COMMERCE

Sample questions

- What is commerce?
- Identify the divisions of commerce
- Describe the aids to trade that exist.
- Distinguish between commerce and business
- Identify the types of human wants and their characteristics
- Describe the three fundamental economic problems
- State the importance of commerce
- Illustrate the scope of commerce

THE SCOPE OF COMMERCE, PRODUCTION AND CONSUMPTION

Definition of Commerce

(i) Commerce is the study of the way man organizes the exchange and distribution of goods and services to satisfy his wants and needs.

(ii) Commerce is the study of trade and aids to trade

Trade: It refers to the buying and selling of goods and services with an aim of making profits. Trade is categorized into two:

(i) Home trade or internal trade

(ii) Foreign or international

Home trade or internal trade

Is the exchange of goods and services between or among residents of a given country. Home trade is sub divided into two

(i) Retail trade

(ii) Wholesale trade

Foreign or international

Foreign trade refers to the exchange of goods and services across the boundaries of a given country. Foreign trade is subdivided into branches namely:

(i) Export trade

(ii) Import trade

(iii) Re-export trade / Entrepot trade

Import trade: Refers to the buying of goods and services from other countries. The goods bought from other countries are called <u>imports.</u>

Imports can be classifies imports in Uganda include:

- Computers

- Generators
- Tinned food
- Drugs etc

Examples of invisible imports in Uganda include:

- Insurance services
- Education services
- Medical services
- Banking services
- Transport and communication services

Export trade

Is the selling of goods and services produced within the country to other countries. Examples of Exports of Uganda include:

- Coffee
- Cotton
- Tea
- Flowers
- Fish etc

Examples of Uganda's invisible exports include:

- Tourism
- Education
- Medical services
- etc

Re-export trade

Is the exportation of goods that were previously imported.

Example: Century Bottling Company Uganda Limited imports raw materials to produce sodas that are later exported to other countries like Rwanda.

NB:

All goods and services bought from other countries are referred to as <u>imports</u>

All goods and services sold to other countries are referred to as <u>exports</u>

AIDS TO TRADE

These are auxiliary services that facilitate the smooth running of trade as they include:

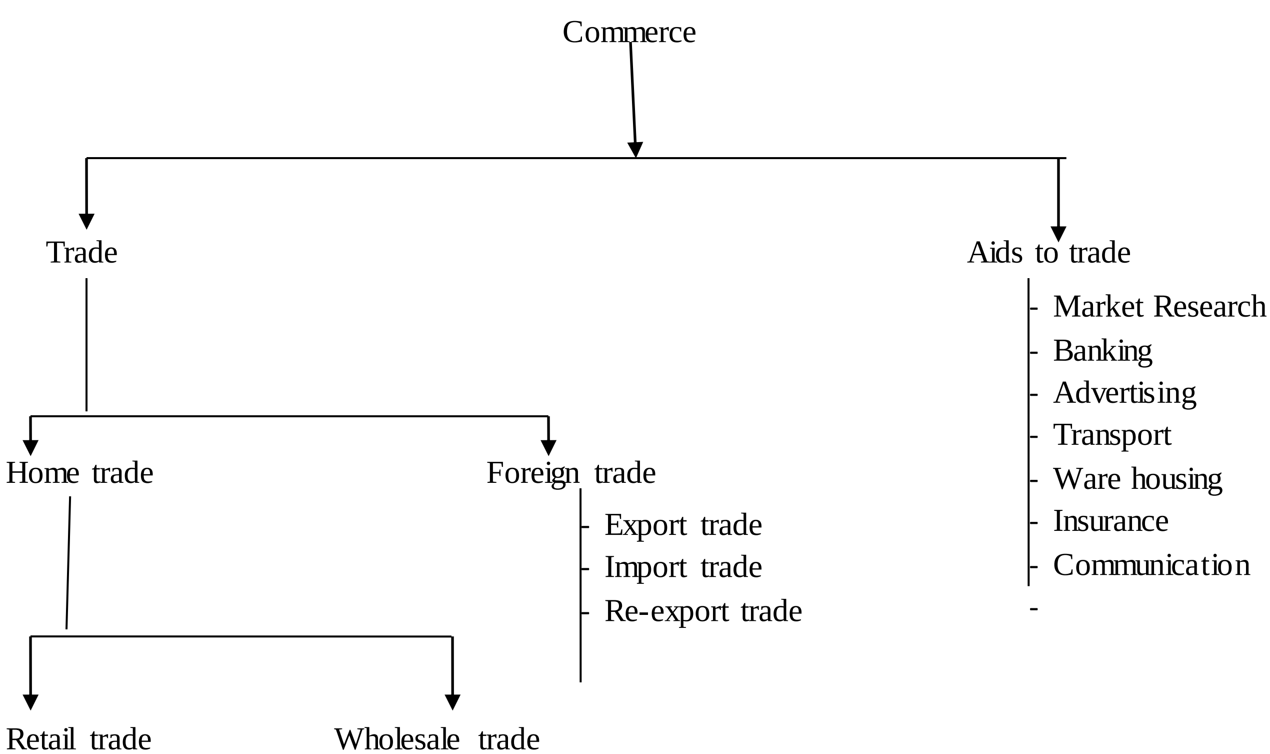
M	-	Market
R	-	Research
B	-	Banking
A	-	Advertising
T	-	Transport

W - Ware housing
I - Insurance
C - Communication

MARKET RESEARCH

1. It is an aid to trade which deals with collecting information using various sources regarding the attitude of consumers towards a given product or service.
2. Communication: It is an aid to trade that deals with transmission / transfer of information from one person or place to another.
3. Transport: It is an aid to trade that deals with physical transfer of goods and people from one place to another.
4. Banking: It is an aid to trade that undertakes to safeguard money and other valuable assets like land titles and making them available to people whenever they are needed.
5. Warehousing: It is an aid to take that deals protecting raw materials and goods until demand is available and against bad atmospheric conditions.
6. Insurance: Is an aid to trade that undertake to compensate unfortunate businessmen who suffer losses on occurance of an event insured against like theft, fire, accidents etc.
7. Advertising: Its is an aid to trade that involve making the public aware of the available goods and services for sale.

THE SCOPE OF COMMERCE



REASONS FOR STUDYING COMMERCE

Qn. Outline 6 reasons for studying commerce

- To understand how trade is carried out.
- To understand how goods and services are organized to reach final consumers.
- To understand the auxiliary services that facilitate trade.
- To develop and acquire knowledge that will help us get jobs in future like teachers of business studies.
- To equip students with the commercial language used in business.
- To acquire background knowledge for studying other business subjects at advanced level like Economics, Entrepreneurship.
- To encourage students to develop Neatness and orderliness in their work.

THE ROLE / IMPORTANCE OF COMMERCE

Qn. Mention four importances of commerce in your country

- Provides a link: Commerce enables producers to be linked to consumers.
- Facilitates specialization and exchange, amongst each other and hence encouraging specialization.
- Avails goods, through commerce goods and services are made available to consumers in right place and time.
- Provide capital: through commerce businessmen are able to acquire capital through loans obtained from Banks.
- Reveals opinions, producers are able to know people's opinions regarding goods and services through market research.
- Creates awareness, commerce enables producers to inform customers about the presence of goods and services available for sale through advertising.
- Creates employment opportunities to many people like importers, exporters, Bankers, transporters etc.

THE BASIC ECONOMIC OR COMMERCIAL PROBLEMS

There are three basic economic problems namely:

(i) Scarcity

(ii) Choice

(iii) Opportunity cost

Scarcity

This refers to the limitedness of resources compared to human needs or wants.

Choice

It refers to the selection of human desires starting with the most important or pressing needs or wants.

Opportunity cost

This refers to the alternative foregone when choice is made.

Examples:

Baguma may have two things in mind, he wants to buy a bicycle and a television. But because of limited money he may purchase a television and leave a bicycle. So in this case the bicycle becomes the opportunity cost of having a television.

UTILITY

(a) Define the term unity
(b) Explain four forms of utility

Unity refers to the ability of a good or service to satisfy human wants or
It refers to the satisfaction got or derived from consuming goods or services.

Four forms of utility

TYPES OF UTILITY

(i) Place utility
(ii) Time utility
(iii) Form utility
(iv) Possession utility

Place utility: This is the utility created when goods and services are provided at the original place where they can be consumed immediately.

Time utility: This is utility created when goods and services are provided at the appropriate time for consumption e.g. a success card during examination time.

Form utility: This is utility created when raw materials are transformed into finished goods e.g. from cotton seeds to cooking oil.

Possession utility: This is utility created when goods and services are consumed by the rightful owners.

SATISFACTION OF HUMAN WANTS

Qn: Define a human want

These are man's desires satisfied by consuming a good or service.

TYPES OF HUMAN WANTS

(a) **Basic wants:** These are items needed for man's survival. They include food, shelter, education, clothes etc.

(b) **Secondary wants:** These are items of comfort and luxury. These include mobile phones, Televisions, vehicles, Radios etc.

FEATURES / CHARACTERISTICS OF HUMAN WANTS

(i) Human wants are insatiable, that is they are endless or unlimited.

(ii) Human wants are dynamic, that is, they are ever changing according to one's level of income.

(iii) Human wants are competitive

(iv) Human wants are complementary that is they are jointly demanded e.g. education and shelter.

(v) Human wants are recurring that is they are consciously demanded.

COMMON TERMS USED IN COMMERCE

(i) Good: Any tangible item that satisfies human wants.

(ii) Service: Any intangible item that satisfies human wants.

(iii) Mass production: Is the production of goods or services in large quantities.

Standardisation: Refers to the production of goods of the same size,colour, designs, weight and ingredients.

Production unit: Is a place where goods or services are produced like a school, hospital etc.

Firm: Is a business unit set up by a person or group of people to carry out business with the aim of making profits e.g. law firm.

Industry: Is a collection of firms engaged in production of similar or related products for a particular market.

Market: Is an arrangement where buyers and sellers are brought in close contract to exchange of goods and services.

TYPES OF GOODS

1. **Public goods:** These are goods that belong to nobody but are shared collectively. They are provided by the government to be used by any one at free or reduced charges/cost for example roads, government schools, public transport, hospitals, public toilets etc.
2. **Private goods:** These are goods that are owned and used exclusively like private cars, houses etc.
3. **Free goods:** These are goods that exist naturally to everybody / person at free charge. For example oxygen, sunshine, moonlight, rainfall etc.
4. **Capital goods/producer goods/ investment goods:** These are goods meant to be used for further production for example factories, buildings, machinery like tractors, generators, furniture etc.
5. **Consumer goods:** These are goods which are ready for human consumption e.g. shoes, clothes, pencils, foods stuffs, radios etc.
6. **Economic goods:** These are goods that are scarce and carry a monetary value for example vehicles land etc.
7. **Complementary goods:** These are goods that are jointly used for example cars ad fuel, radios and cells, food and water, phones and airtime.
8. **Substitute goods/ supplementary goods:** These are goods that satisfy a single want in a manner that one can be used in place of the other. They are competitive and can substitute each other. They are competitive and can substitute each other for example tea and coffee, solar energy and hydro electric power.
9. **Perishable goods:** These are items get spoilt within a short period of time for example fish, flowers, milk etc.
10. **Durable and non durable goods:** Both producer and consumer goods can be durable or non durable. Producer goods that are consumed at once non durable like firewood in making bricks yet machinery is durable. Consumer goods are durable if they can be used many times e.g. cookers at home yet food stuffs are non-durable.

