of trade; these theories testify of rationalisation of trade and reflect the increase in effectiveness of trade and its synergic effect.

Beginnings of theory of trade go back to the time of the late scholastics, when the development of trade was recorded in manuscripts by theologians and reformers. This period was characteristic of trade manuals, so called family collections of coin tables, weight tables, country descriptions, trade tariffs, and the like. The first trade manual by a Florentine trader Francesco B. Pegolotti appeared in the year 1315. A self-contained "science/theory of trade" was formed in the second half of the 16th century and in the first half of the 17th century. The concept of theory of trade started to develop under our conditions only in the sixties of the 20th century. It was mainly up to the nineties of the twentieth century that the terms as e.g., "economy of trade", "economics of trade", "theory of trade functions", or "theory of trade", were used in professional literature.

2.1 Evolution of Theories of Commerce

The evolution of trade theory was komplexne formulated by two authors, namely H. O. Schenk in the year 1991 and K. Viestová in the year 2001 in her book "Theory of Trade". Table 1 is supplement to the development of trade theories.

Theories of trade were published in our country during 1948 – 1989, while their formulation was influenced by Polish and German literature. Evolution of these theories may be divided into two stages:

- *years 1948 – 1970* (1st stage) – this period covers also the beginnings of marketing instruction, while the sixties of the twentieth century were the most important. This stage is characteristic of the knowledge that the essence of trade may be explained only by an all-round, synthetical assessment of all the functions.
- *after 1970* (2nd stage) – during the so-called "normalisation" period—at that time "The theory of market socialism" was subject to evaluation and criticism.
- *years 1980 – 1989* (3rd stage) – the third stage innovates and modifies original theories of trade of the period of the first stage.
- *after 1989* (4th stage) – the fourth stage is a contemporary stage, a stage that is currently coming into existence. The focus of interest is on innovating and deepening of current theories and formulations of theories, which will consider the existence of trade firms on the 20th century global market.

Table 1 Evolution of Theory of Commerce

Stage	Period	Description of stage
1.	13th century – mid 17th century	Theory of trade: instructions/manuals of transport and technical calculations, or trade manuals and trade handbooks
2.	17th century – beginning of 19th century (years 1675 – 1804)	Rise and development of "Science of trade"
3.	19th century	Decline in the importance of trade science as a result of cameralistics*
4.	End of 19th century – beginning of 20th century (years 1898–1911)	Theory of trade techniques was developing; general theory of trade divided into the theory of foreign trade and and theory of internal (domestic) trade
5.	20th century (years 1912–1930)	Theory of trade firm replaced by general theory of business economics
6.	20th century (years 1931 – 1945)	Restructuring of business economics/ development of theory of sales (sales economy)
7.	20th century (years 1946 – 1964)	Reconstruction of sales policy
8.	20th century (years 1965 – 1974)	Theory of marketing to replace theory of sales, theory of trade firm policy
9.	20th century – since 1974	Development of self-contained trade marketing
10.	21st century	Development, enhancing, and deepening of theories of trade, specification of theory of trade marketing, formulating further partial theories of trade

* Cameralistics was a background to trade science. Science of Cameralistics was to answer the question of how the wealth of princes could be increased, how to best fill up the treasury. The aim of the science of trade was the same, with the only exception that the "treasure box" and assets were in the ownership of businessmen.

Selected Theories of Trade from the First to Third Stages of Development

The theories most frequently described and developed in Slovak professional literature come from the period of the first stage up to the third developmental stage, i.e. by the year 1989.

