

# COMMERCE

## NATURE AND SCOPE OF COMMERCE

Commerce is the study of how man organizes the exchange and distribution of goods and services to satisfy human wants.

Commerce can also be defined as the study of Trade and Aids to trade.

## TRADE

Trade is the exchange of goods or services for money or goods or services for goods or services (barter trade).

Trade is divided into branches that are Home Trade and International trade.

Home trade is where trade is carried out within a country yet international trade or foreign trade is where trade is carried out between two or more countries.

## AIDS TO TRADE

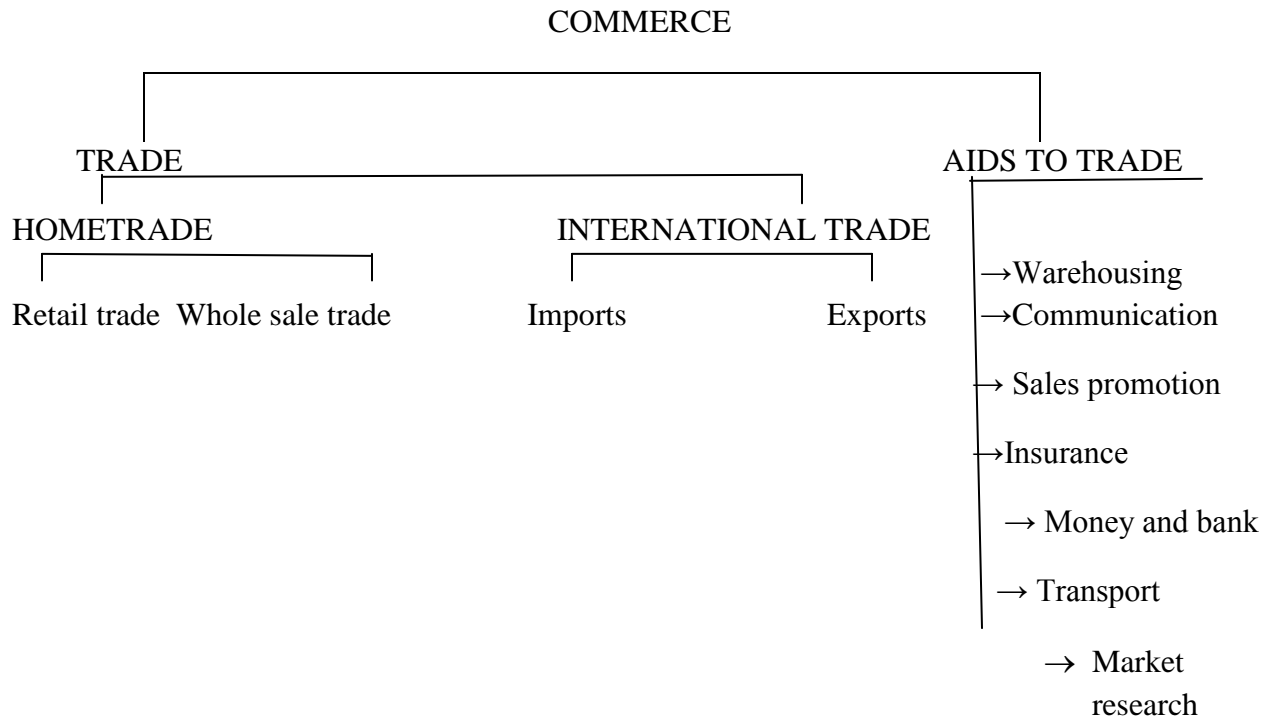
Aids to Trade are activities or services which facilitate the smooth running of trade.

They are auxiliary services that help a business man to smoothly carry out his trade.

Aids to trade include;

- I. Ware housing
- II. Transport
- III. Sales promotion
- IV. Communication
- V. Money and Banking
- VI. Insurance
- VII. Market research

## STRUCTURE OR SCOPE OF COMMERCE



### AIMS OF STUDING COMMERCE. OR WHY COMMERCE IS TAUGHT IN SCHOOLS.

1. To equip students with the knowledge that enables them to understand the business environment.
2. To introduce the students to a wide field of study at higher levels like Entrepreneurship, Economics, and Business administration.
3. To help students acquire basic commercial knowledge for the purpose of employment.
4. To enable students appreciate the impact of commercial activities on the society in which they live.
5. To equip the students with the basic knowledge of commercial language commonly used in the business sector.

### IMPORTANCE OF STUDYING COMMERCE

1. It helps in linking the producers to consumers through services like transport and advertising.
2. It helps countries to trade with each other (foreign trade).by having a good transport and communication net work
3. It creates awareness for goods and services available for sale through advertising.
4. It enables safe storage for goods through ware housing.
5. Commerce has enabled traders to get confidence in carrying out their business activities through insurance.
6. It helps the public to know what, where and how to obtain goods and services.

7. Through market research the quality of goods can be improved.
8. Commerce creates utility in the commodity or services by transporting them to where they are brought from.
9. It gives good back ground knowledge for further studies like Economics, Entrepreneurship.

### **Commercial terms commonly used in commerce**

- I. **Goods**, these are tangible or material items that can satisfy human needs/wants. Goods can be classified into the following,
  - a) Consumer goods. These are goods bought and used straight away eg (soda or food). Those that are to be used for a long time like Radios TVs are called **Consumer durable goods**
  - b) Producer goods/ capital goods these are goods that are used to produce other goods (eg tractors, machinery)
  - c) Perishable goods. These are goods that can easily get spoilt (eg greens, fruits oranges)
  - d) Complimentary goods. these are goods that are used jointly (eg cars and petro, teeth blush and teeth pest)
  - e) Supplementary goods/substitute goods. These are goods that serve the same purpose/ one can be used instead of another (eg delident and LMZ)
  - f) Public goods these are goods produced for everyone to use (eg bore holes, government schools)
  - g) Private goods. These are goods owned individuALY (eg personal houses, cars)
  - h) Commercial/economic goods (eg goods you must pay for their use )
  - i) Free goods these goods are consumed at zero cost and they are provided by nature .(eg sunshine, which is got at zero cost)
  - j) Inferior goods these are good whose demand reduces with an increase in income for example tyre, saddles
- II. **Services**; these are immaterial/intangibles that can satisfy human needs/wants
- III. **Economics**; is concerned with how man satisfies his unlimited wants using the limited resources available. It helps a country to know how human needs and wants can be satisfied.
- IV. **Firm**; this is an organization set out to carry on business with an aim of getting profits
- V. **Industry** ; this a collection of firms producing the same products eg Beer industry which consists of Nile, Uganda breweries
- VI. **Human wants**; these are desires of human beings, human wants are unlimited. They are either **material** wants eg books radios cloths, food or **immaterial** wants like watching football, driving. Material wants are satisfied by consuming tangible items. Yet immaterial wants are satisfied by getting services. Wants are

classified into two. Primary wants and secondary wants. Primary wants include food, water, shelter, air, clothes.

