INTRODUCTION

Commerce is the way man organizes the exchange and distribution of goods and services from the place of production to the place of consumption to satisfy his wants. Commerce is study of trade and Aids to trade.

Trade is the buying and selling of goods and services with the aim of making profits. A person who buys and sells goods and services with the aim of getting profits is called **a trader**.

Trade is divided into Home and international trade. **Home trade** is the buying and selling of goods and services within the boundaries of a country for example buying goods from Kampala and selling them in Iganga. **International trade** means the buying and selling of goods and services outside the boundaries of a country or trade between two or more countries for example trade between Uganda and Kenya.

Aids to trade are auxiliary services which enable trade to be carried out smoothly. They facilitate the smooth flow of goods from the place of production to the place of consumption.

The aids to trade include the following:-

i). **Money and Banking.** This is concerned with keeping safely the money of businessmen or traders. Banks accept deposits, safeguard them and avails them to the rightful owners on demand.

ii). **Transport**. This is the movement of goods or people from one place to another. This can be done by road, railway, water, pipeline and air.

iii). **Insurance.** This is concerned with guaranteeing compensation to businessmen who may suffer losses due certain risks they insured.

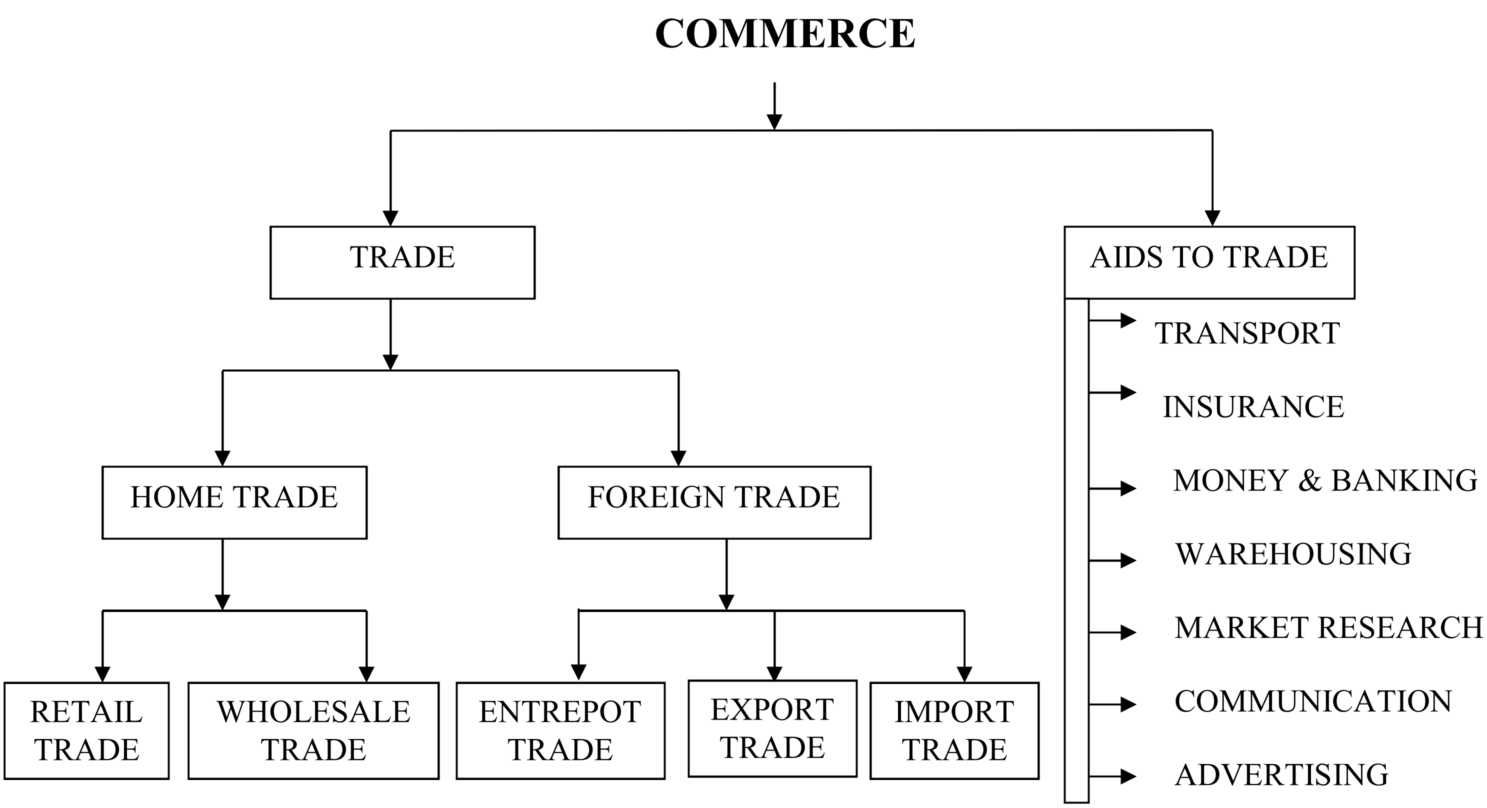
iv). **Advertising**. This refers to informing the public about the existence of goods on the market and persuading them to buy as much as they can. This may be done using Televisions, radios, banners, attractive display etc.

v). **Communication.** This concerned sending and receiving business information from one person to another. This can be oral, written or in visual form.

vi). **Warehousing**. This is concerned with storage of raw materials, semi-finished and finished goods waiting for processing or sale.

vii). **Market research**. These are activities concerned with finding people's opinions about new and old products on the market.

The branches of Commerce can be represented diagrammatically as shown below:-



Importance of studying commerce

Commerce is studied in secondary schools in Uganda today because of the following reasons:-

i.) Commerce is studied in secondary school because it enables learners to know the various channels of distribution that is to say how the goods are distributed from the place of production to the place of consumption.

ii.) It enables learners to know the commercial language used in the business world and the different documents used in trade.

iii.) It provides learners with a foundation for the study of Economics at a higher level. This is because it provides them with foundational knowledge for the study of Economics at A level.

iv.) It is a practical subject which provides learners with knowledge and skills which enables them to set up their own businesses.

v.) It also provides employment opportunities to learners after their course of study. Learners can be employed directly and indirectly.

vi.) It provides learners with knowledge about the pricing of different commodities in an economy. This helps them to avoid exploitation from the business men.

vii.) Commerce enables learners to know the insurance services provided by insurance companies and how businessmen are compensated for the risks they insured.

viii.) Commerce encourages production which results into creation of utility i.e. satisfaction derived from the consumption of a good or service

ix.) Commerce provides learners with knowledge about how businessmen can increase their sales through sales promotions and market research.

BUSINESS

A business is any activity set up with the aim of getting profits.

Factors considered by a trader before setting up a business.

i.) Availability of market/demand condition/population size. The business should be set up in an area where there is market for the goods or services traded in.

ii.) Efficient transport/Accessibility. Good transport helps in the transportation of goods from suppliers to the business. It also helps to transport goods by customers from the business to their premises.

iii.) Availability of security/political climate. The area should be politically stable to avoid theft of business property.

iv.) Availability of ancillary services/social services. A business should be set up in an area where there are social services like banks, schools, hospitals, insurance companies etc.

v.) Easy communication. A business should be set in an area where there is easy communication to make it easy to communicate to customers and suppliers.

vi.) Existence of power and its cost. A business should be located in an area where is reliable supply of cheap power to run the activities of the business.

vii.) Existence of water and its cost. Water is very important in all activities of the business and domestic use.

viii.) Access to suppliers/source of stock. A business should near suppliers to ensure a continuous supply of stock to the business.

ix.) Government policy on setting up a business in a particular area. Government determines the location of a business in a particular area for purposes of physical planning.

x.) Competition from other businesses. A business should be far from other businesses to avoid stiff competition.

xi.) Availability of land for expansion. The business should be located in an area where there is enough land for expansion.

xii.) Cost of rent. Rent should be cheap to reduce the operational costs and increase the profits of the business.

xiii.) Existence of labour/staff/manpower. A business should be located near the source of cheap skilled and unskilled labour to work in the business.

xiv.) Type/nature of goods. The goods to be sold by the business should be the preference of the people in the area e.g. pork should not be sold in a Moslem community.

HUMAN NEEDS AND WANTS

Human needs are things that man requires to exist. Without the human needs man cannot exist. They include Shelter, clothes, water, food and medical care.

Human wants on the other hand are things that man requires to make his life better. This means that man can survive without them. They include Televisions sets, Radios, Education, and Shoes among others.

Classification of Human Wants

Human wants are categorized into two namely:-

1. **Material human wants**. These are wants which are satisfied through consumption of physical goods. For example a thirsty person will be satisfied by taking a drink.

2. **Immaterial human wants**. These are wants which are satisfied by provision of services for example security, watching a film etc.

Characteristics of Human wants

Human wants possess the following characteristics:-

i.) They are competitive i.e. they compete with each other for choice. For example if someone is Thirsty, he can either take water or Soda. This means that water and Soda will compete for choice.

ii.) Some human wants are habitual. Some human wants with time may turn to be habitual for example drinking and smoking.

iii.) Human wants are unlimited yet the resources to satisfy them are limited.

iv.) Human wants are recurrent in sense that when one is satisfied it leads to creation of another.

GOODS

These are tangible things which yield satisfaction to human beings.

Types of goods

Capital goods. These are goods which are used in the production of other goods for example sowing machines, tractors, Hoes among others.

Consumer goods. These are goods which are produced ready for consumption for example bread, sugar etc.

Free goods. These are goods that are consumed at zero price. They exist in natural abundance relative to demand for them for example Air, sunshine, Rain, sea water e.t.c.

Private goods. These are goods which are exclusively enjoyed by private individuals and one's consumption excludes others from consuming the same goods for example private cars.

Public goods. These are goods owned and enjoyed collectively by the entire public. They are normally owned by the government for example Roads, bridges, security lights among others.

Normal goods. These are goods whose demand increase with an increase in one's income

Merit goods. These are goods provided by the state to improve on the quality of life of the people for example education and medical care.

Complementary goods. These are goods which are jointly demanded for example car and petrol. They go hand in hand therefore without one the other cannot be demanded.

Substitutes. These are goods which serve the same purpose for example beans and peas.

PRODUCTION

Production refers to all activities aimed at transforming raw materials into finished goods.

It refers to creation of utility. Utility refers to the ability of a commodity to satisfy human wants.

Types of Utility

Utility is classified under the following:-

- ***Place utility***. This refers to increasing the usefulness of a commodity by transferring from one place to another. For example transferring a commodity from the producer to consumer
- ***Form utility***. This is utility which involves changing a raw material into a finished good. For example when a carpenter makes a chair out of wood.
- ***Time utility***. This is a type of utility created when a commodity is stored for some time and sold when prices increase.
- ***Possession utility***. This a form of utility created when possession of a commodity is changed from one person to another. For example a commerce Text book is not useful to a layman but if it is given to a student, possession utility is created.
- ***Service utility***. This is created when a service provider satisfies wants of others through provision of his service. For example a teacher creates service utility by teaching his students.
- ***Natural utility***. All free goods possess natural utility because they have the capacity of satisfying human wants. Such goods include water, air, and sunshine among others.

TYPES OF PRODUCTION

Production is broadly categorized into two namely

1. **Direct production**.

This is a form of production where man produces goods and services for his own consumption or use for example a carpenter making a chair for his own use. It is sometimes called subsistence production.

2. **Indirect production.**

This refers to a type of production aimed at producing goods and services for exchange or sale. One produces goods with the aim of getting profits from the sales. This type of production is characterized by high levels of output due to the better methods of production employed.

LEVELS/ BRANCHES/ STAGES OF PRODUCTION

1. **Primary production.**

This level of production involves extraction of basic raw materials from their natural form for example mining, lumbering, farming, fishing and quarrying.

2. **Secondary production.**

This stage involves the transforming of raw materials got from the primary stage into semi-finished or finished goods for example furniture making, changing sugar canes into sugar, transforming cotton into clothes etc.

Secondary production involves manufacturing and constructive industries.

i). **Manufacturing industries** deal with changing raw materials into semi manufactured or manufactured goods.

ii). **Constructive industry** involves construction of structures like bridge making and road construction.

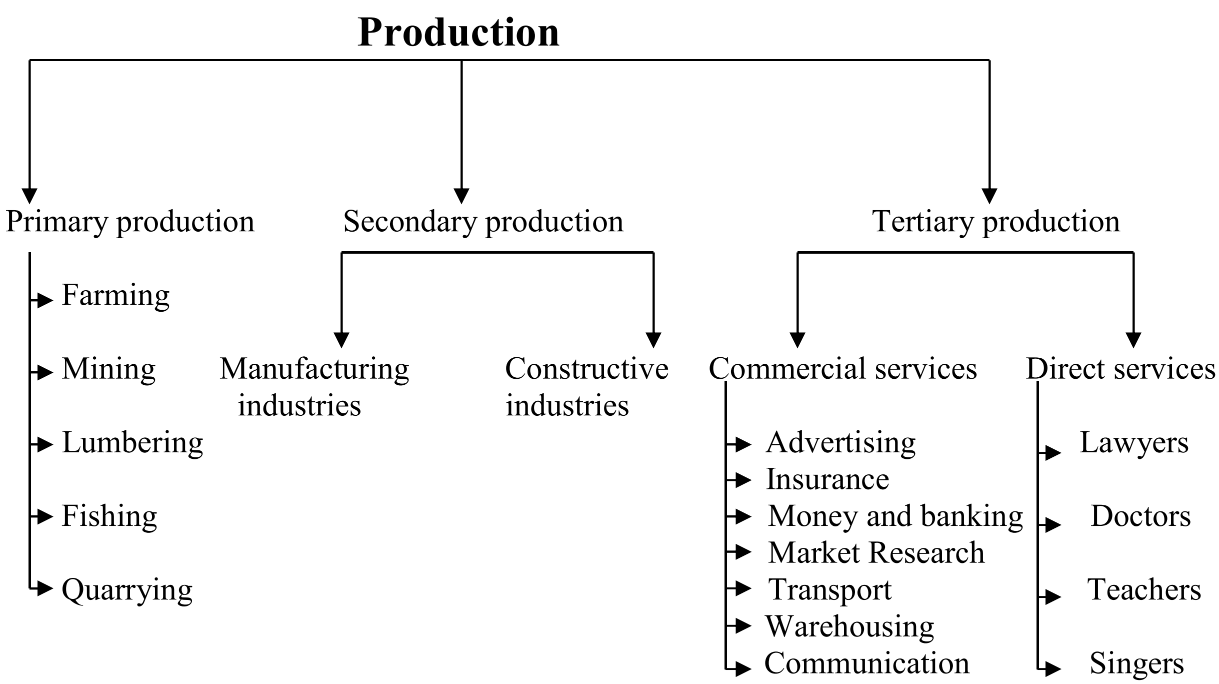
3. **Tertiary production**.

