

Chapter 12

CHAPTER

12

Distributive Trade

INTRODUCTION

In economics, production is not complete until the goods produced have gotten to the hands of the final consumers. This is where the role played by the distributive trade agents becomes very important. Thus, the topic “distributive trade” is an important economic activity. This chapter deals with the definition of distributive trade and channels of distribution as carried out by the wholesaler, retailer, cooperative society and government agencies. Further, the problems of distributive trade and the ways of improving the product of distribution are also examined.

OBJECTIVES

At the end of this chapter, students should be able to:

- ◆ Define the term ‘distributive trade’;
- ◆ Mention and explain the roles of the different players (agents) in the business of distributive trade;
- ◆ Explain the importance of these trade agents to economic development;
- ◆ Highlight the problems associated with trade distribution in Nigeria and other West African economies.

12.1 Definition of Distributive Trade

Distributive trade means that aspect of a business transaction which is concerned with the purchase of goods (mainly tangible goods) and sale of goods to the users. It is a commercial activity which involves the buying and selling of finished or semi-finished goods from the producer to the consumer. Goods will be of no value and usefulness if they cannot be moved from their place of production to the place where they are needed. Distributive trade is a very important aspect of business transaction. Several people are engaged in the distributive trade business. The major groups of traders involved in the distribution of goods are the wholesalers and the retailers. These are discussed below under the channels of distribution.

12.2 Channels of Distribution

Channels of distribution refer to the process or path by which goods are moved from the initial place of production to the place where they are needed either for temporary storage or for final consumption. Thus, the means by which goods get to the hands of those who are in need of them is referred to as the channel of distribution. The most important actors in the channels of trade distribution are the wholesalers and the retailers. The process of production will be incomplete without the goods getting to the hands of the consumers. Hence, the wholesalers and the retailers stand as intermediaries to both the producer and the consumer of the goods. The movement of the produced goods from the producer to the consumer takes the form of a simple path or channel:

Producer → Wholesaler → Retailer → Consumer

12.2.1 Channel of Trade Distribution from the Producer to the

Consumer

From the figure, goods are moved from the point of production / manufacture through the wholesaler to the retailer before it gets to the final consumer. The wholesaler is the first trading agent who collects or buys the goods produced in bulk and forwards them to the retailer who in turn sells the goods to the final consumer.

12.2.2 Roles of the Wholesaler in Product Distribution

The wholesaler is the trade agent who obtains goods from the producer in bulk and sells in smaller units to the retailer. The wholesaler is therefore a bulk breaker because he has more financial ability to buy goods in large quantity and store the goods than can the retailer. He is the middleman between the producer or manufacturer and the retailer. The roles of the wholesaler in the trade distributive channel include the following:

- 1. Bulk breaker to the retailer:** The wholesaler ensures that goods produced by the producer or the manufacturer are not piled up in the factory or other place of production. With his financial ability, he is able to decongest the factory by buying in bulk and storing them in his warehouse.
- 2. Provides finance (funds) to the producer:** The money paid by the wholesaler to the producer / manufacturer of goods enables the manufacturer to keep being in business. If the goods are not purchased by the wholesaler, the producer may run into loss and consequently discontinue in business. Sometimes the wholesaler could lend money to the producer on the guarantee that goods will be produced for the wholesaler.
- 3. Provides warehousing facility for the producer:** At times, most producers or manufacturers do not have the warehousing facilities to keep their finished products. Wholesalers therefore rise to the situation by providing the warehousing aid where large quantities of goods can be stored or kept before they are finally released to the retailer. By this, the problem of congestion of goods with the producer is minimised.
- 4. Provision of advertisement facility:** Sometimes, the wholesaler helps to create awareness for the goods produced by way of advertisement. This is accomplished through television, newspaper, radio and other means of information. All of these help in the rapid sale and purchase of the goods produced by the manufacturer and even that of the retailer.
- 5. Reduces transportation problem:** The presence of the wholesaler in the distribution process makes it easy for the producers of goods to reduce their transport expenses. If there were no wholesaler serving as middleman, the cost of transporting goods in their very small units to the retailer would have been enormous.
- 6. Processing, packaging and grading of goods:** The wholesalers sometimes process, package and grade goods produced by the producer / manufacturer before transferring them to the retailer. This activity saves the producer a lot of time and resources.

