

## MONEY AND BANKING

Money is a medium of exchange or money is anything which is generally accepted in the settlement of debts and other obligations.

### WHY DO WE USE MONEY?

1. As a medium of exchange, it facilitates achievements and satisfaction of mans wants.
2. It encourages specialization because specialization facilitates exchange and exchange require a medium upon which it should be carried.
3. By use of money one can borrow, lend and save.
4. The used of money avoids the problems (disadvantages of butter trade/system).

### Currency

It refers to the bank notes and coins in circulation in a country. The currency in Tanzania, is the shilling.

### Legal Tender

The money which by law must be accepted in settlement of debts within a country.

### TYPES OF MONEY

Money evolved through the following stages.

#### 1. Barter system

This was the earliest form of exchange where commodities were exchanged directly for other commodities.

e.g. millet, meat, cassava, Beans, cows, salt etc.

2. Crude commodity money e.g. salt, corn, tea, Tobacco etc. such commodities were used because of their real value. However most of them were perishable.

3. Later beads, cowrie shells were used as money.
4. Precious metals e.g. silver, gold, iron copper were used because they had more value, were scarce and therefore had some qualities of good money.
5. Paper money which is now operational in all countries (completely unbacked by Gold)
6. Fiduciary issue, This is money which is completely unbacked by Gold.
7. Credit money (Cheque deposit/Demand deposit Cheques are now used as the medium of exchange. Cheques are not legal tender but are acceptable in settlement of debts.

8. Fiat money. This is money issued on the directive of the government irrespective of the level of economic activity.
9. Managed currencies. Managed currency is that which is used only within a country.
1. Token or coins
2. Money which means near money.

### **QUALITIES OF GOOD MONEY**(Characteristics of good money)

#### **1. ACCEPTABILITY**

It must be a legal tender, all people in the country must accept it in settlement of debts or other types of exchange.

#### **2. PORTABILITY OR TRANSFERABILITY**

It should be easily carried from one place to another and it must not be heavy in relation to its value

#### **3. DIVISIBILITY**

Money should be easily divided into smaller unit eg 1 shilling, 5 shilling, 50 shillings and 100 shillings so as to facilitates smaller transactions

#### **4. HOMOGENEITY**

One unit should be identical with other e.g 100 shilling note should be similar as used in a country.

#### **5. SCARCITY**

Money should be relatively scarce so as to maintain its value and again it should not be too scarce.

#### **6. STABILITY IN VALUE**

Money should be able to maintain its value from year to year. In reasonable period of time it should not delay or under go any physical deterioration.

#### **7. UNCOUNTERFEITABILITY**

That is money must be difficult to imitate or forge so that it can maintain its value.

#### **8. DURABILITY**

Money should be durable. It is to serve its function as a store of value money must not delay or under go any physical deterioration so as to maintain its value.

## 9. COGNIZABILITY

Money should be easily recognized throughout all countries. The 100 shilling note, 200, 500, 1000 etc which should be the same throughout all cities.

## 10. MALLEABILITY

Money coin should be hammered or beaten into any shape without losing its intrinsic value i.e it should not crush or break and dis-integrate.

## FUNCTIONS OF MONEY.

### 1. MEDIUM OF EXCHANGE

Money is used as a medium of exchange simply because goods and services are exchanged in money.

### 2. UNIT OF ACCOUNT

Money is used as a unit that effects or carries out business transactions and accounting procedures.

### 3. MEASURE OF VALUE

Value of goods and services are expressed in terms of money e.g. a kg of meat costs so much e.t.c

### 4. STORE OF WEALTH (VALUE)

Money can be used to store value or wealth because it's bulky and not perishable.

### 5. STANDARD OF DEFERRED PAYMENT.

Money facilitates payment of debts and transactions in some future date.

6. Money can enable specialization to take place i.e through demand.
7. Money solves the problem of double coincidence of wants

N.B

Anything doing the above is money hence the expression of money is what it does.

## BANKING

What is a Bank?

This refers to an institution that accepts deposits from those who have money in excess of their immediate needs or safe guards the money, receives and advances loans to those who are in need of financial assistance.

### **TYPES OF BANKS.**

#### a) Savings Banks

These are intended to provide a safe place for keeping money and promote the habit of saving among individuals. e.g The Post Office Savings Bank.

#### b) Commercial Banks

Are institutions engaged in commercial business accepting deposits on various terms with the public and making profits by lending money to the public among other things.

They include N.B.C bank, CRDB bank, Bank of Baroda, NMB, Barclays Bank, Stanbic Bank etc.

#### c) Central Banks

It is a government institution established to control, guide and assist commercial banks in the country and to provide banking services and financial advice to the government.

#### d) Merchant Banks

#### e) Specialized Banks

These serve especial type of customers, are aimed at providing especial type of services eg the cooperative banks which mainly serves cooperative societies, The agricultural development bank which serves farmers, The Housing Finance Bank provides finance in buying and building houses only, Mkombozi Bank Ltd etc.

### **FUNCTIONS OF COMMERCIAL BANKS.**

1. They accept deposits from the public for custody.
2. They transfer money from one account to another to facilitate transactions on behalf of customers.
3. They lend money, the banks lend at a lower rate of interests.
4. Transferring money from one place to another within the country and also from one city to another by means of cheques, credit transfers, Banks standing orders, Bank drafts, discounting bills of exchange etc.
5. They keep valuable articles and documents in safe custody on behalf of clients (customers) e.g wills, Jewellery, Title deeds, academic certificates.
6. They exchange currencies with customers.

7. They issue traveler's cheques to traders in foreign trade.
8. They facilitate international trade by selling traveler's cheques, arranging payments and transfer of documents eg Bills of exchange between importers and exporters, letters credit etc.
9. They can act as guarantors to others partly when their customers want to borrow money from them or sale goods and services on credit.
10. They act as trustees, a trustee is someone who acts on behalf of another when he or she is absent. When banks make payment or receive money on behalf of their customers, they act as trustees.
11. They give financial advice concerning business and money to their customers.