Secondary wants include Education, Electricity, and entertainment

**The characteristics of human wants include**

- Competitive, under this one it becomes difficult for one to satisfy all his needs/wants at ago. He /she has to satisfy them one by one /one at ago.
- Complementary, in order to satisfy a want a combination of commodities is necessary for example if one needs a shelter there is need to for labour , raw materials and transport to be used, so in order satisfy the need of a shelter you must have labour, raw materials and transport.
- Insatiable/recurrent. Human wants are unlimited in nature so they can not all be satisfied if you satisfy one at a time it is most likely that after a time that need may come back for example if you are thirsty in the morning you may take water after some hours you become thirsty again or hungry this time

Because of the unlimited wants/needs with limited resources economics has got three fundamental problems

- Scarcity
- Choice
- Opportunity cost

**Scarcity** refers to the limitation to the supply of goods and services

**Choice** this means selecting something from many possible alternatives

**Opportunity cost** this refers to the alternative not taken after a choice has been made

VII. **Production** ; this is a term given to any activity aimed at bringing about a physical change in a good so as to make it more use full to mankind.

## **PRODUCTION**

Production is a term given to any activity aimed at bringing about a physical change in a good so as to make it more use full.

Goods are only required if they have got the ability to satisfy a need, the ability of a good to satisfy a need is termed as **utility**.

**Utility** is therefore the ability of a good to satisfy a need,

OR utility is the satisfaction one derives or obtains from consuming a given good.

## **TYPES OF UTILITY**

- I. Form utility- This involves changing raw materials into finished goods so as to make them more use full to man kind

- II. Possession utility – This is created by the transfer or exchange of accommodate from the producer to the consumer( buying and selling)
- III. Place utility- This is created by the movement of goods from the producer to the market
- IV. Time utility- This involves the transportation of goods from the producers to the consumers at the right time for them to be used

### **Production is in two categories;**

- a) Direct production
- b) Indirect production

**Direct production** is where one produces a good for his or her own use or consumption like growing food for home consumption and making a chair for personal use.

**Indirect production** is where someone produces goods for sale or for the market.

### **LEVELS OR TYPES OF PRODUCTION**

Production is done in three major levels, these are:-

- I. Primary production
- II. Secondary production
- III. Tertiary production

### **PRIMARY PRODUCTION**

This is the extraction of raw materials from where they are or were availed by nature e.g mining, fishing, farming, lumbering. The actual process of forming these raw materials is made by God. Man just gets them from the environment provided by God

### **SECONDARY PRODUCTION**

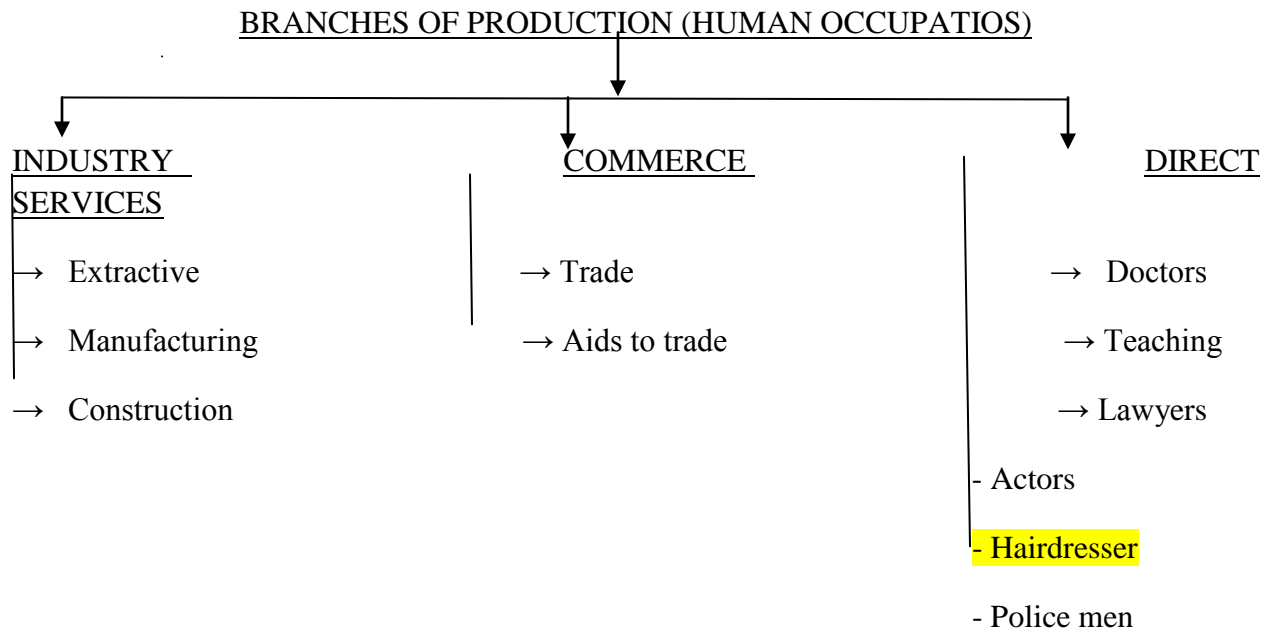
This is the level where the raw materials (from the primary production) are transformed into semi-finished or finished goods. Secondary production involves manufacturing and construction which add value to the raw materials so that they become more use full to mankind.

### **TERTIARY PRODUCTION**

This is the level which deals with the commercial services that are concerned with the exchange and distribution of goods and services from the point of production to the point of consumption. These services include both **commercial** and **direct services**.

Commercial services include; Trade and Aids to trade.

Direct services include; teaching, doctors, lawyers, engineers, surveyors



The branches of production include; industry, commerce and direct services. Therefore production is complete when and only when what has been produced has got a consumer.

Industry involves getting raw materials and adding value to them so as to make them more use full to mankind hence primary and secondary levels of production.

Primary production, being the extraction of raw materials from nature (extractive). Secondary production involves making and assembling of goods (manufacturing and construction).

Commerce involves Trade and Aids to trade where commercial services that can help trade to be carried out smoothly.

Direct services are those that are given directly to the people in order to put them in a state where they can buy and consume the products.

Each of the above branches is linked to one another and they are all performed in all the production processes.

