COMMERCE NOTES FORM TWO

Email: tzshule@gmail.com

RETAIL TRADE

Definition;

-Retail trade is a type of trade which involves buying goods from wholesalers or manufacturers in large quantities and selling them in reasonable quantities to the final consumers or users.

-A trader who sells goods to the consumers is known as a Retailer.

FUNCTIONS OF A RETAILER

-In the process of buying from wholesalers or manufacturers and selling them to the final consumers, retailers perform the following functions;-

a.) **Buying goods/purchasing**

-A retailer purchases goods from the manufacturers or the wholesalers.

b.) **Selling goods**

-He sells to consumers, usually in reasonable quantities.

c.) **Transportation of goods**

-A retailer usually arranges for the transport of goods from the manufacturer's place to his/ her premises. At times he may also be called upon to transport goods to his customers premises.

d.) **Storage**

-He stores goods till they are wanted by the customers.

e.) **Sales promotion**

-This involves the art of advertising and displaying goods to be sold to the consumers.

f.) **Marketing survey**

-This is also known as market research which a retailer undertakes to know the kind, quality and quantity of goods consumers want before he actually buys them.

g.)**Stock control and book keeping;**

-This work involves the setting up of better system in which purchases can be planned and kept in reasonable balance with the sales. It also involves handling records of transaction all the accounting books in order to ensure proper use of finance, business assets, equipment and premises.

QUALITIES OF A GOOD RETAILER

-The success of a retailer depends on number of factors, the most important one being his personal qualities. In order to be successful a retailer should possess the following qualities;

i.) He should be pleasant in his dealing with his customers. He should be courteous (polite).

ii.) He should be a good buyer.

-He must know what to buy, where to buy from, in what quantities to buy, when to buy and at what price to buy. His ultimate profit largely depends on his ability to buy most economically.

iii.) He should be able to forecast the demands of his customers as regards quality, quantity, price brand, package, etc. He must also be able to foreseen changes in taste and fashion.

iv.) He should be a good administrator.

-If he fills to control the movement of his stock and other properties or to keep a check on the activities of his staff, chances of success would be slim.

v.) He should be honest to his customers.

vi.) He should be cooperative to his suppliers and pay them promptly.

ADVANTAGES OF RETAILERS

Retailers have the following advantages;

a.) Retailers are available in almost all residential places. Consumers can easily obtain services from retailers without being required to walk along distance.

b.) Retailers offer a wide range of choices

-This is because they buy goods from different producers

c.) Retailers maintain close contact with their customers

-Because of this, retailers assist the consumers in making correct choices of goods, they demand.

d.) Retailers assist the producers and the wholesalers in their market research

-Retailers are direct contact with the consumers. They can easily interrupt and forecast consumers' needs.

e.) Retailers offer credit facilities to their customers. This enables customize to maintain their standard of living

SOURCES OF CAPITAL FOR A RETAILER

-A retailer before starting a retail trade, he needs a working capital for buying goods for sale, capital for buying the fixed assets such as e.g weighing machines, furniture etc. He can raise capital through the following ways.

a.) **A loan from the bank**

-At a reasonable interest rate, you can apply for a loan from the bank if you have bulky of a goods can act as a security.

b.) **Borrowing money from a friend/relative**

-A man can borrow money to start a retail trade business from a friend/relative.

c.) **Saving over a long period**

-You need a little amount of money per week /month and after a long period of saving, say 4 years or more, it may be a large sum, say 200,000/= enough for starting a business.

d.) **Admitting somebody as a partner**

-Accepting a partner or shareholder of the retail business started.

TYPES OF RETAILERS

1. Small scale retailer
2. Large scale retailer

1. SMALL SCALE RETAILERS

This consist of retailers who operate in small scales

-They have limited capital and thus sell small amount of goods

Example; a.) Street traders

b.) Itinerant traders

c.) Small fixed shops/single shops

d.) Tied shops

e.) Automatic vending machines

a.)**Street traders/road side sellers**

These are traders who offer small items like sweets, boxes of matches and fresh fruits by sitting near bus stops, market place waiting for buyers. In this case little capital is required in starting these business.

ADVANTAGES OF STREET TRADERS/ROADSIDE TRADERS

1. Their overheads/expenses are too low

2. They sell goods at low prices

3. They need small amount of capital to start a business.

DISADVANTAGES OF STREET TRADERS

1. They have no fixed premises

2. They sell normally defective of inferior quality goods

3. They cannot get regular customers. So their sale fluctuate.

b.)Itinerant traders/mobile traders

These are traders such as peddlers and hawkers who they do not have fixed premises and carry very little stock. It operates on a minimum of capital outlay.

The following are example of itinerant traders

Peddlers

-These are itinerant who carry goods on their shoulders and go on foot from one area to another to sell them.

Hawkers

-These are door to door salesmen who carry their stock on vehicles, these carry their stock on vehicles, and these carry goods on bicycles and motorcycles

Market stall holders

-Market stall holders hire at market in the open air during market days . They travel from one market to another.

Mobile shops

-These are motor vehicle designed as shops selling groceries.

ADVANTAGES OF ITINERANT TRADERS

1. They need small amount of capital to start business
2. This overhead/expenses are too low
3. They have some permanent customers so they can sell their goods easily.

DISADVANTAGES OF ITINERANT TRADERS

1. It is quite inconvenient to move from one place to another
2. Their sales are affected adversely during rain season
3. They normally sell defective or inferior goods

c.)**Small fixed shop/single shops**

-These are shops which have fixed premises and are usually owned and run by one person(a sole trader)

-Unit shops are those shops which are only one shop under one particular name and they have no branches

ADVANTAGES OF SMALL FIXED SHOPS

1. Overheads/expenses are low
2. Personal contact with customers in possible
3. Credit facilities can be provided to the customers
4. These shops can be operated permanently

DISADVANTAGES OF SMALL FIXED SHOPS

1. There is greater competition because in one area different shops sell similar goods
2. Some credit customers can disappear without paying the amount due from them
3. More capital is required to attract more customers by stocking different types of goods

d.) **Tied shops**

-A tied shop is a type of single shop which sells products of one manufacturer only.

-Almost all petrol stations are ‘'tied" to one of the few oil companies like shell, Total, Oilcom, Caltex

e.) **Automatic vending machines**

-This involves the sale of goods to the final consumer through coin operated machines

2. **LARGE SCALE RETAILERS**

-These retailers have a large capital at their disposal and therefore able to buy their stock in great quantities and their volume of sales is bigger.

-They operate from well established fixed premises

-Large scale retailers include;

a.)Multiple shops

b.) Departmental stores

c.) Supermarkets

d.)Hypermarkets

e.) Co-operative stores

f.) Mail orders business

a.) **Multiple shops or chain stores**

-Multiple shops are a number of shops, owned and managed by one concern found in different places, stocking the same class of goods and often similar in appearance and price they are characterized by central management.

-Example of multiple shops in Tanzania is Shoprite.

b.) **Departmental stores**

It is an organization of several shops or stores carried on under one roof and owned by one management whereas the stock of each department are handled separately.
The store is divided into a number of independent departments each of which stocks only one class of goods and is managed by a departmental Manager.

Departmental stores maintain their own restaurant,reading rooms, cinema houses, hair dressing and beauty saloons, information bureau.

Differences between department's stores and multiple shops

Departmental stores	Multiple shops
-Is a collection of shops all under the same roof, each department dealing in a particular branch of retail trade	-In this system there is a large number of individual shops operating in different parts of the country
-The whole business is concentrated in one unit and the customers are drawn to it.	-They open a large number of shops in various places
-It deals in wide variety of articles	-It specializes in a particular set of goods especially standardized type of goods
-It procures goods from different sources and sell them at a central place	-It makes purchase from a single shop and sells them from different centres.
-Geographical diversification of risk is not available.	-Geographical diversification of risk is possible since it is operating from different centres.
-Transfer of goods is not possible	-If certain goods don't sell well in a certain area they can be transferred to another while they may be sold easily.
-It requires extensive premises	-It does not require large premises.

c.) **Supermarkets**

Is a large self service store selling a wide variety of consumer's goods particularly small articles. A common feature of this type of retail business is "Self service". This means that every item carries a price tag, a customer simply moves through the shop from shelf to shelf picking up any item she needs then proceeds to exit counters where a cashier lifts all her items from the trolley and informs customer on the total amount due the customer then pays.

Advantages of supermarket

1. They offer goods and services at lower prices.
2. They sell standardized or higher quality goods.
3. They provide source of supply to small scale retailers.
4. They provide wider range of choices by selling varieties of goods.
5. They create employment to a large number of peoples.

Disadvantages of supermarkets

1. There is no personal contact between a buyer and seller
2. Supermarkets can easily face the problem of theft(pilfering) from dishonest customers
3. Most supermarkets are less accessible to common man

   -This is because most supermarkets are located in big cities and at centres of the cities.

4. Bargaining of price is less applicable.

5. Inconvenience at the counter especially at peak hours.

6. Initial costs and operating costs are so high compared to small scale retailers

d.) **Hypermarkets**

-These are large self service stores located away from the town or city centre

e.) **Cooperative society**

-These are retail shops owned by members

-Control is done by members who elect among themselves representatives to manage or run the store

-Sales priorities are given to members than non-members sometimes are restricted to members only.

f.) **Mail order business**

-Mail order business is a type of retail trade where the business is done by post

-In this type of retail trade the customers place their order for goods through post and the goods are also supplied through the post

-Business depends on getting orders through extensive advertising in newspapers and house journals and by issuing colorful catalogues and brochures

Advantages of Mail order Business to the seller

1. It is not necessary to maintain expensive showrooms
2. It is not necessary to maintain huge transport flit
3. The trader need not to employ salesman

   -This is because selling and buying are done through post

4. Losses from bad debts do not arise

   -This is because goods are always sold for cash

5. Large capital is not required to start such a business

Advantages to the customer

-The customer can save the trouble of going to the retailer's shop

He sends the order from goods through post and gets them at his residence.

Disadvantages of Mail order Business

1. No personal contact between trader and customer
2. Customer may be misled

   -Customers are misled by false and exaggerated advertisement

3. No credit facility
4. Heavy advertisement expenses
5. Limited range of goods

-There are particular classes of goods which alone are suitable for mail order business i.e. the range of goods that can be sold by this method is limited

INSTALLMENT SELLING

-This is a form of customer credit in which the purchases pays a deposit on an article and pays the balance of the purchase price plus interest in regular installments over periods of six months or two years or more.