PRODUCTION

Sample questions

- What is meant by production?
- Give reasons why production is carried out?
- Describe the types of utility
- Explain the types of production
- Explain the various types of goods produced
- Describe the stages of production
- State the significance of production
- Describe the various forms of specialization
- Outline the advantages and disadvantages of specialization

Qn. What is meant by the term "Production"

It is a process which involves transformation of raw materials or semi – finished goods into finished goods to satisfy the requirements of consumers.

Or

Production is a process aimed at creating utility.

DIRECT AND INDIRECT PRODUCTION

DIRECT PRODUCTION

This is the type of production which involves production of goods for one's own use or consumption.

Examples

(i) If a person went to the lake, caught fish, processed it cooked it for his family, that is direct production.

(ii) If a carpenter makes a chair for his own use at home, he is engaged in direct production.

(iii) If a farmer grows beans and consumes them with his family then he is engaged in direct production.

INDIRECT PRODUCTION

This is the production of goods and services for sale or production of goods and services for other people's consumption.

Examples

(i) If a carpenter makes chairs and sells them to other people, then he is engaged in indirect production.

(ii) If a farmer grows maize, then he sells it, he is engaged in indirect production.

ADVANTAGES OF INDIRECT PRODUCTION

1. It is a source of income after selling goods.
2. It is a source of employment.
3. It is encourages exchange
4. It is a source of government revenue through taxation.
5. It leads to high quality goods.
6. It leads to greater output or quantity.

DISADVANTAGES OF INDIRECT PRODUCTION

1. It requires a lot capital which is not readily available in low developed countries e.g. Uganda.
2. It requires skilled labour which is not readily available.
3. It is associated with market problems such as inflation.

NB: Inflation refers to the persistent increase in the general prices of goods and services in a country.

SUBSISTENCE AND COMMERCIAL PRODUCTION

Subsistence production: Refers to production of goods such that the producer is the consumer with the aim of satisfying his/her needs.

Majority of peasant farmers are subsistence producers in Uganda.

Commercial production: Refers to production with the aim of selling and getting income or profits for example bus operators, sugar plantations etc.

Qn. Outline advantages and disadvantages of subsistence production

Production unit: Refers to a place which goods and services are produced e.g. school, hospital factory etc.

Mass production: This is production which involves production of goods on a large scale hence reducing on the cost of production.

Standardisation: This is production of goods uniformly designed and sized e.g. plastic products cars, bicycles etc.

LEVELS OF PRODUCTION

Production is carried out in several stages, these include:

- Primary level of production
- Secondary level of production
- Tertiary level of production

PRIMARY LEVEL OF PRODUCTION

This level of production involves the extraction of raw materials from their natural sources. Example of activities of primary activities include:

Activity	**Raw materials**
Fishing	fish
Mining	mineral
Farming	cloth, maize, coffee
Lumbering	timber
Oil drilling	oil
Quarrying	stones

SECONDARY PRODUCTION

This involves transforming of raw materials into finished products. Secondary production is divided into:

Manufacturing industry e.g.

(a) Textile manufacturing
(b) Maize milling
(c) Oil refining
(d) Fish processing

Constructive industry e.g.

(a) Bridge making
(b) Housing building

(c) Road construction

TERTIARY PRODUCTION

This is the production /provision of services and can be categorized as below:

Direct service: These are services that require a close personal contact between the service provider and the consumer like doctors, solicitors, actors, hair dressers, teachers etc.

Commercial service

These are concerned with buying, selling and distribution of goods. Examples include:

- Wholesaling
- Retailing
- Banking
- Advertising etc

An illustration showing the levels of production

Primary production	Secondary production	Tertiary production
- Lumbering	- Construction	- Commercials
- Agriculture	- Manufacturing	- Direct services
- Mining		
- Fishing		

Qn. (a) Define factor of production

(b) Explain the factors of production and their rewards

Factors of production are agents of production or things necessary for production to go on efficiently. These include:

- Land
- Labour
- Capital
- Entrepreneurship
- Organization

Land

This refers to all natural resources on the surface, above or underground the earth's surface which play a vital role in production. Examples of natural resources include:

- Soils
- Materials
- Lakes

- Sunshine
- The climate
- Air etc

NB: The reward or payment to land is called Rent

Labour

This refers to the physical or mental human effort directed towards production. Human effort can be regarded as labour only if it is directed towards production.

Classification of labour

- Skilled labour like teachers, engineers
- Semi-skilled labour like office messengers
- Unskilled labour e.g. potters.

NB. The reward or payment made to labour is salary or wages

Capital

This refers to cash or physical goods necessary to assist labour to produce other goods or services e.g.

- Machinery
- Buildings
- Furniture
- Vehicle etc.

NB: The reward or payment made to capital is interest.

Organization

Refers to a group of administrators who manage co-ordinate and supervise the production activities.

For example in school, the head teacher, deputy, directors of studies make up the organization.

NB: The payment / reward for organization issalary or commission.

Entrepreneurship

This is a factor of production responsible for mobilizing and financing other factors of production.

An entrepreneur is actually the owner f the business.

ROLES OF AN ENTREPRENEURSHIP

- Finances the production activities
- Initiates / starts the production activities
- Pays the other factors of production
- Bears risks or uncertainties
-
- Makes production decision that is, what or when and how to produce.
- Supervise the other factors of production.

NB: The reward to an entrepreneur is profit / loses

CONSUMPTION AND CONSUMER BEHAVIOUR

Consumption: Is defined as satisfaction of human wants through the use of goods and services. It is the final stage in the process of production.

Consumer behavior: Refers to the way in which consumers react towards certain situations in market i.e. they seek to maximize satisfaction from their given money incomes.

DEMAND

Refers to the quality of goods or services an individual (consumer) is able to purchase at a given price in a given period of time.

Or

It refers to a desire backed up by willingness and ability to pay for a commodity at a given price in a given period of time.

THE LAW OF DEMAND

It states that the higher the price, the lower the quantity demanded and the lower the price, the higher the quantity demanded.

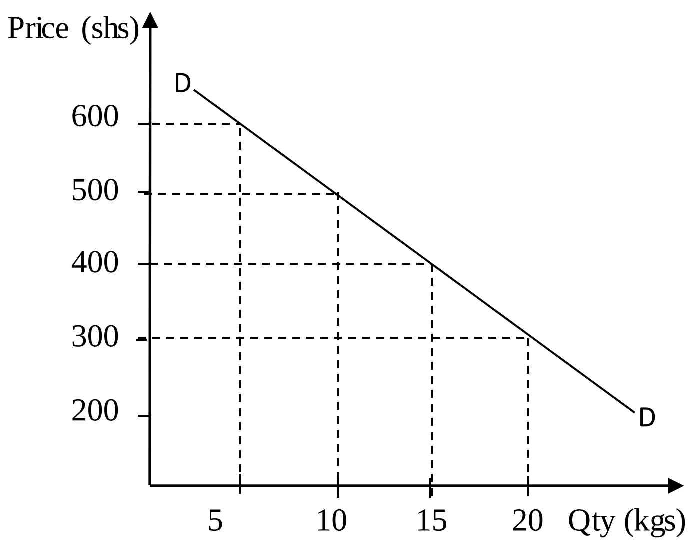
DEMAND SCHEDULED

It refers to a table showing the relationship between the price and quantity demanded.

Price of sugar (shs)	**2000**	**3000**	**4000**	**5000**	**6000**
Quality demand (kgs)	25	20	15	10	5

Demand curve

It is a graphical representation of the demand. Using the information in the demand scheduled above, we can illustrate a demand curve as below:



FACTORS THAT INFLUENCE DEMAND

1. **The price of the commodity:** If the price is high the demand is low and if the price is low demand is high.
2. **The season of the year:** Certain commodities are demanded highly in certain seasons of the year for example umbrellas, rain coats, gum boots during rainy seasons, X-mas cards during x-mas season and vice versa.
3. **Size of the population / market:**A large population demand more and a small population demand less.
4. **Consumer tastes and preferences:** Consumers tend to buy more of a commodity that they like most and less or nothing for a commodity they do not like.
5. **Advertising:** The more the advertisement the more the demand for the products and vice versa keeping other factors constant.
6. **Price of other goods:** The demand of a particular commodity will depend on the price of other goods for example.
7. **The income of the consumer**: The more the advertisement the more the demand for the products and vice versa keeping other factors constant.
8. **Price of other goods**: The demand of a particular commodity will depend on the price of other goods for example:
   (i) **Complementary goods:** These are goods which are jointly demanded like cars and fuel, phones and airtime, pens and books etc.
   An increase in the price of one (cars) will cause a decrease in demand for another (fuel).
   (ii) **Substitutes:** These are goods that serve the same purpose like colgate and delident, meat and fish, kimbo and cowboy etc.
9. **Price expectation:** When customers expect prices of a good to rise in future, they tend to buy more at that time and when they expect a future price fall, they tend to buy less of the commodity.
10. Government policy of taxation and subsidization: Taxes increase price and so reduce demand while subsides reduce and so increase demand.

SUPPLY

Refers to the amount of a commodity that producers or sellers are willing and able to put on the market at various alternative prices in a given period of time.

The law of supply

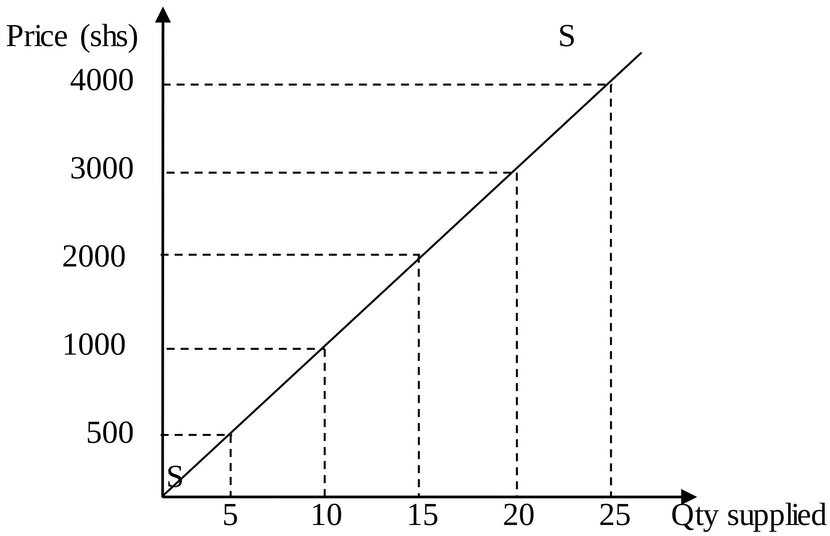
It states that the higher the price the higher the quality supplied and the lower the price the lower the quantity supplied.