- **Turnover theory** – trade is conceived as a chief realiser of turnover of goods and satisfier of market needs (authors Wakar, Nowacki).
- **Production theory/ non-production theory** (author L. Rendoš) – stresses the importance of trade's influence as a factor in the manufacturing sphere of production, on which the output of sales of goods fully depend, so does further production. Authors Hronský and Viestová formulated the **theory of reproduction**, which is based on the idea that trade is one of the elements of reproduction process. Trade enables an uninterrupted repetition of production process. Function of satisfying needs of population and production consumption is common to manufacturing and trade.
- **Manufacturing theory** – emphasizes the function of production follow-up in the sphere of turnover of goods.
- **Societal theory** – considers mutual interaction of links of trade in economic and microeconomic areas; these links strengthen relations between industry and agriculture, between social groups of population, and between various areas (author Lisičkin).
- **Theory of costs** – emphasizes the element of distribution of labour, which is a carrier of an increase in effectiveness of specialised activities. The questions of decreasing turnover costs decreasing number of employees (at least in relative terms) in trade and the like are coming to the forefront.
- **Theory of services** – designates a set of trade functions as a specialised comprehensive service authorised by the company or society. This kind of concept of trade undisputedly defines also its functions and position in reproduction process. Finally, it is also performance of jobs of value-creation nature (e.g. packaging of goods) – even that may be understood as a service for the consumer.
- **Theory of equivalence** – securing the balance of social interests on the basis of equivalent exchange of results in social and individual activities.
- **Knot theory, or bottleneck theory** – activities of trade opens up a "neck" of the entire national economy or causes these "knots" and creates the situation of seeming surplus capacities and leads to attenuation of production with all the unfavourable consequences (surplus production, destroying the values for maintaining prices, and the like).
- **Theory of consumer sovereignty** – considerably goes beyond the problem of trade as such. It transfers the centre of gravity into the sphere of material production under authoritative pressure of individual demand, which in effect, is not assessed as mass demand. Market is a space where supply and demand are confronted.

2.2 Theories of Trade Presented in Contemporary Professional Literature

Contemporary theories of trade are based on the essence of trade, or from laws of trade activity; these theories point to some problem areas of operations of trade.

Concept of Distribution of Labour

The starting-point of this conception is the idea that trade firms are functional market specialists, which perform *business functions of sales and purchasing in a more economic way than businesses or consumers*, or users themselves. A variant of this conception is a theory designated as the *conception of risk distribution*. The distribution of labour on the market of purchase and on that of sales also leads to distributing *market risks*. The transition of ownership of goods from one entity to another one is accompanied with the transfer of part of sales risks. As long as the goods pass from the manufacturing firm into the wholesale, the sales risks pass with the goods. In case the goods have not been acquired by a trader, a share of risk is taken over by a trade warehouse. By taking over the goods by the trade firm, costs are consolidated – costs leasing cost, insurance cost, personnel costs, storage/warehousing costs, administration costs, as well as cost of obsolescence. The conception of risk distribution does not contain any adequate universal explanation. Market risk may in individual cases remain with producers (works warehouse, delivery store, commissional goods, direct sale), as well as with consumers or users (advance holding, direct purchase). After all, that may be weakened also by some contractual creation of commission agencies (Viestová, 2008, p. 75).

Theory of Trade Functions

Theory of trade functions after K. Oberparleiter clarifies the *position of trade in market economy*, analyses a general *contribution of trade to covering needs*, as well as *performance of the trade firm in functional areas*, which correspond to risk areas. The author starts from the assumption that transfer and fulfilment of firm's national economic functions are represented by the existence of a certain tension between production and consumption.

According to Oberparleiter the following *functions of trade* are performed in trade (after: Viestová, 2001, p. 78):

- *Spatial function*, function of spatial equalising of pressure (spatial risk);
- *Time function*, function of time/temporal equalising of pressure (time risk);
- *Function of quantitative balancing of tension* (quantity risk);
- *Quality function*, function of qualitative balancing of tension (qualitative risk);
- *Credit (deposit) function* (credit risk);
- *Cultural function* (1918), or advertising function (1930) (advertising risk).

This arrangement of trade functions was subject to criticism and mainly credit (deposit) function and advertising function. The critique targeted the fact that the functions were not measurable (even though K. Oberparleiter was concerned about developing measurable functions). This arrangement does not contain a final number of functions of trade, but it has a high theoretical and practical potential.