-Products sold on installments or on hire purchase terms are usually comfort items and not necessities e.g. furniture, radios, tape recorder, refrigerators, cars

-Goods may be sold on installments in the following two ways

a.) **HIRE PURCHASE**

-Hire purchase is a system where a person buys an item by regular payments while using it.

-The terms of payment for goods taken on hire purchase are that a down payments while using it.

-The remaining amount owed to the seller is paid in equal installment spread over an agreed period of time.

Other features of hire purchase include;

1. The buyer acquires possession of the goods immediately after the down payment is made.
2. Ownership of the goods remains with the seller the goods are ‘’on hire” to the buyer
3. The buyer cannot sell the goods until all the payments have been completed
4. In case the buyer defaults in payment, the seller can repossess the goods
5. The seller must display both the cash price and the hire purchase price on the items to enable the buyers to decide under what terms they want to buy the goods

Advantages of hire purchase

To the buyer

1. The buyer can acquire expensive goods which would not be possible if they were on cash terms
2. The buyer obtains possession and use of immediately
3. The predetermined budget to enable the buyer to budget for the goods.

To the seller

1. The sales volume increases
2. Higher profit margins are realized
3. Goods on hire can be repossessed if the buyer defaults in payment
4. Ownership of the goods is retained until the payment is completed.

b.) **DEFERRED PAYMENT/ CREDIT SALE**

-This means that the article/ product becomes the property of the buyer as soon as the first installment is paid.-In this form of credit selling, the buyer is not required to pay a down payment

Other features of deferred payment are;

1. The ownership and possession of goods possess on to the buyer immediately the first installment is paid.
2. Once the goods are sold they can't be repossessed by the seller even if the buyer defaults in payment
3. In case the buyer defaults in payment, the seller can obtain compensation through court action.

Disadvantages of installment selling. (Hire purchases and deferred payments)

1. Higher prices are paid due to the interest
2. Variety of goods offered for sale is limited
3. The risk of loss due to bad debts is very high

   -This is because some customers may default in payments

4. A large capital is needed to operate the business
5. Repossessed goods are usually second-hand; hence possibility of reselling them might be low.
6. There is a lot of record keeping which is expensive for the business.

DIFFERENCE BETWEEN HIRE PURCHASES AND DEFERRED PAYMENTS

Hire purchase	Deferred payments
1.A down payment is given	-There is no down payment
2.Goods are on hire to the buyer	-The buyer owns the goods
3.There is an agreement to hire and on option returning	-There is an agreement to buy with no option of returning the goods.
4. The buyer cannot sell the goods to another person before completing payment.	-The buyer can sell the goods to another person before completing payments.
5. Goods on hire are the property of the seller until the completion of the payments.	-Goods taken are the property of the buyer after the first installment
6. Goods can be repossessed in case of a default in payment.	-Goods cannot be re-possessed in case of a default in payment.

PROBLEMS AND CHALLENGES FACING RETAIL TRADERS IN TANZANIA

-Retail traders in Tanzania experience a number of problems as listed below;-

a.) Poor transport and communication

b.) Lack of storage

c.) Limited areas and building to locate their business

d.) Limited possibilities of expansion

e.) Uncertainty of continuity

f.) Lack of training

FACTORS TO CONSIDER WHEN SETTING UP A RETAIL BUSINESS

a.) Experience and knowledge of the business in mind

b.) Location of premises

-To decide on a particular area when to set up, taking in mind the demand for your product and competition from shops selling

c.) Source of supply of goods

-You should know where to get your goods for sale.

d.) Adequate of capital

e.) Laws and regulations

-You should study the commercial laws which govern the type of business you want to set up.

ORGANIZATION OF A LARGE SCALE RETAIL SHOP

1. Purchase department
2. Sales department
3. Accounts department
4. Administration department

MODERN TRENDS IN RETAILING

-Recent years have been great development in retail trade in East Africa

-The volume of retail trade has expanded leading to a better standard of living

-Two developments have directly contributed to this dramatic increase in large scale retailing namely Branding and Pre-packing.

a.) **BRANDING**

-Branding is a process of giving a particular name to a product.

-Example; Lux, Rexona, Imperial leather, Lifebuoy etc. are all different brands of bathing soaps i.e. they are branded products.

b.) **PRE- PACKING**

-Pre-packing means to wrap or package a product before marketing

-Except for meat and vegetables most products are sold pre-packed by retailers example tea-leaves, cooking fat, oils etc all come pre-packed in containers

-Pre-packaging is one of the main factors responsible for the development of large scale
retailer

-It makes handling of products much and convenient for the retailers

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STOCK ADMINISTRATION

<u>Stock administration</u> – is the management of stock in the business to ensure that there is sufficient quantity of goods without holding more or less stock than is required.

FUNCTIONS OF STOCK ADMINISTRATION

Stock administration involve the following functions

1.**<u>Receiving of goods</u>** – receiving of goods includes the following activities

- Accepting deliveries from transporters or carriers
- Inspecting or checking the condition of goods against quantity, quality and types of goods
- Unloading of goods
- Comparing goods received with order documents
- Notifying the purchasing department about the receipts and general condition of the good
- Keeping records of stock/ goods received

2.**<u>Placing items</u>** – this involved with allocating or placing the goods in an appropriate places. Stocks must be arranged in a goods order in such manner that it will reveal the old goods from new ones

3.**<u>Care of stock</u>**- goods received must be kept in a good condition by cleaning them, dusting and sorting out spoils goods

4.**<u>Issuing of stock</u>** – this means going out or delivering out goods against vouchers to ensure proper records of stock movement

5.**<u>Stock control –</u>** this is checking and keeping records of the quantity and value of articles or goods in stock for a particular of time

WHY STOCK CONTROL IS NECESSARY / IMPORTANCE OF STOCK CONTROL

Stock control is necessary because

1. It helps to know whether sufficient stocks are available to carry out normal order
2. It helps the management to obtain new supplies before problem stock runs out
3. It helps the management to know about stock turn over so as to distinguish between slow and fast moving items
4. Stock control is necessary for insurance purpose

STOCK TAKING

Stock taking – this is the process of finding the quantity and value of stock held. It is a physical counting and making list of all stock held which is normally conducted at the end of each final year.

PURPOSE OF STOCK TAKING

1. To know stock pilferage
2. To check accuracy of records
3. To check weakness in the system of stock control
4. To support the value of closing stock which will be used in final accounts

STOCK LEVELS

Stock levels: are volumes or points of stock reached at different time stock levels includes the following

1. **Minimum stock level**(Receive stock or buffer stock)

   This is the lowest quantity of stock which should be kept to safeguard (protect) sales against unforeseen delays in delivery or production

2. **Maximum stock level**

This is the highest level of stock reached immediately after receipts of a new delivery. Stock should not be allowed to exceed.

DETERMINATION OF MAXIMUM STOCK LEVEL

The stock level can be determined by

1. Financial capability of the business
2. Storage capacity (space available)
3. Cost of storage
4. Seasonal factors (especial agriculture products)
5. Stability of prices

1. **Average stock level**

This is the average number of stock levels within a certain period of time (usually a year)

CALCULATION OF AVERAGE STOCK

i. $$\text{Average stock} = \frac{\text{maximum stock} + \text{minimum stock}}{2}$$

ii. $$\text{Average stock} = \frac{\text{opening stock} + \text{closing stock}}{2}$$

iii. $$\text{Average stock} = \frac{\text{stock at the beginning of the year} + \text{12 month stock}}{2}$$

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Example

If a firm has opening stock valued at Tshs 2500/= and closing stock valued at 1500/= Tshs calculate average stock

$$\text{Average stock} = \frac{\text{opening stock} + \text{closing stock}}{2}$$

$$= \frac{2500+1500}{2}$$

$$= \frac{4000}{2}$$

$$\therefore \text{Average stock} = 2000/= \text{shs}$$

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1. **Stock order point or Re- order level**

   Is the level expressed in unit of issue at which another order is to be pressed before stock fall below the minimum level.

   OR

   Is the level at which ordering or placing of new items must be done.

   DETERMINATION OF ORDER POINT

   Order point is determine according to;

1. Volume of lastly sales or consumption
2. The period between placing or ordering and receiving deliveries
3. Minimum stock level

CALCULATION OF ORDER POINT

Formula

Order point: = (Daily sales x Delivery time) + minimum stock

Example 1

If a form is having a daily sale of 10 units and minimum stock of 100 units.That has between placing and receiving the order is 20 days, you are required to find the order point

Solution

Order point = Daily sales x Delivery time + minimum stock

Data given

Daily sales = 10 units

Delivery time = 20 days

Minimum stock = 100 units

Order point = (10 x 20) + 100

= 200 + 100

300 units

Example 2

Calculate the order point from the following information

1. Daily sales 20 cartons of soaps (each carton contains 10 bars of soaps)
2. Delivery time = 2 weeks
3. Minimum stock = 500 bars of soap

Solution

Data given

1 carton = 10 bars

20 carton = 200 bars

1 week = 7 days

2 weeks = 14 days

There order point = (Daily sale x Delivery time) + minimum stock

(200 bars x 14 days)+ 500 bars

= 2800 + 500

Order point = 3300 bars of soap

<u>TURN OVER/SALES</u>

Turnover is the net sales during the trading period it is calculate as follows

$$Net\ sales = Sales - Return\ inwards$$

<u>Rate of stock turn over</u>

This is the number of times the average volume of stock held have been sold during any given period. It is given a s follows

Rate of stock turn over: $\frac{cost\ of\ goods\ sold}{Average\ Stock}$

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Rate of stock turn over:

<u>Example:</u>

Given

Opening stock = 2,000/=

Closing stock = 2,500/=

Purchases = 14,000/=

Sales = 25,000/=

Expenses = 4000/=

<u>Calculate</u>

1. Cost of goods sold
2. Average stock
3. Gross profits
4. Net profit
5. Rate of stock turn over

Solution

a. $\boxed{\text{Cost of goods sold} = \text{opening stock} + \text{purchases} - \text{closing stock}}$

= 2000 + 14000 – 2500

=16000 – 2500

= 13500 Tshs

b. $\boxed{\text{Gross profit} = \text{sales} - \text{cost of goods sold}}$

= 25000 – 13500

= 11,500 Tshs

c. $\boxed{\text{Average stock} = \dfrac{\textit{Opening stock} + \textit{closing stock}}{2}}$

$$\frac{2000 + 2500}{2}$$

$$\frac{4500}{2}$$

$= \underline{\underline{2,250}}$ Tshs

d. $\boxed{\text{Rate of stock turnover} \quad = \dfrac{\textit{Cost of Goods sold}}{\textit{Average Stock}}}$

$$= \frac{13500}{2250}$$

$= \underline{\underline{6 \text{ times}}}$

MARK – UP AND MARGIN

Mark –up: This is a profit shown as a fraction or percentage of the cost price (cost of goods sold)

$$\boxed{\text{Mark up} = \frac{\textit{Gross profit}}{\textit{Cost price}} \text{ or } \frac{\textit{Profit}}{\textit{Cost price}} \text{ x } 100}$$