**The purposes of production include**

- I. To create wealth i.e. the stock of resources that can be used to yield utility
- II. To improve the economic welfare of the people eg raising the standards of living for people
- III. To satisfy consumers demands through exchange

## **FACTORS OF PRODUCTION**

Factors of production are inputs (things) which are necessary for production to take place. These factors of production include;

- I. Land
- II. Capital
- III. Labour
- IV. Entrepreneurship
- V. Organization

### **LAND**

Land as a factor of production means all the gift of nature eg things produced by God. /things that are freely available on, above or under the Earth's surface. Therefore land includes;

- Natural vegetation like forests
- Water bodies like lake, oceans, sea, rivers
- Contents of the earth like soil minerals, forests, water bodies.

Land is an immobile factor of production; it cannot be moved from one place to another. The reward for Land is **RENT**.

### **LABOUR**

Labour is any human effort aimed at producing something and paid for Labour can be classified as;

- I. Mental or manual /s physical labour: - Mental labour is when someone uses his or her brain mostly when producing some thing. Manual or physical labour is when someone uses his hands or legs mostly when producing something.
- II. Skilled labour:- is when someone is trained in what he does and when one is half way trained then we get semi-skilled labour and if not trained at all it becomes un skilled labour. The payment or reward for labour is **WAGE OR SALARY**.

### **CAPITAL**

Capital is any good already produced that can be used to produce other goods or increase wealth. Capital can be money or physical assets like machines. Capital can be used to hire labour, to buy modern technology, to buy raw materials and to pay for all the other factors of production. The payment for capital is **INTEREST**.

NB: - Land, capital and labour are the basic factors of production.

## **ORGANISATION/MANAGEMENT/ADMINISTRATION**

This is the process of bringing together and co-coordinating other factors to ensure a smooth production process. Organization does not take part in actual process of transforming raw materials into finished goods. The reward/ payment for Organization is **SALARY**

## **ENTREPRENEURSHIP**

An entrepreneur is a person who under takes the production process of a business enterprises. An entrepreneur supplies all the other factors of production and bears all the risks of the production process and takes all the outcomes. The reward or payment to the Entrepreneur for the Entrepreneurship process is **PROFIT**. The process or organization and paying for the different factors of production and bearing all the outcomes of production is called Entrepreneurship and the person organizing is called an Entrepreneur.

Functions of an Entrepreneur.

1. Provides capital to the business
2. Decides the business site.
3. Plans for the project or business on how it can be carried out
4. Determines the price of a product.
5. He decides what, when and how to produce.
6. He / she co-ordinates or organizes other factors of production.
7. Protects or safe guards the business assets (funds).
8. He / she under takes or bears all the business risks.
9. Supervises the production process.

### **Revision questions**

- Draw a diagram showing the division of commerce
- Give the factors of production and their rewards
- What are the functions of an Entrepreneur
- Explain the branches of production



## **LOCALISATION AND LOCATION**

Location of an industry is the place where the industry is set up.

The location of an industry depends on the following factors.

### **FACTORS INFLUENCING THE LOCATION OF AN INDUSTRY**

1. Availability of raw materials; Manufacturers locate their industries near a place where there are raw materials.
2. Availability of labour; Labour intensive industries are located or situated where cheap labour can be got.
3. Nearness to the market; Industries are usually located in areas where the finished products can easily be bought from in order to save on the transportation costs.
4. Availability of electricity and water; since most of industries need electricity to operate the machines and water for smooth production process, they are located in areas where there is electricity and water.
5. Availability of good transport; Communication systems investors prefer to locate their industries in places where roads are good and communication systems like telephone net work is available.
6. Land; Industries are usually located in areas where there is enough land for future expansion.
7. Cost of land; Industries are located where land is cheap so that a big piece can easily be bought.
8. Government policy; The location of industries can also be influenced by the Government as some areas are gazetted for industries and other for residential houses. At times some industries located in rural areas are given tax holidays.
9. Availability of other commercial services; like banks, insurance, health centers will encourage the Entrepreneurs to start up their industries in a certain area.
10. Security; Most of the manufacturers locate their industries in areas where there is good security.
11. Back ward and Forward linkage; some industries are located in areas where they can get their raw materials from other industries and can sell their finished products as raw material to other industries.

### **LOCALIZATION OF INDUSTRIES**

Localization is the concentration of so many industries in one area. The factors that can lead to localization are the same as those that influence the location of industries in an area.

## **ADVANTAGES OF LOCALIZATION**

1. Employment opportunities are created in the area.
2. Localization leads to the development of infrastructure in the area e.g schools, health centers.
3. All resources are put to proper use in the area.
4. The cost per unit might be lowered due to the reduced transport costs and large scale of production.
5. The government gets revenue from industries in form of tax.
6. The localized area acts as market for other products eg food, rentals, clothes
7. Localization improves the standards of the people in that area as they can get what to sell and to buy from the industries.
8. Localization brings goods and services closer to the traders and consumers in the area
9. Localization attracts subsidiary industries / interdependence between industries for example products of one industry can be raw materials of another
10. It is easier for the government to control these industries as they are in the same area
11. It promotes urbanization i.e. it leads to the developments of different towns in the area
12. The disputes in the localized areas can easily be solved by the trade unions formed among the employees of those industries
13. Localization promotes competition which in turn promotes quality of the goods produced
14. It encourages research for study purposes
15. It attracts specialized services like banks , insurance , advertising agencies in the area
16. Security in the area is improved by either the government or by the Entrepreneurs themselves

## **DISADVANTAGES OF INDUSTRIAL LOCALIZATION**

1. Regional imbalance is created whereby the area in which industries are localized will develop much faster than other areas.
2. Employment opportunities are situated for a particular type of labour.
3. Localization leads to rural urban migration leaving the helpless aged people in the rural areas.
4. Localization also leads to creation of slums and their disadvantages like immorality, drug abuse, shortage of social services from the increasing population
5. Air and water pollution is started in the area due to the by-products of the factories.
6. Increased cost of living due to increased demand from the increasing population.
7. Localization leads to increased competition for raw materials and land in the area.
8. It leads to increased government expenditure on social services like health clinics.
9. Localization leads to displacement of people / animals from places where these industries are constructed.

10. The economy may start depending on that localized area in getting both the products and the revenue and if production comes to a standstill on a certain day the whole economy can be affected.

## **DELOCALIZATION OF INDUSTRIES**

Delocalization is where many industries are spread in many parts of the country.