This involves the provision of services to the final consumers. Services provided are either commercial services or direct services.

i). **Commercial services** are services which help the smooth transfer of goods from the place of production to the place of consumption for example banking, teaching, insurance, and transport among others.

ii). **Direct services** involves services which cannot be seen but satisfy human wants like teaching.

The levels of production are represented diagrammatically as shown below:



FACTORS OF PRODUCTION

These are also called agents of production. Factors of production refer to the inputs or resources which must be in place for production to take place for example Land, Capital, Labour, Entrepreneurship and organization.

a) LAND

This refers to all gifts of nature on the surface of the earth, in the space or underground used in the production of goods for example minerals, rivers, lakes, forests, mountains, climate etc. The reward for the use of land as a factor of production is **rent.**

b) LABOUR

Labour refers to both human physical and mental effort used in the production of goods for some monetary reward. The reward for labour as a factor of production is **wages or salaries.**

Categories of Labour

1. **Skilled labour.**

This is labour specialized to handle certain or specific tasks. Skilled labour is trained and experienced and cannot be easily substituted for example lawyers, teachers, doctors, etc.

2. **Semi-skilled labour.**

This is labour which is semi educated or has acquired some functional education to enable them perform certain tasks.

3. **Unskilled labour.**

This is labour which is not specialized to handle specific tasks. It is not trained and can be easily substituted for example a wheel borrow pusher.

Labour supply refers to the number of workers who are willing to offer themselves for employment at a given wage rate in a given period of time.

Demand for labour refers to the number of workers that employers are willing to offer jobs and retain them in employment in a given period of time.

Efficiency of labour refers to productivity or effectiveness of labour that is to say the size of output that labour can produce in a given period of time.

Factors that determine labour efficiency

i). **The level of education and training**. Skilled labour force is more productive than one which is unskilled.

ii). **The health conditions of the workers**. Health workers normally produce more than the unhealthy workers.

iii). **Working hours**. Few working hours punctuated with breaks make workers more productive. Long working hours reduce the efficiency of workers.

iv). **Wages.** A worker who is paid high wages which ensure a high standard of living is more productive than one who is poorly paid.

v). **Nature of machines**. Use of improved technology increases the efficiency of workers.

vi). **Relationship of the employee with the immediate supervisor.** A good working relationship between the employee and the person who supervises him is likely to increase the efficiency of that worker and vice versa.

vii). **Job security.** If workers are assured of job security, they will work to their best hence increasing their efficiency and if there is no job security, productivity is reduced.

c) CAPITAL

Capital refers to man-made resources used in production of goods and services. Capital may either be in form of real assets for example buildings or cash. Capital is used in the purchase of inputs and payment of other factors of production. The reward for capital as a factor of production is **Interest.**

d) ENTREPRENEURSHIP

This refers to undertaking of the in projects, buying land and other factors of production, bearing risk/losses. The person who initiates the production of goods and arranges all the other factors of production is called **an entrepreneur**. The reward for an entrepreneur is **profit.**

Functions of an entrepreneur

i). The entrepreneur provides capital for the production process

ii). He bears all the risks of production. All the risks like theft, fire outbreak and bad weather for the case of agriculture are on the shoulders of the entrepreneur.

iii). Coordination of the other factors of production. The entrepreneur mixes the factors of production in the required quantities so as to achieve maximum output at low production costs.

iv). The entrepreneur also supervises all the other factors of production so that maximum production is ensured.

v). The entrepreneur anticipates the demand and hires factors of production to produce such goods.

vi). The entrepreneur searches for market for the products produced by his production unit. He provides goods in accordance to the consumers' tastes and preferences.

vii). He makes inventions and innovations to improve on the production methods.

viii). The entrepreneur makes payments to all the other factors of production for example labourers and landlords.

e) ORGANISATION/MANAGEMENT/ADMINISTRATION

Organization brings together and coordinates other factors of production to ensure smooth production process. Organization doesn't take part in the actual production process of transformation of raw materials to finished goods. The reward is **salary**

SPECIALISATION AND DIVISION OF LABOUR

Division of labour is the distribution of a particular task to each individual in the production process where one has greatest ability for example during maize planting, some workers may dig holes, some put in the seeds and others cover the holes.

Specialization is the concentration of an individual on the production of a commodity in which he/she has greatest ability. Specialization is aimed at increasing the level of output and leads to exchange.

Exchange is the giving of goods or services to a person in return for other goods, services or money.

Forms of specialization

1. **Specialization by Commodity**. This is when a person, firm or a country concentrates on the production of one commodity. Such a person or country produces a commodity in large quantities and exchanges with what he/she can't produce.
2. **Specialization by Process.** This where a person concentrates on one part of the production process and leaves others to be performed by other workers. For example in the making of chapatti, one may concentrate on mixing floor, another one sizing the mixed floor in same quantities and another worker frying.
3. **Regional specialization**. This where a region concentrates in the production of a given commodity and sells to other regions. For the case of Uganda, the Eastern region concentrated on the production of cotton and Western region in the production of Matooke.

4. **Occupational specialization.** This is where a person concentrates on a given occupation so that his production is through such an occupation for example teaching, fishing, farming, etc.
5. **Specialization by craft.** This is form of specialization where a person concentrates on a given activity basing on his skills.
6. **International specialization.** This is where a country concentrates on the production of a given product or good with the intention of exchanging it with other countries. This type of specialization is normally based on the law of comparative advantage of international trade where a country specializes in the production of a commodity where it incurs the least opportunity costs of production.

Advantages of specialization

i.) Specialization leads to increased output and low costs of production.

ii.) Specialization increases the efficiency of workers as they do the same activity over and over again.

iii.) Saves on tools i.e. single set of tools are used in a particular task.

iv.) It leads to gaining of skills and experience as a result of repeated tasks.

v.) As a result of specialization, workers experience less fatigue as they do not move from one job to another.

vi.) It save time as movement from one job to another is minimized. Workers are employed at a definite process with certain tools therefore the worker goes on with the work without loss of time.

vii.) Specialization promotes use of machines which results into standardized output.

viii.) Specialization leads to minimum supervision as workers are assigned the tasks they can do best in the production process. This reduces the costs of supervision.

ix.) Specialization leads to inventions and innovations in the production process.

x.) It promotes international trade. Countries specialize in the production of certain products and get what they can't produce through exchange.

xi.) It leads to production of quality goods since workers are experienced.

xii.) Specialization reduces the wastage of resources like raw materials since workers are sure of what they do.

xiii.) It leads to exploitation of talents as workers concentrate on what they can do best.

xiv.) Facilitates innovations and inventions.
xv.) Facilitates Research in the area of specialization.

Disadvantages of specialization

i). Specialization leads to monotony of work as a result of repeated tasks. This results into boredom and reduced efficiency of workers.
ii). Absence of one worker in a production process where workers are highly specialized and there is complex division of labour, the entire production process will come to a standstill.
iii). There is a high risk of unemployment because highly specialized workers cannot be absorbed in other production activities unless retraining is done.
iv). It increases dependence on the part of the workers and the country in case it specializes in the production of one product.
v). Specialization results into over production which is limited by market.
vi). Loss of responsibility. Many workers join hands to produce a commodity and therefore if the production is not good, none of the workers can be held responsible for it.
vii). Loss of craftsmanship as machines are employed in the production process.
viii). Specialization narrows the worker's knowledge on the job being performed because he does not get complete knowledge of the entire production process.
ix). In case of price fluctuations and abrupt change in demand, a country which specialized in the production of a certain commodity will be greatly affected as it will not have sufficient forex to finance its imports.
x). It results into over exploitation of the country's resources for example minerals.

LOCATION AND LOCALISATION OF INDUSTRIES

Location of an industry is the setting up/establishment of an industry in an area.

FACTORS THAT INFLUENCE THE LOCATION OF AN INDUSTRY

i). **Availability of raw materials.** Industries are normally located near their source of raw materials especially when the raw material is bulky to carry and perishable for example limestone and fish respectively. This explains as to why the Cement industry was established in Tororo where there is adequate limestone which is used as a raw material.

ii). **Availability of market.** Some industries are located near the main source of market for its finished goods. This mainly occurs when the finished goods are fragile and perishable for example glasses, bread, milk among others. This is why many industries are located in Kampala city.

iii). **Availability of cheap labour.** Industries are located in areas where there is cheap source of both skilled and unskilled labour. This ensures that the industry operates at low costs of production.

iv). **Availability of power.** Industries are normally established in areas where is cheap and reliable source of power to run machines. This ensures that production goes on undisturbed.

v). **Presence of efficient transport and communication/Accessibility.** Industries should be located in areas where the transport and communication are efficient to enable transportation of raw materials to the industry and finished goods to the market.

vi). **Availability of water.** Some industries are located in areas where there is adequate water supply because they use it as a raw material for example the soda and beer industries. Besides that water is used as a coolant by the industries. This is why many industries were established in Jinja to tape water from the Nile.

vii). **Availability of security.** Industries are normally located in areas where there is enough security to protect the property of industry and workers.

viii). **Availability of ancillary services.** Industries are established in areas where there are ancillary services such as medical care, banking facilities and insurance facilities. This enables labour to be stable in such areas.

ix). **Government policy.** The government influences the location of an industry in order to promote equal regional development and to provide employment opportunities for the people in a given region.

LOCALISATION OF INDUSTRIES

Localization of industries refers to the concentration of many industries in a particular area.

Advantages of localization of industries

i). **Employment opportunities**. It results into creation of employment opportunities for the people in the locality. Employment is availed to both skilled and unskilled manpower.

ii). **Source of government revenue.** The government earns revenue by taxing the industries and the people who work in the industries.

iii). **Improvement of social facilities.** Social facilities such as medical care, banking facilities, educational facilities among others improve drastically as a result of localization of industries.

iv). **Growth of subsidiary industries**/interdependence of industries**.** Localization leads to establishment of other industries to provide raw materials and use the by-products of the already established industries. This is as a result of forward and backward linkages. For example the establishment of the sugar industry results into the emergence of the sweet industry.

v). **Increases production of goods.** Localization of industries results into mass production which consequently leads to reduction in the final price of goods and services.

vi). **Improves standard of living of the people in the area.** Improves standard of living and welfare of the people due to direct employment by the industries and those involved in other activities.

vii). **Urbanization.** Localization of industries leads to growth of urban centres. This goes a long way in stimulating economic growth of the country.

viii). **Encourages growth of centralized markets** within one area/expands market for goods.

ix). The many people attracted to the localized areas provide wide market for the produced goods.

x). **It encourages commercial farming** due to the large market created by the agro-based industries.

xi). Easier for the government to provide proper control, supervision and security.

xii). It encourages research for study purposes and innovation.

xiii). Industrial disputes can be settled easily e.g. through trade unions.

xiv). Easier for government to provide infrastructure e.g. roads, electricity, water, schools etc.

Disadvantages of localization of industries

i). **Water and air pollution**. Localization of industries results into water and air pollution as result of disposal of untreated chemicals from the industries to the environment.

ii). **Increase in population in the localized area.** Localization results into rural-urban migration which leads to population explosion in the localized areas.

iii). **Traffic congestion.** Localization leads to traffic congestion as a result of shortage of enough space which leads to high rates of accidents

iv). **Regional imbalance.** The localized areas grow at the expense of the un localized areas.

v). **Exhaustion of resources.** It leads to exhaustion of a country's non-renewable resources for example Minerals.

vi). **Competition created** among the various industries results into increase in costs of production which leads to increased prices for goods.

vii). **Displacement of people.** Localization of industries results into displacement of people in an attempt to create more land for construction of industries.

viii). **Increased pressure on existing infrastructure.** Localization leads to increased pressure on the social services in the area.

ix). **High cost of living.** There is high cost of living in the localized areas because the demand in such areas normally surpasses the supply.

x). **In case of natural calamities like earthquakes and disasters,** localized areas are greatly affected

xv). **Localization creates open urban unemployment.** This is because not all people who migrated to the localized areas find employment.

xvi). **Localization creates income inequality.** People in the localized areas earn more incomes compared to people in other areas hence widening the income gap.

DELOCALISATION OF INDUSTRIES

Delocalization refers to the distribution/scattering/spreading industries in different parts of the country.