Margin this is the profit shown as a fraction or percentage of the selling price (sale:

$$\boxed{\text{Margin} = \frac{\textit{Profit}}{\textit{Selling price}} \text{ or } \frac{\textit{Profit}}{\textit{Selling price}} \; x\, 100}$$

$$\boxed{\text{Cost price} + \text{profit} = \text{selling price}}$$

Example:

Given

Cost price 400

Selling price 500

Calculate

1. Gross profit
2. Mark up as a percentage
3. Margin

a. $\boxed{\text{Gross profit} = \text{selling price} - \text{cost price}}$

$= 500 - 400$ TSHS

$= 100$ TSHS

b. $\boxed{\text{Mark up} = \frac{\textit{Profit}}{\textit{Cost price}} \ x\ 100}$

$= \frac{100}{400} \times 100$

$= 25\ \%$

c. $\boxed{\text{Margin} = \frac{\textit{Profit}}{\textit{Selling price}} \ x\ 100}$

= 100/500 x 100

Margin=20%

RELATIONSHIP BETWEEN MARK UP AND MARGIN

Both margin and mark up figures refers to the same profit but expressed as a fraction or percentage of different figure there is bound to be a relationship it one is known as a fraction the other can be found.

If the mark up is known to find the margin take the same numerator to numerator of the margin then for the denominator for the margin take to the total of the mark up denominator plus denominator plus the numerator

Example 1

Margin =→less Mark up

1/n =1/n-1 x100

Margin =→Add Mark up

1/n =1/n+1 x100

1. Mark up margin

1. ¼
2. 2/11 $^{2}/_{11} + 2 = {^{2}/_{13}}$

1. Margin mark up

1. $^{1}/_{6}$ $^{1}/_{6} - 1 = {^{1}/_{5}}$
2. $^{3}/_{13}$ $^{3}/_{13} - 3\ {^{3}/_{10}}$

Example

The following figures are for 2005

Stock at 01. 01 . 2005 400

Stock at 31. 12 . 2005 600

Purchases 5200

A uniform rate of mark up of 20% is applied find out

1. Cost of goods sold
2. Gross profit
3. Sales figure

Solution

1. Cost of goods sold = opening stock + purchases – closing stock

= 400 + 5200 – 600

= 5600 – 600

= 5,000 Tshs

b. Gross profit

But mark up $= \frac{Profit}{Cost\ of\ goods\ sold} \times 100$

$$20\% = \frac{Profit}{5000}$$

$$Profit = \frac{5000 \times 20}{100}$$

= Tsh 1000/=

c. Sales figure = cost of goods sold + gross profit
= 5000 + 1000
= 6000 /= Tshs

2. Sales figure = cost of goods sold + gross profit

= 5000 + 1000

= 6000 /= Tshs

Email: tzshule@gmail.com

EXERCISE

Given the following figure for 2006

Stock at 01. 01. 2006	500
Stock at 31. 01. 2006	800
Sales	4000

A uniform rate of margin of 25% is in use calculate

1. Gross profit
2. Purchases figure
3. Cost of goods solid

WAREHOUSING MANAGEMENT

Warehousing : comes from the word warehouse, A warehouse is a large building especially made for storage of goods for future use and protect them from unfavorable condition for example bad weather, theft e.t.c.

or

Warehousing: - Is the process of keeping goods in a very large building (warehouse) for later use and protect them from unfavorable conditions like weather, and theft. Warehousing involves in the storing, handling, loading examining and delivering of goods within the product.

DIFFERENCE BETWEEN WAREHOUSE AND STORE

Goods kept in warehouse are waiting to be sold or moved to another place but those are on store are for future use or consumption.

THE IMPORTANCE OF WAREHOUSING (WHY DO WE NEED STORAGE)

1. **Protection:** Warehouse protect goods against unnecessary damage or losses caused by rain, theft, direct heat either
2. **Seasonal product**: Goods which are produced seasonally must be storage so as they can be supplies to the consumer through the year. E.g. Agricultural product like rice, wheat, maize e.t.c.
3. Seasonal demand: Some goods are demanded seasonally, for example rain courts, umbrellas, blankets etc.
4. **ADVANTAGES OF WAREHOUSE IN TRADE**

1. Storing of goods in ware house reduce the damage wastage and pilferage
2. For goods which are demanded seasonally, for example rain coat umbrellas e.t.c storing these goods helps them to the available when they are required
3. Warehousing help the goods which are produced seasonally to be supplied throughout the year, for example agricultural products
4. Goods which are in surplus are stored preserved and made available for meeting the demand when their supply in less

5. Price stabilization; This means fall of price when their supply is high and rise in price when their supply is lower can be controlled by warehouse.

   This is done by ensuring the issue or supply from the ware house is equivalent to the goods demanded in the market

6. Risk bearing once the goods are handled over the warehouse keeper for storage the issue of loss or damage is done by him
7. While goods are in the warehouse can be opened and repack at the time of inspection by the customs authorities

TYPES OR KIND OF WAREHOUSE

There are three types of ware houses namely

1. Public ware house
2. Private ware house
3. Bonded ware house

1. **PUBLIC WAREHOUSE**

These are warehouse owned by the government or private individuals for storing goods for payments. They are open to anybody who has limited space for storage of goods

A person wanting to store goods in a public warehouse must make payment to the owner of this public warehouse.

Public warehouse are situated at terminals, for example sea ports. Importers or exporters can store their goods by renting some public warehouses. Some public warehouses are built by the government to store agricultural products like maize, rice, a coffee etc

When goods are placed on the warehouse, the warehouse authority issues or give out a document known as a **warehouse warrant** to satisfy that the goods have been received. While goods are in the warehouse all goods must be insured against theft, fire and other risks associated with goods in the warehouse

2. **<u>PRIVATE WAREHOUSE</u>**

These are warehouse built by manufacturer's premises Or Whole salers privately to stock or store their own goods private warehouse includes

1. **<u>Manufactures warehouse</u>**

These are storage place owned by manufactures. They are often situated in or near the factory premises. They may be found at various places throughout the area of trade

2. **<u>Whole salers warehouse</u>**

These are warehouses owned by whole salers or rented out to some other whole salers who buy in bulk and store the goods until they are required by retailers. The owner of these warehouses provide warehousing services to their business man after charging some specific rate to keep their goods

NB

. Goods in private warehouses can also be insured to protect them from fore seen perils (risks)

. Cold storage rooms are mode available to store perishable goods like fruits, meat, fish, flowers etc

1. **<u>BONDED WARE HOUSES</u>**

These are warehouses where by imported goods awaiting customs clearances must be stored in it. Goods pending (kept) in a bonded ware house are said by **GOODS IN BOND.**

The goods will be released only before a customs official on presentation of a release warrant

2. **<u>DOCUMENTS USED IN WAREHOUSING MANAGEMENT</u>**

The following are some documents which are used in warehousing activities

1. **Warehouse release warrant**

This is a document issued to the importer after storing his goods within the warehouse

Significance importance of release warrant

1. It certifies that goods have been received by warehouse authorities
2. It is a document of title that means that ownership of the goods can be transferred from one person to another

1. **In bond notes**

This is a document that shows the amount of goods in a warehouse to a particular importer

2. **Customer draw back**

This is a term used in customs when a person a firm is allowed to draw back or get a refund of import duties

FEATURES OF A BONDED WARE HOUSE

1. There are owned by custom authorities but are subject to customs inspections
2. Goods may be solid while in bond
3. Goods may be sampled, packed and bonded in a warehouse
4. They are made to guard against tax evasion
5. They are used to check on prohibited and illegal goods

ADVANTAGES/ IMPORTANCE OF BONDED WAREHOUSE

1. **TO THE IMPORTERS**

1. Goods can be prepared for sale while in bond.

2. Owner can look for market first paying the duty.
3. If they are sold while in bond passes to the buyer.
4. Some goods looseweight to the duty paid comes lower it is based on weight.

TO THE GOVERNMENT

1. They ensure no duty is evaded since goods cannot be released without paying import duty
2. Enables government check in prohibited goods
3. Enables the government to collect revenue

TO THE PUBLIC

1. They provided employment opportunities
2. Ensure a constant flow of goods to the market

DISADVANTAGES OF BONDED WAREHOUSE

1. The government loses duty due to loss in weight.
2. Gargle goods may get damaged and other goods may be lost.
3. Goods can be spoil while on bonded warehouse.
4. There are a lot of formalities involved in the clear once of the goods which may after the business.

ESSENTIAL CHARACTERISTICS OF A GOODS WAREHOUSE

A warehouse is a building where goods will be stored until they are demanded.

It may also be called a go down or depot. The following are the essential characteristics of a goods warehouse .

1. **Ideal location**

A warehouse must be located in that area where goods are produced in large quantities

2. **Suitability building**

The building of warehouse must be of large size and appropriate to store goods of different kinds more safely

3. **Proper equipment**

It should have proper bundling equipment or facilities to store the goods for longer time without being spoils or damaged e.gFree zero, for storing perishables and cranes to do the lifting of heavy goods.

4. **Transport system**

It should also have an appropriate and speeding transport system for easy movement of goods from the place of production to the place of consumption

5. **Efficient staff**

It should have efficient and well trained staff to handle the goods against losses or damages by fire, water or bad weather.

6. **Protection measures**

A goods warehouse should have protection preservation measures against any possible losses or damages to the goods by fire, water or any other source which makes goods damaged. Example of such instrument is fire extinguisher.

WHOLE SALE TRADE

Wholesale trade: is a process of buying goods in a very large quantity from producers or manufactures and selling them mainly to retailers

A wholesaler: Is a person who buys goods in very large quantities from producers or manufactures and selling them mainly to retailers.

FUNCTION OF A WHOLESALER

1. **Provide a link between the retailers' and manufacturers**; He buys goods from producers or manufactures and selling them to retailers. By doing so he created bridge connection from producers or manufactures with many consumers.
2. **Bulk breaking**: He buys goods in bulk from producers or manufactures and divides it up into smaller packages that are convenient to the retailers.
3. **Storage:** A wholesaler owns a large warehouse for storing the large quantities of goods that he buys from various suppliers before selling to retailers.
4. **Financing (Cash paying)** A wholesaler buying in large quantities and paying in cash, he finances the manufactures.
5. **Prince stabilizer:** When he buys in large quantities he avoid the problem of price fluctuation (rise and full of prices).