Gatekeeping Theory

Theory of gatekeeping was formulated by Kurt Lewin in the year 1963. The theory was revised by U. Hansen from eco-psychology into science of trade (1976). Trade as a gate-keeper is an element that decides about the entry of goods, information into socio-economic channels from the producer to the consumer. The gate-keeper theory

mediates information about the usefulness of trade activity in highly advanced and complex market structures. Its essence is oriented towards the explanation of intensity, which is represented by trade services at all levels at all levels of the economy appreciated and sought for, or neglected and avoided.

Theory of Macroeconomic Functions of Trade in Transition Economy

Theory of macroeconomic functions of trade in transition economy was defined by F. Misiag in the year 2002 (after: Viestová, 2008, p. 98). This author starts from the possibility of defining trade on two levels, namely:

- macrolevel – trade is understood as the industry of the national economy, in which goods are moved from the production sphere to the production consumption or final consumption;
- and microlevel – when trade is understood as trade firm or an institution, which mediates exchange of goods and services between the producer and the consumer.

Macroeconomic view of trade refers to a) trade that provides services to consumers on the one hand (while securing a social, or societal service), and b) trade that provides services to producers (while securing the realisation of products).

Primary function of trade is the function for the consumer, who is the chief entity of the economy.

Macroeconomic functions of trade in transition economy may be classified into elementary and supplementary ones:

- *elementary functions*, which are further subdivided into the following functions:
 - services for consumers on the consumer market and for consumers on organisation market;
 - services for producers;
- *supplementary*, which further subdivided into:
 - influence on the labour market;
 - influence on stabilisation of price level;
 - influence on development and formation of the economy;
 - and influence on personal consumption and standard of living.

Theory of Influence of Trade on Personal Consumption and Standard of Living

The theory is based on the theory of macroeconomic functions of trade, but it was the German economist Wilhelm Vershofen who pointed out the necessity of doing research into consumption at the beginning of the 19th century. Creating and influencing personal consumption and the standard of living belongs to supplementary macroeconomic functions.

Personal consumption is that part of use of consumption goods that is covered by population from their final incomes. It contains: the value of material goods covered by population and the goods acquired by the population in their own natural economy. It is classified as follows:

- *Market consumption* – constitutes a basic component of personal consumption; it is implemented by means of purchases of consumer goods.
- *Natural personal consumption* – plays an important role in satisfying needs; it is connected in the first place with nourishment of population. Through its development, growth or decline it affects market consumption and its structural composition. It improves structural composition in foodstuffs.
- *Other individual consumption* – is connected with housing facilities, including equipment of households with electrical appliances, which increases the consumption of electric energy (declining energy-intensive trend).

Dynamics of personal consumption development are dependent of market consumption, i.e. on inhabitants' purchases in retail network.

The standard of living comes out from man's existence in human society; it expresses *material prosperity, so called quantity and quality of available goods and services*. It covers three fundamental elements, namely need, consumption and living (material) conditions. The standard of living is most frequently evaluated by the level of real income per capita, consumption of goods and services achieved, which means a quantitative evaluation of the level of consumption achieved. The level of consumption implies household equipment with longterm consumer goods, in comparison with preceding periods or with the level in other countries or if we use other indicators for the basis of comparison. A decisive criterion in the investigation of consumption is its functionality, i.e. ability to satisfy certain human needs. Consumption may be explored exclusively in direct connection with needs. The growth in needs is a basic element of not only dynamics of standard of living, but also an overall development of human society. Components of the standard of living include:

- nourishment and nutrition;
- health care;
- clothing;
- housing including household equipment with longterm consumption;
- employment and working conditions;
- education;
- culture including goods of cultural consumption;
- transport including driving personal motor vehicles;
- consumption of other kinds of goods and other paid services;
- spare time, interest, recreation and sports activities;
- social security system.