The supply schedule

This is a table showing quantities of a commodity supplied at different alternative prices in a given period of time.

Price of sugar (shs)	**500**	**1000**	**2000**	**3000**	**5000**
Quality supplied (kgs)	5	10	15	20	25

Supply curve: This is a graph representing quantity supplied at alternative prices.



NB: The supply curve is upward sloping representing the law of supply.

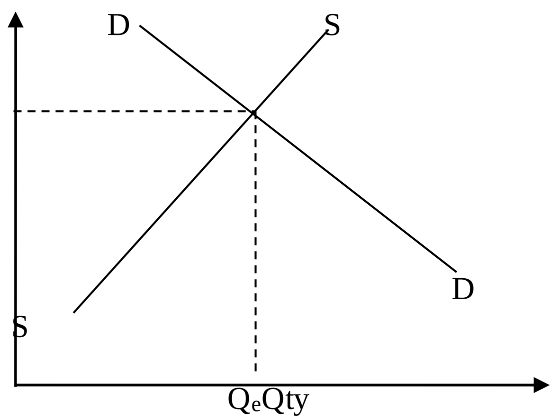
FACTORS THAT INFLUENCE SUPPLY

1. **Price of the commodity:** The higher the price, the greater the quantity supplied and the **lower the price, the lower the quantity supplied.**
2. **The cost of production: A decrease in the cost of production increases supply but** increase in the cost of production reduces supply.
3. **Number of producers:** A greater number of producers increases production and supply and a small number reduces production and supply.
4. **Demand / size of the market:** An expansion in the market for commodity increases supply and a decrease in the market for a commodity reduces supply.
5. **Gestation period:** A longer gestation period reduces supply and a shorter one increases the supply of a commodity.
6. **Natural factors:** This normally applies to agricultural products, bad weather conditions may cause limited supply and favourable climatic conditions lead to higher supply.
7. **Government policy:** Taxation reduces supply and subsidization increases supply.
8. **The political environment:** Political instability discourages producers hence supply declines and vice versa.
9. **Level of technology:** Efficient technology speeds up production hence supply increases and vice versa.
10. **The objective of the producer/ firm:** If the producer wants to maximize sales, supply will increase but if he wants to maximize profits he/she may limit supply.

11. **The working conditions/environment:** Favourable working conditions increase supply and vice versa.
12. Expectations of future price changes.
13. **Prices of other commodities**: The increase in the price of substitutes leads to a decrease in supply of a commodity in question and vice versa. Increase in the price of a complementary good leads to increase to increase in supply of related goods and vice versa.

Equilibrium : This is a point where demand curve interacts with the supply curve. T this point both the buyers and sellers are comfortable i.e. buyers are willing to purchase and sellers are comfortable to sell at that price. Equilibrium price is also called market price.

Pee



Key

P_e= Equilibrium price

Q_e = Equilibrium quantity

e = Equilibrium point

SPECILISATION AND DIVISION OF LABOUR

Specialization: Is a situation where an individual/ region / country on concentrates in the production of a given commodity or service he/she / it can produce best and leave the rest of the activities to others.

Division of labour: Refers to splitting of work among different people who are involved at different stages in the production of a commodity.

TYPES OR FORMS OF SPECIALISATION

- Specialization by sex
- Specialization by commodity
- Specialization by process
- Specialization by region
- International specialization
- Specialization by profession / craft

1. Specialization by sex: This is where a person concentrates on an activity suitable for his/her gender. For example
   - Cooking is suitable for women
   - Hunting is for men
   - Nursing is suitable for women
   - Lumbering is suitable for men

2. Specialization by process: This is where the production process is broken down into stages or tasks each undertaken by a different group of people e.g.
   A car assembling factory:
   i. Fixing of engines is done by Roy, Tom, Mark and Lule.
   ii. Fixing seats is done by Jimmy, John, Tonny and Rose.
   iii. Fixing of tyres done by Kasule, Kiwanuka and Hakim.
   iv. Installation of air conditioners is done by Ainomugisha, Black and Mukiibi

3. Specialization by commodity: This is a situation where a country concentrates on the production of a particular commodity and exchange for what it cant produce.

   Example

Uganda	**Tanzania**	**Japan**	**Libya**
Coffee	Sisal	Vehicles	Petroleum

4. Specialization by skill: This is where people concentrate on acquiring a particular skill such that in a given job may be specialized in like Doctors, Teachers, Lawyers e.t.c

5. International Specialization: This is where people/ countries tend to concentrate in commodities in which they are well endowed due to differences in soil, skills e.t.c

THE NEED FOR SPECIALIZATION

Specialization is necessary because of the following:

1. No single country can produce all that she needs hence a need to specialize and exchange.

2. The time to produce everything needed may not available.

3. Difference in sex makes people concentrate on activities suitable for their sex.

4. The difference in resources makes it necessary to exchange.

5. People may not have all the necessary skills to produce all commodities.

ADVANTAGES OF SPECIALIZATION

1. Increases skills and efficiency (experience): Specialization allows a person to gain more skills and becomes efficient while handling a task continuously.
2. Saves time: Working time and again on job increases one's speed hence saving time.
3. Mass production: It encourages increased output since workers discover better ways of carrying out a task backed up by use of machines.
4. Exploitation of talents: Continuous working on the same work allows a worker to exploit fully his or her talent.

5. Reduces fatigue / Save energy: As work is shared a person does not easily get tired since he / she does not move from one task to another.
6. Specialization promotes international trade through exchange.
7. Promotes use of machines: This leads to production of standardized foods.
8. Promotes economy of tools i.e. tools are put to good use.
9. Better quality goods are produced: This is because experts are employed.
10. Wastage is reduced: This is because skilled workers are employed therefore resources are put to the best use.
11. Promotes social understanding: Specialization promotes exchange, Exchange promotes understanding between parties involved as it is not possible to go to war when there is inter dependence.

DISADVANTAGES OF SPECIALIZATION

1. Boredom /monotony, Specialization leads to monetary while one is working because of performing one activity over and over again.
2. Mass production which may result into surplus. This may be put to waste because of lack of market.
3. Exhaustion of resources: This is due to exploitation of resources like minerals e.g. copper.
4. Unemployment: This sets in because of use of machines which displace workers.
5. Loss of crafts man ship: As a result of using machines, there is a tendency of decline in hand skills especially in crafts man ship.
6. Break down of process: In the absence of a skilled worker at one stage may affect the entire process because continuity requires him /her.
7. Lack of responsibility because one job is completed by different workers i.e. accountability is lacking.
8. Affects health of workers: Working on some machines like computers and furnace for long hours and days may affect the health of employees.

EXCHANGE

This is the giving or transfer of goods or services by a person to another in return for money or other goods.

TYPES OF EXCHANGE

i. Barter exchange i.e. goods or services are used as a medium of exchange.
ii. Monetary exchange i.e. money is used as a medium of exchange.

PRICE DETERMINATION IN THE MARKET

What is a price?

Is the exchange value of a good or services expressed in the monetary terms.

What is a market?

Is an arrangement where buyers and sellers are brought into close contact for the exchange of goods.

METHODS OF DETERMINING PRICES

1. Bargaining / Haggling: This is where the buyer approaches the seller and both determine the price between stated limits.
2. Auctioning: This is where goods are assembled before prospective buyers or bidders and one who offers the highest price takes the good.
3. Resale price maintenance: This is where producers insist on fixing prices for their goods up to the last stage of distribution i.e. its where manufacturer / producers fix a price for a good at which even the final consumer is supposed to buy a commodity.
   For example:
   - Air time
   - Soda firms
   - Stamps
   - Press on News papers

4. Price Leadership: This is where a dominator firm sets the price and it is followed by others. It is common with cement manufacturing firms, soda firms, and beer firms' e.t.c.
5. Use of treaties or agreements: This is where traders fix price by the way of agreement between the seller and buyer. It is common in international trade.
6. Government policies of price control: This is where a government sets a minimum or maximum price for essential commodities minimum price is meant to protect producers while maximum is for consumers.
7. Market forces of demand and supply: The price is determined at a point where quantity demanded is equal to quantity supplied.
8. Reserve price: This is the lowest price at which the seller can not offer his commodity for sale.

TRADE

Trade is a branch of commerce that deals with actual buying and selling of goods and services with an aim of making profits.

Who is a trader?
Is a person who buys goods and services with an aim of reselling them. Trade can be divided into two categories:

i. Home trade
ii. Foreign trade

HOME TRADE

Is the exchange of goods and services between or among residents of a given country. Home trade is divided into two:

- Retail trade
- Wholesale trade

MAIN FEATURES OF HOME TRADE

- It is the internal trade of a country i.e. trade is carried out in goods produced and consumed in the same country.
- Home or local currency is used.

- Only home traders are involved i.e. retailers and wholesalers.
- The major forms of transport are road, railway and human porter age.
- Limited market sphere i.e. market coverage is local.

CHAIN OF DISTRIBUTION

This refers to the channels through which products move from the producer to the final consumer or user.

The chain distribution may take any of this following path or routes:

i. The manufacturer may sell to the wholesaler who then sells to the retailer and the retailer sells to the consumer.
ii. The manufacturer may open up his own retail outlet and sell directly to the consumer.
iii. Large scale retailers may buy directly from the manufacturer and sell to the consumer in small sizeable quantities.
iv. The manufacturer may distribute goods through agents or authorized distributers of the final consumer.

FACTORS THAT INFLUENCE METHODS / CHANNELS OF THE DISTRIBUTION

In the distribution of goods from the producer to the final consumer, two alternatives are taken namely.

a. Direct selling: This is where the producer sells directly to the consumers with no need to use intermediaries.
b. Distribution through intermediaries: Intermediaries are middle men who bridge the gap between a producer and a consumer e.g. wholesalers, retailers, commission agents e.t.c.

DETERMINANTS OF THE CHOICE OF THE CHANNEL OF DISTRIBUTION

1. The nature of goods: For example perishable goods and goods which require installation and servicing are usually sold directly to the final consumer yet manufactured durable goods take the normal chain.
2. Marketing costs like advertising, storage packing e.t.c plus marketing risks such as spoilage change in fashion, theft e.t.c these can be avoided when the producer sells through middlemen such as wholesalers and retailers e.t.c.
3. Size and nature of the market: In case of local market with seasonal demand, direct selling is economically feasible yet distribution through middle men is more effective with market having scattered buyers.
4. Scale of production: A large scale producer can afford to carry out his own retailing unlike small scale producers who may have to rely on middle men.
5. The distance separating the buyer from the seller or market location: The greater the area over which a product is sold, the more complicated the movement of goods becomes and the more elaborate the chain of distribution becomes.
6. Transport and communication system: The need to sell through middlemen will arise if the means of transport and communication are not efficient especially when there is a wide geographical gap between the producer and the consumers.