   Also the stabilized price of storing goods and releasing only the required quantity in to the market.

6. **Source of information:** He supplies market information to both manufactures and retailers with regard to product changes.
7. **Risk bearing** (taking) he accepts full responsibilities loss due to damage fuel in demand changes in fashion, stolen by thief, destroyed by fire etc.
8. **Preparing goods for sale**: Sometimes the wholesaler packs grades or hands them to retailers.

SERVICES PROVIDED BY WHOLESALER TO MANUFACTURERS

1. Clear production line by removing goods in large quantities as they are provided.

2. Release the manufacturers on the risks associated with:-

- Lack of sale of goods due to fall in demand
- Full in price due to fall in demand
- Fall in price due to an increase in supply
- Bad debtors resulting from credit sales to retailers

3. Releases the manufacturers on the need of warehousing

4.Releases the manufacturer on the trouble of finding markets for his products

5.Feed the manufacturer with information from retailers

6. Contributing positively on the manufacturer's cash flow position by paying him promptly. (quickly)

7. Saves the manufacturer from the problem of transporting goods from the factory to the market

8. Assist the manufacturer in market research.

SERVICES PROVIDED BY WHOLESALERS TO RETAILER

1. Breaks the bulk of the goods into size that can be reasonable handled by a retailer.
2. Enable the retailer to obtain stock more conveniently.
3. Offer a retailer a great variety of goods than may one manufactures would be able to offer.
4. May prepare goods for sale by grading, branding and blending.
5. Usually organizes transport from the ware house to retailers shop.
6. Advices the retailer on new products, their contents, from them how to handle them etc.
7. Often sell goods to retailers at discount, they enable retailer to sell at profit
8. Provide storage facilities by makingan necessary for the retailer to have own store. Also the retailers saves by avoiding costs of carrying slow moving items (stocks)

9. Often extends credit facilities to retailers which increase their operational ability.

SERVICES PROVIDED BY WHOLESALER TO CONSUMER

1. Enables the consumer to obtain a steady (continuous / no change) flow of goods throughout the year unsteady price does this by buying and storing goods when they are plentiful and releasing them they are short in supply.
2. Convey information from the consumer (e.g. Complaint is change in fashion or tastes to the manufactures or producers and releases the consumer information from manufactures regarding new product, change in old products etc).
3. Ensures that consumer's needs are adequately entered for by storing a large variety of products.
4. The whole sales convenient location enables consumers to get goods when they want them.

TYPES OF WHOLESALER

There are two types of wholesaler

1. Merchant whole saler
2. Agent whole saler

1. **MERCHANT WHOLESALERS**

Is the one who buy and sell goods on his own capital or perform all activities for his profit or loss.

2. **AGENT WHOLESALERS**

Is the one who perform the duty of buying and selling on behalf of the owner known as a **PRINCIPAL.**

I.TYPES OF AGENT WHOLESALERS

1. **Commission Agent**:

   Is the one who buys and sells goods on behalf of the owner and receives a payment called commission as his remuneration. He is not responsible for any losses resulted e.g. unsold stock, change in fashion.

2. **Del cledere Agent:**

   is the one who buys and sells goods on behalf of the owner but they are paid on extra payment known as del – cledere Commission because they are responsible for the risk of being left with goods on their hands. He arranges with his principle that he will be liable or responsible for any that he will defaults of the customers introduces by him.

3. **Broker**

   Is the one who brings business relationship between the seller and the buyer.

   He is only concerned with making bargain and contact between other parties. He does not take physical possession of goods. Each broker tends to specialize in a particular line of goods or services.

   Broker receive a payment knows as Brokerage charge.

FACTORS

A factor is the one who sells goods on behalf of his principal. He referred to as commission salesman. He receives a payment as known as commission

THE DIFFERENT BETWEEN FACTOR AND BROKER

FACTOR	BROKER
• He takes possession of goods • He receives payment and gives valid receipts • He bus the authority to sell goods on his name • He is a general mercantile not specialized	1. He does not take possession of goods 2. He does not receives payment 3. He does not have authority to sell on his own name. He sales on the name of his principal 4. He specializes in a particular line of goods or services

II: **TYPES OF MERCHANT WHOLESALER**

Merchant wholesalers can be classified in to different ways as order

ACCORDING TO THE RANGE OF PRODUCTS HANDLING BY THEM

The whole seller under this class is

- General merchant wholesaler
- General line hole sales
- Specialized whole sales

I: **GENERAL MERCHANDIZE WHOLESALER**

These are whole sales who deal in a variety of goods like food staffs Hardware from equipments electrical goods, sports etc

II: **GENERAL LINE WHOLESALER**

These are wholesaler who deal with a wide variety of goods in a single product line for example hardware, wholesalers, stationary whole sales

III: **SPECIALIZED WHOLESALER**

These are whole sales who trade in only one type of goods within a given line of product for example he may deal on selling cement only, Books only iron sheets only etc

ACCORDING TO THE GEOGRAPHICAL SPREAD OF OPERATION

The wholesaler under this class are

- National wide wholesalers
- Regional wholesalers

I: **NATIONAL WIDE WHOLESALER**

These are wholesalers who operate on very large scale and have large warehouse in major towns of the country. They usually after large range of product

II: **REGIONAL WHOLESALER**

These are wholesalers that sell goods within a particular area or region for example within a district of province and many after a large of goods or specialized of range of them.

ACCORDING TO THE METHOD OF OPERATION

The whole sales under this class are

- Truck whole sales/ wagon jobbers
- Back jobbers/ Rack merchandiser
- Mail order whole sales
- Cash and carry whole sales

I: **TRUCK WHOLESALERS/ WAGON JOBBERS**

These are whole sales that carry a limited range of stock and combine selling, delivery and collection function in one operation

II: **RACK JOBBERS/RACK MERCHANDISER**

These are wholesalers that specialize in marketing a particular type of goods to other specialized wholesalers. Rack salers/jobbers in east Africa include those who buy agricultural food staff wholesaler in urban areas.

III: **MAIL ORDER WHOLESALER**

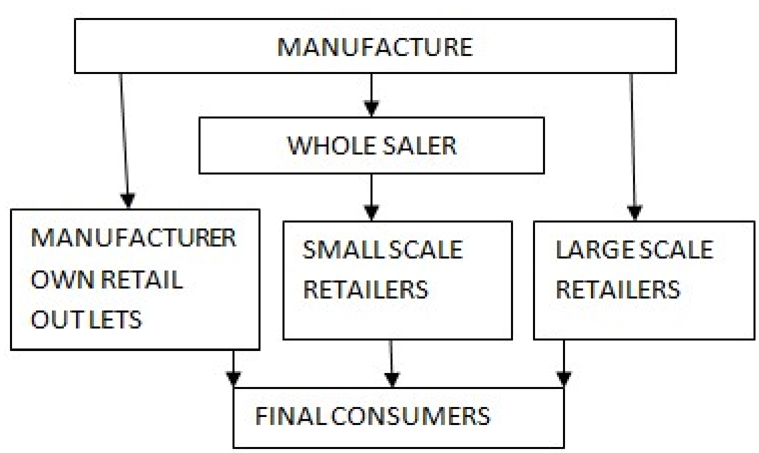
These are wholesalers who sell directly to consumer rather than through retailer. They usually deal in general merchandise conducts national wide operations. The bull of their sales are made on the basic of short term credits

IV: **CASH AND CARRY WHOLESALER**

These are wholesalers who stock a wide variety of goods, to enable retailers visiting their premises, pick the goods they want, pay for them and then transport the goods to the retailers premises.

CHANEL OF DISTRIBUTION

Channel of distribution: is the way through which goods pass from manufactures to the final consumers. The following is the diagram showing channel of distribution.



From the diagram above

1. The manufacture sell his product either to a wholesaler or to a large scale retailers in both cases the quantities involved are very large

2. Some manufacturer may operate their own retail outlets
3. The wholesaler sales goods to retailers in somehow smaller quantities compared to that from manufacturer
4. Some small scale retailers may buy their supply from a large scale retailers or retail shop operated by producer himself.
5. The retailer sells goods to a consumers.

CHARACTERISTICS OF CHANNEL OF DISTRIBUTION

1. Two level channel
   Producer → final consumer

2. Three level channel
   Producer → Wholesaler → final consumer

3. Four level channel
   Producer → Wholesaler → Retailer → final consumer

4. Five level channel
   Producer → Agent → Wholesaler → Retailer → final consumer

The concept of channel structure identifies three parties that are necessary to enable distribution to be effective. These are:-

1. Producers
2. Middleman
3. Consumer

A Middleman: Is a independent business man in between producers and consumer who buy goods from the producers and sell them to consumer.

Function of middleman

1. Concentrating in collecting various product from various product from various producers

2. Sub dividing these product into quantities required or desired by consumer
3. Distributing sub divided quantities of these assessments to the consumer industrial Users.

Middle man include:-

1. Agent middleman
2. Merchant middleman
3. Wholesaler middleman
4. Retailer middleman

ELIMINATION OF A WHOLESALER IN THE CHANNEL OF DISTRIBUTION

In order to eliminate or passing away the wholesaler on the channel of distribution the following factor must be considered:-

1. A wholesaler can be eliminated if there are many large scale retailers who can manage to buy directly from producers.
2. A wholesaler can be eliminated if the manufactures have established many retail outlets (own retail outlets)
3. If the manufacturer have enough storage facilities
4. A wholesaler can be eliminated where goods are produced and sale in small quantities
5. If the manufacturer have their own transport facilities to distribute goods to retailers.

FACTORS WHICH DETERMINE THE CHOICE OF A CHANNEL OF DISTRIBUTION

The following are the factors which must be considered in choosing the channel of distribution.

1. **The nature or characteristics of the product**

This refers to the perish ability or durability of a product. For durable goods long channel may be used.

2. **The value of product**

The long channel means high cost on distributing goods. Under this aspect of value care must be taken to avoid unnecessary costs which may result to high price to final areas and therefore allow market.

3. **Availability of channel distribution**

The choice should be consider over the availability of the channel of distribution

4. **Market consideration:**

This refers to the general market outlook that is preference of the customer's purchasing power and altitudes of the customers towards the products on relation to competition.

5. **Middle man altitude**:

Some middleman tend to have negative altitudes towards products the willingness to distribute should be checked with a great care for instance some middlemen tend to sell goods at higher prices through scarcity which they orient themselves.