With regard to the primary function of trade, which is providing services to consumers, trade may be considered to be a creator of personal consumption and standard of living.

Theory of Social Responsibility of Trade

The roots of social responsibility are in the fifties of the 20th century. The first one to define social responsibility was H. R. Bowen, who understood it as "a commitment taken by businessmen to strive for the kind of strategies, make the kind of decisions or carry out the activities that are desirable in terms of objectives and values of our society" (Musová, 2008, p. 58).

Zikmund and D'Amica (1989) define social responsibility as a manifestation of how business entities can affect through their activities interests of other groups which are situated in their environment and also the entire society. Social responsibility stands for a voluntary commitment of firms to behave within one's scope of operation with responsibility to the living environment and to society, where they are doing business (after: Jakubíková 2008, p. 15).

Apart from general ethical principles the following rules are typical for contemporary socially responsible business: universal character (validity for all types of business), voluntary nature (voluntary commitment of firms and their management, beyond the scope of legislation), active cooperation with stakeholder entities, expression of commitment to contribute to the development of quality of life, emphasizing permanently sustainable development, and last but not least, also the manifestations and consequences of this kind of entrepreneurial behaviour in economic as well as in social and environmental areas.

Schär Law

Schär law analyses the existence of trade businesses in terms of securing their market equilibrium, i.e., its subject is increasing or decreasing the number of trade firms on the market. According to Schär (1911) and Viestová (2008) this may be described as follows: "Self-sufficiency and form of existence of each member are determined by the sum of useful and necessary services in the circulation of goods, which cannot be performed equally well and economically by any other member. The following may be concluded for an optimum number of trade firms as intermediary elements between production and a consumer: "On the whole, it is economically favourable to set up additional firms, when—at the given sum of useful services provided by these firms – the economic efficiency of trade performances rises in comparison with the current condition, and vice versa, the number of trade firms has to decline, if the concentration results in the rise in efficiency in this number of firms" (Cimler & Zdražilová et al., 2007, p. 13).

Theory of Market Making and Competition

Theory of market making and competition looks at the trade firm in market-oriented economy as a market maker and competitor. This theory is based on the "producer – trade – consumer" relation. Trade in relation to producer secures demand for goods and its completion, and in relation to the consumer it secures the offer of trade assortment to customers, or final consumers. Trade creates competition, namely by means of the creation of assortment from individual producers, not only among producers, but also among trade firms themselves. As a rule, suppliers and customers would not choose trade firms, if they were not able to appreciate the benefits of markets organised in advance and advantages of linking competitive assortment.

Transaction Theory

Transaction theory deals with the structure of decreasing costs of contacts by involving trade firms in correlation with the market where there exist only direct contacts

among all partners of exchange. Analysis into transaction theory assumes the existence of the following situations:

- *existence of a large number of entities on the market without an intermediary of exchange* – let's imagine, that there are entities on the market of which, each of them realises itself or is interested in realising only transaction; there arise a great deal of transactions, and there are high costs incurred for the realisation of these transactions.
- *Existence of a large number of entities on the market with one intermediary of exchange* – there are entities on the market, each of which carries out transactions through one intermediary of exchange. In both mentioned cases it is necessary to realise a lot of transactions which also stand for high costs. Contacts are established between producers, i.e. that either producers search for consumers or consumers search for producers. On the part of producers it is necessary to realise a great deal of contacts. On the part of consumers the number of contacts is substantially lower depending on the number of consumers.
- *Transactions between producers and consumers with one trade firm*. Via involving a mediator, i.e. a trade firm into the relation between the producer and the consumer, the number of necessary contacts is radically decreasing in macroeconomic and maicroeconomic perspective. When involving only a trade firm into a transaction, one contact is necessary.
- *Transactions between producers and consumers with wholesale trade and with retail trade*. If other trade firms are involved into the transaction model on the same level, e.g. two or more retailers and on a higher level of hierarchy (wholesale trade), then a minimum increase in the number of necessary contacts will be recorded. The number of contacts between the producer and the final consumer remains the same. The number of contacts of retailers on the side of procurement, i.e. with producers and with consumers, is decreased. The number of contacts for wholesale trade is negligent on the part of retail trade. This situation indicates competition in the exchange process between individual levels of the economy and competition in horizontal process, e.g. on the level of retail trade. The principle of this situation indicates that in the course of exchange processes by means of involving mediators between production and consumption, costs of contacts are reduced.