RETAIL TRADE

Retail trade is the selling of goods to the consumers. The process of selling goods to consumers is known as retailing. The trader who is specialized in selling goods to the consumers is called Retailer

FUNCTIONS OF A RETAILER

The basic functions of a retailer include:

1. Buying goods from either a producer or awareness in relatively large quantities.
2. Transporting goods: He transports goods from the wholesaler's warehouse to his/her premises.
3. Storing goods: He stores goods during periods of excess supply until demand rises.
4. Displaying goods: He displays and advises the customers to select the most suitable items.
5. Selling goods: He sells goods to customer usually in small quantities.

OTHER FUNCTIONS

6. Acts as a link between producers and customers.
7. Looks for market: He looks for the market for the goods bought from their a producer or a wholesaler.
8. Advertises new goods: He advertises new products hence creating awareness to customers and general public.
9. Offers a variety of goods: He offers a wide variety of goods which in turn facilities choice to his customers.
10. Provides credit facilities: The retailer provides credit facilities to regular customers.
11. Offers after sales service: The retailer provides after sales services to his customers in form of repair and maintenance, installation, delivery services etc.

SERVICES OF A RETAILER TO:

(a) The consumers / customer

(i) Buys and breaks the bulk hence making it easy to sell to consumers in small and affordable quantities.
(ii) Provides credit facilities to his regular customers thereby enabling them to maintain their standard of living.
(iii) Ensuring continuous supply by storing goods till they are wanted by the consumers.
(iv) Providing a variety of choice by stocking goods from different manufacturers or wholesalers.
(v) Sometimes transports goods to thecustomers premises especially those who buy in bulk.
(vi) Displays his goods in order to accord customers an opportunity to select the most suitable for them.
(vii) Offers after-sales services for example advice on the use of goods, packaging etc.
(viii) Source of information to consumers about the new products, new fashions and their relative process thereby creating awareness.

(b) To the wholesaler

i. Connects the wholesalers to consumers.
ii. Buys in relatively large quantities hence relieving the wholesaler of storage problems.
iii. Provides transportation of goods from the wholesalers warehouse.
iv. Keeps the wholesaler informed of the market conditions thereby enabling him to make accurate forecast of future requirements.
v. Provides a continuous market for the wholesaler. He finances the wholesaler's business by paying for the goods he buys.
vi. Saves the wholesaler the trouble of dealing with small order from customers.
vii. He helps the wholesaler to advertise the goods.

(c) To the producer

i. Helps in market research
ii. He provides an outlet for producers' products
iii. He carries out publicity of the producer goods through advertising
iv. He creates room for more production by storing goods at his premises.
v. He saves the producers' time and burden of having to deal with small orders from consumers.

FACTORS TO CONSIDER WHEN SETTING UP A RETAIL BUSINESS

1. **Market:** A retailer should set up a retail shop in a place where there is market for commodities he intends to sell.
2. **Source and availability of capital:** This will enable the retailer determine the type of commodities to stock.
3. **Other retailer (competition):** Consider the retailers already established in the area and their progress. This enables him to know whether there is demand for the commodities he intends to sell or not.
4. Cost of operation in terms of labour, rent and transport etc
5. Terms of sales such as cash and sometimes whether to extend credit facilities to credit worthy customers or not.
6. Source of supply of stock.
7. Government laws and regulations / government policy.
8. Availability of infrastructure like roads, power, water and telephones etc
9. Location of the business i.e. room for future expansion, convenience to customers etc
10. Experience of retailers in the business.

FACTORS FOR SUCCESS IN THE RETAIL TRADE (QUALITIESOF A GOOD RETAILER)

1. He should be pleasant, polite, kind or courteous to his customers.
2. He should be a good buyer, i.e. he should know what to buy, when to buy and price of his stock.
3. He should be able to fore cast the demands of his customers as regards quality, brand etc
4. He should be a good administrator by checking on activities of his staff and closely controlling his stock.
5. He should be honest to all his customers by not over charging them.

6. He should be co-operative to his suppliers and pay them promptly.
7. He should keep good financial records to keep track of the progress of his business.
8. He should know his customers personally
9. He should open his shop at hours convenient to his customers
10. He should limit his expenses for example he should not rent an expensive house and should use the cheapest means of transport.

TYPES OF RETAILERS

There are two types of retailers namely:

a. Small scale retailers
b. Large scale retailers

SMALL SCALE RETAILERS

These are retailers who operate on small scale. They invest in business little capital and therefore they hold little stock.

CHARACTERISTICS/ FEATURES OF SMALL SCALE RETAIL BUSINESS

(a) They employ limited capital
(b) They operate on small scale
(c) Offer limited variety of goods
(d) The operate in a limited area and offer their services to few customers hence limited market.
(e) They have no proper accounting record keeping.
(f) The business is more flexible.
(g) They have limited access to external sources of capital to expand the business apart from margin.
(h) They have a small turn over and small turn over and small profit margin.

SMALL SCALE RETAILERS MAY BE CLASSIFIED INTO:

(a) Those with fixed premises
(b) Those without fixed premises

SMALL SCALE RETAIL WITHOUT FIXED PREMISES

These are retailers who do not have a permanent place of operation. Examples of such retailers include:

Itinerant trader, these are retailers who move from place to place selling their goods like

(a) Hawkers
(b) Pedlars
(c) Mobile traders
(d) Barrow boys

Features / characteristics of itinerant traders

i. They move from place to place while selling their goods. They operate in both rural and urban areas.
ii. They sell cheap items like cosmetics, second and clothes etc.
iii. Their operational expenses are low.
iv. They employ limited capital in their businesses.

v. Their turn over is low.
vi. At times they sell defective goods.

(a) Hawkers: These are traders who move from place to place selling their goods using a certain means of transport means of transport like bicycles, motorcycles, carts etc. they normally hold items like toys, watches, combs etc. they operate in densely populated areas especially urban centres.
(b) Pedlars: These are traders who carry their goods on the shoulders, head and in hands but move on foot from village to village. They sell items like milk, grasshoppers, ice cream, fish pancakes etc.
(c) Barrow boys: These traders sell their food stuffs on wheel barrows and move from place to place selling their goods like oranges, mangoes etc.
(d) Mobile/ truck traders: These are traders who move from place to place carrying their merchandise on vans or lorries following a set time table.

Other small scale traders without fixed premises include:
i. **Roadside traders:** these are traders who sell their goods along busy roads next to bus stages or parks or public halls.
ii. **Market vendors:** These are traders who operate in market places in stalls like in Owino market, Nakasero etc.

DISADVANTAGES OF ITENERANT TRADERS

1. Quite tiresome business due to movements
2. Rainy seasons adversely affect sales
3. They normally sell defective or inferior goods
4. Continuity of the business is uncertain in case the owner dies.
5. Expansion of business is limited by the little capital involved.
6. They have a tendency of dodging government taxes hence the government loses revenue.

SMALL SCALE TRADERS WITH FIXED PREMISES

These are traders who have permanent places of operation and these include:

- Tied shops
- Single shops
- Kiosks
- Canteens
- Village stores
- Urban stores

1. Single shops: These are unit shops owned and run by one person known as sole trader. Such shops are common in trading centres and sell essential commodities like sugar, salt, soap, maize flour etc.
2. Canteens: These provide mainly food stuffs or soft drinks to people working in offices, industrial areas, schools, hospitals etc.
3. Kiosks: These are run the same way like canteens but operate in semi permanent structures constructed with timber and iron sheets on roadsides of different towns. They deal in small items like Airtime cards, cakes, sodas, sweets etc.
4. Tied shops: These are retailers who sell products of one manufacturer. For example petrol stations 'tied' to one of the few oil companies like Shell, Total, Hass etc.

5. Urban stores: These are found in towns but are set up in away that those selling similar items are found in one area. For example Hardware shops in Nakasero, spare parts shops in Kiseka market.
6. Village stores: These are shops or stores which are found in villages and basically dealing in agricultural products like maize, beans, millet, sorghum, groundnuts, pens etc.

ADVANTAGES OF SMALL SCALE RETAILERS

1. Little capital is needed to start and run such business.
2. Such businesses are easy to supervise and manage.
3. They have permanent customers which enables them to sell their goods and services easily.
4. Decision making is easy since such businesses involve one or few people.
5. They are flexible i.e. it is easy to change from one line of business to another.
6. They normally sell commodities in small quantities that consumers can afford.
7. Their prices are never fixed which allows consumers to bargain.
8. They promote close contact between the trader and the consumer.
9. They pay less tax and some of them can easily avoid it.
10. Less legal requirements. The trader is not bothered by many legal requirements before he can begin business.
11. They require small room or space for operation.

DISADVANTAGES OF SMALL SCALE RETAILERS

1. Limited expansion: This is due to small capital employed.
2. Bad debts: This results from giving credit facilities to consumers who never pay back.
3. Low turnover: This is due to limited scale of production.
4. Limited division of labour: This is because all the work is done by only one person.
5. Stiff competition: This comes from other retailers from the area.
6. Limited collateral security which cannot allow them to apply for loans.
7. Fatigue which is caused by moving from one place to another.
8. Limited continuity: This is because the retailer is the business is the retailer.

Assignment

(a) State the advantages and disadvantages of mobile shops.
(b) Give the characteristics of mobile shops
(c) Mention three features of tied shops and single shops.

LARGE SCALE RETAILERS

These are traders who operate business on large scale and hold large volume of goods.

Characteristics / features of large scale retailers

i. They hold large stock of goods
ii. They operate on a large scale
iii. They operate using a large capital base
iv. They serve a wider market
v. Their turnover is high
vi. They are stationed in towns and cities
vii. Most of them operate in well established premises.
viii. They can afford specialists/workers like accountants auditors etc.
ix. They usually sell to final consumers.

Forms of large scale retailers

1. Super markets
2. Hyper markets
3. Mail order shops
4. Variety chain stores
5. Departmental stores
6. Multiple shops
7. Retail cooperative societies
8. Discount stores

Super market

These are large stores that stock many items a housewife is likely to buy / stores that offer self service . Examples of such items include, eatables, drinks, light electrical appliances, clothing etc.

Features of supermarket

1. There is self-service for customers.
2. Goods are pre-priced i.e. goods bear price tags.
3. They normally stock house hold items like utensils, food stuffs etc.
4. They do not offer credit facilities
5. They operate on a large capital base.
6. Goods are attractively displayed on shelves.
7. Trolleys and baskets are provided for customers to carry their goods.
8. There is a high level of customer care.
9. They sell high quality domestic goods
10. There are numerous exits at which payment is made.
11. Sales psychology is scientifically applied like attractive display and soft music.

Examples of supermarkets include:

1. Shoprite
2. Capital shoppers
3. Tuskys (at Ntinda)
4. Megha supermarket
5. City shoppers

Advantages of supermarkets

1. There is no time wastage since they operate on self – service.
2. They may not suffer from bad debts because do not give credit facilities
3. They offer a wide variety of goods which facilitates consumer choice.
4. They enjoy huge profits because they serve many customers.
5. Goods are attractively displayed which encourages many buyers.
6. They provide employment to people like cashiers and attendants
7. The proprietors can minimize expenses since there is a possibility of employing very few workers because of self-service.
8. They sell at cut down prices as sometimes they buy directly from manufacturers at very low prices because of trade discounts.