6. **Technical nature of the product**

Some technical product demand technically known how in handling them. For example, electrical equipment, video sets, music system etc. This also must be considered of the product fall under this category.

IMPORTANCE OF A WHOLESALER AS A LINK BETWEEN A PRODUCER AND RETAILER

To small retailers and small manufactures the wholesaler is very important otherwise they find the following duties.

1. Holding a large stock of a variety of goods sacks of business capital.
2. Assembling goods from a number of manufactures or producers who usually widely scattered is very difficult.
3. Arranging for arrange a packing and grading of goods
4. Bearing the parties fluctuation and changes in fashion.

ADVANTAGES OF WHOLESALE TRADE

The following are advantage of the wholesaler trade:-

1. Provides services to producers/ manufactures
2. Provides market research on the behalf of the manufactures
3. Provides goods to retailer from serious manufactures
4. Stabilizers prices/ they minimize the problem of price fluctuation.

DISADVANTAGES OF WHOLESALER

1. Sometimes a wholesaler may refuse to buy goods because of the high price and also he may refuse to sell goods because of fall in price thus including shortages.
2. Sometimes a wholesaler provide incorrect information to manufactures regarding market situation
3. They can create shortages in view of some selfish motives.

GENERAL PROBLEM IN HOME TRADE

The following are problems facing of home trade:-

1. **Small scale operation**

   This is due to lack of finance capital most trader operate in very small scale they cannot buy goods in large quantities due to lack of capital.

2. **Lack of capital**

There is a problem in getting capital in both initial investment and business expansion.

3. **Poor transport and communication**

   Traders particularly rural areas still have to waste for considerable period before receiving their supplies due to poor transport facilities.

4. **Lack of training (knowledge**)

   Many people lack of knowledge about stock control, book keeping selling techniques, costing e.t.c.

5. **Poor ware housing / storage facilities for wholesaler**

   As we know there are some goods produced seasonally but demand from them is throughout the year so warehousing facilities are highly needed (required).

THE CONCEPT OF DEMAND AND SUPPLY

Demand Is the willingness and ability of consumer to buy commodity at a given price and specified period of time OR
Demand is the quantity of goods or service that a buyer is willing and able to buy at different prices.

Quantity demanded is the amount of goods a buyer is willing and able to buy at a given price and at a particular time

Demand schedule is a chart or table showing the relationship between quantity demanded and its prices.

Individual demand schedule is the table or chart which shows the relationship of the quantity demanded and prices for one person.

Market demand schedule is the table which shows the relationship between quantity demanded and prices for many persons.

Price (Tshs)	Quantity demanded (Kgs)

300	100
250	150
200	200
150	250
100	300

Demand curve is a graphically representation of demand schedule OR Demand curve is the graph showing the quantity of a commodity demanded at different prices.

From the demand schedule below draw demand curve.

Price (Tshs)	**Quantity demand (Kgs)**
2	60
4	50
6	40
8	30
10	20
12	10

Demand Curve

Demand curve (dd) slopes downwards from left to right because as price decreases quantity demanded increase.

Example of market demand schedule

Price (Tshs)	Quantity demanded by A	Quantity demanded by B	MARKET
100	50	0	50
50	60	10	70
60	70	20	90
40	80	30	110
20	90	40	130

NOTE: (A+ B)=MARKET

TYPES OF DEMAND

There are four types of demand these are;

i/Composite demand
ii/Derived demand
iii/Joint or complimentary demand
iv/Competitive demand

1)COMPOSITE DEMAND

Is a commodity that can meet or can be demanded to satisfy more than one need.

examples

i)steel;can be used to manufacture ship,motor car, machine, knives e.t.c

ii)Water;can be used for

-drinking
-cleaning
-washing

2/DERIVED DEMAND

These are the goods which are demanded for the aim of producing another goods (final goods).

The nature of commodities which have derived demand are inputs such as;

i/Raw material (cotton, sisal)
ii/Fertilizer
iii/Machine

-Fertilizer is demanded in order to produce cotton.maize,beans
-Cotton is demanded in order to produce cloth.

3/JOINT OR COMPLIMENTARY DEMAND

Refers to the commodities which are demanded or consumed together.

Those commodities which can not be separated in their uses.

Example: i/Sugar and tea leaves
ii/Bread and Blue band
iii/Cars and fuel

The above commodities are demanded together.

4/COMPETITIVE DEMAND

These are commodities which are close substitute and have the same utility or satisfaction

If price of one commodity rises, it makes a rise in quantity demanded for another commodity.

Example:

i/Meat vs fish
ii/Coffee vs Tea leaves

iii/ Pepsi vsCoca-cola

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.

Commodity will decrease and when the price is lower the quantity demanded of commodity will increase.
This means, demand have inverse relation with price.
(i) when$Px\downarrow \rightarrow Qd\uparrow$
$Px\uparrow \rightarrow Qd\downarrow$
where;
P= Price of the commodity
Qd= Quantity demanded of commodity

FACTORS AFFECTING DEMAND

1. **Change in the price of a commodity**

   If the price of a commodity increases then lower amount of that commodity will be demanded and vice versa

2. **Change in taste and fashion**

   The change in taste and fashion will lead to a decreases or increase in demand of a commodity. The choice of a consumer is influenced by age, sex and education.

3. **Change in population size**

   Change of population size affect demand for goods. If there is increase in population size of children in the society the demand for toys will increase and vice versa.

4. **Change in income of a consumer**

   For most cases many goods will be demanded more as the income of the consumer increases at the same price

5. **Price of other commodities**

This is the change in demand caused by:-

1. **Close substitute**. These are goods which have competitive demand as the price of one product increases it leads to an increase in demand of another product e.g. meat and fish
2. **For complementary demand goods**.

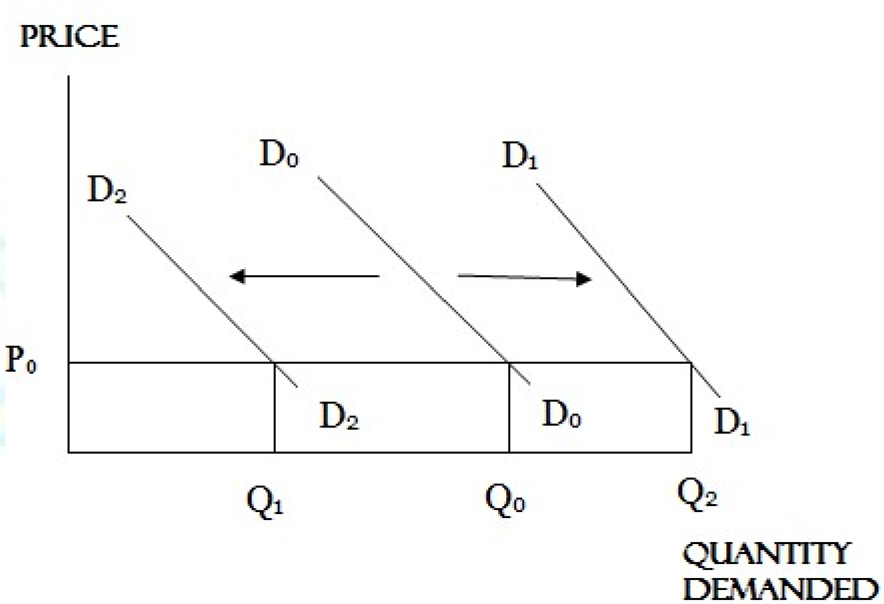
These are goods which have a joint demanded e.g. petrol and car. An increase in price of one product can lead to a fall in demand of another.

DIFFERENCE BETWEEN CHANGE IN DEMAND AND CHANGE IN QUANTITY DEMAND

Change in demand

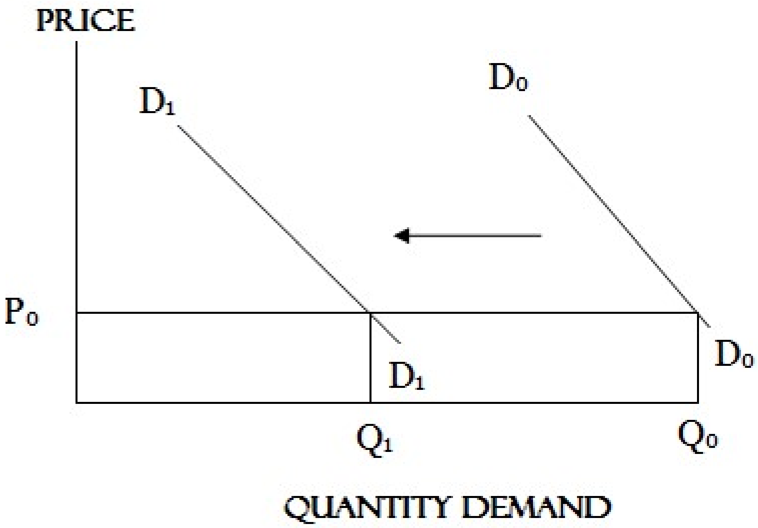
Change in demand refers to a shift of the demand curve either from left to right or from right to left. The changes in demand can be caused by the factor which leads to the change in demand for example advertising taste and fashion, population size etc

The change in demand occurs when the price remains constant.



Decrease in demand

This occurs when the income or taste of consumer or population size falls. It is shown with the shift of demand curve to the left of the original demand curve.

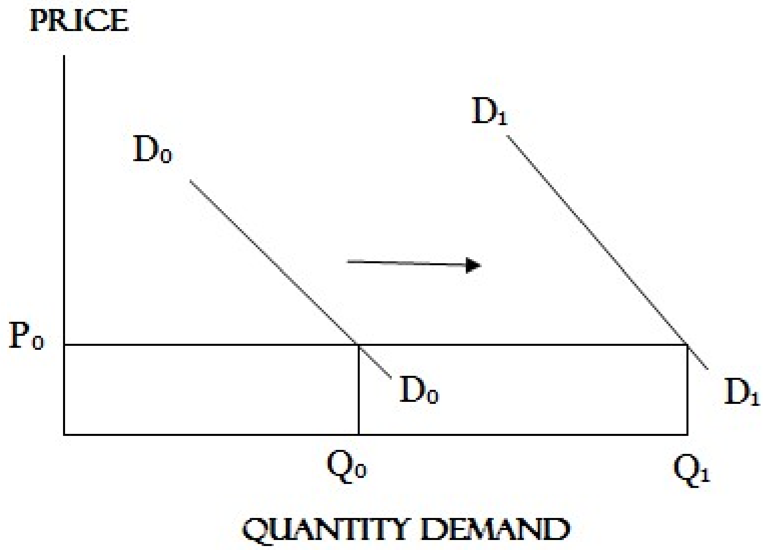


NOTE:

1. D_0D_0- Shows the original demand curve
2. D_1D_1- Shows the change in demand from D_0D_0 to D_1D_1
3. Price (P_0)- is constant (No change in price)
4. Demand decrease from Qo to Q1. This occurs when the income, taste, fashion, and population size of the consumers increase or improves. It is shown with the shift of demand curve from the original to the right hand side of the original curve.