### **ADVANTAGES OF DELOCALIZATION**

1. It reduces congestion in the area.
2. Costs of production may not be so high because of the reduced competition.
3. No over exploitation of resources.
4. Social evils like raping, smoking will be reduced.
5. Low levels of pollution will be experienced.
6. Reduction in rural urban migration.
7. Realization of balanced development.
8. Widens the tax base.
9. There is provision of employment opportunities in the different parts of the country.
10. It leads to the exploitation of talents and ideas.

### **DISADVANTAGES OF DELOCALIZATION**

1. Limited merging of industries.
2. High transport costs involved and thus may lead to high price of the finished product.
3. Development of sub industries is made difficult.
4. Low quality goods due to limited competition.
5. The security may not be adequate.
6. It is difficult for industrial co-operations in areas of research or training.

## **SPECIALIZATION AND DIVISION OF LABOUR**

Specialization is the separation of jobs, activities and processes so that each group of people can concentrate on one or a few tasks.

Division of labour is the splitting or breaking down of the production process into different stages or activities such that each stage or activity is performed by an individual or group of individuals according to their ability, talent or interest

### **TYPES OF SPECIALIZATION**

1. Occupational or professional specialization;  
Under this type of specialization a person concentrates on one particular occupation e.g teaching.
2. Regional or territorial specialization;  
This is where a region or an area specializes in the production of a certain commodity e.g Mbarara bananas, West Nile tobacco.
3. National specialization;  
This is where a country or a nation concentrates on the production of a commodity it does best. National specialization is mainly caused by National endowment.
4. Specialization by process or subjects;  
In this type of specialization the same production process is put in department and each department gets its own specialists. This type is at times called subject specialization where a person concentrates on a subject or on a few subjects e.g the subject combinations in A level, selections of optional subjects in S3 and the teaching of different subjects by the teachers.

### **ADVANTAGES OF SPECIALIZATION**

1. When people or machines are fully employed production increases.
2. When output increases the cost of production per unit might reduce and this may force the final price to reduce.
3. Demand for outputs can increase because of the reduced prices hence increased profits for the traders.
4. There is no over working as each person concentrates on what he or she can do best, hence reduced fatigue
5. Skills are gained and work made simple because of doing the same thing now and again
6. Specialization leads to increased / improved quality of goods.
7. Specialization encourages initiatives, creativity (craft man ship) in people.
8. Under process specialization, more jobs are created as different people are employed in the different stages.
9. Supervision is easy as each person performs the task the way he or she knows best.
10. In tool specialization accuracy, efficiency and increased production are achieved.
11. Encourages trade and exchange of goods due to surplus production.

12. It improves the working relationship because of the interdependence among workers.
13. It increases the degree of choice i.e. workers are able to choose areas where they are most talented
14. In specialization there is full utilization of resources.

### **DISADVANTAGES OF SPECIALIZATION**

1. By doing the same work or task now and again the work becomes monotonous and this leads to the workers being bored (fatigue).
2. Specialization makes labour less flexible and sometimes it causes unemployment.
3. When one group of workers or single person goes on strike the whole production process will come to a standstill.
4. Specialization leads to industrial localization and its disadvantages.
5. When the demand of the whole product falls the firm registers losses.
6. Specialization leads to the exhaustion of resources because of the increased production.
7. Leads to over production hence waste of raw materials in producing what is not needed

### **LIMITATIONS OF SPECIALIZATION (what hinders some people or firms to specialize).**

1. Size of the firm; small firms find it a problem to specialize.
2. Size of the market to take up the increasing output.
3. The willingness of the people to work in a certain area or field for a long time.
4. Training cost of the employees.
5. Prolonged unemployment demoralizes the workers and they change from one job to another.
6. Political instabilities in some parts act as hindrances to specialization.

#### Questions

- I. Distinguish between division of labour and specialization
- II. Give the advantages and disadvantages of (1)-division of labour (2)-Specialization
- III. Give the characteristics of labour

## **CONSUMPTION, DEMAND AND SUPPLY**

### **CONSUMPTION**

**Consumption** refers to the total quantity of goods and services used in a given period of time.

To consume is to use a good or service and the person who uses these goods or services is a consumer

The factors that influence a consumer's behavior either to buy or not to buy include,

1. The price of the commodity. When the prices are high less is consumed and when the prices are low more is consumed
2. Consumer's income. Consumers tend to buy more when the income increase / when it high yet if the income decreases less is bought
3. Seasons. Some items are usually consumed seasonally so when it comes to that season a lot is consumed for example during rainy seasons a lot of umbrellas are bought. Christmas cards are greatly bought in December
4. Anticipated price changes. If the prices are expected to rise consumers buy more when the goods are still cheap. And when the prices are expected to decrease less is bought
5. Prices of other related commodities. When the price of a substitute good is low then more that good will be bought than the other. Yet if they are complementally goods an increase in the price of one will reduce the demand of the second one
6. Age of the consumers. Consumption of some commodities depend on the age of consumers. Some items are used when still young and others when you are at a certain age.
7. Tastes and preferences of the consumer when a consumer prefers using a certain commodity more of it will be bought than others
8. Consumer's standard of living. Some people buy goods a cording to their standard for example people of high standards buy high class goods and those having low standards buy more of what they can afford

## **DEMAND**

Demand refers to the quantity of goods a consumer is willing and able to buy at a given price and in a given period.

The law of demand says that the higher the price the lower the demand and the lower the price the higher the demand. This means that people buy more when prices are low than when they are high.

## **FACTORS INFLUENCING DEMAND**

1. The price of the commodity;  
For most commodities demand is high when prices are low and demand is low when prices are high. In other wards the higher the price of a commodity the lower the demand and the lower the price of the commodity the higher the demand.
2. Price of related commodities./ complimentary  
These are goods that are jointly used, so the increase in the price of one commodity will affect the demand of the other by reducing it e.g. bread and butter, tyros and tubes.

3. The price of substitute goods;  
Substitute goods are the ones that serve the same purpose for example meat and fish, jam and butter, a change in the price of one commodity or good will affect the demand of its substitute good e.g. if the prices of Colgate increase many people may start using Delident hence increased the demand of Delident.
4. Income of the consumer;  
An increase in the consumer's income increases his demand for most products but a decrease in his income decreases his demand for products. For the case of inferior goods the increase in income reduces the demand for them (inferior goods).
5. Taste;  
A change in the consumer's taste will either increase or decrease the demand for the commodity and a change towards the consumer increases demand for a commodity.
6. Population changes;  
If the population in an area increases the demand for commodities also increases and if it reduces the demand will reduce. so  
The higher the population, the higher the demand and the lower the population the lower the demand.
7. Government policy;  
Government policy can also affect the demand of a certain commodity. The government may pass a law against the sale or use of a certain commodity e.g. cigarettes.
8. Supply;  
The higher the supply, the higher the demand. If supply is low demand will be low and if the supply is high demand will be high leaving other factors constant.
9. Seasons;  
Seasons do also affect demand in that if it is a rainy season many people buy umbrellas, during Christmas time people buy a lot of cards.
10. Publicity;  
If a commodity is advertised many people will come and buy if hence an increase in demand.
11. People's habits;  
People with certain habits will have higher demand for certain commodities like smokers for cigarettes.
12. The quality of the product;  
Once the quality of the product is good many people will demand it yet if the quality is bad a few of the consumers will buy that item.
13. Age and sex;  
There are certain goods one can demand when he is in a certain age bracket e.g. the teens demands are not the same demands as the ones of an elderly person and what female creatures demand are not the same things a male creature may demand.