Disadvantages of super markets

1. They pay high taxes and trading licenses which reduce their profits
2. They sometimes experience shoplifting in form of perfumes, sweets, underwears etc.
3. Lack of credit facilities discourages some customers.
4. Large capital is required to establish supermarkets.
5. Supermarkets do not cater for bargaining hence eliminating the customers bargaining power.
6. They are normally located in urban areas and for that matter, rural and remote areas to without the services of supermarket.

Departmental stores

These are a number of single shops under one roof and one management.

Features of departmental stores

1. They are a number of shops under one roof and management.
2. Each department has its own manager.
3. They stock a variety of unrelated goods
4. Each department normally buys and sells stock on its own.
5. They are always located in central shopping areas of big towns.
6. They provide a number of auxiliary services like restaurants, conference halls, reading rooms, banking facilities etc.
7. There is no transfer of goods to other departments
8. They buy goods from different sources and sell them at a central place.
9. Like super markets, departmental stores normally sell goods on cash basis.
10. Administration of departmental stores is decentralized.

Advantages of departmental stores

1. A variety of goods are stocked which facilitates consumer choice.
2. A loss made in one department can be covered by a gain in another department.
3. Since there are several departments the overhead expenses are shared among all departments.
4. They earn huge profits due to the large stock held.
5. They can easily be accessed due to their central location.
6. They purchase goods in bulk so they enjoy quantity discounts.
7. Departmental stores hardly extend credit facilities to customers and for that matter loss as a result of bad debts a very minimal

Disadvantages of departmental stores

1. There is no personal contact between the owner and the customers.
2. Chance of shop lifting is high due to large size of the store.
3. High chances of mismanagement as those employed to manage the store may use the money to meet their interests.
4. The rural people may not get chance to buy from these stores since they are located in cities.
5. Shortage of goods in one shop cannot be offset by goods from other shops.
6. They require large amount of capital to operate a number of shops.
7. They occupy large space compared to small-scale retailers, which implies high rental expense.

MULTIPLE SHOPS /CHAIN STORES

These are a number of shops scattered in the country selling similar or related goods owned and managed by one concern / person.

Features of multiple shops

1. They have similar appearance and designs e.g MTN shops, shell stations, Bata shops etc.
2. They deal in one class of goods
3. Selling prices are set from the head office
4. All sales are made on cash basis and no credit facilities.
5. Selling is decentralized through a number of branches.
6. Buying is centralized that is, they buy from one source or manufacturer.
7. Each branch is under a branch manager.
8. In multiple shops goods are sold at the same price in all branches.
9. They are usually under one ownership and management.

Advantages of multiple shops

1. The goods are brought near the consumers because multiple shops have branches which are scattered allover the country.
2. There are no losses from bad debts since all goods are sold on cash basis.
3. Each branch advertises another which reduces on the expenses.
4. They earn huge profits since they operate on a large scale.
5. They make shopping easier and pleasant since goods are standardized and bear price tags like Bata shops.
6. They do not need to employ large staff since goods bear price tags.
7. Shortage of goods in one branch can be solved by transfer of stock from other branches.
8. They are able to employ specialists such as sales and purchasing managers since they invest large capital.

Disadvantages

1. They require large sums of capital to start.
2. There is no personal contact between the customer and the owner of the shop.
3. Decision making may be difficult since all branches have to be consulted.
4. Multiple shops are not flexible i.e. they may not easily change from one line of business to another.
5. They are located in urban areas hence ignoring the rural areas.
6. Lack of credit facilities may affect the turnover in the long run.
7. There is limited consumer choice since they sell goods of one producer/manufacturer.
8. Losses incurred by one branch affect even other branches.

DIFFERENCES BETWEEN MULTIPLE SHOPS AND DEPARTMENTAL STORES

1. Multiple shops are owned and managed by a single firm but scattered in different areas while departmental shops are a number of shops under one roof and management.
2. Multiple shops stock similar or related range of goods while departmental stores stock a variety of unrelated goods.
3. Multiple shops charge similar or identical prices for similar goods while departmental stores charge different prices for their wide range of goods.
4. Multiple shops have a centralized purchasing function while departmental stores have decentralized purchasing function.

5. In multiple shops, risks are widely spread in different branches whereas in departmental stores risks are higher since goods are under one roof.
6. Multiple shops have similar appearance and shop layout while departmental stores have different shop lay out and may be different in appearance.
7. In multiple shops goods can be transferred from one shop to another since they are similar which does not apply to departmental stores.

MAIL ORDER SHOPS

These are retail units that offer goods for sale through the post office and not across the counter.

Features of Mail order shops

1. They offer goods for sale through the post office.
2. Traders have no shops but aware house and an office.
3. It depends on extensive advertising in Newspapers, catalogues, brochures etc.
4. Many formalities are involved at the post office for example proof of identification etc.
5. There is absolutely no personal contact between the buyer and seller.
6. The trade needs not to stock a large amount of goods a since he acquires goods when he receives orders from customers.
7. The goods are supplied on cash with order basis.
8. They deal in goods that are not perishable, not bulky and not available from a local shop.

Advantages of mail order shops

1. It does not require employment of shop attendants which reduces on operational expenses like wages and salaries.
2. It is more convenient since the buyer does not have to move to congested areas to look for goods.
3. Mail order business reduces dangers of bad debts since the orders are always placed with cash, no credit facilities.
4. Un trust worth middle men are eliminated since the buyer deals directly with the seller.
5. Mail order businesses maintain privacy when buying personal items.
6. The seller advertises through categories which gives the buyer a wide range of items.
7. They can be located in rural areas therefore they offer services to people living in remote areas.

Disadvantages of mail order shops

1. There is no personal contact between the seller and the customers.
2. There may be delays in delivery of goods.
3. Wrong and damaged goods may be delivered.
4. Cost of producing magazines, catalogues or journals may be much and this may reduce the seller's profit margin.
5. Large stocks may cause heavy financial loss if goods are not bought because they are out of fashion.
6. Mail order shops may not give credit facilities which discourage some customers.
7. Mail order shops may not be successful in places that are not covered by post office services.
8. There is a possibility of some order letters from customers getting lost with the post office.

NB: Ways of purchasing from mail order shops:

- Through <u>local agents</u>

- Buying on <u>cash with order</u> basis where the customers send the order along with cash.
- Buying on <u>cash on delivery</u> items where payment is done as goods are delivered.

CONSUMER CO-OPERATIVE STORES/SOCIETIES

These are retail businesses owned and operated by a group of final consumers to purchase and distribute goods and services to members at fair or reduced prices.

Features /characteristics of consumer co-operative stores

- They are owned by a number of consumers/members.
- Members elect their representatives who run the store.
- Sales are marked with two prices, for members and non members.
- Distribute profits among members in the ratio of their purchases from the store.
- Provide the members with goods and services at fair price and of good quality usually located in remote areas where independent traders are unwilling to work.

Installment stores

These stores offer goods on either hire purchase or deferred payment terms.

Discount stores

These purchase stock directly from manufacturers and sell to consumers at substantial discounts.

BAZAAR OR VARIETY CHAIN STORES

These combine the features of chain and departmental stores. A wide selection of merchandise is displayed on open shelves with self service each store displays and sells the same range of merchandize.

Hyper market

These are very extensive supermarkets with wide parking space and entertainment facilities for the customers.

Qn. (a) Outline any four advantages of large-scale retail outlets

(b) What are the features of the following retail outlets and traders?

i. Departmental stores
ii. Multiple shops
iii. Super markets
iv. Hawkers

Advantages of small scale retailing over large scale retailing

1. Less capital is required to start business as compared to large scale businesses like supermarkets.
2. There is personal contact between the retailer and customers as compared to large scale businesses.
3. Greater flexibility of operation as compared to large businesses like departmental stores.
4. Decision making is easy and faster as compared to large retails with many people to consult.
5. Secrecy and confidentiality in business dealings and profits as compared to large retails.
6. Reduced operational costs in form of rent, electricity, taxes etc as compared to large retails
7. Easy formation because there are few legal formalities or procedures to go through as compared to large retails.
8. Easier to manage and supervise because of small size as compared to large retails.

9. Can operate in any given remote area where large scale retailing may not operate due to poor infrastructure.

Advantages of large scale retailing over small scale retailing

1. Purchase in bulk and enjoy trade or quality discount as compared to small retails.
2. Operate several departments therefore losses in one branch can be covered by gains from other branches as compared to small retails.
3. Large capital hence possible to carryout research so as improve services to customers as compared small retails.
4. Operate transport system which reduces costs of marketing and delivery to customers as compared to small retails.
5. Offer wide range of products which broadens choice of customers hence spreading the risk of failure to sell one line of goods as compared small retails.
6. Securing loans from financial institutions is easier because of collateral security (assets for mortgage) unlike small scale retails.

MODERN TRENDS IN RETAIL TRADE

The recent developments in retail trade include:

- Branding
- Pre- packaging
- Automatic vending
- Installment purchase
- Self service
- After sales services
- Resale price maintenance
- Blending
- Labeling
- Loss leader policy
- Mail order system
- Auctioning

Branding

It refers to the process of giving a distinctive trade name, symbol, trade mark as registered by the manufacturer to the goods.

Examples of Branded goods

Types of goods	**Brand name**
1. Tooth paste	Colgate, delident, ABC, close up, Acquafreshetc
2. Toile soap	
3. Shoe polish	
4. Soft drinks	
5. Cellular phones	

6. Bread

7. Beers

Importance of branding

1. Brand names advertise goods
2. Branding ensures quality of goods
3. Branded goods are safe guarded against contamination by dust and germs.
4. Branding simplifies handling
5. Branding saves time in studying and comparing goods.
6. Branded goods are always sold at fixed prices which checks over charging.

Advantages of branded goods in retail trade

1. Branded goods are easy to handle.
2. Branding facilities self service.
3. Branding obliges the producer to maintain standard quality the size of goods.
4. Branding creates brand loyalty among users e.g. Nokia phones.
5. Goods can easily be ordered directly from producers by simply quoting the brand names.
6. Goods can advertise themselves which reduces on the costs.
7. Branding saves time since goods are already weighed and packed.
8. Branded goods are free from the risk of contamination e.g. dust and germs.
9. The retailer gets high turnover since goods are already known to the people.

Qn. (a) Give <u>five</u> ways through which branding helps a <u>producer</u> and **<u>consumer.</u>**
(b) Give <u>five</u> characteristics of branded goods

PRE – PACKAGING

This is the process of dressing or wrapping a product in special or standardized containers ready for marketing. The packaging materials have labels that contain information on how to use the product, expiry date and date of manufacture, etc.