Theory of Spatial Distribution of Retail

Theories of localisation of retail strategies are based on the "classical spatial economics". Its representatives include the German geographer Walter Christaller and the German regional economist August Lösch. Fundamental influential theories, which were the starting-points of numerous theoretical papers on spatial distribution of trade include: "Central place theory", "Economic and geometric conceptions", "Reilly's law of retail gravitation" and "Urban and rural retail network".

Theory of Types/Forms of Retail Institutions' Evolution

Theory of evolution of retail types/forms was founded in the year 1931, when the then Professor of Harvard University Malcom P. McNair formulated the hypothesis of distribution forms' evolution, which should imitate developmental stages of product life-cycle. He named this development "retail cycle". The hypothesis is based on the assumption that new forms, new types of retail outlets are coming onto the market, whose initial societal status is very low; they have low retail margin and low prices. Further evolution and gradual expansion are accompanied by the rise in investments and operating costs, which, in turn, results in higher prices of goods. That, in turn, affects a decreasing competitiveness of these distribution forms in relation to other newly arriving entities on the market.

Theory of Cooperation in Trade

The concept of *cooperation* (synonyms: coordination, alliance) is an expression of cooperation between two or several market participants. According to "Great Encyclopedia of Economics" (Veľká ekonomická encyklopédia 2002, p. 417–418) cooperation represents a form of cooperation of many persons, who in the same production process or in various but related production processes, systematically work side by side or cooperate.

Cooperation in trade is a joint performance of various partial activities by several firms (joint wholesale sales or joint retail purchase, marketing activities, uniform image, brand, education, and other) on the basis of some contract. The aim of cooperation is to increase the efficiency of these activities, gain higher competitiveness. The task of cooperation is to fulfil the roles of two or several businesses, which have decided to carry out their functions jointly with the aim to achieve higher savings, or higher effectiveness.

Theory of Trade Concentration

The concept of concentration denotes concentration of firms into an increasingly smaller number of large firms. Concentration of trade expresses cumulation of turnover to a decreasing number of trade firms.

After "Lexicon of Trade" (Lexikón obchodu (1) 2006, p. 163) concentration in trade is generally defined as centralisation of an increasingly higher number of basic units of trade operations into an increasingly smaller number of superior units. D. Ahlert defines the process of concentration in trade as an surplus proportionate growth of increasingly larger trade firms in comparison with smaller ones. H. O. Schenk considers concentration as a process (dynamic approach) or phenomenon (static approach). Concentration is defined in both meanings: concentration is a phenomenon or a process, in which as a result of differing internal or external growth, the largest firms or top-size firms are increasing their holdings of shares (are accumulating) or over-proportionate rising shares on the overall turnover.

Concentration in trade is classified into groups which operate in bonds: firm – operation, property, income, spatial, international, and power of disposal.

Theory of Integration in the Area of Internal Trade

In general, integration of economy expresses the process of merging, unifying or consolidating on the basis of common features of individual integration elements. Integration in trade is an expression of mutual merger of trade firms into larger wholes.

In the area of trade there are three types of integration, i.e., horizontal, vertical and diagonal.

Horizontal integration stands for an increasing the number of equal activities and their merging on the same level. The aim is an effort for removing deviations on the market. By way of example, we can mention merging wholesale firms and merging retail firms.

Vertical integration is reflected on a firm's level. Individual firm's activities are interlinked in order to decrease costs and achieve closer links with the market. By way of example, we can mention the merger of the wholesale trade activities with retail trade activities into one firm.