Advantages of delocalization of industries

i.) It controls migration of large number of people from one part of the country to another.

ii.) It leads to balanced regional development i.e. different parts of the country attain a certain level of development.

iii.) It results into reduced development of slums and problems associated with localization.

iv.) It reduces the level of unemployment since people in a particular region compete for jobs.

v.) The rate of pollution in the area is reduced.

vi.) Reduced cases of traffic congestion and human congestion associated with urban areas.

vii.) Encourages development of infrastructure like schools, hospitals among others.

viii.) It promotes utilization of local resources

ix.) It spreads risks of concentrating industries in one area in case of wars, famine etc.

x.) It brings products closer to the people in the locality

Disadvantages of delocalization of industries

i.) It results into high costs of production due to limited raw materials necessitating their transportation from other areas.

ii.) High costs of labour which may have to be obtained or hired form distant places.

iii.) High initial costs of establishing the necessary infrastructure e.g. roads, water and telecommunication.

iv.) Limited local market for products thus high marketing costs through transportation, advertising and market research

v.) High government expenditure on subsidies for industries.

vi.) Displacement of people by the new industries.

vii.) Blocks interdependence of industries hence forward and backward linkages are not possible.

viii.) Industries may not enjoy economies of scale because they are scattered in different parts of the country.

CONSUMPTION

This is the final stage in the process of production. Consumption refers to the process of utilizing the goods produced. The person who utilizes the goods produced by the manufacturers is called a **consumer**. The consumer is the last link in the process of production of goods.

DEMAND

Demand is the quantity of a commodity that consumers are willing and able to buy at a given price in a given period of time. It is the desire backed by the ability to buy a commodity at a given price by the consumer.

The Law of Demand

The law of demand states that the higher the price, the lower the quantity demanded and the lower the price, the higher the quantity demanded.

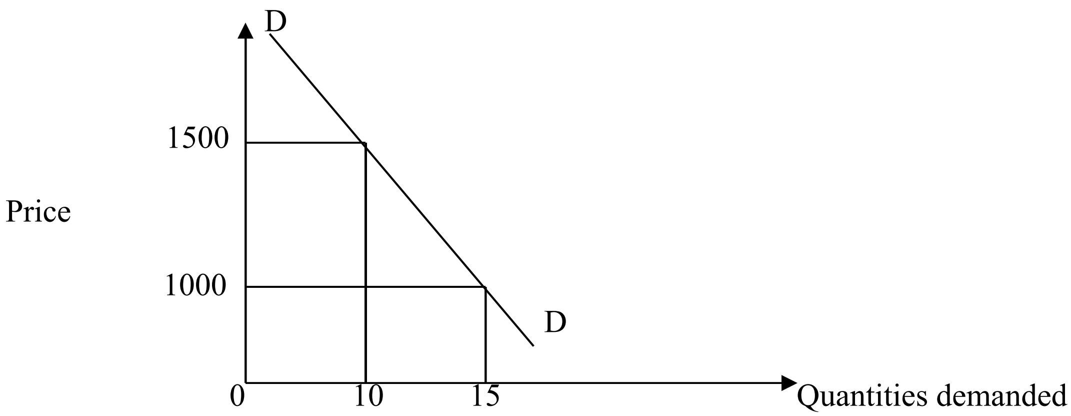
The demand schedule

This is a list of commodities demanded by the consumers at particular prices. The demand schedule can be illustrated as shown below

Price	1000	1500
Quantity demanded	15	10

The demand curve

The demand curve is a graphical representation of the demand schedule. It is therefore a locus of points showing quantities demanded of a commodity at various prices. It can be illustrated as shown below



Factors influencing demand for a commodity

The quantity of a commodity demanded by consumers is influenced by the following factors:-

i.) **The price of the commodity**. The higher the price, the lower the quantity demanded and the lower the price, the higher the quantity demanded.

ii.) **The price of other commodities.** This relates to substitutes and complements. For substitutes, when the price of one let say beans increase, the quantity demanded of the other (peas) also increases and when the price of a substitute commodity reduces, the demanded of the other reduces. On the other hand, for complements when the price of one let say cars increase, the demand for the other (petrol) reduces and vice versa.

iii.) **The level of consumer's income**. The higher the consumer's income, the higher the quantity demanded and the lower the consumer's income, the lower the quantity demanded.

iv.) **The population size**. The larger the size of the population, the higher the demand and the quantity demanded of a commodity is low in sparely populated areas.

v.) **Government policy**. The government can influence the quantity demanded of a commodity through taxation and subsidization. Subsidization increases the quantity demanded of a commodity and taxation reduces the quantity demanded of a commodity.

vi.) **The level of advertising.** Massive advertisement increases demand and for commodity which is not advertised, its demand is low.

vii.) **Consumer's tastes and preferences.** If the tastes are good or favourable, the demand will be high and if they are poor or unfavourable demand will be low.

viii.) **Seasonal factors.** The demand of some commodities depends on the season. For example more of the jackets, and gumboots will be demanded during rainy seasons than in hot and dry seasons.

ix.) **Future expectations in prices and quantity supplied.** If consumers expect prices of a commodity to rise, they will buy more of it now and if they expect fall in prices, they will demand less of that commodity now expecting to buy it in future.

x.) **Terms of sale.** The demand for goods and services can increase if the terms of sale offered to the consumers are favourable. These terms may include offering goods on credit and giving cash and trade discounts. On the other hand, if the terms of sale are unfavourable for the consumers for example stringent credit term, the demand will reduce.

xi.) **Habit.** Some commodities are consumed based on habit for example cigarettes and alcohol

xii.) **Quality of the good or service.** High quality goods and services are highly demanded by consumers while poor quality goods or services are less demanded by consumers.

xiii.) **Provision of after sale services** like free delivery of goods attracts many consumers to buy a given commodity.

xiv.) **Method of payment** for example credit terms/hire purchase attracts many consumers to buy a given commodity while cash payment attracts few consumers to buy a commodity.

SUPPLY

Supply refers to the quantity of a commodity that producers are willing and able to offer for sale at a particular price in a given period of time.

The law of supply

The law of supply states that the higher the price, the higher the quantity supplied and the lower the price, the lower the quantity supplied.

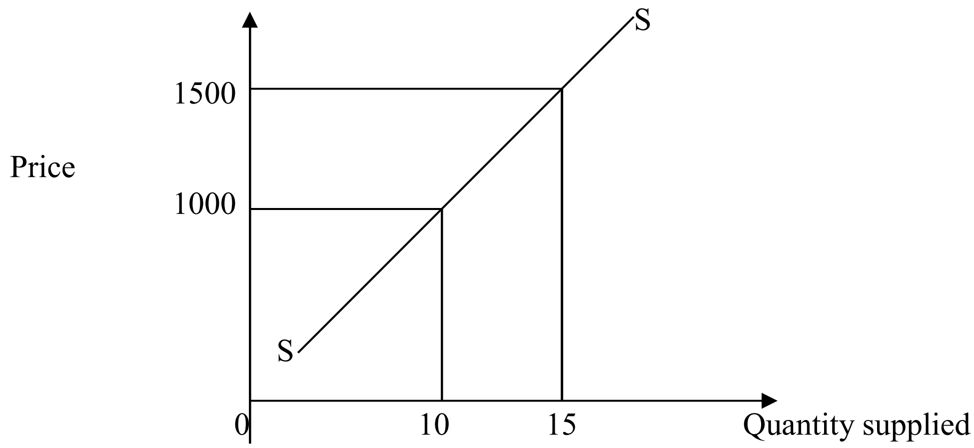
The supply schedule

This is a list of commodities supplied by the producers at various prices. The supply schedule can be illustrated as shown below

Price	1000	1500
Quantity Supplied	10	15

The supply curve

The supply curve is a graphical representation of the supply schedule. It is therefore a locus of points showing quantities supplied of a commodity at various prices. It can be illustrated as shown below



Factors influencing Supply for a Commodity

The factors that determine/affect/influence the supply of a commodity are called the determinants of supply which include the following factors:-

i.) **The price of the product.** Producers will supply more of the product to the market at high prices and supply low quantities at low prices.

ii.) **The cost of production.** The higher the costs of production of inputs such as raw materials, the lower the quantity supplied and the lower the costs of production, the higher the quantity supplied.

iii.) **Availability of factors of production.** In case the factors of production are readily available, the supply of a product such factors can produce will be high and on the other hand, if the factors of production are scarce, the supply will be low.

iv.) **Level of technology.** Improved technology leads to increased supply and poor technology reduces the supply of a given product. For example cultivation using a tractor leads to high production hence supply while cultivation using a hoe results into low supply.

v.) **The gestation period.** When the gestation period of a commodity is long, its supply will be low and when the gestation period is short, the supply will be high. For example the supply of maize is higher than that of coffee because the later has a longer gestation period.

vi.) **The demand of the product.** The higher the demand, the higher the quantity supplied and the lower the demand, the lower the quantity supplied.

vii.) **The number of producers.** In case there are many producers of a given product, the supply of such a product will be high and on the other hand, if the number of producers of a product is few, the supply will be low.

viii.) **Natural factors.** For the case of agricultural products, the quantity supplied is influenced by the natural factors like weather and pests and diseases. Favourable climatic conditions like availability of rainfall in time increases supply and adverse natural conditions reduce supply.

ix.) **The government policy.** The government can influence the supply of a commodity by subsidizing and taxing the producers. When producers are heavily taxed, the supply will reduce because of increase in costs of production and if the government subsidizes the producers for example by giving them tax holidays, supply will be high.

x.) **Future price expectations.** When producers expect prices to increase, they will hoard what they have hopping to supply it when prices rise and when pierces are expected to reduce, the producers will put more on the market to avoid incurring big losses.

xi.) **The objective of the producer.** If the objective of the producer is profit maximization, he will supply less of a commodity and sell at a high price but if the producer's objective is sales maximization, more of the product will put on the market.

xii.) **Entry and exit of firms form the industry.** In case of free entry and exit of firms form the industry, supply of products will be high and if there is restricted entry of firms into the industry, supply will be low because there will be few firms in the industry producing a particular product.

REVISION QUESTIONS

1a) Distinguish between demand and supply

b) Explain any **eight** factors which influence the demand of a commodity.

2a) State the law of supply.

b) What factors determine the supply of a given commodity?

HOME TRADE

Home trade is the buying and selling of goods and services within the boundaries of a given country for example a trader buying goods from Kampala and selling such goods in Iganga. Home trade involves Wholesale trade and retail trade

Chain or channel of distribution of goods

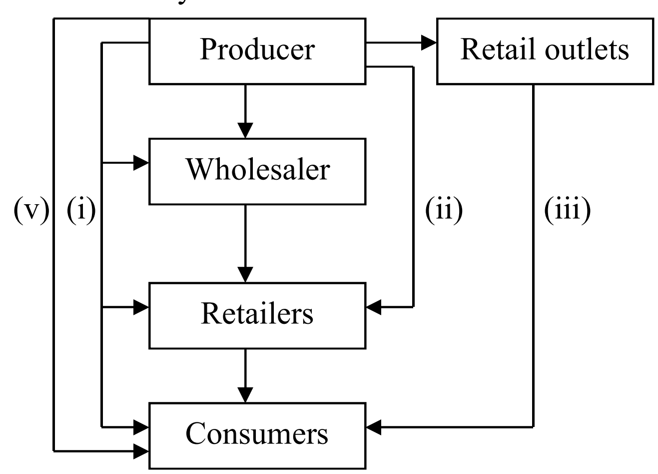
This shows how the goods are moved from the place of production to the place of consumption. The goods are moved via the following channels:-

i). From the producer to consumers via the wholesalers and retailers.

ii). From the producers to consumers via the retailers

iii). From the producers to the consumers via the producer's retail outlets

iv). From the producers directly to the consumers



Factors influencing the distribution of goods and services.

i). **The size and number of producers.** If there are many firms, distribution is likely to be spread all over in different areas compared to when there are few firms.

ii). **Distance.** Where the distance over which a product is to be distributed, the more complicated the movement and the more elaborate the channel of distribution and vice versa.

iii). **Kind of market for goods.** If the goods to be sold have ready and steady market then they will be distributed in many centres than those goods with seasonal demand.

iv). **Availability and cost of transport.** If the transport is available and cheap, then distribution will be possible in many areas far and close than when transport is not easy.

v). **Government policy.** If it is restrictive on the distribution of certain goods and services their distribution might not be done in many centres and vice versa.

vi). **Accessibility of an area.** If areas are accessible, distribution will be easier compared to areas which are not accessible.

RETAIL TRADE

Retail trade is the buying of goods in relatively large quantities from the wholesalers and selling such goods to the final consumers in quantities they can afford.

A person who specializes in retail trade is called a **retailer.** He bridges the gap between the wholesaler and the consumers.

Functions of a retailer to the consumers

i.) **Provision of a variety of goods.** He provides a variety of goods to the consumers for easy choice according to their tastes and preferences.

ii.) **Provision of credit faculties.** The retailer provides credit facilities to trustworthy customers and allows them to pay in installments.

iii.) **Educates the consumers.** A retailer educates the consumers as regards use of certain commodities and also on matters regarding satisfaction of their needs.

iv.) **Anticipation of consumers' demand.** The retailer is able to predict the consumers' demands and stock goods according to their tastes and preferences.

v.) **Brings the goods near enough to the consumers.** A retailer brings the goods near enough to the consumers minimizing the transport costs that would have otherwise been made.

vi.) **Offers discounts to consumers.** Retailers offer discounts to regular customers on particular days like Christmas days.

vii.) **Advertise new products to consumers.** A retailer advertises new products to consumers by displaying the goods in his shop.

viii.) **Sells goods to consumers at fair prices.** A retailer sells goods to consumers at fair prices with little profit.

ix.) **Sells to consumers in small quantities.** The retailers sell goods to consumers in quantities they can afford for example ¼ kg of sugar.

x.) **Stores goods for the consumers.** A retailer stores goods bought from the wholesalers until they are needed by the consumers.