Advantages of pre- packaging

1. Good packaging materials attract many customers which increase the turn over.
2. Pre-packaging prevents goods from contamination of foreign bodies such as dust, insects, and germs.
3. The packaging materials contain useful information on how to use the product, the ingredients, expiry date etc.
4. Some packaging materials can be put to other use such as jerry cans, tins, sacs etc.
5. The manufacturers of pre-packed goods are obliged to pack the correct quantity and genuine products which eliminate consumer exploitation.
6. The manufacturers of pre-packed goods are obliged to pack the correct quantity and genuine product which eliminate consumer exploitation.
7. Prepackaging facilitates self service and saves time since the weight of goods is indicated on the package.
8. Pre-packaging eases handling of goods.

Disadvantages of pre-packaging

1. Wrong goods may be packed.
2. Some packing materials may make goods appear bigger than their normal size.
3. Some packaging materials may have misleading information.
4. Some packaging materials may be dangerous e.g. tins and polythen bags.
5. Some packaging materials may make goods to expire very fast.
6. Wrong weight may be indicated on the package.

AUTOMATIC VENDING

This refers to the process of selling goods through card or coin operated machines.

The customer inserts / slots a specific amount of coins or card into the machine, presses the appropriate buttons and machine automatically releases or dispenses the goods.

In Uganda automatic vending machines are commonly used by commercial banks to dispense cash for customers. They are commonly known as "ATMs".

Self service

This is a system where customers are allowed to pick items of their choice commonly in a supermarket.

The goods are attractively arranged on display to enable consumers select items of their own.

Advantages of self-service/ vending

1. It is time saving since each customer serves him or herself.
2. It promotes consumer choice since customers are given a chance to select their items.
3. It promotes impulsive buying because of the well displayed goods.
4. It reduces labour costs since customers pick the goods themselves.
5. Customers get a chance of inspecting the goods before they actually buy them.
6. Bad debts are also controlled since most of the transactions are done on cash basis.
7. Customers are able to know the prices before they buy them since goods are labeled with price tags.

Disadvantages of self service

1. There is a tendency of shop lifting small items.
2. Customers tend to damage some items as they pick items of their choice.
3. Lack of credit facilities discourages customers.
4. There is no physical contact between the customer and the seller.
5. Customers are not given a chance to bargain and this discourages many of them.
6. Requires a large shopping area which may be expensive.

AFTER SALES SERVICES

These are services offered by the seller to the customer arising from the goods bought by the buyer from the seller.

RESALE PRICE MAINTENANCE (RPM)
This is where manufacturers insist on fixing price for their products up to the retailer's place. Mostly effective with airtime cards, Newspapers, stamps etc

AUCTIONING
This is when goods are assembled before potential buyers who compete for them through bidding, where the highest bidder (one offering the highest price) takes the commodity.

LOSS LEADER POLICY
This is used by retailers to attract customers by charging the price of fast moving items as low as possible and sometimes below the cost price so as to increase the general sales of the business.

INSTALLEMENT SELLING AND BUYING
What is installment selling?
This is the system that allows the customer to pay a certain amount of the total cost of the item and then settles the remaining amount in bits / portions at regular intervals.

This system of Retail trade is becoming popular in Uganda to enable Ugandans especially the law income earners to acquire durable consumer items like cars, TVs, Radios, refrigerators, mobile phones.

There are two types of installment selling namely:

i. Hired purchase
ii. Deferred payment

What is differed payment?
This is the form of installment selling where after down payment, ownership and possession of the item go in the hands of the buyer and incase of default, the seller sues the buyer in courts of law.
What is hire purchase?
This is a form of installment selling where after down payment, the buyer possess the item but ownership remains in the hands of the seller and incase of default, the sellerrepossesses the items.

HIRE PURCHASE AGREEMENT
This is an understanding reached between the seller and the buyer where the buyer is allowed to pay between 20% and 40% of the total cost of the good.
Contents of the hire purchase agreement

1. Should be between the seller and the buyer.
2. The property of the hire remains that of the seller until the last installment is paid.
3. The dates on which to pay the installments must be indicated.

4. The cost of the item sold on hire must be known by both the buyer and seller and must be indicated in the agreement.
5. If the buyer fails to pay any of the bills the seller has the right to repossess the item.
6. The buyer is required to pay between 20% - 40% of total cost.
7. The hire purchase agreement must be put in writing and registered by the Registrar of companies.

ADVANTAGES OF INSTALLMENT PURCHASE TO THE BUYER

1. Hire purchase encourages people to save especially in form of durable items like motorcycles, cars, furniture etc.
2. The payment is spread over a long period of time which enables low income earners to acquire expensive items.
3. The item bought such as a car especially under deferred payment can be used as collateral security to apply for bank loans.
4. The purchase can make use of the item even before he completes the payment.
5. If provides an easier way of acquiring goods of ostentation (goods of comfort and luxury).
6. In case of agricultural equipment like wheelbarrows, tractors, maws etc the buyer can get them on credit and use them to get money to pay for the remaining installment.

ADVANTAGES/MERITS OF INSTALLMENT PURCHASE TO THE SELLER

1. Hire purchase may help to increase the seller's turnover/ profit.
   This is because goods sold on hire purchase normally carry higher prices and also attract many customers.
2. It enables traders to sell more of their durable products.
   This is because the amount paid as deposit is always smaller and attracts many customers.
3. It encourages mass production as a result of a wider market created.
4. Installment purchase also leads to increased sales as the buyer frequently goes to the shop to pay off the installments, in this case one may be attracted by other goods.
5. In case the seller is the producer installment purchase helps to clear the old stock which gives room to the new stock.
6. Under hire purchase, the seller has got the right to repossess the item in case the buyer to pay any his /her installments.

DISADVANTAGES OF INSTALLMENT PURCHASE TO THE BUYER

1. Consumers may be forced to purchase items that they actually do not need and afford.
2. Under hire purchase system, the buyer lacks full right over the items and at any time, he can lose that item.
3. Installment purchase system makes consumers/ customers over burdened by installment repayment.
4. Commodities sold on hire purchase tend to be more expensive than those paid for cash.

5. Hire purchase interest is usually high so customers end up paying higher prices for the goods.

DISADVANTAGES OF INSTALLMENT PURCHASE TO THE SELLER

The seller may not easily repossess the item especially under deferred payments.

The seller may not easily sell off the repossessed item which may lead to losses and if at all he sold the item, then he would sell it at a lower price.

The seller may run short of operating capital in case the buyers take the goods and they do not settle installments in time.

It increases paper work since the customers have to be constantly reminded of the repayment of the installments.

It also requires a lot of book keeping and employment of accounts clerks which may be very expensive.

In case of deferred payments the seller has got no right to reposes the item but only to take the customer to court, however, court procedures including hiring lawyers may be expensive and time wasting.

Sellers may be afraid of publicity especially when it comes to taking defaulters to court hence leading to losses.

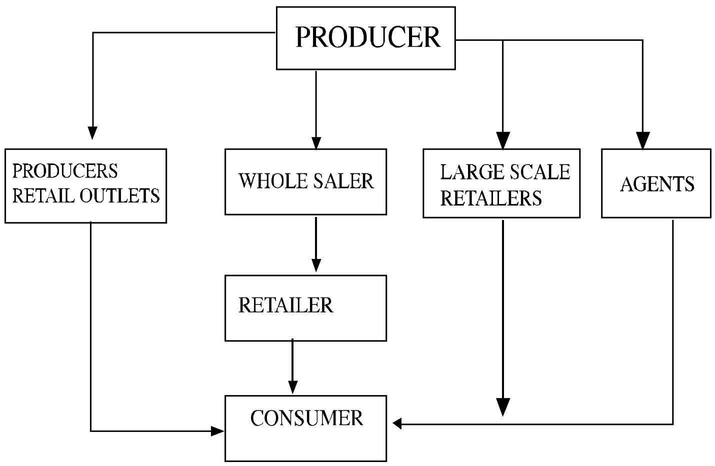
WHOLE SALE TRADE

This is the kind of trade where goods are bought in large quantities from a manufacturer or producer and sold to other traders (retailers) in relatively affordable quantities

A wholesaler is a trader who buys goods from a manufacturer in large quantities and sells them to other traders basically retailers in relatively affordable quantities

CHAIN OF DISTRIBUTION

This is a channel / path / route that the goods take to reach the final consumer.



THE ROLE / FUNCTIONS OF A WHOLESALER IN COMMERCE

1. Provides a link between producers and retailers
2. Stores goods safely in his/her warehouse until demand arises.
3. Provides steady supplies at stable price
4. Prepares goods for resale through branding, blending, pre-packaging etc.
5. Transports goods from the producer to his warehouse and sometimes to retailer's premises.
6. Breaks bulk by buying in large quantities from producers and selling to retailers in affordable quantities.

SERVICES OF A WHOLESALER

(A) **TO THE RETAILRS**

- Breaks bulk: Sells goods in affordable qualities to retailers.
- Offers a variety of choice by storing goods from different producers and selling them to retailers.
- Sometimes extend credit facilities to trustworthy retailers.
- Sometimes offers transport facilities to retailers thus saving them from transport costs.
- Advises the retailers on a range of commodities to be held, prices to charge etc.

(B) **TO THE MANUFATURER**

- Relieves producers of storage problems by providing warehousing facilities.
- Buys goods in bulk, thus clears the manufacturer's production line.
- Finances the producer through prompt payment.
- Advertises and prepares goods for sales by branding, blending pre-packaging we saves the manufacturer of add costs.
- Relieves the producer of a number of risks by buying in large quantities e.g. theft, price fluctuations, deteriorations etc.
- Undertakes market research through contact with retailers hence helping producers know the customer's goods.

(C) **TO THE PUBLIC / CONSUMER**

- Steady SS throughout the year by holding large stocks and releasing them regularly.

- Stabilizes prices through the warehousing facility.
- Provides a wide selection of goods from different producers.
- Breaks bulk enabling consumers to get appropriate quantities from retailers.
- Brings the goods within the reach of the public by having branches all over the country.

TYPES OF WHOLESALERS

1. General wholesalers: They offer a variety of goods in a number of fields e.g. hardware, groceries, frozen goods, stationery etc.
2. Specialized wholesalers: They specialize in a particular field and offer great variety within that field: Sanitation, books, pens, etc
3. Nationwide wholesalers: They supply their goods to the customers all over the country.
4. Regional wholesalers: These concentrate in one particular area and may offer a large variety of commodities or a specialized range of problem.
5. Mobile / truck wholesalers/wagon jobbers: These combine buying, selling and delivery of goods in one operation.eg soft drinks sellers.
6. Rack jobbers: These specialize in marketing particular types of goods to other specialized retail stores/ wholesalers.
7. Cash and carry wholesalers: These require retailers to come the wholesale warehouse pick what they want, pay cash and carry away their own purchases.

FACTORS FOR SUCCESS IN WHOLESALING/ CHARACTERISTICS OF WHOLESALER TRADE

1. Large capital base
2. Large purchase of goods from producers and selling in large quantities to retailers.
3. Large warehousing facilities of goods.
4. Advertising of the brand of products held
5. Good record keeping
6. Transportation of goods
7. Link between producers, retailers and consumers
8. Honesty to retailers and prompt payment to suppliers.