### **PROBLEMS OF COMMERCIAL BANK'S IN TANZANIA**

1. There are many poor customers who are scattered and it's then difficult to mobilize savings.
2. There are few credit worthy customers. lending is also limited by lack of collateral securities by most borrowers.
3. The problem of insecurity which necessitates the need to have armed men to protect the bank staff, premises and money in banks.
4. Most customers are illiterate, others do not even keep their accounts and it becomes difficult to access their credit worthiness.
5. Commercial banks are concentrated in urban areas and hence they compete for business/customers.
6. Inflation, This discourages lending and leads to lose of real value of money.
7. Political instabilities leads to lose of money and properties. Also because of the economic uncertainty, people don't borrow for investment and finance for funds remain idle in the banks.
8. Lack of communication facilities e.g unreliable telephone and telegraphic equipment.
9. Lack of trained man power development and staff training.
10. Higher interest rate fixed by government which may be too higher and thus discourage borrowers.
11. Foreign commercial banks are at time faced with problem of unfavorable government policies.

### **MEANS OF PAYMENT IN HOME TRADE**

1. Physical cash

This consists of bank notes and coins ie physical monetary units.

2. Token coins

These are coins, whose full value is grater than their metal works ie coins whose face value is greater than the metal content. Most coins in circulation today are called token coins.

3. Legal tender

It's a means of payment in which a debtor can legally compel (force) a creditor to accept in the settlement of a debt.

A legal tender is issued by the country's central bank. The Bank of Tanzania eg a 20,000 paper note issued by a bank of Tanzania.

4. Decimal coinage system

This is a currency system where the standard unit of the currency is divisible into enhanced minor units.

N.B This is intended to make financial circulation easier and many countries decimalize their currency system.

5. Cheques

**What is a cheque?**

A cheque is an order written by a drawer to his bank instructing a bank to pay a named person specified sum of money.

**PARTIES OF A CHEQUE**

(a)The drawer.

It is that person or party who writes the cheque and signs it paying some other person or party ie the debtor settling the debts by the use of a cheque.

Cheque No. 05477	25/06/2000
NBC BANK LTD	
CRESTED TOWERS	
Pay Mr. Hanningtone	
Three hundred thousand shillings only	300,000
A/C NO:12345	Sign SCOVIA

(b)Drawee.

This is the bank of which the cheque is drawn e.g NBC Bank LTD

**(c)Payee.**

This is the person or party that is being paid by the cheque or creditor e.g Mr Hanningtone from above specimen of a cheque.

**ESSENTIALS OF ACHEQUE**

1. The name and address of the paying bank.
2. The date when the cheque was drawn (in the above are 25/06/2000).
3. The Cheque no (in above are No 05477).
4. The name of the payee are sometimes the cheque may not bear the actual name of the payee of bearer.
5. Amounts in words and also in figures.
6. The signature of the drawer.
7. The account no (12345) in above case

**Advantages of paying by cheque.**

1. It eliminates the need of counting and checking the currency.If payment is made by physical cash, it is time consuming.
2. It is a safer means of payment than hard cash since normally the money doesn't leave the bank e.g in case of a crossed cheque.
3. Since the payment is recorded by the bank, a paid cheque acts as a receipt i.e it can be used as most for payment to show that money was actually received.
4. It is a flexible means of payment. ie depending on how it was written out, one can obtain cash or deposit into his bank A/C or use that very cheque to pay some other person or party.
5. Sending cheque through post office is possible than physical money.

**TYPES OR KINDS OF CHEQUES**

Cheques may be “open or crossed”

1. OPEN CHEQUES

These are cheques which do not bear two parallel lines across their faces. Such cheque can obtain cash across the counter of the bank i.e when presented for payment, further distinction can be made between bearer and order cheques.

a) BEAR CHEQUES

These are cheque where the payee is not named (mentioned) ie the name of the payee is not indicated on the cheques instead the word “CASH” or BLANK LINE appears in the place where the name of the payees would have been written. Anybody who presents such a cheque at the counter of the paying bank, obtains cash out of it.They are normally printed out in the form of “Pay ..... or bearer”.

Beurer cheque needs no embzzlement when presented in the paying bank.This type of cheque is a very useful means of payment since it is as good as cash or bank notes its self to a certain extent.

As seen from above, it can be cashed by anybody who presents it at a paying bank without being enclosed by the person paying it.

### b) ORDER CHEQUES

There are cheque made payable to a specified person or party or his order indicated on their faces. ie the name of the payee is clearly indicated on the cheque.

There are printed out “pay .....X..... or older if the named payee wishes to obtain cash out of the cheque ie by presenting it across the a counter of the given bank, he has to do the following.

(i) He has to enclose it by putting his name in print and signature on the reverse side of that cheque.

(ii)He has to identify his self properly eg using an identity card, driving license or pass, or graduated tax after which he gets the money. If the named payee wishes to deposit the amount of that payee

on his or her bank account, such a cheque then doesn't need the payee's endorsement. If the named payee wishes to pass on that very cheque and use to pay some other person or party then that

payee has to endorse the cheque and to add the words instruct the bank to a new payee instead of him.This is done on the reverse side of the cheque e.g. the original payee may use words line

please, the sum indicated on the leaf to Hanningtone and then the original payee adds his name and signature.

### CROSSED CHEQUES

These are cheques which have two parallel line across their faces.

CHEQUE NO.		21/6/2015
Pay	N. B . C JOASH	Shs 10,000,000/=
A/C NO		Signature.....

The crossing are normally traversing at the top left hand corner of the cheque. Some time additional words are inserted between the lines. Crossed cheques are only payable in a person's account and not in physical cash. The crossing of the cheques forms a safety and precautionary measures warning the bank not to pay across the counter such a crossed cheque.



Once it is presented at the counter, but only to pay the amount through the payee's accounts or his order to the bank account. Therefore it is a precaution against fraud i.e. in case of falling into wrong hands.