Functions of a retailer to the producers

i.) **Looks for market.** A retailer looks for market for the goods of the producer enabling him to go on with the production process.

ii.) **Passes information to producers.** He passes information to producers about the consumers' complaints regarding the quality of new and old brands of goods.

iii.) **Advertise new products to consumers.** A retailer advertises new products of producers to consumers by displaying the goods in his shop such that they are known on the market.

iv.) **Bridges the gap between the producer and wholesaler**. A retailer acts as a link between the producers and wholesaler.

v.) **Prepares goods by** sorting, packing on behalf of the producers.

vi.) **Stores goods.** The retailers store goods until they are required by consumers.

vii.) **Carries out market research.** The retailer carries out market research on behalf of the producers.

viii.) **Transports goods.** He transports goods from the producers in case he/she buys from them.

Functions of a retailer to the wholesalers

i.) Buys goods from the wholesalers in bulk hence financing them

ii.) He stores goods bought from the wholesaler.

iii.) He relieves the wholesaler of the burden of transport by transporting goods near the consumers.

iv.) He acts as link between the wholesaler and consumers

v.) He advises the wholesaler on the kind of goods to stock

vi.) A retailer carries out market research on behalf of the wholesaler.

vii.) Finances the wholesalers by buying goods on cash basis.

Qualities of a Good Retailer

For a successful business, there are qualities that a retailer should display towards his customers and suppliers and these include the following:-

i.) **Flexibility.** A good retailer should be flexible as regards changing from one line of business to another is concerned.

ii.) **Good buyer.** A retailer should know what to buy, where to buy, when to buy and at what price to buy. His resultant profit largely depends on his ability to buy economically.

iii.) **Honest.** A retailer should be honest to his customers by selling to them at fair prices with little profit.

iv.) **Cooperative.** He should cooperate with his suppliers by paying them promptly. This helps to ensure a regular supply of good to the retailer.

v.) **Good administrator.** He should be in position to keep track of stock in the business. This means that a good retailer should be in position to keep records of his purchases and sales.

vi.) **Pleasant.** A good retailer should be pleasant in all his dealings with his suppliers and customers.

vii.) **Forecasting consumers' demands.** A good retailer should be in position to forecast the consumers' future demands and stock goods according to their tastes and preferences.

viii.) **Credit facilities.** A good retailer should provide credit facilities to his trustworthy customers and allows them to pay in installments. .

ix.) **Good sales man ship.** A good retailer should offer discounts, use a good language and offer after sale services.

TYPES OF RETAILERS

There are two broad categories of retailers namely:-

1. Small scale retailers
2. Large scale retailers

SMALL SCALE RETAILERS

These are retailers with little capital limiting them to small stock. They enjoy little profits because of the little capital invested and there is less room for expansion.

Features of small scale retailers

i). Small scale retailers hold small stock of goods due to limited capital

ii). They are flexible as regards changing from one line of business to another.

iii). They serve a small market because they cannot distribute their goods to many markets.

iv). They occupy a small floor area.

v). They offer limited variety of goods to customers.

vi). They cannot afford competitive advertising.

vii). They have limited capital and cannot borrow money from financial institutions because of lack of collateral security.

viii). They enjoy less profit as a result of the small capital invested.

Advantages of small scale retailers

i). Small scale retailers are flexible as regards changing from one line of business to another.

ii). They have direct contact with customers. This helps the retailers to stock goods according to the demands of customers.

iii). They are easy to start because they do not require many legal formalities.

iv). They require less capital to set up.

v). Small scale retailers enjoy limited profits due limited capital.

vi). Management is easy since the business is small.

vii). Decision making is easy since they operate on small scale.

viii). They incur low operational costs such as payment of rent, electricity etc.

ix). They bring goods to the door steps of customers hence reducing the customers transport costs.

x). They practice price discrimination which increases their profit margin.

Disadvantages of small scale retailers

i.) Their prices are often higher than large stores

ii.) Limited scope for display and advertising

iii.) They employ small capital thus limited expansion

iv.) They can't enjoy economies of scale like large trade discounts

v.) Turnover is low and can't keep up with new trends hence low profits

vi.) Giving credit sometimes leads to bad debts

vii.) They can only stock a few variety of goods due to limited storage and capital.
viii.) Some of them sell defective goods
ix.) Limited skills in business management
x.) Their standards of hygiene may be lower than large stores
xi.) Limited access to bank loans due to lack of collateral security
xii.) Have less division of labour does everything alone.

TYPES OF SMALL SCALE RETAILERS

Itinerant traders are traders who do not operate from fixed premises. They include the following:-

a) **Hawkers.** These are traders who move from one place to another using vehicles /means of transport selling their goods to customers.

Advantages of Hawkers

i.) They do not incur expenses of rent, electricity because they do not have fixed premises.
ii.) They enjoy large amount of profits due to their strong bargaining power.
iii.) They dodge government taxes because they are not fixed in one place.
iv.) The business is easy to set up since it requires little capital.
v.) It is flexible that is to say Hawkers can easily change from one line of business to another.
vi.) They bring goods to the door steps of the customers.
vii.) There is easy decision making because hawkers need not to contact any person in order make a decision.
viii.) There is direct contact between the hawker and customers hence they know the goods needed by them.
ix.) They use price discrimination which further increases their profit margin.

Disadvantages of Hawkers

i.) They are affected by weather conditions for example rain and excessive sunshine.
ii.) Expansion of the business is difficult since capital invested is small
iii.) The hawkers get tired because of moving long distances looking for customers.
iv.) The business depends on the life span of the owner.
v.) At times they sell defective goods to the customers.

vi.) They are mainly prone to road accidents as they move from one place to another.

b) **Road side Traders.** These are retailers who sell their goods along busy streets. They sit at bus parks, public halls, hospital gates and factory gates. They sell goods according to location.

c) **Mobile shops.** These move from one place to another selling their goods from the vehicles. They sell their goods in vehicles. They mainly visit markets on particular days of the week. The items sold by them include second hand clothes, books, utensils, shoes etc.

d) **Peddlers.** These are traders who move on foot from one place to another selling their goods to customers.

e) **Barrow boys.** These carry their goods on wheelbarrows or carts and move to where they can sell. They mainly deal in groceries.

Other types of small scale retailers with fixed premises include the following:-

a) **Tied Shops.** These are traders who sell goods of only one manufacturer for example petrol stations. They do not stock goods of any other manufacturers.

b) **Single shops.** These are shops owned and run by individuals selling related goods and with fixed premises.

c) **Market traders.** These operate in market stalls provided by themselves or local authority for example Nakasero market, Jinja central market, St. Balikudemba market among others.

d) **Kiosks.** These are retail units in form of make-shift structures which can be shifted from one place to another e.g. Coca cola and Pepsi cola kiosks.

e) **Canteens.** These are small scale retail units operated in school, university and other educational premises.

f) **Urban stores.** These are located in urban areas and sell a wide variety of related goods.

g) **Village stores.** These are found in villages and sell goods according the demands of the customers.

LARGE SCALE RETAILERS

These are shops established and operate on large scale offering a variety or a selected range of goods but in large quantities. They mainly purchase goods from the producer due to their large capital.

Features of large scale retailers

i.) They have large capital.
ii.) They stock large volumes of goods.
iii.) Some are divided into departments.
iv.) They serve large markets.
v.) The floor area occupied is large.
vi.) They can borrow money from financial institutions.
vii.) They can afford competitive advertising.
viii.) They offer discounts to customers who buy in large quantities and pay promptly.
ix.) They operate from fixed premises.
x.) They can employ specialists due to the large capital invested. This creates efficiency in business.

TYPES OF LARGE SCALE RETAILERS

a) **SUPERMARKETS**

These are large stores stocking a variety of household goods and offering self service facilities to customers. In Uganda, examples of supermarkets are Shoprite, Uchumi, Nakumati and Game Lugogo among others.

Features of Supermarkets

i.) Goods are pre-priced.
ii.) They offer self service facilities.
iii.) Selves are arranged in such a way that goods can be easily picked by customers.
iv.) They normally deal in house items of all sorts.
v.) Items bear their selling prices tagged on them.
vi.) They normally sell their goods at relatively lower prices than other retailers.
vii.) They provide a variety of goods to the customers.
viii.) They sell pre-packed and branded goods.

ix.) They provide shopping bags and baskets.

x.) They do not provide credit facilities to customers.

xi.) They have only one payment point which is normally done by the cashier using computerized systems.

Advantages of supermarkets

i.) Goods are sold at relatively lower prices compared to other retail businesses.

ii.) They offer a variety of goods to customers for easy choice.

iii.) They require small staff and this reduces staff expenses that would otherwise be paid.

iv.) Time is saved because there is no haggling since prices are fixed.

v.) They do not offer credit facilities hence they avoid losses resulting from bad debtors.

vi.) Self service facilities are normally offered to customers where the customers are given choice to pick the good they want.

vii.) Pilferage is not possible because of the security systems installed in supermarkets.

viii.) Their turnover is high and hence high profits are enjoyed.

ix.) Customers are always free from persuasion of the shop attendants therefore they tend to make independent choice.

x.) The attractive display in the supermarket helps to advertise the goods.

xi.) It encourages impulse buying which in turn increases the sales.

xii.) They use deep freezers which make the perishable goods like milk, fresh vegetables, fish etc. to stay for a long period of time without going bad.

Disadvantages of supermarkets

i.) Consumers are not allowed to exercise their bargaining powers because prices are fixed.

ii.) Customers may buy goods which are not in their budget due to the attractive display in the shelves (impulse buying).

iii.) They are mainly found in urban areas neglecting the rural areas for example Shoprite is only found in Kampala.

iv.) They do not offer credit facilities to customers who may not have ready cash.

v.) Use of shopping baskets and trolleys increase the operational costs of supermarkets.

vi.) A customer may take a lot of time by visiting the entire supermarket unknowingly.

vii.) It requires large capital investment to set up.

viii.) Poor handling of goods by customers may lead to breakages which results into losses.

ix.) It requires a large shopping space to enable self-services. This is expensive to hire in towns.

b) **MULTIPLE SHOPS/CHAIN STORES**

These are a collection of shops under one management but scattered in different places stocking the same class of goods. They have centralized purchasing department and normally buy from the producer for example Bata Shops, Petrol stations etc.

Features of Multiple shops

i) There is centralized purchasing of goods.

ii) They sell goods at the same prices in all branches

iii) They have many branches scattered all over the country

iv) Shortage in one branch can be solved by transfer from other branches

v) Multiple shops have the same appearance and layout.

Advantages of Multiple shops

i.) The goods are sold at relatively cheaper price than small scale retailers.

ii.) The goods are brought nearer to the customers through the branches spread all over the country.

iii.) The centralized purchasing practiced by the multiple shops reduces the losses and fraud by the workers of the different branches.

iv.) Advertising costs are reduced because the head office advertises for the various branches.

v.) They enjoy high profit margin as a result of high sales realized from the different branches scattered all over the country.

vi.) Goods are sold on cash basis hence eliminating bad debtors.

vii.) They receive discounts as they buy goods in large quantities or bulk.

viii.) Shortage in one branch can be easily solved by transferring goods/stock from other branches.

ix.) They provide employment opportunities to many people in the various branches scattered in the country.

x.) Losses in one branch can be easily covered by the profits realized in other branches.

Disadvantage of Multiple shops.

i.) A mistake made by the head office affects all the branches for example purchase of poor quality goods.

ii.) They require large capital investment to start and operate.

iii.) It limits consumer's choice because they specialize in the distribution of a particular type of good. They do not offer a variety of goods to customers.

iv.) They incur high overhead costs for example branch rent, telephone costs, payment of workers etc. and this reduce their profit margin.

v.) They are mostly found in urban areas neglecting the rural areas for example Bata shops are only found in towns.

vi.) Centralized control creates bureaucratic tendencies which affect management for example decision making will be delayed because they are made by the headquarters.

vii.) They cannot easily change from one type of business because of the large stock held.

viii.) They do not offer a variety of goods to customers hence the customers have limited choice.

ix.) Multiple shops cannot easily change from one business to another because they are large undertakings.

x.) They do not offer credit facilities thus customers without cash cannot get goods.

c) **DEPARTMENTAL STORES.**

This refers to a collection of single shops under one roof and management offering different classes of goods. These stores are normally divided into many independent departments each stocking one class of goods for example Kasana General stores may have Kasana Electronics, Kasana Furniture, Kasana Household and Kasana Textiles.

Features of departmental stores

i.) Different goods are goods are sold in the various departments

ii.) Purchasing is done at departmental level by purchasing departmental managers

iii.) Goods are sold at different prices and pricing decisions are made at the department.

iv.) They have different appearance and layout.

v.) One department advertises for the other.
vi.) They are under the same roof and management.

Advantages of departmental stores

i.) They offer a variety of goods to customers for easy choice according to their tastes and preferences.
ii.) A loss made by one department can be covered by profits realized in other departments.
iii.) Goods are normally sold at lower prices as a result of the large trade discounts enjoyed.
iv.) There is a shared advertising cost and each department advertises for the other. This is because when a customer enters he will be attracted by the display in the neighbouring department.
v.) Departmental stores normally offer the right personnel for the right job in the various departments. This increases the efficiency of the workers.
vi.) Decision making is easy as a result of decentralized control. Each department makes its own decisions.
vii.) They normally offer additional services to customers for example restaurants which attracts more customers.
viii.) They are convenient to customers since they provide one-point shopping. The customer can stop at one point and buys everything he/she needs.
ix.) Goods are normally sold to customers at relatively lower prices to customers.

Disadvantages of departmental stores

i.) Departmental stores require large capital investment to start and operate.
ii.) They are mostly found in urban areas neglecting the rural areas.
iii.) They incur high overhead costs for example of rent, electricity, wage and salaries hence reducing the overall profit margin.
iv.) Control and management is difficult due to their large size.
v.) It is impossible to solve a shortage in one department by transferring from other departments because they do not sell the same class of goods.
vi.) The large space required by departmental stores may not be readily available in towns and if available it is expensive.