12.2.3 Role of the Retailer in Product Distribution

The retailer is that trade agent / middleman who buys or obtains goods from the wholesaler and distributes it directly to the consumers of the goods. The retailer is a very important trade agent in the distribution channel. The absence of the retailer means that consumers have to deal with the wholesaler directly. This will certainly create some problems to both the wholesaler and the consumer who do not have equal financial characteristics to transact business. While the wholesaler buys in bulk, the consumer buys in smaller unit from the retailer. Some of the functions of the retailer in the process of product distribution include the following:

- 1. Provision of useful information on the market situation to the wholesaler:** The retailer by virtue of his closeness to the final consumers is able to provide useful information on the demand of a particular good to the wholesaler and the wholesaler in turn gives such information to the producers or manufacturers of such goods. If such a product is on high demand, it will encourage the producer to produce more and vice versa. Thus, the retailer serves as the major link between the consumer and the wholesaler.
- 2. The retailer sells goods to the consumers at their door steps:** The retailer makes goods available to the consumer at the consumer point of convenience. This saves the consumer, who buys in smaller units, the difficulty of reaching and buying from the wholesaler or the producer.
- 3. Provision of credit facilities to the consumers:** At times the retailer may provide credit facilities to the consumers. This is made possible through the close link developed between both parties.

4. The retailer sells goods to the consumer according to the consumer's ability: Thus, almost all types of consumers have purchasing access to the retailer.

5. The availability of variety of goods: By the trade nature of the retailer, he is able to provide different varieties of goods in his store from which the consumers can make their choice. For instance, different types of goods such as cream, soap and beverages could be found in one retailer's store from which the consumer can make his choice.

6. The retailer provides after-sales service to the consumer: Goods bought by the consumers can be maintained by the retailer in order to satisfy the consumer in case there is need for repair of the product.

12.2.4 Roles of Cooperative Societies in Product Distribution

The cooperative society is a form of business organisation which is established by a group of people with the same characteristics and vision. This set of people combines their financial resources together in order to purchase goods in bulk which they in turn sell to themselves at reduced prices. They may at times sell to the non-members of the cooperative societies, that is the public. Since the financial ability of a single person may not be enough to be able to purchase goods in bulk, the cooperative societies take the advantage of their number to make large financial contribution which they use to purchase goods to enhance the welfare of their members.

Sometimes, the cooperative societies make profit which they either share with members according to their contribution or plough back in order to enlarge the business. The cooperative society is a very important factor in the business of distributive trade. Its existence has really helped in improving the economic life of the society. However, cooperative societies are not only limited to consumer satisfaction, there are also producers' cooperative societies. They pool their resources together to influence either buying or selling at profitable prices for the overall interest or well-being of their members. Some of the roles of the cooperative society include:

(a) Purchase of essential commodities in large quantities: By this, the cooperative societies are able to take advantage of their strong financial power to provide such essential goods to their members especially during scarcity even at cheaper prices.

(b) Purchase of varieties of goods: They are able to buy varieties of goods and so give their members unlimited opportunities for different kinds of products.

(c) Financial assistance: The cooperative societies provide financial assistance to members in the form of credit facilities. Members are able to borrow money from them at a reduced interest rate.

(d) Profit sharing: They share or distribute accrued profit to members in some cases when profits are made.

(e) Democratic operation: All members of the cooperative have equal right to vote and be voted for in respect of the running of the cooperative business. Thus, it is a democratic organisation. Cooperative societies operate like the wholesaler and the retailer in the distributive business, the only difference being that the cooperative distributive trade pays more attention to the well-being of their members than non-members especially in times of needs.

12.2.5 Roles of Government Agencies in Product Distribution

Government deliberately engages in trade distribution in order to prevent an ugly development that could be created by the other non government trade agents such as the wholesalers and the retailers. Artificial scarcity could be created and could lead to an increase in the prices of goods in the market. This is why government engages

in the business of supplying goods to people. For instance, Federal government once had the Nigeria National Supply Company (NNSC), which has been closed down due to inefficiencies and inability of the supply company to achieve its objectives. It is possible that high level of corruption made it inefficient. Basically, the role of government agencies in the distribution of trade was to assist government control the excesses of the middlemen (wholesalers and retailers) and to control unwarranted price increases by buying in bulk and selling at affordable prices to the public.