Both types of integration are implemented by the consumer co-operative *Jednota*, namely within consumer co-operatives, as well as between individual consumer co-operatives.

Diagonal integration expresses the reality, that there are so called auxiliary services, which are indirectly connected with the main subject of the firm's activity, e.g. repair workshops.

Theory of Internationalisation in Commerce

Internationalisation of trade firms expresses enhancement of activities of an originally local phenomenon beyond the scope of national economies. Internationalisation of the economy is manifested in the existence of international firms. Internationalisation of trade involves export of retail activities and setting up one's own operating unit situated abroad. The object of exporting is also goods and services typical for the internal market of one country to internal markets of other countries. The meaning of retail trade internationalisation rests in an effort for better and higher evaluation of trade capital in their mother countries. As an example of internationalisation in retail trade we can mention some retail firms, as e.g. Metro, Aldi, Billa, and Tengelmann. These firms are leaders in their mother countries. Countries of origin which have decided to internationalise their activities include: France, Germany, Great Britain, Belgium, and Holland. Countries that are "recipients of internationalisation" include Italy, Spain, and central European countries (Czech Republic, Poland, and Hungary).

Theory of Trade Globalisation

Globalisation is an expression of the development and increase in international economic relations on a global scale. A manifestation of globalisation in trade is retailing, which stands for a quantitative and qualitative shift in the development of trade. A *retail firm* is an internationally recognised active retail enterprise with a highly sophisticated information system, equipped with its own logistic background and distribution system. The contemporary retailing links the function of retail trade and wholesale trade and the functions of domestic and foreign trade into one business entity.

Theory of Trade Chains

The concept of trade chain is in practice exchanged for concepts as, e.g. supra-national chain, retail chain, or multinational trade chain, while this name comes from a partial characteristic of the essence of trade chain. We tend to support the proper concept, namely "trade chain".

Trade chains are two or more shops/sales premises in joint ownership which are jointly managed. Owing to their size, they can purchase large volumes of goods for low prices and achieve economies of scope. They can hire specialists, who deal with pricing, advertising strategy, selling policy, stock control, and sales forecasting.

Rudolf Seyffert, the author of the theory of trade chains, published his theory in the year 1915. The theory is based on the effort for decreasing costs, synergic effect achieved by means of horizontal integration of trade enterprises, and on the knowledge of "economies of costs".

According to "Lexicon of Trade" (Lexikón obchodu (1) 2006, p. 89) characteristic features of trade chains include the following:

- ownership of various number of retail units;
- centralisation of some trade activities – mainly purchase of goods, sales promotion, market research, and administration;
- centralisation and concentration of supplies, management of retail outlets;
- typification, unification and standardisation of infrastructure, activities, and performances.

Trade chains may come into being in three ways, namely by means of a gradual growth, on the initiative of wholesale trade or retail trade, or by agreement of independent retail firms.

Theory of Retail Brands

Retail brands came into being in the sixties of the 20th century in Great Britain, when retailers decided to promote their chains together with the offer of products of their own brand. A retail brand started to be used in the last century as an instrument of differentiating from one's competition. The first ones to have started using the retail brand were trade firms Mark&Spencer and Migros. At first these retail brands were perceived as lower quality products. At present, products marked with a retail brand are comparable with those of producer's brands in terms of quality.

The retail brand brings several advantages. It enables the consumer a more comfortable decision making about the quality when purchasing; it guarantees quality and to some extent also acceptable prices. The retail brand contributes to strengthening the image of the trade firm, to differentiating from competitors, to supporting loyalty – customer loyalty, and it also contributes to market success (higher earnings, higher profits).

Retail brands are most widespread in Switzerland, where approximately 50% of goods are sold under some retail brand. Retail brands are especially widespread in Belgium, Great Britain, and in Germany. In Slovakia private brands became widespread with the arrival of foreign trade chains and along with the development of trade chains. In terms of share, there are sold 21% products under the retail brand in Slo-

vakia; it is 18% in the neighbouring Czech Republic, 20% in Hungary, 19% in Austria, and 14% in Poland.