Differences between Multiple shops and departmental stores

i.) Multiple shops are a collection of shops scattered in different places while departmental stores in under one roof and management.

ii.) Multiple shops sell the same class or kind of good for example all may sell shoes while departmental stores sell different kinds of goods in the different departments.

iii.) In multiple shops, shortage in one branch can be solved by transferring goods from other branches since they sell similar goods whereas in departmental stores it is not possible since they sell different classes of good in the departments.

iv.) Pricing decisions in multiple shops are normally made at the headquarters while the departmental managers make pricing decisions in the departmental stores.

v.) Multiple shops have centralized management while departmental stores have decentralized management placed under departmental managers.

vi.) Multiple shops sell at identical prices while departmental stores sell at different prices.

vii.) Multiple shops have similar appearance and layout while departmental stores have different layouts depending on the goods handled.

viii.) In multiple shops, there is geographical diversification of risks which lacks in departmental stores.

d) **RETAIL CONSUMER CO-OPERTATIVES**

These are retail establishments by consumers themselves who contribute capital and buy directly from the producers eliminating the greedy middlemen and sell to members at fair prices.

Advantages of retail consumer cooperatives

i). They bring goods nearer to the consumers hence reducing on the transport costs that would otherwise be incur by the members.

ii). They promote social understanding amongst the members.

iii). They sell goods to members at fair prices lower than the retail prices.

iv). They normally advice members regarding use of certain goods and how best they can satisfy needs.

v). Members get fixed rate of interest on the capital contributed to the cooperative.

vi). Members have equal rights concerning the affairs of the retail consumer cooperative.

vii). At the end of the trading period, members share the profits made by the cooperative in agreed ratios.

Disadvantages of retail consumer cooperatives

i). There is poor performance of retail consumer cooperatives as a result of lack of managerial skills and business experience.

ii). They do not normally provide a variety of goods to members due to limited capital contributed.

iii). Limited room for expansion as a result of limited capital resources invested.

iv). Members may be forced to buy outside the cooperative when it sells at a higher price

e) **MAIL ORDER SHOPS**

These are retail establishments which sell goods through the post office or using the internet. Consumers make their orders through the post office and payments are made before the goods are delivered to them.

Advantages of Mail order shops

i). Bad debts are avoided since the goods are sent after payments have been made.

ii). It encourages distance trading since people can order for what they want and obtain it easily

iii). The middlemen who tend to overcharge the consumers are eliminated from the chain of distribution when mail order selling is employed.

iv). When done on the internet, it becomes easy to make orders and receive responses immediately.

v). Little capital is required since there is no need of stocking large volumes of goods.

vi). A wider market is served that is to say all areas with post office facilities.

vii). It reduces the cost of paying for many shop attendants.

viii). It saves the consumers of the burden of moving for shopping.

Disadvantages of Mail order shops

i). This system is not suitable for selling all kinds of goods for example large items.

ii). There is total lack of personal contact between the buyer and the seller.

iii). It is costly to the seller because he carries out regular advertising and publishing of catalogues.

iv). The prices tend to be higher than buying from ordinary retail shops.

v). The goods take a long period of time to be delivered due to the many clearances involved.

vi). It discourages credit purchasing by the consumers as payments are made before delivery.

vii). It is not possible in areas where post offices are lacking.

viii). The system cannot work for perishable and urgently needed goods since the goods take a long time in transit.

ix). After sale services cannot be offered to the customers because of lack of direct contact between the buyer and the seller.

x). This system of selling is mostly in urban areas neglecting the rural areas.

xi). There are possibilities of loss of goods in transit.

RECENT TRENDS IN RETAIL TRADE

Many developments have taken place in retail trade and these include the following:-

a) **BRANDING**

This refers to the giving of a distinctive trade mark, name or symbol to a product by the producer to distinguish it from other similar products for example for bicycles we have brands like Kid ride, Hero, Road master, Jupiter, Bayuni among others and for tooth paste we have brands like close up, delident, Fresh up, ABC dent, Colgate etc.

Advantages of Branding

i). Branding creates brand loyalty. The customers are addicted to particular brand for example some customers are addicted to products of Samona.

ii). It is easy to advertise branded goods since they bear names and trademarks.

iii). Branded goods are easy to handle since they are uniformly packed which saves the labour costs.

iv). Branding enables the consumers to buy what they want quickly since they can distinguish products from others using the trade names.

v). Branded goods attract the consumer’s attention hence sales are increased.

vi). A large market is created for a product since some consumers get addicted to a particular brand for example a consumer may only use samona products.

vii). Time is saved since packing and weighing is already done by the manufacturers.

viii). Self service is possible with branded goods since customers can easily identify them.

ix). Branding gives a trade name which protects the producer from trade name violators since no other producer is allowed to use a similar name.

x). Branded goods are easy to use by consumers as they are accompanied by instructions for use.

xi). It is easy to order for branded goods. This is because buyers use the brand names to place their orders.

Disadvantages of branding

i). Branding increases the final price of goods as the cost of branding is passed onto the consumers.

ii). Retailers need to stock a variety of brands for easy choice by the consumer which requires large capital.

iii). Consumers may get addicted to a particular brand and ignore others which may be superior.

iv). Sometimes the producers may copy brand names and change it slightly hence confusing the consumers for example **SONY** radio and **SQNY** radio**, BLUE BAND** and **BLU BAND, PANASONIC** radio and **PANNSONIC** radio etc.

v). It is difficult for retailers to offer discounts since prices are fixed.

vi). Some brand names are so persuasive that customers may end up consuming inferior goods for example nice and lovely.

b) **PACKAGING**

This refers to the wrapping of goods in special attractive containers or packets to protect them from harsh atmospheric conditions, contamination and pouring.

Advantages of Packaging

i). Packed goods tend to attract the attention of customers hence increasing the sales.

ii). It is easy to sell packed using automatic machines.

iii). Packed goods are easy to identify by the customers.

iv). Packaging helps in advertising of goods since advertising firms can also use the colour of the packets to inform the customers of the product.

v). Packed goods are easy to be sent by mail order services i.e. sell of goods through the post office.

vi). Packed goods are easy to handle especially liquids and floor.

vii). Goods are protected from harsh atmospheric conditions and contamination hence maintaining their factor conditions.

viii). They are easily used by the consumers since they have instructions for use printed on their packets.

ix). Packed goods make self-service possible because the customers can easily identify the goods.

x). Some packaging materials can be put to alternative uses after use of the product for example Kimbo and Cow boy tins can be used as mugs in some homes.

xi). Packaging helps the customers to know the weight and ingredients of the product since they are printed on the containers.

xii). Packaging enables easy transportation of goods since goods in packets cannot be easily damaged.

xiii). Packaging helps to create a good product and company image hence the customers are attracted to buy always.

Disadvantages of packaging

i). Some packaging materials are healthy hazards to the consumers.

ii). Packaging makes the goods expensive since the cost of packaging is passed onto the consumers.

iii). Inferior goods may be bought by the consumers since they are wrapped in attractive and beautiful packets.

iv). Packaging materials may degrade the environment for example plastics like mineral water bottles, polythene bags etc.

v). Packed goods may appear bigger than the actual size and this leads to exploitation of consumers through purchase of under weighted goods.

vi). Goods in packets may expire and buyers may take long to discover. This affects their health.

vii). It increase the transport cost since packaging materials increase the weight of the goods.

c) **SELF SERVICE**

This is a system where the customers move around the shop selecting the goods of their choice and then present them to the counter for payment.

It is form of selling commonly used in super markets.

Advantages of self service

i). Low cost of operation since there is no need of employing many shop attendants.

ii). It is time saving as the customers pick the goods they need as goods are already packed, displayed and priced.

iii). Bad debts are reduced since there are no credit sales.

iv). A variety of goods are stocked for easy choice by the customers.

v). Shopping baskets and trolleys are given to customers for carriage of goods as they move around the shop.

vi). The beautiful and attractive display tends to attract the customers hence increasing the sales.

vii). It leads impulse buying as the customers move around the shop.

viii). It enables the customers to compare brands before purchasing hence makes the right choice.

ix). The customers pick goods at their leisure without any persuasion by shop attendants.

x). Sales are increased as a result of attractive display made.

Disadvantages of self service

i). There is pilferage as untrusted customers may pocket small items like sweets.

ii). It results into delays as the customers compare different brands.

iii). The sellers are not able to advise the buyers on quality choice.

iv). It does not allow customers to bargain since the prices are fixed.

v). Impulse buying affects the budgets of the buyers because customers buy goods they have not budgeted for.

vi). There is congestion of customers especially during busy hours like evening hours.

vii). No credit facilities are given to customers with no cash.

viii). It is expensive since it requires large shopping space and large capital investment.

d) **AUTOMATIC VENDING (AUTO SELLING)**

This refers to sale of goods through coin operated machines. They sell pre-priced goods to customers any time of the day. The items normally sold using this system are soft drinks, sweets, stamps among others.

Advantages of automatic vending

i). This system of selling serves the customers without any attendant hence reducing operational costs.

ii). It is the fastest means of selling goods to customers.

iii). It is in operation all the day round since it is diligent.

iv). It is accurate in selling goods and avoids mistakes of miscounting.

v). Bad debtors are reduced since there are no credit facilities.

Disadvantages of Automatic Vending

i). It requires large capital investment to install.

ii). They are only limited to urban areas ignoring the rural areas.

iii). It is not suitable for selling large commodities like vehicles, computers etc.

iv). It may result into losses when the customers use fake coins.

v). It only works where there is power.

vi). Employment opportunities are reduced since attendants are not needed.

vii). Machines cause delays in receiving goods in case there is jam or miss programming.

e) **AUCTIONING**

This is a system of selling where goods are brought in front of potential buyers and the highest bidder takes the goods. It is commonly used in churches and fundraising functions.

f) **AFTER SALE SERVICES**

These are services offered to customers after the sale of goods especially durable goods. Such services may be in form of provision of spares, repairs, giving direction on the use of the product, installation etc.

g) **TENDERS**

A tender is an invitation to supply goods or services to an organization. Organizations advertise inviting interested firms to apply for supply of particular goods or services. After the applications, the organization selects the supplier with the best prices to supply the goods or service.

Methods used to increase profits of a retail business

i.) By increasing the amount of capital employed. This means greater sales resulting with greater net profit

ii.) By employing various methods of sales promotion e.g. advertising which can increase sales and profits

iii.) In some cases a retailer can charge higher prices this is particularly likely to occur when competition is limited

iv.) By taking advantage of better term of purchase i.e. buying in bulk and lower cost price.

v.) By stocking a wide range of goods which can attract more customers because of the greater choice offered

vi.) By cutting down on all types of expenses e.g. introducing self service

vii.) Expanding business operations by opening up additional branches to serve more customers

viii.) Close supervision and proper book keeping to reduce losses

Factors considered when setting up a retail business

i). **Cost of rent**. This should be cheap such that it does not take away the little profits of the business.

ii). **The type of goods consumed in an area**. The goods stocked by the retailer should be those which are highly demanded in the locality.

iii). **Capital requirements of the business**. The capital requirements of the business should be within the reach of the entrepreneur.

iv). **Availability of good infrastructure** for example power, water, telephone and efficient transport means.

v). **Competition from other shops**. The retail business should be located in an area where there is less competition especially from already established businesses.

vi). **Room for expansion.** The businessman should also consider the availability of room for expansion of the business.

vii). **Knowledge of the business by the retailer**. The retailer should set up a retail business where he/she has wider knowledge and experience.

viii). **Source of supply for goods**. The shop should be situated in an area where there is easy access to the suppliers.

ix). **Size of the market**. The retail establishment should be in a place where there is wide and ready market for goods.

WHOLESALE TRADE

Wholesale trade is the buying of goods in large quantities form the producers and selling such goods to the retailers in quantities they can afford.

A person who specializes in wholesale trade is called a **wholesaler**. A wholesaler bridges the gap between the producers and retailers in the chain of distribution of goods and services.

Characteristics of wholesale trade

i). Involves large purchase of goods from the manufacturer.

ii). Involves a large capital base.

iii). Involves selling goods in relatively large quantities to retailers

iv). Its chief source of supply is the producer.

v). There are also ware houses to store the goods before they are bought.

vi). Involves advertising of the brands of goods available.

TYPES OF WHOLESALERS

The types of wholesalers include the following:-

i.) **General merchandise wholesalers.** These are wholesalers who operate in large warehouses and offer a variety of goods. They deal in a great variety of goods for example they may deal in clothes, sugar, spare parts, soap, salt among others.

ii.) **Specialist wholesalers.** These are wholesalers who concentrate on the distribution of a particular type of good for example they may deal in motor cycles, shoes, motor vehicles e.t.c.

iii.) **Regional wholesalers.** These are found in particular trading areas and they are branches of bigger wholesalers for example wholesalers of beer, soda and other related drinks. . They may deal in a variety or selected range of goods.

iv.) **Nation-Wide wholesalers.** These are normally importers and exporters which are often established by the government. They operate on large scale and have large warehouses for example foods and beverages.

v.) **Cash and carry wholesalers.** These are wholesalers who sell their goods on cash basis at prices lower than the other kinds of wholesalers. The customers have to arrange for their own transport to deliver the goods to their premises.

vi.) **Mail order wholesalers.** These are wholesalers who sell goods through the post office directly to the consumers. A consumer makes an order and pays for the goods as they are delivered before receiving them.

vii.) **Mobile wholesalers.** These are wholesalers who use trucks and move long distances supplying their goods to retailers. Most of these wholesalers are agents of manufacturers for example wholesalers of bread, soda, beer, paint e.t.c.