### TYPES OF KINDS OF CROSSINGS

There are two major types of crossings

1. General crossing
2. Special crossing

#### A CHEQUE WITH GENERAL CROSSING

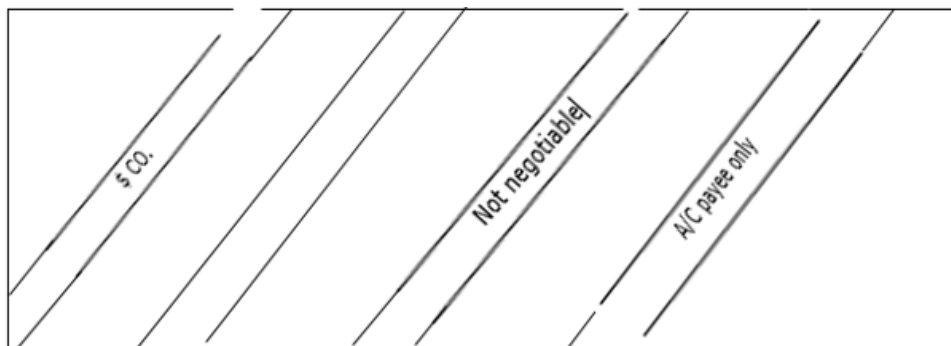
General crossings may involve one of the following forms.

- a) Just two parallel lines with no words between them.
- b) Two parallel lines with words "&CO".
- c) Two parallel lines with the words "not negotiable".
- d) Two parallel lines with words "Accounts payee only".

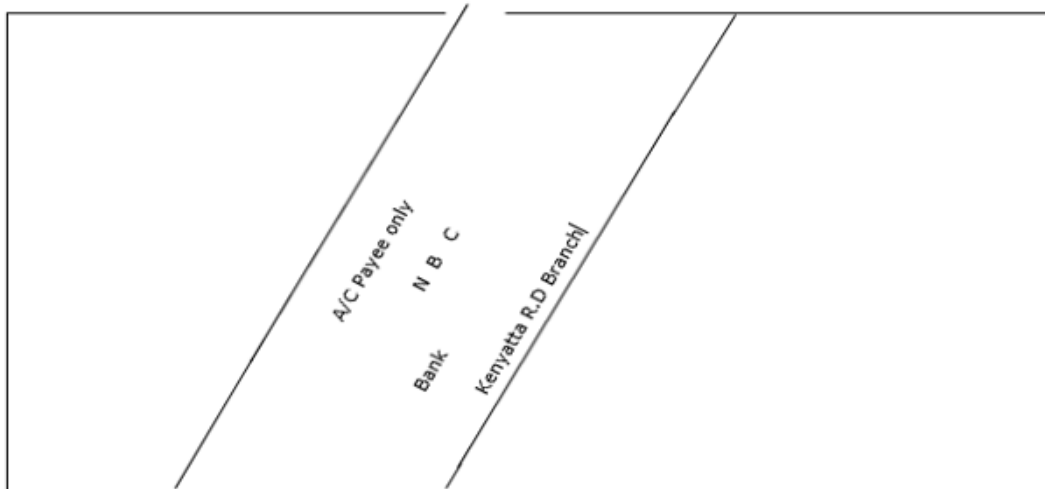
#### A CHEQUE WITH SPECIAL CROSSINGS

Special crossings consist of two parallel lines with the name of the bank and branch between them. Hence a cheque will be crossed officially. This cheque can be presented for payment only to the bank and branch between the crossings. This is probably the safety means of effecting payment by cheque. The words not negotiable and account.

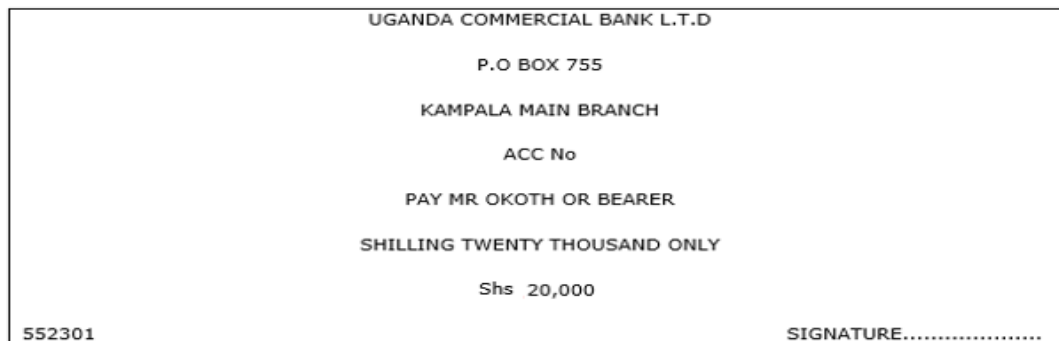
Examples of general crossings



Examples of Special crossings.



### AN OPEN CHEQUE (ORDER CHEQUE)



### TYPES OF ACCOUNT OFFERED BY COMMERCIAL BANKS

Commercial bank offer the following accounts. Shs

SAVING ACCOUNT

CURRENT ACCOUNT

FIXED DEPOSIT ACCOUNT

### HOW TO OPEN A/C

#### Requirements

- 1.You need at least two referees
- 2.With three passport photograph
- 3.A specimen signature

## **IMPORTANT FEATURES OF A SAVINGS A/C.**

1. Money can be deposited any time.
2. No overdrafts are allowed on this account.
3. Account holders are required to maintain the minimum balance at all time.
4. Withdrawals are allowed only once a week.
5. Account holders are required to deposit not less than a certain amount when opening a saving A/C
6. No cheque books are provided on A/C holder, wishing to withdraw money, he or she has to go to the bank personally
7. A/C holders are issued with a pass book which contains record of their deposits and withdrawals.
8. Banks allow interest on deposit held on saving account.

## **FEATURES OF A CURRENT ACCOUNT**

1. A/C holder can deposit any amount anytime in any form i.e. cash, cheques, drafts, postal order etc
2. There is no minimum required to be maintained. An account holder can withdraw all his deposits.
3. Banks pay no interest on deposits held to their customers
4. Banks allow overdraft facilities to their customers
5. Cheque books are provided by the banks.
6. Banks use to their clients, bank statement at the end of each month it records all the transactions a current account holder had with the bank during that month.