The reasons for introducing the retail brand on the part of a trader include (after: Zamazalová 2009, p. 174-175): the possibility of differentiation, creating and shaping image, and the possibility of an independent decision making on prices of products. On the part of producers, there are the following reasons for supplying goods under the retail brand: easier penetration onto the market mainly for smaller and less known producers, possibility of expanding to foreign markets via the offer of retailing firms and with international participation, securing relatively longterm relations with the trader, utilisation of surplus production capacity, and decreasing costs of product promotion.

Theory of Trade Marketing

The term of *marketing of trade* originated in the seventies of the 20th century as a result of the change in the role of trade in general and mainly as a result of the change in the position of institutional trade in the economy. Marketing of trade came into being as part of theory of trade. Marketing of trade (or trade marketing) is used to denote the application of methods and marketing tools, modification of marketing as an economic philosophy and conception to conditions of trade as an institutional trade activity. The concept of marketing of trade was formulated for the first time by the German author Ludwig G. Poth in the year 1973. Marketing of trade may be divided since the end of the 20th century in general *marketing of trade and specialist marketing of trade*, and that, in turn, may be further subdivided by several categories, namely by: *trade degrees, branches, trade firms, size of trade firm, legal and organisation form, result of the combination* of the criteria mentioned or by other criteria. Sometimes also the classification of marketing into *trade (sales) marketing*, which constitutes the development of cooperation with trade chains and *shopper (purchasing) marketing*, also called as buyer-oriented point-of-sale marketing.

3 Evaluation of Theories of Trade

The system of concepts which has governed scientific and societal thought and formulation of theories so far (while considering future developments) is oriented to:

- theories based on the assumption that the essence of trade can be explained on the basis of coherent and synthetical evaluation of all functions of trade;
- modifying existing theories of trade;
- evaluating or verifying existing theories in the context of all-society and economic development.

Trade science can be considered to be a normative and explanatory theory. Being a normative theory, it recommends the course of action or behaviour for further development of trade. Being an explanatory theory, it based on the hypothesis that takes into consideration only part of reality.

Exploration of theories of trade clarifies fundamental issues of cognition in trade and its connections. This exploration is necessary in terms of understanding various

research conceptions of holistic or morphological character, which are also valid for trade.

Theories of trade applied in Slovak specialist literature by the year 1989 express a normative and explanatory character of trade science. However, it is the normative character that prevails here. It can be stated that it also prevails in the market-oriented economy. The most persuasive are theories, which were, or may be adopted in business practice, e.g. theory of comparative costs, theory of transaction costs, theory of cooperation, theory of concentration, and theory of trade chains. An explanatory character of theories of trade is characteristic of e.g.: theory of market making and competition, theory of social responsibility, and theory of retail branding.

The formulation of theories of trade is a process that is far from being finished. The evolution of theories of trade is determined by dynamics of economic development. Also the area of economic policy is closely linked with the dynamics in the area of trade on internal market. The contemporary period is characteristic of a rising interest in the consumer, i.e. their purchasing options, sovereignty and providing value for the consumer.

Conclusion

Theory may be defined as an assumption that need not be necessarily supported by practical experience; it may arise via generalisation of experience from practical life, and is the result of long-term development. Theory of trade, partial theories of trade, and their scope and structure have been changing in time; alternatively, it is subject to incessant changes, modifications, and supplementation. The theories formulated in this way are characteristic of their compactness. With regard to dynamics of trade, but also of that of environment, in particular economic, social, societal (concerning social strata), and cultural environment, the conception of theory of trade as well as the formulation of theories of trade is not a completed process. It may be concluded that existing theories of trade, specification of theory of trade marketing, and the process of formulating further partial theories of trade are going to develop, enhance, and increase also in the periods to follow.

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