Factors influencing the number of wholesalers in a particular line of business

The number of wholesalers in a given line of business is influenced by the following factors:-

The demand for the commodity. When the demand of a particular commodity is high, the number of wholesalers in that line of business will be large and when the demand is low, the demand is low, the number of wholesalers will be few.

Nature of goods. Perishable goods attract few wholesalers in a given line of business while durable goods attract many wholesalers in a particular business line.

Cost of goods. Expensive goods tend to limit the number of wholesalers but cheap goods attract many wholesalers in a given business line.

Presence of manufacturers retail outlets. When manufacturers have their own retail outlets, the number of wholesalers will be reduced.

Functions of a wholesaler to the producer

A wholesaler is key person in the chain of distribution of goods and services and performs the following functions to the producer:-

i) A wholesaler links the producer to the retailers thus enabling him to know the quickly how the goods are selling in the market.

ii) A wholesaler passes information from the retailers to the producer relating to the quality of goods to be produced and this enables the producer to make economic decisions.

iii) The wholesaler advertises the goods bought from the producers so that they are easily known on the market.

iv) A wholesaler provides storage facilities for the goods bought from the producer. This gives room to the producers to produce more goods.

v) A wholesaler finances the producer by buying his goods on cash basis. This helps the producer to meet the costs involved in the production of goods.

vi) A wholesaler looks for market for the goods bought from the producers. This enables the producer to make continuous production as a result of the market created.

vii) A wholesaler provides transport for the goods bought from the producer to his warehouses.

viii) A wholesaler removes a number of risks from the producer by holding large stock of goods. These risks may be theft, fire outbreaks etc.

ix) A wholesaler assists the producer to carry out market research and collection of other information through his direct contact with the retailers who are in touch with the consumers.

x) A wholesaler at times blends, brands and provides packaging materials for the goods bought from the producer hence saving the manufacturer from such costs.

Functions of a wholesaler to the retailer

i.) A wholesaler breaks the bulk of goods and sells to the retailers in quantities they can afford.

ii.) He provides a variety of goods to the retailer for easy choice according to the consumers' tastes and preferences.

iii.) The wholesaler advices the retailer as regards disposal of goods and other matters relating to how best to run his business.

iv.) He provides credit facilities to the retailer. This enables the retailer to carry on his business with less capital resources.

v.) He brings the goods near enough to the retailers hence reducing the costs of transport which would otherwise be made by the retailer.

vi.) He advertises his brand of goods which directly helps the retailer.

vii.) He maintains a constant supply of goods to the retailer which enables the retailer to carry out business all the year round.

viii.) He provides information about the new brands of goods which are soon coming on the market.

ix.) He sets and keeps price stable for the retailers.

Functions of a wholesaler to the consumer

i.) A wholesaler meets the changing demands of the consumers by bringing the goods being demanded.

ii.) A wholesaler also maintains steady supplies of goods to the consumers thus making the consumers not change.

iii.) A wholesaler also maintains steady prices of goods to the consumers so that the consumers are able to buy always.

iv.) A wholesaler ensures a smooth distribution of goods thereby making them reach the consumers in time.

Elimination of a wholesaler from the chain of distribution of goods and services

There are some circumstances when trade may go on without the services of a wholesaler hence he is eliminated from the chain of distribution of goods and services and these include the following:-

i.) **Presence of manufacturer's retail outlets.** When producers are financially strong to set up their own retail outlets, the services of a wholesaler may not be required because the retail outlets sell directly to the consumers.

ii.) **Large scaled retailers.** When the retailers are large scaled for example supermarkets, departmental stores, multiple shops etc they can afford to buy directly from the producer hence eliminating the wholesaler.

iii.) **Expensive goods.** When goods are very expensive for example motor vehicles, consumers tend to deal directly with producers hence eliminating the wholesaler.

iv.) **Small demand for goods.** When the demand for goods is small or local for example they sell of food stuffs, consumers deal directly with producers.

v.) **Many retailers in one commercial centre.** If there are many retailers in one commercial centre through organization they put together their funds and buy collectively from the producers hence by-passing the wholesaler.

vi.) **Special orders by consumers.** When a consumer makes his own special order from the manufacturer, he tends to deal with them directly for example when a consumer makes a special order for a Toyota saloon Car from Japan.

vii.) **Provision of direct services**. When the producer provides special direct services like hair dressing, teaching, medical operations etc. the services of a wholesaler are not required.

viii.) **Need for after sale services.** In case after sale services are required, producers tend to deal directly with consumers eliminating the wholesaler.

ix.) **Sale of goods through the post office (mail order).** When goods are sold by mail order, producers deal directly with consumers.

x.) **Distance between the producers and consumers.** In case the distance between the producers is small, producers tend to deal directly with the consumers.

xi.) **Existence of efficient transport.** An efficient transport enables the producers to transport their goods to consumers.

xii.) **Perishability of goods.** When goods are perishable like fish, producers tend to deal directly with the consumers eliminating the wholesaler.

xiii.) **Appointment of sales agents by the producers.** In case the producers appoint their own agents to sell the goods on their behalf for example for the case of manufacturers of Electronics, a wholesaler can be by-passed.

xiv.) **Operation of consumer co-operatives.** When consumers form co-operatives they tend to buy directly from the producers and sell to members at fair prices.

TERMS AND MEANS OF PAYMENT

The following are the means of payment commonly used by the buyers:-

1. **CASH**

Under this system of payment, the customer pays for goods and services as soon as he gets them. It is the commonest method of paying for goods and services in Uganda. Cash payment takes any of the following forms:-

a) **Cash on Delivery (COD)**

In this method of cash payment, the buyer pays for the goods as they are delivered to him/her. This mode of payment is common with mail order businesses.

b) **Cash with order (CWO)**

Under this mode of cash payment, the buyer pays for the good at the time of placing the order.

c) **Spot cash**

This means paying for goods and services immediately they are handed over to the buyer. Most shops receive money across the counter as the hand the goods to the customers.

d) **Prompt cash**

This means that the buyer pays for goods and services within the agreed period of time for example within seven days.

e) **Net cash**

This means that cash discounts are offered to customers who settle their bills promptly. This implies that failure to pay within the agreed period, the discount is withdrawn and the customer pays net cash.

2. **INSTALLMENT SELLING/CREDIT**

This is a system which allows the customer to pay the down payment on the first day and promises to pay the rest in regular interviews until the whole amount is settled.

Installment selling takes two forms namely

a) Hire purchase
b) Differed payment

Hire Purchase

This is a system of installment selling where the product remains the property of seller until the last installment is paid. This means that the buyer gets possession of the property on the first installment but ownership is gained on the last installment.

In case of defaulting, the seller has a right to repossess his property and the already paid installments are never refunded.

Differed Payment

This is a system of installment selling where the buyer gets possession and ownership of goods on the first installment/down payment. In case of defaulting, the seller cannot repossess his property but takes court action to recover the already paid installments.

Advantages of installment selling to the buyer

i). Since payments are spread over a long period of time, it enables low income earners to acquire expensive assets they cannot afford on cash basis for example vehicles.

ii). The article acquired can be used by the buyer to generate more income that will enable him to pay the remaining installments.

iii). It encourages buyers to save in form of assets instead of cash which can lose value.

iv). The standard of living of the buyer tends to increase because he gets some of the basic commodities like sugar, soap on credit.

v). Articles bought under installment credit can act as collateral security for the buyer to obtain a bank loan.

vi). Buyers are encouraged to buy more articles after completion of all installments for a particular product.

Disadvantages of installment selling to the buyer

i). Under hire purchase, the seller can repossess the goods in case the buyer defaults.

ii). It makes the buyer to be tied up in regular payments for a long period of time and this affects the buyer's ability to buy other commodities.

iii). Commodities tend to be more expensive than when bought under cash basis

iv). The interest charged on hire purchase is often high.

v). Buyers are induced to buy expensive assets they cannot actually afford.

vi). Buyers do not enjoy trade discounts even if they buy in bulk.

Advantages of installment selling to the seller.

i). The seller is able to increase the sales by disposing off much of his goods.

ii). It reduces the burden of storage of goods on the part of the seller.

iii). Under hire purchase, the seller remains the owner of the property until the last installment is paid.

iv). It improves the seller-customer relationship in business.

v). The interest charged is high and thus the profit margin of the seller is increased.

vi). Customers may buy other items after completing the installments.

vii). It increases regular cash flow in the business as a result of periodic payments.

Disadvantages of installment selling to the seller

i). The seller may make losses in case the reposed goods were poorly handled by the buyer and cannot be sold to recover the remaining installments.

ii). It requires a lot of capital on part of the seller to be able to operate.

iii). The seller incurs extra costs of record keeping of business debtors.

iv). Some buyers may not be traced after taking the article on hire purchase.

v). The capital may be tied up in debts of goods sold on hire purchase which affects the businessman.

vi). Spoils the image of the business when the buyers who default are dragged to courts of law like for the case of deferred payment.

3. **CHEQUE**

A cheque is a written order by an account holder to the bank to pay a specified sum of money to a named person or his order. It is the safest means of making payments.

This means that the buyer orders the bank to pay a specified sum of money to the seller or his order.

NEGOTIABLE INSTRUMENTS

This is a document whose title can be transferred from one person to another by endorsement. Negotiable instruments include the following:-

a) **Treasury bills**

These are short term government securities issued by the central bank to the public and carry a specified interest payable at their maturity.

b) **Bill of exchange**

This is unconditional order in writing addressed by the creditor to a debtor requiring the debtor to pay a specified sum of money to a named person or his order.

Features of a bill of exchange

i.) Be signed by the drawer

ii.) Be accepted by drawee, by writing the words "accepted"

iii.) Be unconditional.

iv.) Bear the appropriate revenue stamp/seal.

v.) Have a date when it was written.

vi.) Has a period when payment will be made.

vii.) Indicate the amount to be paid by the drawee.

Parties to a bill of exchange

a) **Creditor.** This is the person who writes and signs out the bill of exchange. For the above specimen the creditor is Onyait Paul Mark.

b) **Debtor.** This is the person to whom the bill of exchange is drawn, who after accepting becomes the **Acceptor.** For the above specimen the debtor is Musitwa

c) **Payee.** This a person to whom the money is payable. For the above specimen, the payee is Mugisha.

Types of Bills of Exchange

i) **Inland bill of exchange.** This is a bill of exchange where the debtor and creditor are from the same country.

ii) **Foreign bill of exchange.** This is a bill of exchange where the debtor and creditor are from different countries.

iii) **Retired/ discounted bill of exchange.** This is a bill which is paid before the maturity period specified.

iv) **Sight bill of exchange.** This is a bill of exchange payable on demand.

v) **Trade bill of exchange.** This is a bill of exchange resulting from a trading transaction.

vi) **Usance bill of exchange.** This is a bill of exchange settled at a future date.

vi) **Clean bill.** This is a bill sent by the export to the importer without any accompanying document.

vii) **Accommodation bill is** a bill of exchange accepted not for value but to oblige a businessman. If a trader finds himself short of money but feels that within a short period he will get money, he gets a reputable person to accept a bill drawn by him without giving him any value.

Advantages of a bill of exchange to a trader

i.) Acknowledges a debt by a debtor to a creditor.

ii.) A bill of exchange can be discounted with a bank.

iii.) An accommodation bill can help a trader out of temporary financial difficulties.

iv.) It is a negotiable instrument i.e. it can be easily transferred from one person to another in settlement of a debt.

v.) It allows enough time to the buyer to dispose off the stock he/she has bought before maturity date.

c) Cheque

A cheque is a written order by an account holder to the bank to pay a specified sum of money to a named person or his order.

Promissory note

This unconditional promise in writing by a debtor to pay on demand or at a future date a specified sum of money to the creditor.

Specimen of a Promissory note

12/01/2011
Stamp duty

Promissory Note

One month after this date, I promise to pay Mr. Munyokano Robert or his order, the sum of thirty thousand shillings only (Shs.30, 000).

Ojwanga
Ojwanga Zakariah

TERMS OF SALE

The terms of sale used in home trade include the following:-

1. **Cost, Insurance and Freight (C.I.F)**
   This price quotation includes the cost of goods, cost of insurance and freight charges up to the nearest point of destination.
2. **Cost and freight (C& F).** This includes cost of goods and shipping charges.
3. **Carriage paid (Carr Pd).** This means that the price quoted in the invoice includes the transport charges of goods up to the buyer's premises.
4. **Carriage forward (Carr fwd**). This only includes cost of goods and handling charges are borne by the buyer.
5. **Free On Board (F.O.B)**. This includes cost of goods and expenses of goods involved up to loading them on the ship. Other expenses like payment of insurance and freight are borne by the buyer.
6. **Free On railway (F.O.R**). This includes expenses of delivering the goods to the nearest railway station therefore it is up to the buyer to make arrangements to make the goods reach his home.
7. **Free Alongside Side (F.A.S**). This means that on top of the cost of goods, the seller makes arrangements to deliver the goods alongside ship. Other expenses are borne by the buyer.
8. **Free On Query (F.O.Q).** This means that the seller has to transport the goods up to the query. A query is a place where ships anchor for loading and unloading.
9. **Ex-Ship**. This quotation includes the cost of goods, freight and insurance up to the ship. Other expenses are borne by the buyer.
10. **Ex-factory/Ex-works/Ex-warehouse**. This only includes the cost of goods at the seller's premises. Other handling expenses are borne by the buyer.
11. **Local Price (Locol).** This means that the price quoted in the invoice is the one charged wherever the goods are sold.

DOCUMENTS USED IN HOME TRADE

The documents in home trade include the following:-

1. **Letter of Inquiry.** This is the first document sent by a prospective buyer to a potential seller seeking information regarding the kind of goods available at the seller's premises, prices and terms and conditions of supply.