## **SUPPLY**

Supply refers to the quantity of goods the producers are willing to supply or put to the market for a given price and in a given period.

The law of supply states that the higher the price the higher the supply and the lower the price the lower the supply of a commodity, so manufacturers will put to market more of a commodity when the prices are high and less of a commodity when the prices are low.

## **FACTORS INFLUENCING SUPPLY OF A COMMODITY**

1. The price of the commodity;  
The higher the price of the commodity the higher the supply and the lower the price of the commodity the lower its supply will be.
2. The cost of production;  
If the cost of production is high the supply will be low and if the cost of production is low the supply of the commodity will be high.
3. The level of technology;  
Once modern technology is used in production process more will be produced thereby increasing supply of the commodity.
4. Natural conditions;  
Natural conditions like changes in weather affect the supply of Agricultural producers where good weather conditions increase the supply and bad ones decrease the supply.
5. Government policies;  
If the government increases taxes on raw materials and finished goods the supply will decrease and if taxes are lowered supply will increase.
6. Future expectations;  
If the supplier expects a rise in prices he will produce more so that he sales at a higher price and if he expects a decrease in the price he will produce less.
7. Substitute goods;  
When two items serve the same purpose an increase in the price of one will encourage the producers to do away with the low priced one and produce the highly priced one.
8. Availability of inputs;  
The more readily available inputs are the greater the supply of that commodity.
9. The demand of a commodity;  
If the demand of a certain commodity is high producers will supply more of the commodity and if the demand of a certain commodity is low producers will supply less of the commodity.
10. Gestation period;  
Gestation period is the time a commodity takes when it's in its production process. When the gestation period of a commodity is long its supply will be low and if the gestation period is short its supply will be high.
11. Number of producers;



If the number producers are high also supply will be high and if the number of producers is low also supply will be low.

12. Goals of the producer;

If the goals of the producer are maximizing profits he will supply little in order to maximize profits.

13. Amount of capital employed;

The higher the capital employed the higher the supply and the lower the capital employed the lower the supply.

## **PRICE**

The price of a commodity or service is the money value of that commodity or service

The methods of determining prices of commodities or services include

- **Haggling / Bargaining** this refers to the bargaining process that takes place between the seller and buyer. Someone with good bargaining skills benefits more.
- **Auction.** This occurs where there is only one seller and so many buyers competing for a commodity. The price here is mentioned by the buyer and one who offers the highest takes the commodity
- **Re sale price maintenance**  
Under this method the price on which the consumers are to buy the product is determined by the manufacturer
- **Government policy / price legislation**  
The government at times sets prices for commodities. It sets the maximum price for a commodity to safe guide the consumers and the minimum price to safe guide the traders/ manufacturers
- **Demand and supply**  
The forces of demand and supply meet they determine the equilibrium price of a commodity. Yet if demand is higher than the supply the prices will be high and if the supply is higher than the demand the price will be low

## **Questions**

1. Distinguish between Demand and supply
  - a) What factors may lead to an increase in the demand of a product?
  - b) Explain the factors that may influence the supply of a commodity
  - c) Why may an item be less demanded by the consumers in a certain period
  - d) How are prices determined by the traders of your area?
  - e) What factors may affect the
  - f) prices of goods and services in your country

## **TRADE AND THE CHAIN OF DISTRIBUTION**

**TRADE** is the exchange of goods or services for money or goods for services.

There are two types of trade and these are:

- I. **Home trade:** Is the selling of goods or services within a country.
- II. **International trade:** Is the trade carried out between two or more countries.

**Chains of distribution** are the ways through which goods pass from the manufacturers to the consumers.

### **HOME TRADE**

Under home trade we have; →Retail trade and

→Whole sale trade

### **RETAIL TRADE**

Retail trade or retailing is the selling of goods in small or large quantities to the final consumers.

The person who sells goods to the final consumer is called a **RETAILER**.

A retailer provides valuable functions or services to the public more in particular to consumers,

Manufacturers and wholesalers.

### **FUNCTIONS OF A RETAILER TO A WHOLE SALER**

1. He finances the wholesalers by buying from them in large quantities and paying promptly.
2. He relieves the wholesaler from the burden of warehousing goods.
3. He looks for market for the goods stocked by the wholesalers.
4. He provides the link between the consumer and the wholesaler.
5. He transports goods from the wholesaler to his premises.

### **FUNCTIONS OF A RETAILER TO A CONSUMER**

1. He buys goods in large quantities and sells them in small quantities to the final consumer (he breaks bulk).
2. He brings goods nearer to the consumer.
3. He stores goods until they are needed by the consumer.
4. He offers personal assistance to the consumer.
5. He gives customers long shopping hours i.e. from working to late hours.
6. He displays his stock for easy viewing and making easy choice.
7. He offers a variety of goods giving chance to consumers to choose from a wide range.
8. He extends credit facilities to customers.

## FUNCTIONS OF A RETAILER TO A MANUFACTURER

1. He acts as an outlet of manufactured goods.
2. He sells goods to the consumers hence relieving the manufacturer from the storage facilities.
3. He advertises goods for the manufacturer by way of window display.
4. He feeds the manufacturer with customers' comments/ complaints through wholesalers.
5. He transports goods to his final premises.

## QUALITIES OF A GOOD RETAILER

In order for a retailer to be successful he / she should possess the following qualities:

1. He **should be pleasant** in his dealings with his customers.
2. He **should know what to buy when to buy and where to buy from**. In other words he should be able to predict the demands of his customers.
3. He **should be a good administrator** so that he should be able to control his documents of stock.
4. He **should be honest** to his customers by not over charging.
5. He **should co-operate with** his suppliers and also pay them promptly.
6. He **should be kind, polite and commercially patient** when handling business issues.
7. He **should have a good arrangement** in his shop, after sales services and salesmanship.
8. He **should be able to forecast the demand** of his customers.
9. He **should be clean / smart** when dealing with his customers.