ELIMINATION OF A WHOLESALER FROM THE CHAIN OF DISTRIBUTION

Under what circumstances a wholesaler may be eliminated from the chain of distribution.

1. When the producer has his own retail outlets and sells his own products like Bata shell companies.
2. Where there are large scale consumers that buy goods in bulk like schools, hospitals, army etc.
3. Where goods produced are perishable and therefore need quick delivery like flowers, tomatoes, bananas etc.
4. In case of establishment of mail order shops which enable retailers and consumers to order for goods directly from producers through the post office.
5. When the goods produced are bulky, dedicate or fragile like glass, flowers, machinery etc.
6. When goods produced are expensive like cars, perfumes, electric goods, producer tends to minimize handling charges hence selling directly to consumers.

7. When goods are of technical nature and require after sales services like technical advice on how to use electrical goods.
8. When there are large scale retailers like supermarkets that buy directly from producers.
9. When manufacturers appoint sales agents to sell goods on their behalf like directly from producers.
10. Where goods are standardized, branded and packed by the producers, the services of a wholesaler may not be needed.
11. When consumers are organized into consumer cooperative societies and can buy directly producers, wholesalers may be eliminated.

FACTORS THAT DETERMINE THE NUMBER OF WHOLESALERS IN A PARTICULAR LINE OF BUSINESS

Outline four factors that determine the number of wholesalers in a particular line of business.
What are the factors that determine the number of wholesalers in a particular line of business?

Financial position of the producer, when the producer's financial position is good and he can set up his own retail outlet, the number of wholesalers will be limited and the reverse is true.
Size of retailers,If retailers in that line of business are small sized, the number of wholesalers tends to be large.
If the goods are standardized, packed and branded the wholesalers in that line will be few.
Transport and communication,when there is good transport and communication network and retailers and consumers can afford to buy goods directly from producers, the number of wholesalers will be small.
Need for personal contact, when there is need for close personal conduct between the producer and consumer, the number of wholesalers will be limited e.g. sale of electrical goods.
Presence of large consumers, where there are large consumers like schools that can buy directly from producers like schools, hospitals, wholesalers will be limited.
Presence of mail order business, the establishment of mail order business enables retailers and consumers to order for goods directly from producers through the post office hence limiting the number of wholesalers.
Demand for the product, when the demand for the product is low the wholesalers will not risk this capital to stock such goods hence reducing the number of wholesalers.
Nature of goods, producers of expensive goods such as machinery, electrical goods tend to sell them directly to consumers hence reducing the nature of wholesalers.

TYPES OF MIDDLEMEN IN HOME TRADE

There are traders or intermediaries that bring together buyers and sellers.

Or

These are agents that act on behalf of their principals to arrange transactions between the buyers and sellers.

The middlemen in home trade include:

1. **BROKERS:** These are middlemen who act on behalf of the owners by looking for prospective buyers.
   NB: A broker does not handle goods, does not determine the price but only brings the prospective buyer and seller into contact.
   A broker is paid a commission known a **brokerage.**
2. **FACTORS:** These are middlemen who sell in their possession, names and under the control but acting on behalf of the principal.
   - They determine the best prices possible.
   - Their commission is expressed as a percentage of the value of the transaction.

   NB: Factors are also referred to as commission agents.
3. **DEL – CREDERE AGENTS:** These are middlemen who guarantee to collect all payments or goods sold on behalf of his principal.
   He also guarantees to pay the principal for goods he has failed to sell or goods that were taken on credit but no payment was made.
4. **AUCTIONERS:** These are specialists – sales people who sell goods by public auction.
   They always sell to the highest bidder (one who offers the highest price).
   They act on behalf of their clients and many sometimes sell property belonging to traders who have failed to pay import duties or properly of Bank customers who have failed to pay back loans.
5. **FORWARDING AGENTS:** These are middlemen who transport or deliver goods on behalf of traders. They may also arrange to clear customs duties on behalf of their clients.
   Examples of forwarding Agents include: SDV, interfreight, forwarding agents are also paid a commission for their services.
6. **IMPORT MERCHANTS:** These are home based middlemen who collect orders for goods from abroad on behalf of their principal.
   NB: A producer from a broad just sells his goods through import agents.
7. **WARE HOUSE AGENTS**

These are middlemen who specialize in storing goods on behalf of traders especially those who may not have adequate storage facilities at their own premises.

DISADVANTAGES OF MIDDLEMEN

- Some middlemen tend to over charge the consumers or buyers.
- Some middlemen tend to dilute products or product adulteration
- They tend to make delays in delivering of goods which may lead to expiry of those goods.
- They at times mishandle goods which may lead to destruction.
- Some middlemen tend to hide goods hence creating shortage.
- Some middlemen tend to sale wrongly weighed goods (wrong measurements and weights).
- Some middlemen tend to sell substandard goods e.g. expired food stuffs.

PROBLEMS FACED BY TRADERS IN HOME TRADE

- Most of the traders face a problem of limited capital which remits their expansion.
- Inadequate market for their products which results into low profits.
- Some traders face a problem of poor transport and communication which leads to delays in delivery of goods.
- There is lack of adequate business knowledge and skills by some traders and some are semi skilled or illiterate therefore they can't keep good records of their business
- High taxation by the government also discourages some traders.
- Political instability in some parts of the country also discourages some traders in some areas.
- High interest rates on bank loans also discourage traders from borrowing for expansion.
- Lack of collateral security by some traders which may not allow them to apply for bank loans.
- Most traders in Uganda are exposed to many risks for example fire, theft, highway robberies evident etc.
- High risks of bad debts by some traders as some customers fail to settle their debts leading to losses.
- There is a problem of price fluctuations and this discourages those traders that deal in agricultural products.
- Unfair trading practices by some traders such as sale of expired goods, under weighed goods, product adulteration, sale of counter feit products all these discourages many traders.
- Stiff competition among the traders especially those dealing in similar products. In most cases the small scale retailers are always out competed by large ones.
- Poor storage facilities, this reduces the quality of the product hence lowering the price.
- High rate of inflation (persistent increase in the general price level) which makes it hard for traders to fix stable prices.
- Failure to insure against common risks in business such as fires, accidents etc as most traders lack enough money to open up insurance policies.

COMMERCIAL TRANSACTIONS

Transaction, this is a business dealing involving the transfer of goods or services from one party (seller) to another (buyer) for a consideration (price).

TYPES OF COMMERCIAL TRANSACTIONS

There are two types of transactions namely

i. Cash transaction
ii. Credit transaction

Cash transaction

This is business dealing / activity where transfer of goods and services takes place and payment for them is done on spot / at the same time.

Credit transaction

This is a business dealing where the transfer of goods and services takes place and payment for them is done at a later date.

NB: Price refers to the exchange of a good or service expressed in monetary terms.

TYPES / FORMS OF CASH TRANSACTIONS

A cash transaction may take any of the following forms:

(a) Spot cash
(b) Cash on Delivery (C.O.D)
(c) Cash with order (C.W.O)

1. **Spot cash** under this arrangement, the buyer pays for the goods immediately after seeing / spotting them.

2. Cash on delivery, under this arrangement the buyer pays for the goods as soon as they are delivery at his premises.

3. Cash with order (CWO), under this arrangement the prospective buyer (intending buyer) sends the cash along with the order for the goods.

STEPS AND DOCUMENTS USED IN A COMMERCIAL TRANSACTION

A commercial transaction goes through a number of stages.

Each document has its contents and is prepared in special format.

Each document is of value in home trade and plays a major role in business records.

In order to discuss the documents used in home trade we shall consider a hypothetical transaction between Senior two Dalton of Viva collage School, Jinja and Britania Biscuits where senior two East are the buyers and Britania biscuits are sellers / suppliers.

i. **Stage one**

   Birth of the idea

   Before any transaction takes place, the product or service must be cultivated into the mind of the buyer. This is achieved through advertising in newspapers, magazines, televisions, circulars, travelling agents etc.

ii. **Stage two**

After receiving the information about the advertised goods/services the potential buyer will desire to get further information before actually placing an order.

An enquiry may take two forms:

1. It can be done orally.
2. It can be done by writing an inquiry letter.

Definition of an inquiry letter

This is a document sent by prospective buyer to the seller or supplier asking about the range of goods in his/her shop.

An inquiry letter may take any of the following forms:

i. **General letter of inquiry**

This seeks for general information for the range goods sold, sizes, prices etc.

ii. **A specific letter of inquiry**

This seeks for particular information about a particular information, time, price of the product like text books.

Prepare a letter of inquiry from the information below:

Supplier ………………………………………………………………Britania Biscuits Company Ltd

Buyer ……………………………………………………………….. S2 D Viva Collage School

Subject………………………………………………………………. Prices for Biscuits

iii. **Stage III**

Reply the inquiry

The reply to an inquiry may take any of the following forms:

Price list

Catalogue

Quotation

Price current

PRICE LIST

This is a document with a list of items and their corresponding prices.

A simple illustration of price list

Item	**Price**
Splash	15,000 per carton
Milk biscuits	20,000 per box
Short cake biscuits	13,000 per tin
Juice	6,000 per Jerrycan
Sweets	5,000 per packet

Water	10,000 per box

PRICE CURRENT

This is a document prepared for goods whose prices are ever fluctuating. So the supplier sends these documents to show the prevailing prices at the time.

CATALOGUE

This is a booklet/ document that briefly describes items offered for sale.

NB: A catalogue can show the size, colours, design, weight and prices of items.

QUOTATION

This is a document sent in reply to inquiries for which there are no standard price list or catalogues.

It is sent by the seller to the buyer accepting to supply goods or services according to the specifications given by the intending buyer.

Quotations are very common in construction farms.

TENDER

This is a document that indicates the description and prices of goods at which the tenderer is willing to supply the goods or services to buyer.

NB:

The buyer goes for tenders and anyone willing to supply a particular item submits in his tender and the order is placed to that person who quoted the lowest price but with good services.

Stage iv

Placing an order

Having received a reply for the inquiry, the prospective buyer may decide to place an order requesting for the supply of a particular item.

An order can be made in any of the following forms.

1. Filling a pre-printed form
2. Writing an order letter
3. Making a verbal order

SIMPLE ILLUSTRATION OF AN ORDER LETTER

S.2 DALTON VIVA COLLAGE SCHOOL,
P.O. BOX 234,
JINJA

30TH/3/2020

THE SALES MANAGER,
BRITANIA BISCUITS CO.
P.O. BOX 006,

NAKAWA.

Dear Sir / Madam,

RE: <u>SUPPLY OF BRITANIA BISCUITS</u>

Please, you are kindly requested to supply with us the following:

Items	**Qty**	**Unit price**	**Amount**
Milk Biscuits	50 boxes	5,000	250,000
Glucose Biscuits	15 boxes	10,000	150,000
Short cake biscuits	10 tins	20,000	20,000
Total			600,000

Enclosed is a cheque of shs, 400,000 and balance to be paid on delivery of the items.