## **How to deposit and withdraw money on a current A/C.**

A person wishing to make a deposit must fill in a document called a paying in-slip while a person wishing to withdraw money must draw a cheque.

### **Cheques**

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

## **ENDORSEMENT OF CHEQUE**

This is putting a signature on the reverse side of the cheque together with the name and print of capital letters of the payee. Whereby transferring the cheque giving right of the ownership with sum of money.

N.B. The original payee becomes endorser and the name payee becomes the endorsee.

## **TYPES OF ENDORSEMENT**

### **1. RESTRICTIVE ENDORSEMENT**

With this type of endorsement, the cheque is prevented from being further transferred (endorsed) to some other person or party. eg the wording “Please pay ..... only”

## **2.BANKER OR OPEN ENDORSEMENT**

This is an endorsement where the drawer put his or her signature (together with his or her name in print) but without indicating the name of the new payee.

## **3.SPECIAL ENDORSEMENT**

This is the type of endorsement on the cheque where the endorsee is named at the bank of the cheque.

## **4.CONDITIONAL ENDORSEMENT**

With this type of endorsement, the drawer states one or more conditions which have to be fulfilled before the new named payee assured the right to get the proceeds of the bill or cheque.

## **OTHER TYPES OF CHEQUES**

### **A.POST DATED CHEQUES**

These are cheque which are payable on a later date. ie these are chequeS which bear dates greater than the actual date it was made on.

### **B. STALE CHEQUES**

These are cheques which stay six months before being presented to the bank for payment.

### **C.RETURNED/DISHONORING CHEQUES**

Sometimes banks may refuse to make payments against the cheque, such cheque is said to have been dishonored by the bank (bounced it ). There are many reasons why the bank may refuse to honour the cheque. The reasons may include any of the following.

1. Where a cheque is incorrectly made. ie where a cheque has an error on it e.g when the amount in figure does not correspond with the amount in words on the cheque.
2. Signature of the drawer on the cheque does not correspond which the specimen signature of the drawer at the Banks.
3. When the cheque is stale.
4. When the payment of cheque has been stopped by the drawer of the cheque.
5. When the cheques presented to bank before the date on it i.e. in case of postdated cheque.
6. When the owner has closed his A/C with the Bank. This its self is criminal offence ie when a person date belatedly issue a cheque.
7. When the cheque aspect to have been altered changed. All alternations should be entitled to the drawer. If a bank is satisfied it will never let on the cheque to the payee.

8. Where the drawer may have forgotten to sign on the cheque in which case went back through the system of the signature to be added.
9. When the drawer is dead or has been bankrupt or insane.

## **PRECAUTIONS WHICH SHOULD BE TAKEN WHEN DRAWING CHEQUE**

To avoid fraudulent alternation on the cheques, no spaces should be left.

### **BANK DRAFT OR BANKERS**

This is a cheque drawn on the bank by the banker. It stands very little chances or possibility of being dishonored.

Bank draft therefore are useful means of payment in a situation where personal cheques may not be accepted for payment. Bank drafts are also useful where large sum's of money have been transferred from place to place but where again personal cheque could not be accepted.

### **TRAVELER'S CHEQUES**

These are similar to bank drafts in that they are also cheques drawn in the banks.

Travelers who are moving to places where their personal cheques will not be accepted in payment eg where and when an individual is going to a different region of the country or abroad.

Before the currency reform in May 1937, U.C.B(UGANDA COMMERCIAL BANK) had introduced traveler's cheques, the travelers cheque scheme useable in Uganda.

N.B the difference between travelers a cheques and bank draft is that travelers cheques are issued in several numbers while bank draft not.

### **PAYMENT SUSPENSE CHEQUES**

These are used in the same way as bank drafts, but the only major difference is that these are drawn in the bank to facilitate payment within the same place e.g. in town.

### **BILL OF EXCHANGE**


A bill of exchange may be defined as an unconditional order in writing addressed in one person to another, signed by the person to whom it is addressed to pay on demand or at fixed or determinable future time, a sum of money to or to the order to a specified person or bearer.


### **PARTIES TO A BILL OF EXCHANGE**

1. Drawee –This is a person who writes out a bill i.e. the creditor, sometime the actual payee of the bill.

2. Drawer –This is a person or party to whom the bill of exchange is addressed in other words that person owing money to the drawer i.e. the debtor.
3. Payee- is that person or party to be paid by a bill.

### SPECIMEN EXAMPLE OF A BILL OF EXCHANGE.

		Date 06/7/2000
Three months after date pay me or may order the sum of shillings fifty thousand only value received		
To SCOVIA		SIGNATURE.....
P.O.BOX 120		PAULINE
DAR ES SALAAM		HANNINGTONNE

		Date 10/8/2005
Three month after date pay or may order the sum of shilling fifty thousand only value recorded		
To SCOVIA		SIGNATURE.....
P.O BOX 120		Namiiro
MBALE		Juliet

### ACCEPTANCE OF A BILL OF EXCHANGE

This is the act of the drawee writing the word “Accepted across the face of the bill and signing again it. Therefore accepting the bill, the drawee acknowledges that we will pay the money according to the wording of the bill.

N.B. Before the bill is accepted by the drawee it is known as a draft. The drawee after acceptance becomes the acceptor meaning that he is legally responsible for the payment of the sum of the money on the bill.