Increase in demand

This occurs when the income or taste of consumer or population size rises. It is shown with the shift of demand curve to the right of the original demand curve.



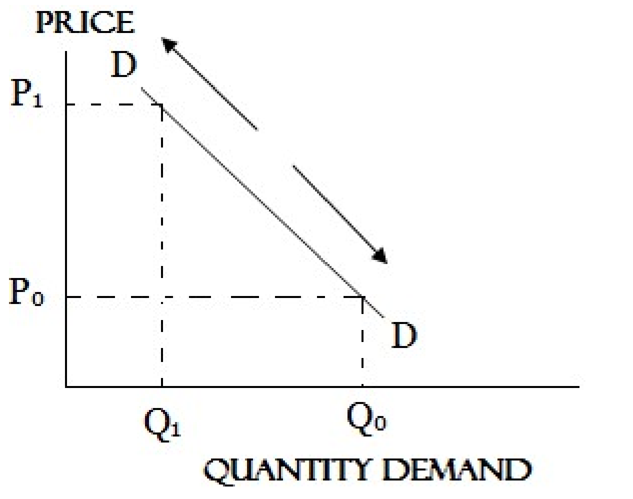
NOTE:
1. D_0D_0- Shows the original demand curve
2. D_1D_1- Shows the change in demand from D_0D_0 to D_1D_1
3. Price (P_0)- is constant (No change in price)
4. Demand increase from Qo to Q1

1. **Change in quantity demand**

The change in quantity demanded is caused by the change in price while other factors like taste fashion and population size remain constant.

An increase or Decrease in price will cause a change in quantity demanded. This is shown by the movement of the demand curve along the same demand curve.

When the price raises the quantity demanded falls when the price decreases the quantity demanded increases.

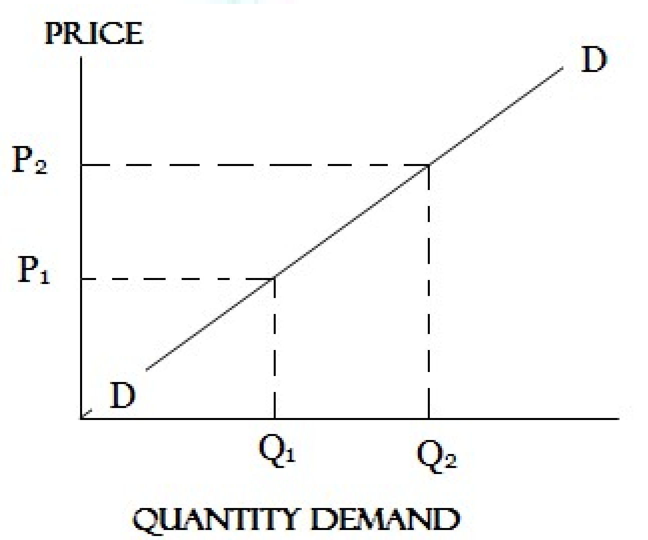


NOTE

In change in quantity demand include movement from one point to another while change in demand include shift of demand curve.

1. **EXCEPTIONAL DEMAND OR ABNORMAL DEMAND CURVE**

Abnormal demand curve is that curve which does not obey the law of demand. The demand curve slopes from left to right upward, means that abnormal demand curve has direct relationship with price.



FACTORS CAUSING ABNORMAL DEMAND CURVE

1. **Inferior goods or Giffen goods**

   Some of the cheaper necessary goods such as salt, tomatoes, breads etc sometimes shown an increase in sales it there is an exceptional demand

2. **Fear for further increase in price**

   This is particularly likely happen in period of severe inflation in this situation consumer may buy more of something even though price have risen

3. **Luxury goods or Articles of ostentation**

   These are goods that are disabling by some people even if they are expensive foreign chains and rings made of gold many are bought at higher price.

4. **Ignorance of consumer**

   Sometimes the consumer might buy goods at high price because they are ignorant of lower prices for the same goods in other markets. This normally occurs due to the fact that many consumers do not make a wide research before engaging in buying transactions.

1. **ELASTICITY OF DEMAND**

   Elasticity of demand or price elasticity is the measure of the degree of responsiveness of change in quantity demand due to change in price of a commodity since the quantity demand of most question how much decreased or increased when price raises or falls. This is measured by the elasticity of demand.

TYPES OF ELASTICITY DEMAND

1. Price elasticity of demand
2. Income elasticity of demand Cross elasticity of demand
    1. **Price elasticity of demand**

Is the degree of responsiveness of change in quantity demand due to change to its price.

MATHEMATICALLY CAN BE SHOWN AS

Elasticity of demand (ED)

$$= \frac{\text{Percentage on quantity demand}}{\text{Percentage change on price}}$$

$$\boxed{ED = \frac{Q_2 - Q_1}{Q_1} \times 100 \div \frac{P_2 - P_1}{P_1} \times 100}$$

$$\boxed{ED = \frac{\Delta Q}{Q_1} \times 100 \div \frac{\Delta P}{P_1} \times 100}$$

$$E.D = \frac{\Delta Q}{\Delta P} \div \frac{\Delta Qo}{\Delta Po}$$

$$E.D = \frac{\Delta Q}{\Delta P} \times \frac{\Delta Po}{\Delta Qo}$$

where;
Δ= Change
Q= Quantity Demand
P=Price

Example;

Give

Price (Tsh)	Quantity (kgs)
1	20
5	10

Find out the elasticity of demand when price raised from 1Tshs to 5Tshs

Solution

$$ED = \frac{Q_2 - Q_1}{Q_1} \text{ x } 100 \div \frac{P_2 - P_1}{P_1}$$

$$= \frac{10 - 20}{20} \text{ x } 100 \div \frac{5-1}{1} \text{ x } 100$$

$$= \frac{10}{20} \text{ X } 100 \div 4 \text{ x } 100$$

$$= 50 \div 400$$

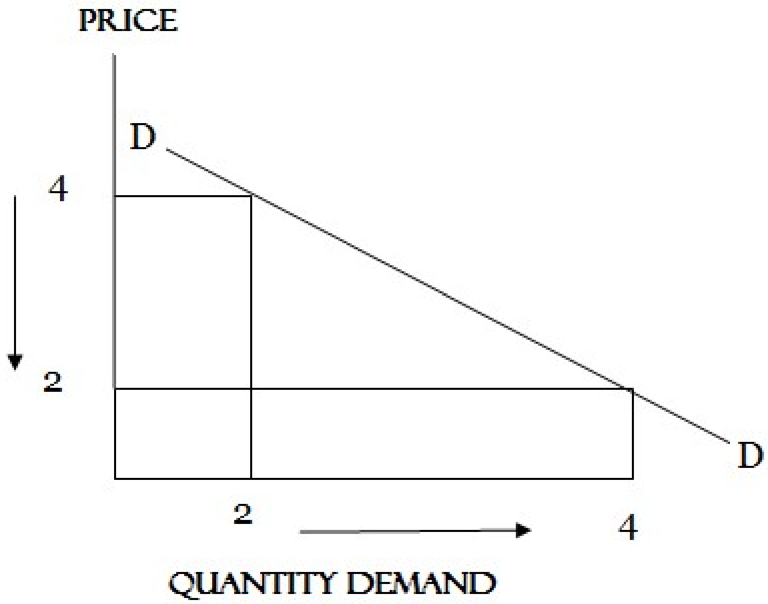
$$= 1/8$$

$$\therefore \underline{ED = 0.125 \text{ in elastic}}$$

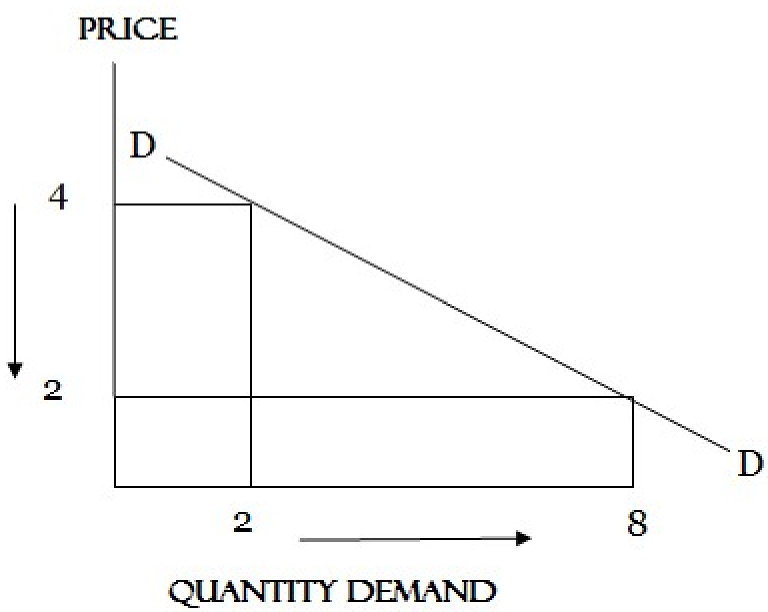
NOTE

1. If the elasticity of demand is equal to one then known as **UNITARY Elasticity**

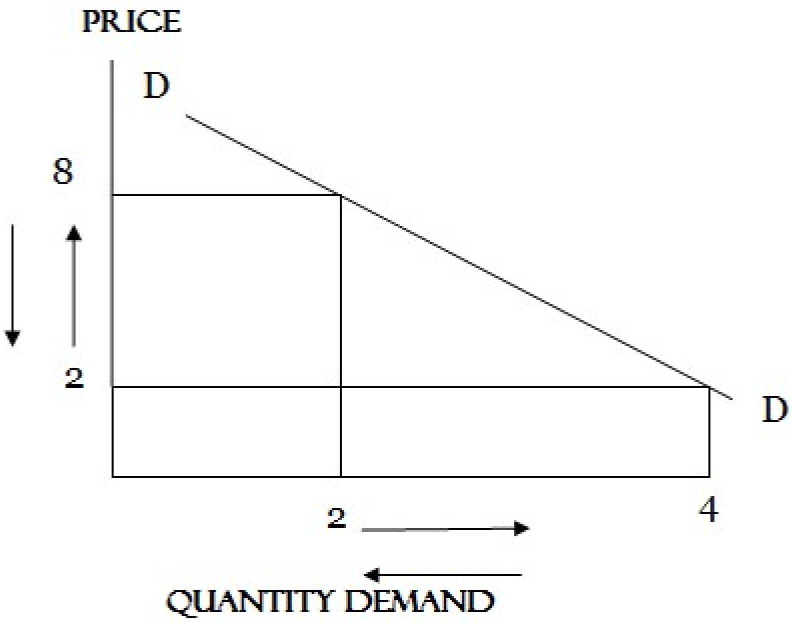
UNITARY ELASTICITY OF DEMAND



1. If the elasticity of demand is greater than one (1) is known **as ELASTIC**



When the elasticity of demand is less than(1)Its known as **IN ELASTIC**



Example

Find the elasticity of demand when price rise by 10% and demand falls by 20%

$$ED = \frac{\text{Percentage change in quantity demand}}{\text{Percentage in pri}}$$

$$= \frac{20\%}{10\%}$$

$ED = \underline{2\ \textbf{ELASTIC}}$

THEORY OF SUPPLY

Supply; This is the quantity that a sellers is willing and able to sell at given price. Supply implies both willingness and ability to deliver the goods if the price goes down he/she will sell less but if the price goes up he/she will offer more goods for sale.