## TYPES OF RETAILERS

Retail businesses vary from size to size and can be listed under two major classes i.e.

- I. Small scale retailers
- II. Large scale retailers

The only difference between the two classes is the amount of capital invested.

Under small scale retailers we have sections / sub divisions i.e. those with **fixed premises** and those without fixed premises (**moving traders**).

### Moving traders (itinerant)

- Hawkers
- Mobile shops
- Peddlers
  
- Road side sellers.
  
- Barrow boys

### fixed premises

- single shops
- Tied shops
- Automatic vending
  
- Kiosk
  
- Canteen

→Car boot

**In the large scale retailing we have;**

→Departmental stores

→Super markets

→Multiple shops

→Mail order shops

**SMALL SCALE RETAILERS**

These are retailers limited by capital invested in the business.

**CHARACTERISTICS OF SMALL SCALE RETAILERS**

1. Little capital is required to start such a business.
2. They handle limited amount of stock because of limited capital.
3. Some of them do not have fixed premises.
4. Customer's choice is limited because of limited stock.
5. Some offer door to door facilities.
6. They have a high rate of stock turn over.
7. They are easy to manage because they few people in the business

**ADVANTAGES OF SMALL SCALE RETAILERS**

1. They offer personal attention to their customers.
2. They offer credit facilities to their approved customers.
3. They are conveniently located.
4. They have high rate of turn over because of moving from one place to another.
5. Can be started with less/small capital
6. The business is flexible it can be changed to any form any time and can be located any where
7. Less tax is levied from small scale retailers
8. Less operational costs are involved as they use family labour

**DISADVANTAGES OF SMALL SCALE RETAILERS**

1. Lack of expansion because of limited capital.
2. Bad debts can arise from un trust worthy customers to whom credit facilities were extended.
3. Bulk buying is always difficult for them so they miss the discounts.
4. These retailers in most cases are half baked as far as business is concerned.
5. The business is affected by the absence of the owner
6. Limited /no security to get a loan

## **CLASSIFICATION OF SMALL SCALE RETAILERS**

Small scale retailers can be classified into two major groups;

- Those with fixed premises.
- Those without fixed premises (moving / mobile retailers).

Small scale retailers / traders without fixed premises are referred to as; itinerant traders, and this include, hawkers, mobile shops, road side traders and peddlers.

Small scale traders with fixed premises include; Tied shops, single shops, Automatic vending and working canteen

### **HAWKERS**

These are traders who carry their goods in small cases and start moving from village to village selling their commodities. They usually carry small items and move using a certain means of transport, like a van lorry, trucks.

### **PEDDLERS**

These are traders who move on foot from place to place selling their goods. Peddlers also carry small items.

### **MOBILE SHOPS**

These shops mostly sell second hand cloths and a wide range of house hold utensils / property. They use vans / Lorries to carry their goods to a specified place and on a specified day.

### **ROAD SIDE SELLERS**

These are traders who sell their goods alongside busy roads. These traders sit at a fixed point and usually start selling in the evening. They sell small items like cigarettes, sweets, newspapers.

### **SINGLE SHOPS**

These shops have got fixed premises and are usually owned and run by an individual with the help of his family members. These are the most common businesses in developing countries and they sell related goods.

### **TIED SHOPS**

A tied shop is that one which sells goods of a single manufacturer. These shops are usually located in big towns for example Bata shops and petrol stations.

### **WORK CANTEENS**

These are selling units which offer shop facilities to a big working group in a given place. These canteens usually sell small items that can easily be consumed by the workers.

## **AUTOMATIC VENDING MACHINE**

These are coin / card operated machines used to buy or sell goods / services. The goods sold under these machines are small e.g tickets, ice cream, and telephone services .money

## **LARGE SCALE RETAILERS**

These are retail outlets which have got large sums of capital and their establishments are bigger than those of small scale retailer. Large scale retailers buy in large quantities which enable them to have reduced operational costs and this may at times result into reduced prices.

### **CHARACTERISTICS OF LARGE SCALE RETAILERS**

1. They commonly have centralized buying and decentralized selling throughout their branches.
2. They normally have self service system hence they lack personal services / contact.
3. They normally occupy expensive premises in big towns / cities.
4. They attractively display their goods.
5. They need more capital to start.

### **ADVANTAGES OF LARGE SCALE RETAILERS**

1. They make bigger purchases and are allowed big discounts which can make them sell goods at a cheaper price than the small scale retailers.
2. They have a big turn over / sales this leads to increased profits.
3. They can afford expensive adverts and can stock a variety of goods.
4. They can easily borrow capital from any financial institution.
5. Large firms can permit division of labour within themselves.
6. One advert can serve all branches.
7. They offer fringe benefits to employees.

### **DISADVANTAGES OF LARGE SCALE RETAILERS**

1. They require large sums of capital to start.
2. They lack personal contact / services of the buyer and seller.
3. They do not offer credit facilities.
4. Business is not flexible.
5. They are commonly located in urban areas / big towns neglecting rural areas.
6. They need large space for operation so it cannot be started in a small space and if it is renting overhead operations are so high.
7. It's often hard to control and manage the enterprise.
8. Taxes charged are so high.

### **TYPES OF LARGE SCALE RETAILERS**

#### **1. MULTIPLE SHOPS**

These are a number of shops owned and managed by one concern stocking the same classes of merchandise and often similar in appearance. These shops are scattered in almost all the big towns in a country.

### **FEATURES / CHARACTERISTICS OF MULTIPLE SHOPS**

- Large amounts of capital are required to start.
- The business is divided into branches which are scattered in many big towns.
- The business specializes in a range of related goods.
- All branches stock the same class of goods and with the same prices in all branches.
- The prices of the goods are fixed from the head office.
- They have a centralized buying system and decentralized system of selling.
- Administration is centralized. All branches are controlled by the head office but they are run by branch managers.

### **2. DEPARTMENTAL STORES**

These are a number of single shops under one roof and one management. The stores are divided into departments each of which stocks one class of goods. Each shop / department has got a departmental manager who decides the size and class of goods to stock.

### **FEATURES OF DEPARTMENTAL STORES**

- There are many departments under one roof providing a variety of goods.
- Each department specializes in one class of good.
- Each department is headed by a department head.
- They occupy expensive central sites in big towns / cities.
- Self service system is usually given.
- They offer recreation facilities such as bars, indoor games and restaurants.
- They are normally run as limited companies with a board of directors in charge of the management and control.