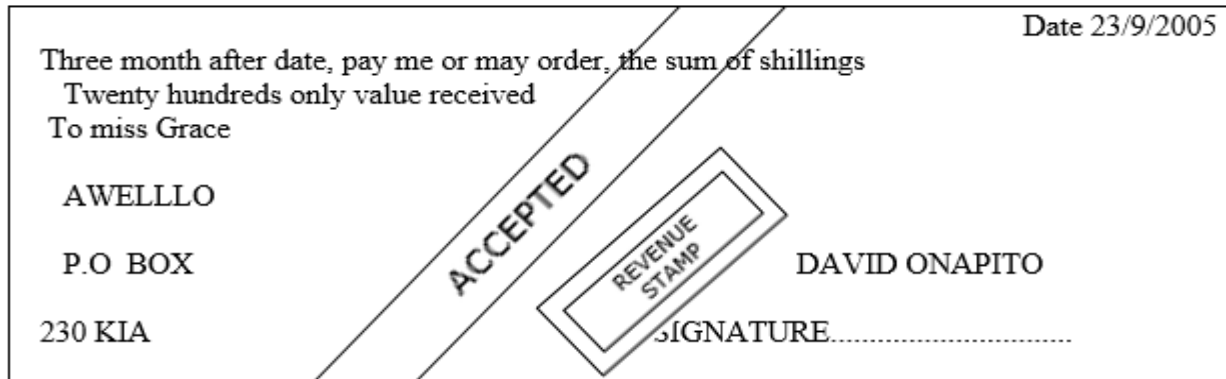
### ESSENTIAL OF THE BILL OF EXCHANGE

The bill of exchange must have the following

- The drawer's signature

- Acceptance

This means the signature of the drawee and the word accepted across the face of the bill.



3. Any ambiguous wording ie without any omission

4. The date on which it was made out

## TYPES OF BILLS OF EXCHANGE

### SIGHT AND USANCES

**Sight bills:** are bills which are paid on sights or demand.

**Usance bills:** are those bills which are made payable after a specified period of time in future. Normally 90 days or three months.

**Inland bills:** are those bills where the drawer and drawee of the bill are from the same country.

**Foreign bills:** are bills of exchange whose drawer and drawee are from different countries.

**Treasury bills:** are bills through which the government borrows money from the general public.

**THE ENDORSEMENT TO THE BILL OF EXCHANGE.** Since all bills of exchange are negotiable instrument or documents and they can be seen as potentially valuable security ie they can be transferred

from one person or party to another for endorsement. The transferability of a bill after being enclosed, will depend upon the reputation of the acceptor to the person or party who accepted the bill is of

a doubtful financial status, key few people are likely to accept such a bill being endorsed to them in payments.

## DISCOUNTING BILLS OF EXCHANGE

This is the selling of a bill to a bank or this count choose or any other form of lending money institution the bill matures. In return money in cash is less than the interest and expired bill.

N.B: The purchases price of the bill before it matures, will be less than the price value of the bill.

The discount deducted from the face value of the bill will be calculated to an agreed percentage per annual (year) for the period, the bills of exchange approaches the maturity date, its purchase price will also be increased.

## HONORING A BILL

When a bill matures it is presented to the drawee and when payment on it is made the bill has been honored

When the bill has been paid before the maturity date, such a bill is called retired bill.

The act of paying the bill before it matures is called discounting a bill.


## DISHONORING A BILL

When a bill matures and no payment is made it's called dishonoring a bill. The payee may then agree to extend the date of maturity. The payee may take a legal action against the drawee ie by suing him to the court.

## A PROMISSORY NOTE

A promissory note is a conditional writing made by one person where he promises to pay another person or his order a specified sum of money on demand determinable in future time.

Specimen example of a promissory note.

Promissory note:	Date 7/06/2000
Three month after date, of promises to pay miss SCOVIA BELLY or her order a sum of shilling Twenty thousand shillings.	
	SIGNATURE..... LIVINGSTONE

Comparison between a bill of exchange and a promissory note



## Differences

<u>Bill of exchange</u>	<u>Promissory note</u>
<ol style="list-style-type: none"> <li>1. It is an order to pay</li> <li>2. It requires acceptance</li> <li>3. The acceptor of the bill is primarily reliable</li> </ol>	<ol style="list-style-type: none"> <li>1. It is a promise to pay</li> <li>2. No acceptance possible</li> <li>3. A drawee is reliable</li> </ol>

## Similarities

1. Both evidences, are the acknowledgment of debt.
2. Both may be discounted and endorsed before maturity.
3. They allow enough time before payment is endorsed.

### **ADVANTAGES OF A BILL AND PROMISSORY NOTE.**

1. Both of them acknowledge a debt. A person holding one of them does not have to prove before the court of law the circumstances giving a debt.
2. They may be discounted before the maturity date. This enables the seller to get ready cash almost immediately after the sale of goods.
3. They allow enough time for a buyer to dispose of the stock he has bought so that by the time the maturity date arrives, he is in position to settle the debt.
4. An accommodation bill helps trader out of the temporarily financial difficulties.

### **MEANS OF PAYMENT IN TRADE**

Government, business men and individuals always carry out business the transfer of goods and service in which they pay in various ways.

The following are the means of making these payment.

#### **1. CASH**

This involves the use of coins and paper notes both of which are legal tenders and they are more readily accepted by the individuals. Cash is suitable for paying dates especial when the creditors are to hand,

the disadvantage are that coin become cumber some to carry and they are easily be stolen.

#### **2. CHEQUE**

This is the commonest way of paying debtors.

A cheque is an order to the bank to pay a named person his order specified sum of money. A cheque can be endorsed, crossed or made payable oneself depending on circumstances prevailing. It is a negotiable instrument i.e. ownership of holding can be transferred to another person.

### 3. BANK DRAFT

This is a special kind of cheques drawn by the bank on its self and it more readily accepted since the government payment is not against it. A bank issues a bank draft after it has received money from the person requesting it. It's more convenient than a cheque because it can be presented in payment in any bank.

It may also be used especial when overseas suppliers are unwilling to accept a person cheque if payment is to be made in a distance place by urgently.

### 4. BANK OVER DRAFT

This allows the account holder to withdrawn from his account the started amount of money of which is over and above his credit balances. Interest is charged on the extra amount received it is therefore a special of loan.

### 5. POSTAL ORDER

This is the service by which the post office transfers money from one person to another. It is used to transfer small sums of money and they are issued in various denominations.

The person sending the money fills a form (an order) indicating the amount to be send to the name of the paying post office and the payee. The order is then send by the nest to the payee who can turn be cashes at the post office name.