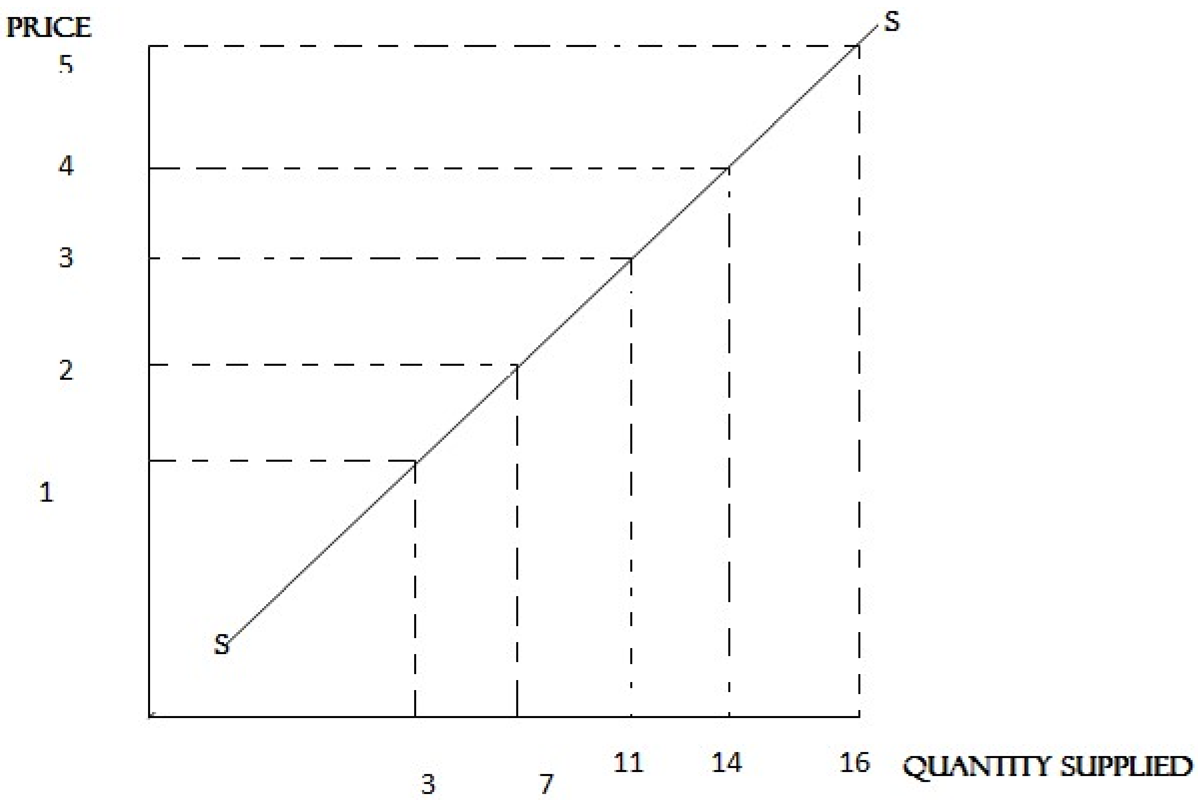
SUPPLY SCHEDULE

This is table showing the quantity of a commodity that will be supplied over a range of price.

Price (Tshs)	Quantity supply (Kgs)
1	3
2	7
3	11
4	14
5	16

SUPPLY CURVE

This is a graphically representations of the supply schedule. The supply curve slopes upwards to the right because the quantity supplied rises as price rises



THE LAW OF SUPPLY

States that, the higher the price the higher the quantity supplied and vice versa.

OR

States that other things remain constant at the higher price more quantities of goods will be supplied and at lower price quantity supplied of goods decrease.

TYPES OF SUPPLY

1. Joint supply
2. Composite supply

3. Competitive supply

1. JOINT SUPPLY

Some goods (commodities) are produced together. The supply of these goods which have common process of production are called joint supply or complementary supply. The supply of those goods can increase or decrease simultaneously.

Examples; petrol, diesel, grease, etc. produced together from crude oil.

2. COMPOSITE SUPPLY

Composite supply refers to supply of goods which have close substitute. Example;

- Producer can supply either coffee or tea leaves.

-Can supply Mirinda or Fanta

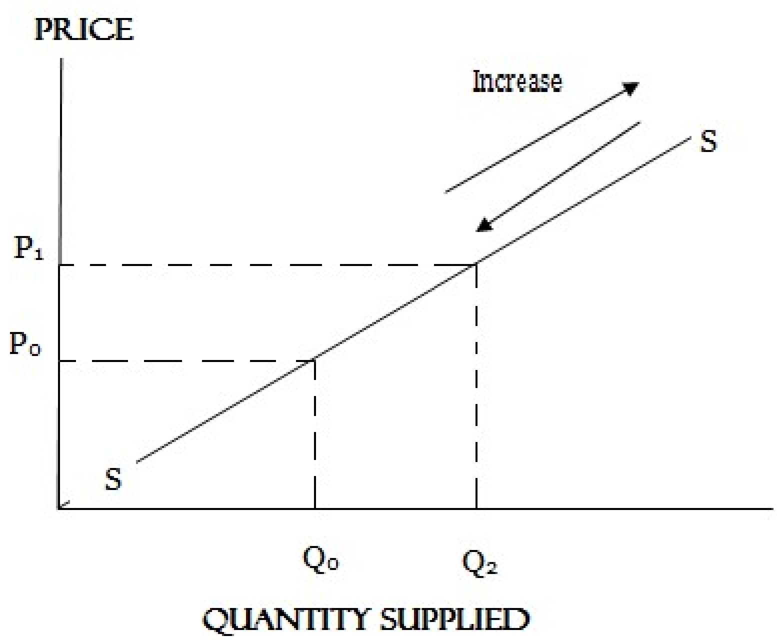
Therefore the producer has choice to supply variety of goods which have close substitute depending on the availability of resources and cost of producing.

3.COMPETITIVE SUPPLY

If more land is used by wheat production, then the production of maize will decrease the supply of wheat will increase while the supply of maize fall (decrease) given the same price of land.

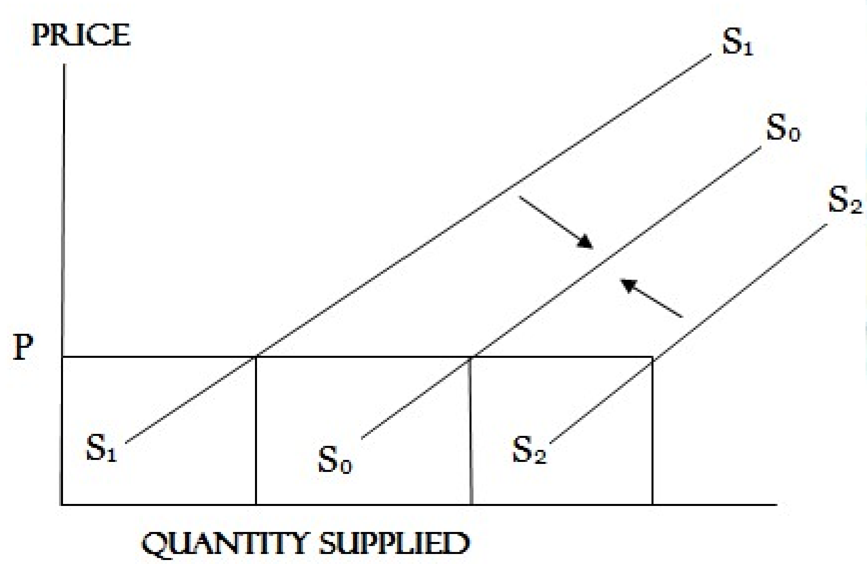
CHANGE IN QUANTITY SUPPLIED

Change in quantity supplied means increase or decrease in quantity supplied due to change in price when other factors remain constant.



CHANGE IN SUPPLY

Change in supply means increase or decrease in supply which caused by other factors when price remain constant.



FACTORS WHICH CAUSE CHANGE IN SUPPLY

1. COST OF PRODUCTION

When production costs are high such as expenses of hiring, workers, purchases of raw materials, producer may incur a lot of cost when cost increase it may lead to the decline of supply of goods and services.

2. LEVEL OF TECHNOLOGY

Adoption of advanced and improved technology may lead to an increase in production and efficiency hence more goods will be supplied in the market example Productivity of farmer who use hoe and animal hoe cannot compare with the one who use tractor.

3. CHANGE IN PRICE OF OTHER COMMODITIES

The rise of price of other commodities increase the supply of those commodities and less of the previous commodities. Example, if the price of coffee rises while the price of tea leaves remain constant the producer will produce more coffee and supplied more and produce less tea leaves.

4. CLIMATIC CONDITION

Especially in the field of Agriculture reliable raw Material due to the favourable weather condition may lead to the increase in supply of raw material and lead to increase in Production of agricultural goods (More goods will be supplied at the Market) other side drought, heavy rainfall may destroy the crops and make output fall in supply.

5. IMPROVEMENT OF INFRASTRUCTURE

These means of transportation, communication, education and health services should be reliable to insure high productivity; example in rural areas faced by poor infrastructure which make low productivity.

6. INCENTIVES

These are materials, goods given to workers in order to encourage them to produce more or to work hard. Example, if producer (employer) motivated his or her workers remain with goods, salaries, health services, education; this necessitable an increase in labour productivity hence supply also increase.