2. **Quotation.** This is a reply to a letter of inquiry sent by the potential seller to a prospective buyer stating the nature of goods available, quantities, prices, terms and conditions of supply and methods of delivery.

The following documents are sent to supplement a quotation:-

a) **Catalogue.** This gives a brief description of each item available for sale. It states the colour, size, weight and brand of goods.

b) **Price list.** This outlines each item available for sale and its price for example
1 set of Dell computer Shs. 900,000
Hp DeskJet D2563 printer Shs. 150,000

c) **Price current.** As a result of price instabilities, this document states the current prices of goods.

Contents of a quotation

i.) Name and address of the seller.
ii.) Name and address of the buyer
iii.) Items offered for sale by the seller
iv.) Prices at which goods are offered
v.) Signature and stamp of the seller

3. **Purchase order.** This is a document sent by the buyer to the seller stating the type of goods required, quantity and quality and individual prices of goods ordered. It is normally written in duplicate such the original is sent to the seller and the duplicate remains with the buyer.

Contents of an order

i.) Name and address of the buyer
ii.) Name and address of the seller
iii.) Quantity of goods ordered
iv.) Quality of goods ordered
v.) Signature and stamp of the buyer
vi.) Order number (if any)

4. **Proforma Invoice**. This is sent by the seller to the buyer indicating the terms and conditions under which goods are to be supplied. It is normally sent when the seller does not want to risk credit with the new customer and inform the buyer to pay for the samples if they are to be retained in case they were sent with the quotation.

Contents of an order

i.) Name and address of the seller

ii.) Name and address of the buyer

iii.) Method of delivery of goods

iv.) Method of payment for goods

v.) Terms of sale

5. **Credit Status Inquiry**. This is meant to find out the credit trustworthiness of customer before transacting business with him/her. ***Information regarding the credit trustworthiness of the customer can be obtained from the following sources:-***

i.) **Bank where the customer has an account**. The bank can be contacted by the suppliers to give confidential information regarding a buyer who has an account with them.

ii.) **Trade associations where the customer is a member**. Trade associations can also give confidential information about their members.

iii.) **Other suppliers who have ever dealt with the customer**. Suppliers who have been dealing with the buyer can give information about paying habits.

iv.) **Other customers.** Regular customers who may know the prospective buyer about his credit trustworthiness.

v.) **Local authorities** where the business is located i.e. paying of his obligations like taxes and licences.

vi.) **Social organizations** like churches, rotary clubs and SACCOs.

vii.) **Competitors.** Other traders dealing in similar business give information relating to the trader

6. **Advice / Dispatch Note**. This is a document sent by the seller to the buyer informing him/her that goods ordered for have sent and the date when they are expected to arrive. This enables the buyer to arrange his warehouse and transport to collect the goods from the nearest delivery point.

7. **Delivery Note**. This is sent by the seller to the buyer stating the goods delivered to the buyer. It is written to reconcile the deliveries with the packaging sheet. A copy is sent to the seller as the carrier has to counter sign on his (supplier's) behalf. On approval, the buyer draws a *Goods Received Note* that is written in the *Goods Received Book*.

8. **Goods returned Note**. This is a document sent by the buyer to the seller showing the goods that have been returned. This may be due to damage of goods in transit especially fragile and perishable goods.

9. **Invoice**. This is a document sent by the seller to the buyer informing him/her of the amount is supposed to pay for the goods supplied on credit. The invoice contains the following information:-

i. A brief description of the goods sold.
ii. Unit prices of goods sold.
iii. The total cost of the goods sold on credit.
iv. Net amount payable by the buyer.
v. Length of the credit period.
vi. Trade discounts given (if any).
vii. Terms of delivery.
viii. Name and address of the seller.
ix. Name and address of buyer.
x. Cash discount offered.
xi. Signature and stamp of the seller.
xii. Oder number (if any).
xiii. Invoice number (if any).
xiv. The date of writing the invoice.

xv. The abbreviation of ***E & O.E*** (errors and omission excepted) inscribed at the bottom of the invoice which is an indication that the seller reserves the right to correct the error and omissions made.

After receipt of the invoice, the buyer should clearly take the following steps:-

(a) Verify if a copy of the order correspond with items shown on the invoice.
(b) Verify it against the packaging sheet, delivery note and ascertain whether goods ordered where delivered.
(c) Re-check the prices of items invoiced and trade discount offered to correct all under or over estimates therein.
(d) Check the calculations and arithmetical accuracy of the invoice i.e. totals, multiplications, calculations of trade discounts etc.
(e) Where the calculations are right, the invoice is then sent through the system for payment. However, where some irregularities are found, payments are not made before clarifications.

10. **Credit Note**. This is sent by the seller to the buyer to correct an over charge in the invoice. This happens when some goods have been returned by the buyer together with the goods returned note.

Circumstances of issuing a credit note

i.) When there is an over charge in the price quoted in the invoice.
ii.) When wrong items are included in the invoice.
iii.) When goods are damaged.
iv.) When goods are of poor quality.
v.) When goods are expired.
vi.) If containers which were invoiced have been returned by the buyer e.g. crates of soda, beer, jerrycans.
vii.) When goods are wrongly packed.
viii.) Where less quantity of goods is supplied compared to the invoiced.
ix.) Where wrong description of goods is sent.
x.) If part of the goods supplied are returned to the suppliers.

11. **Debit Note**. This is sent by the seller to the buyer to adjust an under charge in the invoice.

12. **Statement of Account**. This is a document that shows a summary of transactions that take place between the buyer and the seller in a given period of time.

It among others contain the following information -

i). The amount due from the buyer (balance b/f).

ii). List of invoices within the period under review.

iii). Value of all credit issued during the period.

iv). Value of debit notes issued during the period.

v). Total receipts during the month.

vi). Amount due for the period (balance c/f)

vii). Name, signature and stamp of the supplier

viii). Name and address of the buyer

On receipt of the statement, a trader takes the following step:-

i). Checks with the previous statement to ascertain that the opening balances do correspond.

ii). Check against all invoices received for the period.

iii). Verify it with credit notes received during the month.

iv). Verify any payments made during the month.

v). Prepare a cheque for payment.

Specimen of Statement of Account

13. **Receipt.** This is a document sent by the sent to the buyer as an official acknowledgement that payments have been made for goods and services.

IMPORTANCE OF BUSINESS DOCUMENTS

i.) They are used for reference/record purposes.

ii.) They provide information/data to record in the books of accounts or financial statements for decision making.

iii.) They provide evidence/proof that a transaction has occurred.

iv.) They signify ownership of goods i.e. a bill of lading.
v.) They provide evidence of payment for goods e.g. a receipt.
vi.) They show accountability and procedure, systematic follow up of transactions i.e. audit purposes.
vii.) They act a basis for borrowing funds from financial institutions i.e. Proforma invoice and a bill of lading.
viii.) They are used for purpose of tax assessment e.g. sales invoice.
ix.) They are used as a tool of control for stock i.e. stock card
x.) They enable sellers to keep track of their customers and their suppliers for items sold/bought on credit.

Problems facing traders in Uganda

i). They lack adequate business management skills to run their businesses like record keeping.
ii). Lack of enough working capital due to inadequate security to access loans.
iii). Lack of adequate market for their products due to low income of people.
iv). High tax rates that eat away the would be profits.
v). High operational costs like rent, electricity bills etc.
vi). They face a problem of stiff competition from big businesses established by foreigners.
vii). Poor transport facilities makes the movement of goods from suppliers to the businessmen premises difficult.
viii). Insecurity in some parts of the country affects the business activities in Uganda.
ix). High inflation rates in Uganda discourage trades from saving resources with banks which they can use for future investment.
x). High interest rates on loans discourage many traders from borrowing from banks in order to expand their businesses.
xi). The many risks involved in business for example theft, fire among others discourage many people from investing their resources in business activities.

REVISION QUESTIONS

1a) Distinguish between peddlers and hawkers

b) Give **eight** reasons why the number of hawkers is on the increase in Uganda.

2a) What is retail trade?

b) Mention any **five (5)** types of large scale retailers in Uganda

c) What factors are considered when starting a retail business?

3a) Give the differences between multiple shops and departmental stores

b) Explain the functions of large scale retailers to the

i) Producer

ii) Consumers

4a) What is wholesale trade?

b) Describe four main characteristics of wholesale trade

c) Under what circumstances may a wholesaler be eliminated from the chain of distribution?

5a) Define the term **branding**

b) Outline the functions of branded goods

c) How does branding assist retail trade?

6 Explain the services a wholesaler provides to

a) Manufacturers

b) Retailers

7a) Describe any **Five** types of small scale retailers

b) Explain the problems faced by traders in Uganda

8a) State the contents of an invoice

b) What steps should be taken by the buyer when an invoice is received?

INTERNATIONAL TRADE

International trade is the buying and selling of goods and services outside the boundaries of a country. It is trade between two or more countries. For example a trader from Kampala-Uganda buys goods from Kisumu-Kenya and sells them in Kikuubo in Kampala.

Reasons giving rise to international trade

There are many reasons which may prompt a country to engage in International trade. These reasons which give rise to International trade include the following:-

i). **Cost of production**. The cost of production may force a country to engage in International trade even if it is having the resources for example Uganda is having traces of Oil in Lake Albert but the cost of production is so high that Uganda continues to import oil from other countries

ii). **Differences in climate and soils**. Countries fall in different climatic zones therefore agricultural products grow differently in these zones. This means that countries have to import goods which they need but cannot produce.

iii). **Difference in level of technology**. Some economically developed countries have more advanced technology compared to less developed countries enabling them to produce goods needed by less developed countries. This brings about trading among countries for example Uganda imports machinery from developed countries.

iv). **Surplus production**. Some countries produce goods in excess of what they want therefore they tend to exchange the excess with what they need but they cannot produce for example Uganda produces coffee in excess of what is consumed locally therefore it exchanges the excess with other goods it cannot produce hence international trade.

v). **Specialization based on the law of comparative advantage**. The law states that countries should specialize in the production of products where it incurs the least opportunity costs of production. This means that as countries specialize, they get what they cannot produce form other countries hence international trade.

vi). **Natural resource endowment**. Nature has endowed different countries with different resources for example Libya is endowed with oil resources therefore it exports its products to other countries hence international trade.

vii). **Long standing historical** factors have encouraged international trade. Countries tend to trade with countries which were their colonial masters for example Uganda may trade with Britain.

viii). **Differences in level of industrial development.** Some countries are industrially developed therefore they produce finished goods which cannot be produced by the less developed. This means that the developing countries import finished goods from the more developed countries and in turn the developed countries import raw materials from the LDCs hence international trade.

Differences between home trade and international trade

Home trade differs from International trade in the following aspects:-

i). Home trade is the internal trade of a country while international trade is its external trade.

ii). The middlemen in home trade are wholesalers and retailers whereas those in international trade are exporters and importers.

iii). Goods in home trade are kept in wholesalers warehouses whereas those in international trade are kept in bonded warehouses.

iv). The major means of transport in home trade is Road and railway while water and air apply to international trade.

v). In home trade, conduct of trade is regulated by local/national laws e.g. trading licences while foreign trade is governed by international laws and agreements.

vi). In home trade, local currency is used while in foreign trade foreign currencies are used.

vii). In home trade there are few documents while in international trade there are many documents.

viii). In home trade, insuring goods is optional (few risks) whereas in foreign trade goods must be insured (many risks).

ix). In home trade normally both local and international languages are used while in foreign trade mainly international languages are used in exchange of goods and services.

x). Advertising is done by local media in home trade whereas in foreign trade international media is used.

Terms used in international trade

a) **Bi-lateral trade.** This refers to trade between two countries for example Uganda trading with Kenya.

b) **Multi-**lateral trade. This is the trade which is carried out among many countries. For example Uganda trading with Rwanda and USA.

c) **Entrepot trade.** This is the re-exportation of goods which were formerly imported for example if a trader imports vehicles from Japan and then exports them to Tanzania.

d) **Visible trade.** This is the exchange of goods among countries. All tangible goods which can be seen crossing the border of one country to another follow under visible trade.

e) **Invisible trade.** This means the export and import of services among countries. It involves the exchange of all services which cannot be seen like insurance, banking etc. For example Kenya commerce bank (KCB) in Uganda is an invisible export for Kenya and an invisible import for Uganda.

f) **Balance of trade (BOT).** This is the difference between visible exports and visible imports of a country in a given period of time. If the visible exports exceed the visible imports, the country is said to have a favourable balance of trade and when the visible imports are greater than the visible exports, such a country is experiencing unfavourable balance of trade.

g) **Terms of trade (TOT).** This refers to the price of a country's imports relative to the price of her exports. It means the price index of exports compared with that of imports. In case a country gets more money from exports than it spends on imports, then such a country is experiencing favourable T.O.T and when the prices of imports are increasing faster than the price of exports then a country is experiencing unfavourable term of trade.

h) **Balance of Payment (B.O.P).** This is the difference between receipts both for visible and invisible exports and payments for both visible and invisible imports of a country in a given period of time. If the receipts exceed the payments, a country is said to have a favourable B.O.P and when the payments exceed the receipts then a country is said to have unfavourable B.O.P

i) **Dumping.** This is the selling of goods at a lower or give away price than the one prevailing in the home market.

j) **Customs draw back.** This is a tax refund given to a trade who imports raw materials, processes them, and exports the finished goods.

k) **Exports.** These are goods leaving a country for another country. They are goods sold to other countries.

l) **Imports.** These are goods entering a country from other countries. They are goods bought from other countries.