12.3 Problems of Distributive Trade in Nigeria

(a) Poor transportation: The existence of bad roads network made the movement of goods from the place of production to the place of need very difficult.

(b) Inadequate credit facilities: Most people who engage in the business of trade distribution do not have easy access to loan facilities from banks. This has restricted the development of the trade distribution.

(c) Hoarding: Some trade agents in the distributive business usually want to have abnormal profit by creating artificial scarcity at times thereby leading to increase in prices of the goods.

(d) The presence of too many middlemen: The existence of too many middlemen makes it difficult for goods to get down to the final consumer at a reasonable price.

(e) Inadequate storage facilities: Most goods produced (particularly agricultural products) usually get spoiled due to lack of efficient storage system.

(f) Lack of information: Inability of people to have adequate knowledge about market situation in terms of availability of goods and the appropriate price could limit the growth and development of trade distribution.

(g) Administrative bottleneck: The problem of administrative bottleneck between the various agents and the regulatory government authorities usually slow down the business of distributive trade.

12.4 Ways of Improving Distributive Trade in Nigeria

(a) Improving the transport system through the provision of good road network.

(b) Availability and access to adequate loan facilities to boost trade transaction.

(c) Adequate provision of storage facilities to preserve, for instance, preservation of perishable products.

(d) Effective policing of middlemen in order to curb their excesses and prevent them from hoarding goods in order to create artificial scarcities.

(e) Relaxing of stringent rules in order to reduce rigidity and bottleneck administration which usually discourage agents in the distributive business.

(f) Formation of cooperative societies, that is consumer and producer cooperatives, in order to improve the well-being of people and prevent exploitation.

Summary

- The chapter examined channels of distribution and roles of wholesaler, retailer and the cooperative societies in the channels of distribution.
- Furthermore, it examined the role of government agencies in the channel of distribution.
- The problems of distributive trade and the ways of improving the product of distribution were also examined.

Class Activities

Students should pay a visit to a cooperative society in the school or any one of such around their school. Find out how they relate or deal with the members of the cooperative.

Revision Questions

Objective Questions

1. One of the advantages of the sole proprietor includes:

- (a) Unlimited risks
- (b) Technological progress is often out of reach
- (c) Shares and stocks can be issued to raise funds
- (d) Initiative can be used in all cases
- (e) It folds in the case of death, lunacy or insolvency (**SSCE 1989**)

2. One of the argument against the presence of middlemen in the distributive claim is that they:

- (a) Cause increase in the price of commodities
- (b) Are commissioned agents
- (c) Help in keeping price stable
- (d) Grade and blend goods
- (e) Can be found almost everywhere (**SSCE 1989**)

3. Distribution is a part of production because it:

- (a) Makes goods and service available to the final consumers
- (b) Transports goods from place to place
- (c) Offers employment to people
- (d) Encourages the provision of good roads, waterways and railways
- (e) Links the consumer with the producers (**SSCE 1989**)

4. Which of the following is not a middleman in the distribution channel?

- (a) The wholesaler

- (b) The distributor
- (c) The agent
- (d) The consumer
- (e) The retailer (**SSCE 1993**)

5. Which of the following is a middleman in the chain of distribution?

- (a) An entrepreneur
- (b) A Producer
- (c) A banker
- (d) A retailer

Essay Questions

1. Middlemen encounter problems in the process of carrying out their businesses. Explain. (**SSCE 1992**)
2. What functions does the wholesaler perform for manufacturers? (**SSCE 1993**)
3. Explain different ways by which the distributive trade can be improved in Nigeria.
4. Explain the problems that businesses encountered in the process of goods distribution.

Glossary

Distributive trade: Commercial activity which involves buying and selling of goods from the producer to the consumer.

Channel of distribution: Means by which goods are moved from the manufacturer to the consumers.

Wholesaler: Trade agent who buys goods in bulk from producers.

Retailer: Trade agent who buys goods in bits from wholesaler and sells to consumers.

Cooperative society: Is a business organisation formed by the people with common interest with the aim of improving the welfare of members.