ELASTICITY OF SUPPLY

Is the degree of responsiveness of change in quantity supplied due to change to the price of goods supplied.

OR

Is a change of quantity supplied which caused by change in price.

OR

Is the percentage change in quantity supplied which caused by percentage change in price.

$$Es = \frac{\Delta Qs}{\Delta Ps} \div \frac{Qos}{Po}$$

$$Es = \frac{\Delta Qs}{\Delta Qso} \times \frac{Po}{\Delta P} \qquad \frac{\Delta Qs}{\Delta Ps} \times \frac{Po}{Qo}$$

Where

Es= Elasticity of supply

Q= Change in quantity

S= Supply

So= Original supply

FACTORS INFLUENCING ELASTICITY OF SUPPLY

The following are the factors which influence elasticity of supply, these are as follows;

1. NATURE OF COMMODITY
The commodities which are durable can be kept for a long time have a greater elasticity than commodities which are perishable in nature like milk has less elastic supply.

2. **COST OF PRODUCTION**
The commodities which have too high cost of production have less elastic supply and commodities which have little cost of production have more elastic supply.

3. TIME
The commodities which are produced in a short period of time have greater elasticity than those which are produced in a long period of time.

4. METHOD OF PRODUCTION
The commodities which can be produced with the help of simple method of production have more elasticity and if method of production is complicated supply will be less elastic.

NOTE

Interpretation of price elasticity of supply.

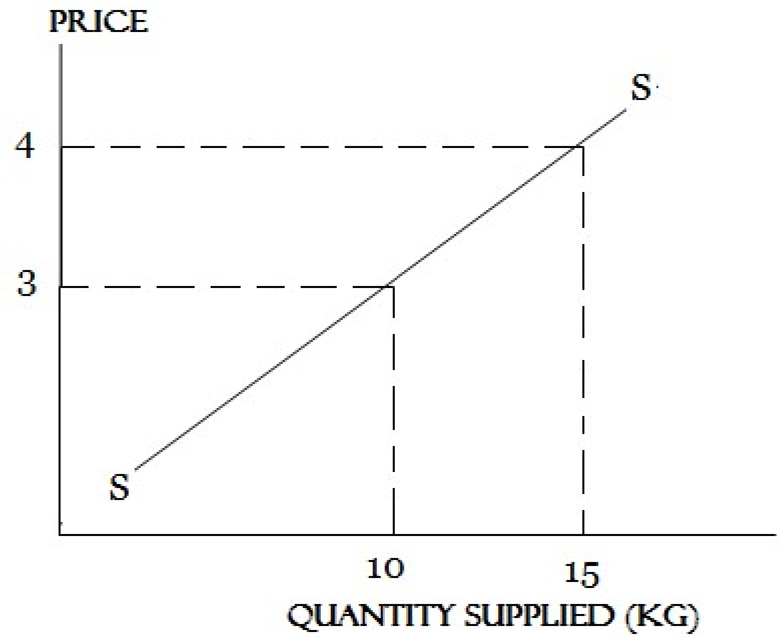
Elastic > 1

Inelastic<1

Unitary=1

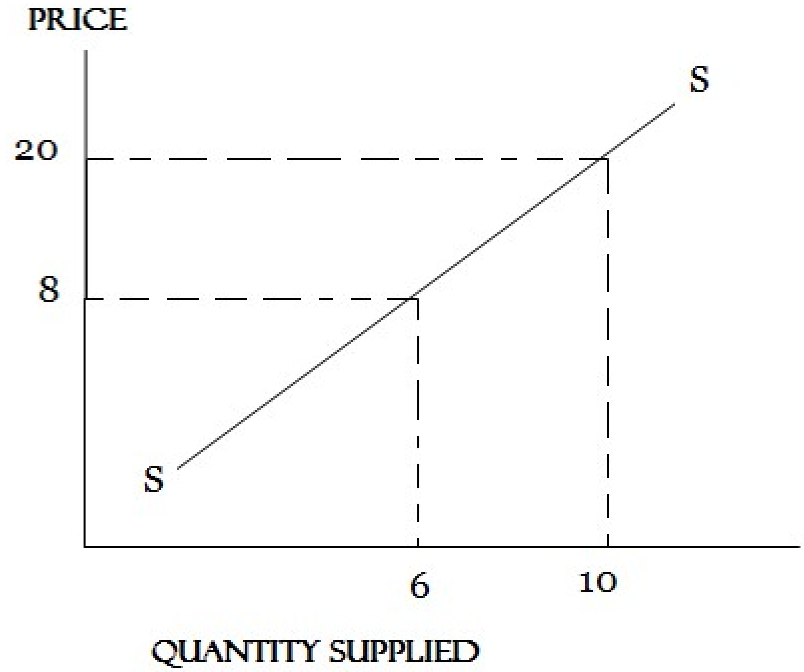
ELASTIC SUPPLY
Is said to be elastic when a percentage change in price brings a large proportionate change in the quantity supplied.

Elasticity is greater than one (Pe>1)



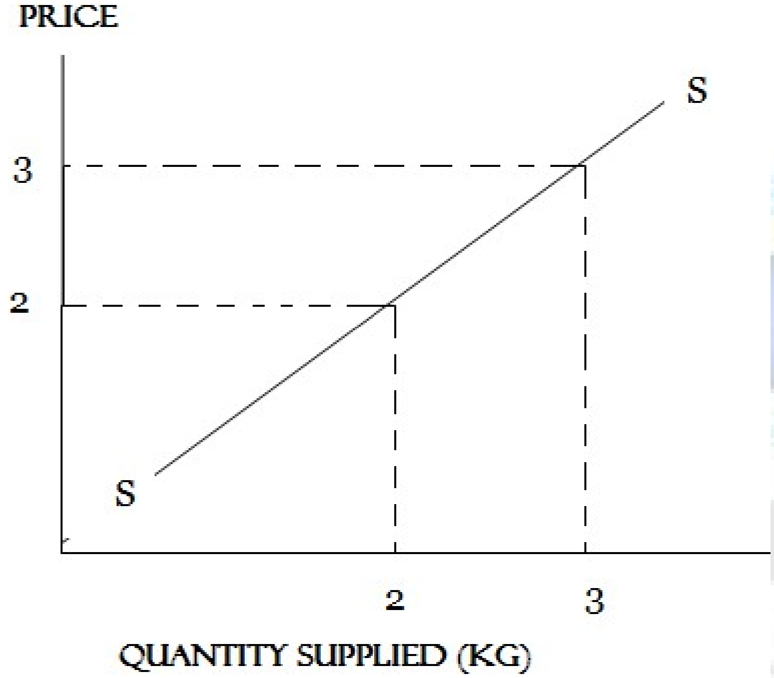
INELASTIC SUPPLY
Is said to be inelastic when a percentage change in price brings a smaller percentage change in quantity supplied.

Inelastic is less than one (Pe<)



UNITARY SUPPLY
Is said to be unitary if a proportional change in price brings an equal

proportionate change in quantity supplied.



Unitary is equal to one. (Pe=1)

DEMAND AND SUPPLY AT EQUILIBRIUM

EQUILIBRIUM PRICE
Is a price which a buyer is willing to buy and seller is willing to sell.

OR

Is a price which quantity demanded is equal to quantity supplied.

EQUILIBRIUM POINT
It is the point where by the demand curve and supply curve intersect (meet).

EQUILIBRIUM QUANTITY
Is the quantity whereby the quantity demanded is equal to quantity supplied.

Example

From the demand and supply schedule below you're required to draw the demand and supply curve to shows the equilibrium point

DEMAND AND SUPPLY SCHEDULE

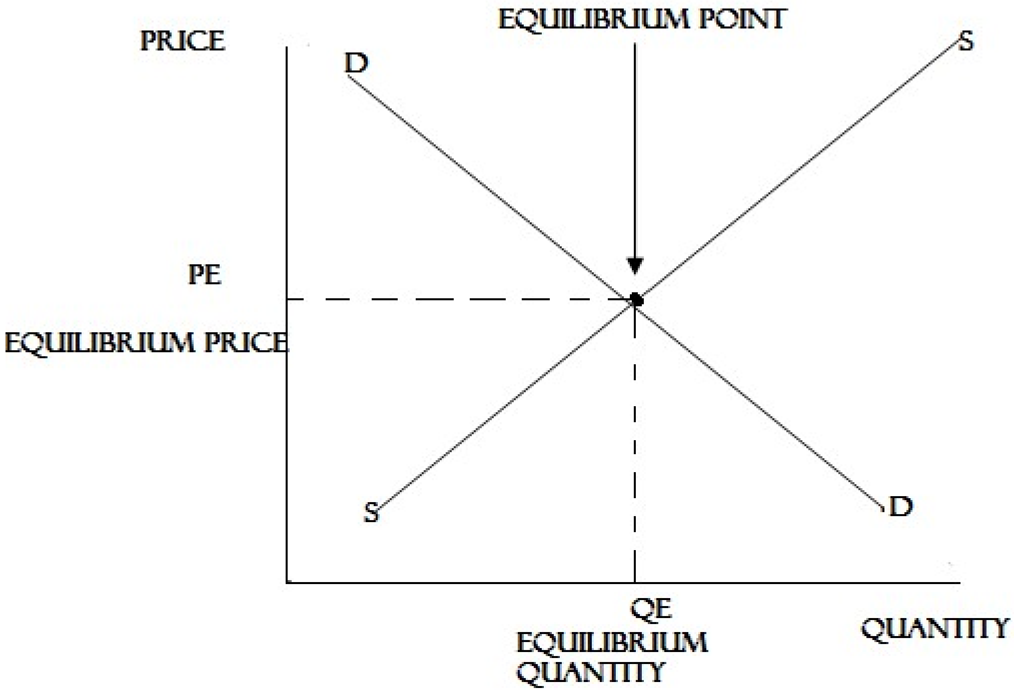
Price (Tshs) Quantity	**Demand (Kgs)**	**Supply (Kgs)**
60	200	1,400
50	400	1,200
40	600	1,000
30	100	100
20	1,000	600
10	1,200	400

Therefore

1. Equilibrium price = 30/= Tshs
2. Equilibrium Quantity =800 Kgs
3. Equilibrium point is "E" occurred where demand and supply curve intersected (Joined)

SOLUTION

DEMAND AND SUPPLY CURVE


EQUILIBRIUM POINT
PRICE
D
S
PE
EQUILIBRIUM PRICE
S
D
QE
EQUILIBRIUM
QUANTITY
QUANTITY

*** THE END ***