### **3. MAIL ORDER FIRMS / BUSINESS**

This is a large retail business which sells goods through the post office. Traders under this business have no shops but warehouses and an office. Business depends on getting orders through extensive advertising in news papers, brochures, catalogues, televisions, internet and radios. The goods that are sold in this business are always durable but not perishable and they are not bulky. The business spends a lot of money advertising. Credits are not given in this business and customers buy goods they have not physically seen

### **4. SUPER MARKETS**

These are large stores which stock many items a house wife is likely to buy / household goods and food stuffs. Goods under this system are sold on self service system (under self

service the customer serves himself, he chooses what he wants and takes it to the cashier for payment). The prices in super markets are fixed and put on price tags so a customer takes a good knowing in mind what he is going to pay. What is called super market may differ from country to country but a proper super market must have at least 2000 square feet and at least three cashing out lets. Anything less than that can as well be called a self service store.

## **INSTALLMENT SELLING / TRADE**

This is the type of trade where goods are sold and payment is done in periodical installments. The goods dealt in, in this type of trade are durables and expensive ones i.e. vehicles, machines, televisions, radios.

### **CHARACTERISTICS OF INSTALLMENT TRADE**

- Payment is made in periodical installments.
- Expensive and durable goods are the ones sold in this type of trade.
- Goods are sold at high prices than when they are sold / paid for in cash.
- Written agreements are usually made between the buyers and the sellers.
- Much capital is required to run this kind of business.

Under installment trade there are two types of agreements that can be made between the buyer and the seller and these are:-

- i. Hire purchase agreement
- ii. Deferred payment

### **HIRE PURCHASE AGREEMENT**

Under this agreement goods are paid for in bits and the first initial installment is called **down payment**. The product becomes property of the buyer when the last installment has been paid. Failure to complete the installment the seller can reposes the goods. The goods sold under hire purchase are expensive and durable in nature like vehicles, televisions, music systems e.t.c. such commodities can be used to earn money and pay for the remaining installments.

### **FEATURES /CHARACTERISTICS OF HIRE PURCHASE AGREEMENT**

- The products become property of the buyer when the last installment has been paid.
- The buyer just hires the commodity so he can not be allowed to sell it until he completes the last installment.
- The seller has got the right to reposes the product if the buyer fails to complete his installments.
- A reasonable length of time is given to the buyer to pay all his installments.



## **ADVANTAGES OF HIRE PURCHASE AGREEMENT TO THE OWNER (SELLER)**

1. There is high turnover resulting in high profits.
2. Goods belong to the seller until the last installment is paid.
3. The final price of the goods in this system is high so sellers get more than those who sell on cash basis.
4. It is an easy means of selling expensive and durable goods.
5. With frequent visits by the buyer to the seller to pay the installments the buyer can be tempted to buy more goods.
6. It promotes good relationship between the buyer and the seller.

## **DISADVANTAGES OF HIRE PURCHASE AGREEMENT TO THE OWNER (SELLER)**

1. The seller might find it difficult to sell second hand goods if the buyer fails to pay all the installments.
2. A loss may result from bad debts.
3. Extra time and expenses are involved in book keeping and trying to recover debts.
4. All the working capital might be tied up in installments.
5. Much capital is required for establishment and maintenance.
6. Too many expenses on records and other debts recovery expenses.

## **ADVANTAGES OF HIRE PURCHASE AGREEMENT TO THE BUYER**

1. He enjoys the use of the goods while paying for them.
2. He can buy expensive goods as he is allowed to pay in installments.
3. Some commodities purchased in this system can pay for themselves without burdening the buyer.
4. The system encourages people to save.
5. The goods purchased can be used as securities when getting a loan.
6. The spreading of payment over a long period makes it quite easy for the buyer to pay.

## **DISADVANTAGES OF HIRE PURCHASE AGREEMENT TO THE BUYER**

1. Goods bought under this system are more expensive than those bought using cash.
2. If the buyer fails to complete the installment the goods are repossessed by the seller.
3. The buyer might be tempted to buy goods that he would not have bought.
4. The buyer is made unsettled until he completes the installment.

## **DEFERRED PAYMENT**

Under this system the article becomes a property of the buyer once the first installment (down payment) is paid and in case of default the buyer is sued.

## **FEATURES OF DEFERRED PAYMENT**



## **WHY HAVE SMALL SCALE FIRMS CONTINUED TO EXIST SIDE BY SIDE THE LARGE SCALE ENTREPRISES?**

The following reasons explain the continued co-existence (of the two):

- Little capital is required to start and operate a small scale firm.
- Small scale enterprises need a small market that is why they are even located in rural areas.
- Small scale firms are simple to manage and control with no administrative problems.
- Small scale firms do not always incur increased costs like advertising, rent.
- Their firms are usually located in the reach of a customer.
- They sell goods in reasonably small quantities which are affordable by most consumers.

## **WHOLESALE TRADE**

Wholesale trade is the buying of goods in large quantities from the manufacturers (producers) and selling them to retailers or other manufacturers.

A wholesaler is a trader (a firm or an individual) who buys goods from the manufacturers and sells them to the retailers or other manufacturers so a wholesaler acts as a middle man between the manufacturers and the retailers or other manufacturers.

## **FUNCTIONS OF A WHOLESALER**

The functions / services of a wholesaler are provided to manufacturers, retailers and consumers

### **TO THE MANUFACTURERS;**

1. He acts as the middle man between the manufacturers and the retailers (he takes the information to the manufacturers from the retailers).
2. He finances the manufacturers by paying them promptly.
3. He relieves the manufacturers the burden of ware housing.
4. He advertises and finds market on behalf of the manufacturers.
5. He saves the manufacturers from the burden of transporting the goods by collecting them himself.
6. He helps the manufacturer to have continuous production by buying in bulk.
7. Wholesalers brand goods on behalf of the manufacturers.

### **TO THE RETAILERS;**

1. He stocks variety of goods for the retailer..
2. He stores goods until they are required by the retailers.
3. He advertises / displays his goods for easy choice by the retailers.

4. He provides personal services to the customers (credit facilities, delivery services).
5. He transports the goods from the manufacturers to the nearest vicinity of the retailers.
6. He connects retailers to the manufacturers by taking their complaint.
7. He prepares goods for sell i.e. brand and packs them.
8. He sells goods in quantities retailers can afford to buy them at.
9. He offers advice to retailers on the goods to be held, prices to be charged, services to be offered.
10. Provides steady supply at stable prices.

### **TO THE CONSUMERS;**

1. He keeps prices stable by buying in bulk, stores and releases them from ware house after a time.
2. He helps the consumers to get steady supply by stocking a variety and in bulk and releasing when ever need a rises.
3. He transports goods nearer to the consumers.
4. He offers a variety of goods to the consumers.