Stamp can be stuck to increase the amount being sent. A small commission or fee is charged for the service.

### 6. MONEY ORDER

This is issued by the post office with large sums of money. A form is filled in which the sum of money to be send is stated filling the name of the sender the payee and the post office will be informed of the details by the issuing post office. The order is then sent to the payee who must prove his identification before receiving the money. He must tell the name of the person who has sent the money and sometimes where he come from.

The money order may be crossed if it has to be paid in the bank account of the payee. A small fee known as a poundage is charged. Both postal orders and money orders are said to be note negotiable. In case of emergency money can be sent by means of a telegram.

## 7. POSTAGE STAMP

A debtors can send stamps to creditors to pay a small amount of debts. These stamps may be brought bank by paying the post office if the payee needs cash constantly. Or immediately.

## 8. REGISTERED POSTS

The post office may supply special envelopes for sending cash, cheques and drafts or other important document by using registered posts. Since the envelope must have a vertical and horizontal across it, cutting through each other at the center of the envelope.

A fee is charge for registration it the letter gets lost in the post office the sender is given a receipt which he uses to claim for compensation registered post returns are not sent by the post office to the owner (the payee) but a note on a green card is post in the box of addressee the must produce when claim the later with prof of the identify card. This avoids giving it to the wrong hands.

## THE CENTRAL BANK.

A central bank is a financial institution established by the government with the aim of controlling economic activity time the sound and desired monitory policy or it is an institution charged primarily with controlling a country's money and banking system. It is the central monitory authority and other intermediaries (agency).

## FUNCTIONS OF THE CENTRAL BANK

1. Currency management. This involves printing notes, minting coins and replacing worn out notes.
2. A central bank is a banker to govern, this means that it accepts deposit of government accounts, makes payment on behalf of the government makes temporally advances of loans to government.
3. It controls the volume of money supply as well as credit advances in bank system.
4. It is custodian to valuable financial instrument which are valuable to a country such as gold, Treasury bill and bonds.
5. The central bank is a banker to commercial banks. This involves accepting and keeping commercial bank deposits acting as a lender of last resort, controlling lending activity, training of the commercial bank staff and acting as the leaning house to settle interbank debtness.
6. A central bank is a controller of investment in a country, turn establishment of interest rate to charge commercial banks.
7. Controller of foreign exchange by fixing the exchange rate, controlling of foreign exchange reserve.
8. It manages and keeps foreign currencies.
9. It keeps the funds of international institution or organization operating in a country eg. International monetary funds (IMF) Red Cross etc. i.e. It's a banker to foreign central banks and international organizations.
10. It has to initiate as accelerate economic grown and development it operates policies aimed at rapid economic growth and development.

11. It also runs schools and colleges for training bankers since commerce bank are small and may not be in position to finance training facilities to man power.
12. It has to control the activities of foreign banks whose activities may not be in line with development policies of e.g. profit repatriation.
13. It suppresses and examine the activity of all commercial banks so as to promote sound commercial banking.

### **PROBLEMS FACING CENTRAL BANK**

1. They experience a lot of government interference and do not act independently e.g bank of Tanzania.
2. Some central banks lack trained more power in the field of banking to effectively and control commercial bank.
3. There is a lot of corruption and frauds in the banking system and central bank its self.
4. The commercial banks do not surrender all their money which deposited in the central banks and so they cannot be monitored by the central banks.
5. Some commercial are subsidiaries of foreign banks. e.g. standard chartered bank in Tanzania and have offer sources of finances in case of unfavorable policies in central bank.
6. Less developed countries have large sub-stance sectors whose operation is not influenced by actions of monitory policy as directed by the central bank.
7. L.D.C. economies have poor record keeps and lack statistics which are needed in the planning monitoring exercises of commercial banks.
8. Commercial banks are urban centres which implies a limited geographical scope/content with economic activities.
9. There is lack of entrepreneurs that the central banks may collaborate with to regulate the investment levels.
10. L.D.C Lack well spelt out term development plan which central bank should follow when formulating policies.

### **MONETARY POLICIES**

These are methods used by the central bank to control money supply and money demand in an economy for economic growth and development. Central bank uses the following tools to control money supply:

- Open Market Operation(OMO)
- Selective credit control
- Bank rates
- Compulsory deposit by commercial banks.
- Moral suasion
- Legal reserve requirement

## TRADE IN GENERAL

Trade or trading refers to the buying and selling of goods or services for non-personal use with the aim of making profit.

It is the interchange of products between the producers and consumers at a price or consideration.

**Trader:** is that person who buys goods or services and sells them.

Trader: is divided into home trade and foreign trade.

- Home trade is buying and selling of goods within national boundaries, it consists of wholesale and retail trade.

- International trade is buying and selling of goods or services to overseas market between countries, it includes import, export and entrepot trade.

### Characteristics of trade.

1. Buying for resale. The aim must be buying for resale.
2. Product: There must be goods or services to be bought and sold.
3. More than one party: Exchange involves at least two parties seller and buyer who are interested in a particular product to be exchanged.
4. Profit motive: Trade aims at making profit.
5. Price:- Trade involves distribution of good or service for a consideration and price.
6. Possession utility: Trader allows creation of possession utility and therefore obtains effective satisfaction.
7. Ownership utility.
8. Series of transactions: there must be continuous buying and selling to constitute trading.
9. Area: There should be an area (physical or non-physical) for a commodity to be transacted.

### Role of trade

- i. Trade enables goods produced in a particular area to be used by the consumers in the whole country or other countries.
- ii. Trade promotes social, economic and political relations between a nation's peoples through trading operations conducted by traders, which can result in international peace and harmony.
- iii. Trade provides employment both in the public and private sector, leading to social and economic welfare.
- iv. Trade encourages mass production by providing ready and profitable markets for their products.

## CHANNELS OF DISTRIBUTION (TRADE OR MARKETING CHANNELS)

A channel of distribution is defined as a description of the paths/routes taken by goods and rights of ownership of goods as they move from point of production to point of consumption.

It is the path linking the producer or manufacturer of a product with the consumer or user. The path which products and title follow until reach final users.