Prepared by:
Agaba David
Purchasing Manager
S.2 D

FORMAT OF THE PRE-PRINTED

S.2 DALTON VIVA COLLAGE SCHOOL,
P.O. BOX 234,
JINJA

Date: ……………………………

TO: ……………………………………………………
……………………………………………………

Dear Sir / Madam,

RE: PLEASE SUPPLY THE FOLLOWING

No	**Description**	**Qty**	**Unit cost**	**Amount**

Delivery Terms:

Date: ………………………………………
Description: …………………………….

Prepared by:
Sign: …………………..
Name: ………………..
Title: …………………

Stage v

<u>CASH OR CREDIT TRANSACTION</u>

At stage depending on the buyers financial status he may decide to pay immediately (cash transaction) or pay at a later date (credit transaction).

In case of a cash transaction the following alternatives are available

i. Spot cash (SC)
ii. Cash on delivery (OD)
iii. Cash with order (CWO)

NB: For a cash transaction, a document known as cash sale slip/cash receipt must be issued to evidence the receipt of cash from the buyer by the seller.

What is a <u>cash sale slip?</u>

This is a document that is issued to evidence the receipt of cash by the seller from the buyer and vice versa.

Illustration of a cash sales slip/ receipt

RISE AND SHINE BOOKSHOP
P.O.BOX 597
TEL: 0772 553333

SALES SLIP / RECIEPT

Receipt No. 2787 Date: 30^{th} March 2012
Mr. / Ms. ________________________________

Qty	Particulars	Rate	Amount

E&OE		Total	

Goods once sold are not returnable

Illustration of cash receipts

RISE AND SHINE BOOKSHOP
P.O.BOX 597
TEL: 0772 553333

RECIEPT

Receipt No. 110046 Date: ……./……./……….

RECEIVED with thanks from ____

____

the sum of shillings____

being payment for____

UGX:

Sign________________

Sometimes the seller may not be willing to sell his goods on credit and in this case the seller may want payment before delivery of goods to the buyers' premises. Here a special document known **as proforma invoice** is prepared.

What is proforma invoice?

This is a document sent by the seller to the buyer when payment is required before delivery of goods to the buyers' premises.

Stage 6:

CREDIT STATUS INQUIRY

This is an investigation carried out by the seller or supplier to find out the credit worthiness of the intending buyer.

This investigation helps the seller to avoid bad debts – the seller may get confidential information about the buyer's credit worthiness from the following sources.

i. The buyer's bankers (i.e. the banks in which the buyer has accounts)
ii. Other suppliers
iii. Other customers who know the intending buyer
iv. Trade association where the buyer is a member.

Stage VII

CREDIT TERMS

If the supplier considers giving credit to the intending buyer, he must decide the credit period or duration of the credit period.

The credit period may range from 7 days to a month for normal orders and for large orders it can go up to 3 months.

A 7 days is termed as prompt cash

A credit period that lasts between one to three months is term as trade credit.

NB:

The wholesaler may offer the buyer a discount for either buying in large quantities or paying cash at the agreed period of time.

What is a discount?

This is a price reduction offered to the buyer by the seller.

Or

This is an allowance offered to the buyer by the seller.

There are two kinds of discounts:

i. Cash discount
ii. Trade discount

Cash discount

This is an allowance or price reduction offered to the buyer by the seller for paying within the agreed period of time.

Trade discount

This is an allowance / price reduction offered to the buyer for buying goods in bulk or regular basis.

Procedure of calculating discounts

A seller sold a consignment of foods at shs. 200,000. He offered a trade discount of 20% and cash discount of 5%. How much did he pay?

Working one

Cost of goods	200,000	
Trade discount	20%	
Cash discount	5%	
100% - 20%		80%
100% - 5%		95%

$\frac{80}{100} \times 200,000$ = shs. 160,000

$\frac{95}{100} \times 160,000$ = shs. 152,000

Working two

$\frac{22}{100} \times 200{,}000$

Discount = 40,000

200,000 – 40,000

Shs. 160,000

$\frac{5}{100} \times 160{,}000$

Discount = 8,000

Final amount 160,000 – 80,000

= Shs. 152,000

Exercise

1. A consignment was involved at shs. 400,000 at a trade discount of 10% and cash discount of 5%. What was the amount payable to the seller.

Cost of goods	400,000	
Trade discount	10%	
Cash discount	5%	
100% - 10%		90%
100% - 5%		95%

$\frac{90}{100} \times 400{,}000$ = Shs. 360,000

$\frac{95}{100} \times 360{,}000$ = Shs. 342,000

The amount payable to the seller was Shs. 342,000.

2. Goods were sold to Mr. Kasolo at Shs. 40,000 less trade discount of 25% and cash discount one month, 2 ½ % two months and thereafter not.
   (i) How much would the buyer pay if the amount was settled between the month of transaction.

Cost of goods	shs. 40,000
Trade discount	25%
Cash discount	$^5/_2$%
100% - 25%	25%
100% - 5%	95%

$\frac{25}{100}$ x 40,000 = Shs. 30,000

$\frac{95}{100}$ x 30,000 = Shs. 28,500

(ii) How much would the buyer pay if the amount was not settled until the second moth?

Trade discount 25%

Cash discount 2 ½%

100% - 25% 75%

100% - 2 ½% 97 ½%

$\frac{25}{100}$ x 40,000 = Shs. 30,000

$\frac{97\text{-}5}{100}$ x 30,000 = Shs. 29,250

3. (i) Kadogo bought 100 boxes of liquid soap at 20,000 each. He was offered 25% trade discount and 10% cash discount. If payment was made within one month, how much did Kadogo pay if he settled the debt offer two weeks.

Total cost = (20,000 x 100)

= $\frac{90}{100}$ x 150,000

= 2,000,000

Trade discount 25%

Cash discount 10%

100% - 25% 75%

100% - 10% 90%

$\frac{75}{100}$ x 2,000,000 = Shs. 150,000

(iii) How much did he pay of he settled the debt after 2 months.

Trade discount 25%

100% - 25% 75%

$\frac{25}{100}$ x 2,000,000 = Shs. 1,500,000

Stage VIII

PACKING OF GOODS

The wholesaler can entrust his sale department to pack the goods in appropriate containers.
The wholesaler can entrust his sales department to pack the goods in appropriate contain.

During the packing of goods a document know as a package sheet is used.

It is prepared in four copies the first copy is inserted in the container and sent to the buyer. The second copy goes to the accounts department. The third copy goes to the sales department and last copy is retained by the wholesaler for record purposes.

NB: While sending goods, the seller may send adispatch note to notify the buyer that the goods he ordered for have been sent and they are on their way.

Other documents that may serve the same purpose include an advice note and consignment note.

Step IX

DELIVERY OF GOODS

Goods may be delivered by the seller himself or may be transported by apublic carrier.
When goods are being delivered a document known delivery note is issued.

A delivery note is a document sent by seller to the buyer to be signed when he receives the goods at his premises.

Step X

INVOICING

When goods have been delivered to the buyer, the seller can prepare a document to notify or inform him of the amount due to the goods taken on credit.

What is an invoice?
This is a document sent by the seller to the buyer to remind him/her of the amount due.

EXERCISE: Design an invoice for any business of your choice

CONTENTS OF AN INVOICE

The name and address of the seller
The name and address of the buyer
The date of the invoice
The ordered number if any

The quality and description of each item bought
Unity price of the goods bought
Total cost of goods bought
Gross total cost of goods bought.
Any discount allowed i.e. the trade discount, cash discount etc.
Net amount payable by the buyer
Length of the credit period allowed.
E&O.E (Errors and Omissions excepted) which means that the invoice figures are liable to change and the buyer is responsible.
Stamp and signature.

<u>Discrepancies of an invoice</u>

These are errors that may be made in the process of making an invoice.

There are two forms of discrepancies and these include:

1. Over charge
2. Under charge

<u>Causes of overcharge on an invoice</u>

1. Quoting the higher prices than the actual prices.
2. Including wrong items on the invoice
3. Wrong additions

If an overcharge is detected by the seller, he may send a document known as a **<u>Credit note.</u>**

What is a credit note?

This refers a document sent by the seller to the buyer to correct an overcharge on the invoice.

<u>Causes of undercharge</u>

Omission of some items on the invoice.
Quoting lower prices than the actual prices.
Wrong calculations:

When an undercharge is detected, the seller sends a document called **Debit Note.**

What is a debit Note?
This is a document sent by the seller to the buyer to correct an undercharge on the invoice and the debit note normally serves as supplementary or additional invoice.
Step XI

RETURN OF GOODS

Goods may be returned to the seller under the following circumstances.

a) If the goods sent were not ordered for.

b) If the goods sent are of poor quality.
c) If the goods sent are defective / expired.
d) If the goods sent are damaged.
e) If the goods sent are wrongly priced.

NB: When the goods are returned from the buyer to the seller a document known as goods return note is issued to the buyer by the seller.

Step XII

PREPARING A STATEMENT OF ACCOUNTS

In case of a substantial transaction between the seller and buyer, the seller may provide additional services by sending a monthly statement of account.

Statement of account is a summary of transaction between the seller and buyer during a trading period. It is usually drawn at the end of the month.

Contents of a statement of accounts

1. Any balance from the previous month
2. Total sum of invoices sent to the buyer
3. Any credit Notes, sent to the buyer.
4. Any debit Note sent to the buyer.
5. Amount of cash received from the buyer.
6. Total amount due at t heend of the month.

When the buyer receives a statement of account, he crosschecks with the invoices received during the month.

After verifying the information, he prepares to pay either by cash or cheque.

Step XIII

PAYMENT FOR GOODS

After receiving the statement of account, the buyer prepares to pay.

When the buyer pays for the goods, he is issued with a document known as a RECEIPT.

A receipt is a document that evidences payment.

QN: Distinguish between a cash sale slip and a Receipt

A cash sale slip is a document that is used to evidence the receipt of cash by the seller from the buyer and vice versa while a receipt is a document that evidences payment.

Summary of steps and documents in commercial trade

Sn	Step	Document

1	Birth of idea	Magazines Circulars News papersetc
2	Inquiry	Letter of inquiry
3	Reply to an inquiry	Price list Catalogues Price current Tender
4	Packing and delivery of goods	Package sheet Advice note Delivery note Consignment note
5	Invoicing	Invoice Debit note Credit note
6	Return of goods	Goods return note
7	Preparing statement of account	Statement of account
8	Payment for goods	Receipt

IMPORTANCE OF DOCUMENTS

- They are used forreference / record purposes for example payment vouchers, receipts etc.
- They provide information / data to record in the books of accounts.
- They provide evidence / proof that transaction has occurred for example receipts for payment for some books.
- They signify the ownership of goods for example bill of lading.
- They act as evidence of payment of goods for example cash receipt.
- They show accountability and procedure / systematic follow up of the transaction.
- They are legal requirement for example trade license, tax invoices etc.
- They act as a basis of borrowing funds from financial institutions for example bill of lading, business plan etc.
- They act as a tool for control of stock for example stock cards.
- They enable sellers to keep track of their customers and their suppliers for items sold and bought on credit.

INTERNATIONAL TRADE