Advantages of international trade

i). International trade enables a country to get what she cannot produce herself from other countries for example Uganda imports oil, vehicles etc. from other countries.

ii). It enables a country to dispose off her surplus goods which would otherwise have been wasted. It is referred to as a **vent for surplus** for example a small fraction of the coffee produced in Uganda is consumed locally the rest is exported.

iii). It avails the citizens of a country with a variety of goods for easy choice. Goods from developed countries like USA, Japan, are availed to the citizens of a country at a low price hence improving their living standards.

iv). It encourages specialization based on the principle of comparative advantage. Specialization leads to greater output and cheaper prices for goods and services hence an advantage to the buyer countries.

v). It promotes healthy competition between the local and foreign producers. Competition leads to improvement in quality of goods and services produced.

vi). International trade promotes peace. This is because it leads to a certain degree of interdependence among countries. It therefore becomes hard for a country to go to war with a country that supplies her with an important product like oil.

vii). It enables a country to get revenue through imposition of tariffs. Import and export duties charged on goods earn revenue to the country which revenue can be invested in productive ventures for national development.

viii). In case if natural calamities like famine, drought floods etc, a country can get help from other countries.

ix). International trade promotes international relationship among countries. This is because it involves the movement of people from one country to another.

x). Transfer of technology. It enables transfer of technology from the developed countries to the less developed countries. This technology transferred to the LDCs is instrumental in the development of such countries.

xi). International trade promotes economic development. It is a stimulus to economic development because the income obtained from international trade can be invested in developmental projects to foster development.

xii). It encourages exploitation of idle resources of the country due to the large market created.

xiii). It creates employment opportunities for the people. International trade provides employment to exporters and importers, clearing and forwarding officers among others.

Disadvantages of international trade

i). Discouragement of local industries. Goods imported from developed countries make local industries lose market because they are of high quality and low priced. For example Nytil textiles lost market as a result of cheap clothes which flooded the Ugandan markets.

ii). International trade leads to moral degeneration. Some goods imported have adverse effect on the citizens of a country especially the youth for example pornographic films.

iii). International trade creates Balance of payment problems. This is because most developing countries import more than they export.

iv). Specialization as a result of international trade leads to emergence of monopoly powers which charge high prices for goods and services.

v). If a country depends on another for the supply an important commodity, it may be compelled to tolerate undesirable conditions from such a country.

vi). International trade leads to exhaustion of resources. If a country exports raw materials of a mineral nature, it may go out of its deposits and it will have nothing to finance its imports.

vii). International trade leads to dumping of goods in less developed countries.

viii). Should countries which have been trading with another go to war, the one which has been depending on the other for the supply of an important commodity like petrol, medicine will be handicapped when the supply is cut off.

ix). Imported inflation. International trade brings about imported inflation when the goods are imported from an inflation ridden country.

x). High taxes imposed on imported goods increase the prices which in turn affect the low income groups in the country.

xi). It leads to consumption of inferior goods by the nationals of a country.

xii). It leads to social cultural interference. This is because it involves movement of people from one country to another therefore they can copy undesirable cultures from other countries like way of dress.

RESTRICTIONS / PROTECTIONISM ON INTERNATIONAL TRADE

Protectionism refers to practice of restricting free trade particularly imports across national borders to protect the interests of local industries and businesses in a country.
Countries try as much as possible to limits the volume of imports and promote exports in order to have a favourable balance of payment.

Tools of restriction

There are measures undertaken by the governments to restrict international trade. These measures are intended to reduce imports and encourage exports. They include the following:-

1. **Imposing import duties (tariffs).** This means that the government levies a tax called import duty on goods imported which increases their prices hence limiting foreign trade.
2. **Fixing import quotas.** A quota is fixed quantity of a certain good to be imported by a county in a given period of time. This means that a country cannot issue import licenses in excess of the predetermined quota this controlling imports. OPEC normally employs this tool of restriction.
3. **Total ban/embargo.** This refers to a total refusal of the importation of a certain type of good into the country. This normally arises when a country establishes industries to produce goods which she had been importing.
4. **Subsidies.** This is when the government helps the home industries to compete favourably with foreign industries as far as prices are concerned e.g. tax holidays, tax exemptions, giving land to local investors.
5. **Sanitary regulations.** The government introduces some minimum medical standards to be reached by products before being imported into a country. This mainly applies to food stuffs and drugs. This reduces the volume of imports because goods which do not meet such standards will not be imported.
6. **Devaluation.** This refers to a deliberate reduction of a country's currency in terms of other currencies. Devaluation makes the imports expensive and exports cheaper hence consumers ignore the imported goods.
7. **Foreign exchange control.** The government limits the availability of exchange needed for import payment. Such a limit makes few importers to have the exchange hence reducing the imports.

8. **Formation of trading blocs e.g. EAC, COMESA.** This enables a country to import goods from only member countries hence limiting import trade.
9. **Import licenses.** The government limits the licenses given to importers in order to reduce the imports.
10. **Import substitution industries.** The government establishes industries to produce goods it has been importing to limit imports.
11. **Administrative delays/procedure.** The government introduces many procedures to be followed by importers before importing goods and this discourages many importers.
12. **Trade agreements.** The government enters into trade agreements with other countries in order to limit international trade.

Reasons for restricting International trade

i). To protect infant domestic industries against competition with high quality imported goods.

ii). To maintain the healthy standards of the citizens of the country. This is enforced through the tool of sanitary regulations.

iii). To protect a favourable balance of payment by importing less and exporting more.

iv). To encourage domestic industrial investment in the country.

v). To create employment opportunities for the people from local investments.

vi). To raise government revenue through imposition of heavy import duties.

vii). To discourage the importation of dangerous goods for example expired drugs and military equipment.

viii). To avoid imported inflation. This arises when goods are imported from an inflation ridden country. The high prices are then transferred to the importing country.

ix). To establish a self-sustaining economy and avoid hardship during periods of international misunderstandings.

x). To establish import substitution industries so that a country can produce what she has been importing.

xi). To avoid dumping into the country i.e. selling of goods at a giveaway price than the price in the home market.

xii). To protect the cultural and social values of the country.

xiii). Conservation of foreign exchange reserves by importing less and exporting more.

Advantages of restricting International trade

xiv). It enable to protect infant domestic industries against competition with high quality imported goods.

xv). It helps to maintain the healthy standards of the citizens of the country. This is enforced through the tool of sanitary regulations.

xvi). It enables to protect a favourable balance of payment by importing less and exporting more.

xvii). It encourage domestic industrial investment in the country.

xviii). It creates employment opportunities for the people from local investments.

xix). It increases government revenue through imposition of heavy import duties.

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xxv). It helps to protect the cultural and social values of the country.

xxvi). Conservation of foreign exchange reserves by importing less and exporting more.

Disadvantages of restricting International trade

i). It leads to development of sheltered monopolies. Monopolies exploit consumers by charging higher prices.

ii). It leads to reduced consumer choice because they are not availed with a variety of goods.

iii). Protectionism makes the infant domestic industries to remain inefficient as a result of lack of competition.

iv). Protectionism also results into trading conflicts or trade wars due to retaliation. This is termed as Beggar-my-neighbour policy. For example when USA put restrictions on Chinese tires, so China retaliated by putting barriers to USA goods like Chicken.

v). There is production of poor quality goods by local industries due to lack of competition.

vi). It becomes costly for the government to provide subsidies to the local industries.

vii). Protectionism prevents countries from maximizing their specialization levels, using up factors of production moronically and inefficiently.

viii). It creates a regressive effect on distribution of income. The higher prices that result from tariffs hit the low income earners and worsen the problem of income inequality in the country.

INTERMEDIARIES IN IMPORT TRADE

a) **Import merchants.** These are traders who buy goods from abroad in their own names and sell them locally at a profit.

b) **Import commission agents.** These are traders who import goods at the overseas seller's risk. The overseas sellers trust these agents and give them the goods which they sell in their country. They do not stand any risk since even the goods which remain unsold are returned at the supplier's expense.

c) **Import brokers.** These are middlemen who connect the buyers in the purchase of goods from abroad suppliers. These agents do not possess the goods physically but just facilitate the sale of goods. An import broker is paid a commission called **brokerage.**

d) **Del-Credere Agent.** These are traders who guarantee the sale of goods from overseas suppliers. They guarantee the sale of goods and collect all the debts from the buyers. If any buyer fails to pay his debt, a del-credere agent undertakes to pay the money himself. He/she is paid a commission called Del-credere commission for his guarantee.

DOCUMENTS USED IN INTERNATIONAL TRADE

International trade is more complicated to carry out than home trade. It involves a number of documents which need to be completed before a transaction is made. These documents include the following:-

1. **Bill of lading.** This is a document which contains the details of goods loaded onto the ship, terms and conditions under which they have been accepted by the shipper and shipping charges. When it is signed by the captain of the ship it becomes an evidence of receiving goods by the shipper.

Functions of a bill of lading

a) It is a receipt for goods by the ship owner.
b) It is a contract of carriage
c) It is a document of title to the goods i.e. a person named on it can claim for the goods
d) It is a negotiable instrument in that the title to the goods can be transferred to another person by endorsing.
e) It contains the details of goods loaded on the ship.

2. **Certificate of origin.** This is a document which specifies where the goods imported are originating from such that import duties can be calculated accurately. It is necessary to know the country where the goods are coming from because some countries have mutual understanding among themselves concerning free trade as members of a market union for example ECOWAS.

3. **An Indent.** This is an order for goods in international trade. There are two types of indents namely open and closed indent.

   An open indent is an order for goods where the name of the supplier is not indicated**.**

   A closed indent is an order where the name of the supplier is mentioned. For example Nabukenya may place an order for a vehicle from Toyota motors in Japan.

4. **Proforma invoice.** This is a document which outlines the terms and conditions under which goods are to be supplied by the seller. It outlines the means of payments, methods of delivery, trade and cash discounts allowed among others.

5. **Freight Note.** This is drawn by the shipping company indicating the shipping charges for goods. It is forwarded to the exporter who pays the amount and gets receipted. The exporter then forwards it to the importer together with a bill of lading and invoice.

6. **Letter of credit.** This is a letter issued by a commercial bank as a guarantee for payment of the amount due to the exporter upon receiving the goods. On receipt of a letter of credit from the importer, the exporter gets payments for the goods on presentation of the letter of credit to the guaranteeing bank on its maturity.
7. **Weight Note.** This states the weight and measurements of goods delivered at the dock. It also states the number of boxes in a particular consignment.
8. **Calling forward Note.** This informs the seller (exporter) the date and time by which the goods should be at the dock for loading to a particular ship.
9. **Letter of Hypothecation.** This is a letter from the supplier (exporter) of goods to his bank authorizing the bank to obtain and sell the goods sent to the importer.
10. **Consular Invoice.** This is an invoice that has been signed by the embassy of the country to which goods are being exported. This is because some countries have a requirement that all invoices for goods shipped in their ports must bear the signature and stamp of the consular offices in the exporting country. This also enables the consul to ensure that goods are reasonably priced and no undesirable goods enter the country.
11. **Ship's manifest.** This is a customs declaration giving full details of the contents on the vessels. It shows the passengers and cargo carried. As soon as the ship arrives at the port, a ship's manifest should be presented to the customs offices before the ship is unloaded.
12. **Air way bill.** This is a contract of carriage between the importer and the air line company for goods transported by air. Air way bill is similar to a bill of lading except the former is not a negotiable instrument.
13. **Bill of exchange.** This is a legally unconditional order in writing addressed by one person to another requesting the person receiving it to pay a specified sum of money to a named person.
14. **Dock warrant.** This is a document of title to the goods kept in a warehouse. This is issued when the importer does not want to remove the goods immediately and they are warehoused.

Terms of sale in foreign trade

In export and import trade, some expenses may be paid by the seller or buyer and must be indicated in the price quoted. They include the following:-

a) **Delivery dock (DD).** This includes the cost of carriage to the docks. Docks are places where ships wait for cargo.

b) **Loaded.** This includes all costs to the port of destination and unloading expenses

c) **In bond.** This means that all costs of handling into the bonded warehouse are to be borne by the exporter.

d) **Duty paid.** This means that the price quoted in the invoice includes all expenses in addition to payment of customs duty.

e) **FRANCO (free of charge).** This means that the exporter pays for all charges until the goods reach the buyer's premises (importer).

Problems/limitations of international trade

International trade is faced with a number of problems that makes it hard to be carried out and these include the following:-

i). **Differences in currencies**. Countries use different monetary system and what is legal tender in one country may not be in another country. Therefore this leads to currency conversion which requires the trader to be equipped with the exchange rates.

ii). **Differences in political ideologies**. The pursuit of different social and economic policies may be an obstacle to trade. Some counties practice socialism while others capitalism. It becomes hard at times for a socialist country to trade with a capitalistic country.

iii). **Differences in weights and measures**. Different countries use different measures like kilograms, yards, feets, inches, metres etc. This means that coming up with a common weight to be used in foreign transaction is difficult.

iv). **Differences in languages**. As a result of diversity of languages in the world, foreign transactions are hard to make. Various documents may need to be translated to a language understood by both the importer and exporter which attracts additional cost.

v). **Social-cultural factors**. Different countries have different religions and traditions. This limits international trade because some commodities may not be consumed by natives of other countries for example Pork is not consumed in Moslems countries.

vi). **Documentation**. There are many documents involved in international trade compared to home trade. This paper work is normally costly and may lead to delays in delivery of goods.

vii). **Distance.** The distance involved in international trade is far greater than that in home trade therefore this increases the transport costs of goods.

viii). **Lack of foreign exchange**. Some of the countries lack foreign exchange to enable them import goods from other countries.

ix). **Protectionist policy through imposition of high import duties**. This is a common practice by countries to avoid dumping in their countries. This makes international trade more complex to carry out.

x). **Political instabilities**. International trade comes to a stand steel during periods of political instabilities because traders fear to incur big losses.