### Classification of channels of distribution:

Channels may be classified according to the stages in ownership in the distributing of goods. (We will concentrate on the channels of distribution for locally produced product)

- i. A one stage channel. Is where the manufacturer supplies direct to consumers. It is called direct channel of distribution.(M-C)
- ii. A two stage channel: Is where the manufacturer supplies direct to the retailer who in turn supplies to consumer. (M-R-C)
- iii. A three stage channel: is where the manufacturer supplies the wholesaler and the wholesaler supplies to the retailer who in turn sells to the final consumer.(M→W→R→C)
- iv. A four stage channel: is where manufacture supplies to an agent (Primary wholesaler) who supplies wholesaler (Secondary wholesaler) who supplies to retailer who in turn supplies final consumer (M-A(W<sub>1</sub>)-W<sub>2</sub>-R-C)

### Functions/Roles/advantages of a channel of distribution

1. A well-defined and structured channel makes it possible for decisions to be made in a defined way.
2. Pricing: Channels enable prices to be determined at each stage.
3. Provision of general market intelligence: A free flow of information useful in the improvement of product quality.
4. Finance of business: Trade credit offered by channel member fuel the flow of goods therefore traders are able to facilitate the flow of goods without having large operating or working capital
5. Creation of utility: Place time and ownership or possession utility.
6. Fill the gap in modern economic system between producers and consumers.

### Activities performed in channels (By channel members)

1. Contractual:- Buyers and sellers contact each other to facilitate flow of goods. Eg A manufacturer has to establish effective contact with the other channel members
2. Promotion: Promotional tools are used to inform persuade and remind customers if goods are to be marketed so as to satisfy them.
3. Merchandising: Channel member's orders and receive goods which are demanded by their customers.
4. Pricing: Channel members set prices that covers costs and ensure margin of profit.
5. Transit: This is physical distribution which involves the arrangement of transport for effective flow of goods from producer to final user.

6. Maintenance of inventories: The carrying of stock or inventories in appropriate quantities to allow swift distribution.

## **DESIGNING DISTRIBUTION CHANNEL**

### **Factors to be considered when designing distribution channel:**

1. A channel designed should provide physical transfer of goods to the consumers in minimum time.
2. A channel designed should allow appropriate communication i.e. Feedback of market information to the manufacturer.
3. A channel designed should be easily adopted relative to change in market conditions.

## **STEPS IN DESIGNING DISTRIBUTION CHANNEL**

1. Stating and identifying channel objectives and constraints:

→Objectives:- what should be attained by the channel must be clearly stated. E.g: to reach as many consumers as possible or to use as many dealers as possible.

→Constraints must be clearly identified in respect to:-

-product strengths and limitations

-Customers characteristics

-Company characteristics

-Middlemen characteristics

-Environment characteristics

2. Major feasible channel alternatives must be distinguished from minor alternatives.
3. Evaluation of alternative channels using following criteria.

a) Economic values:- Costs and returns related to various channels

b) Control requirement: Those which require effective control and those which require minimum control.

c) Flexibility of the channel especially where nature of supply of products dealt varies with time, season etc.

4. Measuring economic return of alternative channels:

A popular method used in measuring or estimating the economic return from a channel is (ROI)  
–Return on investment.

Formula:

$$\text{ROI} = \frac{\text{RX} - \text{CX}}{\text{SX}}$$

Where:

RX = Return on investment associated with the channel x

SX= Estimated sales associated with the use of channel x

CX= Estimated costs associated with the use of channel x

**Note** other things being equal, the channel with the highest Rx will be the preferred alternative.

### **Other factors influencing the choice of a channel of distribution**

1. Nature of goods: A supplier chooses a certain channel which suit the nature of the goods, example Perishable and fashionable goods needs a very short channel, thus they may be sold directly to consumers, also technical and high valued goods like aircrafts may be sold directly to consumers.
2. Market costs: if a manufacture is economic not able to meet market cost will dispose off his products

-through middlemen such as retailers and whole sellers. Example some goods require some facilities like refrigeration storage for commodities like fruits vegetable.

3. Size and nature of the market: When the market is local (near) and large purchase direct sale is possible but if the market is scattered and small quantity purchase direct sale may not be economical.
4. Scale of production: Producers in small quantities can sell direct to consumers eg: small scale farmers.
5. Business policy: Some producers have policies which have to be adhered to Example Price control policy where producer wishes to reduce the number of middlemen to avoid increase in Price.

### **COMPARISON OF MAIN METHODS OF DISTRIBUTION**

#### **AVAILABLE TO PRODUCER:**

1. Indirect method ( Manufacture –wholesaler-retailer)

#### **Advantages:**



- a) Fewer orders dealt with resulting lower delivery and packing costs.
- b) Fewer representatives needed.
- c) Fewer accounts required hence reduction in bad debts.

### **Disadvantages**

- a) Lower profit margin on goods sold.
- b) Producer must rely on wholesaler loyalty to promote goods. i.e no guarantee that wholesaler will promote his goods.

2. Direct method (Producer – Consumer). Can be through mail, order business or manufacturers, own retail shops or canvassing (using own sales people), sale at manufacture's plant.

### **Advantages**

- a) Direct control over selling method by using own sales people.
- b) Saving in sales peoples salaries when using mail order.
- c) Greater convenience to customer especially if customer are away from shops by using mail order business.
- d) Good control over sales methods and increase in sales volume through manufacturers own shop.
- e) Allows sale of technological products which need demonstration and after sales services.

### **Disadvantages**

- a) No personal contact by salesman in mail order.
- b) Higher costs of transport and delivery.
- c) High cost of printing catalogue for mail order business. Packing and advertising.
- d) High cost of renting or purchase of sites for shops.

## **MIDDLEMEN OR INTERMEDIARIES IN THE DISTRIBUTION OPERATIONS**

They are traders who operate between producers and final consumers as they are involved in the whole distribution process.

Are persons or firms who put producers in touch with consumer.

### TYPES OF MIDDLEMEN

Middleman are classified into merchant middlemen and mercantile agents.