### **TYPES OF WHOLE SALERS**

Wholesalers can be classified according to the area served by them or according to the goods offered by them. Therefore there are National wide or Regional wholesalers and General or Specialized wholesalers.

- i. National wide wholesalers:-  
These supply goods to the retailers all over the country. They usually offer a range of goods and have got large ware houses.
- ii. Regional wholesalers:-  
These ones serve a particular area and may offer a large variety of commodities or a specialized range of them.
- iii. General wholesalers:-  
These offer a variety of goods in a number of fields e.g. groceries, hardware, frozen goods and clothing.
- iv. Specialized wholesalers:-  
These ones specialize in a particular field and offer a great variety with in that field e.g book shops and hardware.
- v. Cash and carry wholesalers:-  
These ones require the retailers to go to the wholesalers ware houses pick what they want, pay cash and carry away the goods.

### **THE NEED FOR A WHOLE SALER**

As manufacturers sell in bulk not all retailers and consumers can afford to buy those bulk and for that matter the services of a wholesaler becomes necessary i.e. he breaks bulk, transports goods

from the manufacturer to the nearest vicinity of a retailer and keeps a steady supply of goods whenever they are needed.

But there is a possibility that business can continue even when the wholesaler is eliminated from the chain of distribution, this will prevail under the following circumstances.

### **CIRCUMSTANCES UNDER WHICH A WOLE SALER CAN BE ELIMINATED**

There is a possibility that a business can even continue even when the wholesaler is eliminated from the chain of distribution and this can happen under the following circumstances:

1. The existence of large scale retailers like super markets, departmental stores that can buy directly from the manufacturers
2. Some manufacturers open up their own outlets through which they distribute their goods.
3. When the manufacturer offers transport services to the retailer.
4. Some manufacturers have got agents.
5. Manufacturers who deal in fragile or perishable commodities like bread, milk, may not need the services of wholesalers as those goods need less handling.
6. Where production is on a small scale like people making pan cakes.
7. Where many retailers combine and buy as one / concentration of retailers.
8. Where manufacturers sell directly to the big consumers who buy in bulk like schools, hospitals and universities.
9. Where goods are so expensive and slow selling.
10. Where business is through post office i.e. mail order.
11. Where professional after sales services are required.
12. Provision of direct services like hair dressing and hotel services.

### **WHOLE SALER'S WARE HOUSE**

A ware house is a place where manufactured goods are kept waiting to be sold off. The process of keeping these goods in a ware house is what is called ware housing.

In a wholesaler's ware house goods can be branded, blended, packed and later sold to the retailers.

### **ORGANISATION OF A WARE HOUSE**

The ware house is owned or started or financed by the owner of the business (for this case wholesaler) and under him a general manager is appointed under the general manager different departments are created for example secretarial, accounts, purchase, sales and sales promotion department.

### **PURCHASE DEPARTMENT**

This department is concerned with buying goods for re-sale and it is often divided into sections that may have the following activities:

- I. Maintaining a list of suppliers.
- II. Placing orders with the most suitable suppliers.
- III. Receiving goods from suppliers.
- IV. Packing, blending and branding.
- V. Maintaining store records.

### **SALES DEPARTMENT**

The sales department is concerned with the sales of the business. This department is headed by a sales manager whose activities include:

- I. Receiving orders from customers.
- II. Enforcing a strict credit control.
- III. Arranging for transport of goods from the ware house to the retailers

**SALES PROMOTION DEPARTMENT;** this department is headed by a sales promotion manager and it is responsible for:

- I. Handling all advertisements.
- II. Printing catalogues, price lists.
- III. Arranging for special demonstrations of goods offered by the business.
- IV. Attending to customers complaints.

**SECRETARY'S DEPARTMENT;** this department is headed by the secretary and it handles all correspondence records, legal affairs and personal matters. It is therefore the responsibility of this department to:

- I. Maintain the necessary files.
- II. Advise the management on matters of the legal importance i.e. company registration, dividends.
- III. Appoint staff employees.
- IV. Arrange for the training of personal.
- V. Maintain staff records.

### **ACCOUNTS DEPARMENTS**

This department is headed by the chief accountant and handles all the accounting work. The major activities of this department include:

- I. Preparation of invoice and statement to be sent to the customer.
- II. Receiving and effecting payments on behalf of the business.
- III. Preparation of budgets and enforcing costing system.
- IV. Preparation of wage sheets and payment of wages.
- V. Preparation of financial accounts at the end of each fiscal year.

## **PROBLEMS FACING WHOLE SALERS / HOME TRADE IN UGANDA**

1. High tax charges by the local authorities in the different area affect the traders
2. Competition caused by a number of other traders dealing in the same products
3. High transport costs from the suppliers to their premises
4. Price fluctuations that at times make them get losses
5. High rent charges that are levied by the land loads at the end of each month
6. Limited market the number of buyers who can actually buy from the traders all the time is limited
7. Weather changes that are unpredictable greatly affect the traders who stock seasonal goods and at times this affects the supply of some goods
8. Lack of proper storage facilities. Many traders lack proper storage facilities more especially for the perishables
9. Limited funds the funds to expand most of the business enterprises in Uganda is limited to the Entrepreneurs savings
10. Political instability in some areas where there is instability people do not buy as everyone takes off for his dear life.
11. Bad debts some untrustworthy customers who do not want pay cause losses to the business
12. Insecurity in terms of theft., in some areas break into enterprises and steal the items that would have been for sale
13. Limited space. space as at times not also enough for some traders in congested area
14. Language barrier as we have so many languages in Uganda some traders fail to sale because they can't communicate with the customer
15. Lack of training. Many traders in Uganda lack business knowledge of calculating the profits or losses and the business recordings
16. Unfavorable government policies of shifting traders from one place to another and at time confiscating their property.

### **Revision Questions**

- 1, Explain the different types of whole sellers in Uganda
- 2 Give the functions of a retailer to a wholesaler
- 3 Explain the services of a wholesaler to a manufacturer
- 4 Under what circumstances may a wholesaler be eliminated in the chain of distribution
- 5 Explain the different departments in a wholesalers ware house
- 6 Describe six types of small scale retailers in Uganda
- 7 Explain six advantages and disadvantages of small scale retail trade
- 8 What factors will influence a buyer to choose a commodity in the market
- 9 What problems do face the traders of Uganda
- 9 Give the characteristics of large scale retail trade in Uganda
- 10 What factors should one consider before setting up a Retail business?