1. Merchant middlemen: These are middlemen who buy and sell goods in their own name (their own properties) they include wholesalers and retailers.
2. Mercantile agents: These are middlemen who hold and sell the goods on behalf of other people called principals. They sell goods which are not theirs they belong to principals, so they act on principal's name.

Is appointed by the principal to act on his behalf in the ordinary courses of business including buying and selling on behalf of principal.

### NOTE

Mercantile agent can be general or special agent

- General mercantile agents: Have full authority in performing any lawful transactions on behalf of principal.
- Special or particular mercantile agents: Perform special or particular transaction eg: Buying particular kind of goods; after completion the agent ceases his agency.

The agent is required to fulfill the following conditions;

1. Must act within his ability and he must be personally liable for his actions beyond his authority
2. Must act on behalf of and in the name of his principal and any act done in his own name he will be liable to third parties.
3. Must act under the instructions of the principal as may be stipulated in the contract of business operations.

### DIFFERENCES BETWEEN MERCHANT MIDDLEMEN AND MERCANTILE MIDDLEMEN

Merchant middlemen	Mercantile middlemen
<ol style="list-style-type: none"> <li>1. Take title to goods</li> <li>2. Assume the risks of marketing</li> <li>3. They operate for profit</li> <li>4. They act on their our name or account</li> </ol>	<ol style="list-style-type: none"> <li>1. Do not take title to goods</li> <li>2. Do not assume any risks in the marketing of goods</li> <li>3. They operate for consideration at a certain percentage or a fixed amount of commission</li> <li>4. Act on behalf of their principals.</li> </ol>

### Common features of mercantile agents

1. They do not take title to the goods.
2. They are paid commission based on sales or purchases
3. They are used as marketing force by principles
4. They serve the interest of both buyers and sellers.

### Arguments in favour of middlemen.

Middleman are very important in the distribution process because.

1. They facilitate smooth flow of goods from the manufacture to final user.
2. They offer specialized or expert in marketing hence relieves manufactures of tasks outside their scope and concentrate in producing task.
3. They are near customer so they know their demand and satisfied them.
4. Many manufacturers wants to avoid risks which would face them if they had to sell directly to consumers e.g. Theft, damage etc.
5. It is impossible for manufacturer to have stores all over the country. Therefore middleman are important because they are scattered all over the country and they can offer storage facilities in all regions.
6. Many manufactures do not have financial resources to sell directly to consumers eg. Transport cost.

### Arguments against middlemen (Assignment 2)

1. Rise in price
2. Producers profit reduced

### Types of Mercantile agents

**A Broker** is an agent who represent a buyer or a seller in negotiating a purchase or a sale without physical handling of the goods.

#### Characteristics:

1. They do not possess the goods.
2. They have limited power price and terms of sale.
3. They do not have authority to receive payment
4. They do not have power to deliver the goods sold.
5. They act in the name of their customer (buyer/seller) and not their own name.
6. They are independent agents who engage in bargaining or agreement between two or more parties for brokerage.

### Types of brokers

- a) Produce brokers: They negotiate the purchase and sell produce e.g. Maize

b) Stock and share brokers: They negotiate purchase, sell stocks and shares in stock exchange.

c) Insurance brokers: They specialize in negotiating various types of insurance policies to various prospective customer on behalf of insurance coys.

d) Ship brokers: They specialize in negotiating transport by ship like procuring cargo, and charter of ships etc.

e) Court brokers: They negotiate the sale and buy of property of person seized according to the order given by the court.

### **Role of brokers**

1. They provide professional advice to buyers and sellers which help sellers and buyers to benefits from each transactions.
2. They are able to secure better terms of sale purchase on behalf of their clients.
3. They enable the relationship between buyers and sellers.
4. They are able to render services at cheap rates because they may execute various deals at pear.

**B: Factors:** is an agent employed to sell goods consigned or delivered to him by his principal for compensation.

### **Characteristics**

1. They take physical possession of the goods.
2. They may give credit to a reasonable extent as allowed by the principal.
3. They have great saying in price.
4. They are general agents who sell goods for other on commission basis.
5. They finance the principal by making immediate payment and assume responsibility of collecting payment from the customers.

### **DISTINCTION BETWEEN BROKERS AND FACTORS.**

1. Broker does not possess the goods while the factor does.
2. Broker cannot receive payment while the factor does.
3. Broker has no insurable interest in the goods transacted while the factor has the insurable interest.
4. Broker has no right of lien on the goods but the factor has a right on goods in his possession for the unpaid charges.
5. Broker is a special mercantile agent while factor is a general mercantile agent.

**C: Commission agents.** Are middlemen who buy and sell goods for his principal in return for commission.

### **Characteristics of commission agents:**

1. They get fixed commission.
2. They do not bear risks. The risks are borne by principals.
3. They are experts in the goods dealt in.
4. They buy and sell in their own names.
5. They are liable for the contracts as they act in their own names.

**D: Delcredere agents.** Are agents employed by the principal to sell and guarantee payment for all goods they sell irrespective of the payment received or not received by him for an extra additional commission called delcredere commission. They are personally liable for default of customers. Introduced by him for extra commission paid for that guarantee.

**E: Auctioneers:** Agent employed to sell goods at the public auction.

### **Features:**

1. They are specific agents until the goods have sold
2. They take possession of goods
3. They sell on cash, if they sell on credit they are personally liable for bad debts
4. They have authority to receive money from sale

### **Roles**

1. They undertake promotion to the public
2. They are responsible to try to find and sell to the highest bidder deduct the expenses and remit the balance to the seller
3. They collect debts (if goods) sold on credit

**F: Warehouse keeper:** is an agent who receives goods and store them on behalf of owners in return for warehousing charges

### **Features**

1. Responsible for storage and take care of goods preserved by them.
2. They can retain the goods until they receive payment.

**G. Underwriters agents:** Persons or firms who guarantee the subscription (sale to the public) of whole or portion of the shares of a company in turn they are paid commission.

### **Features:**

1. They are specific agents.
2. They are dealing in guaranteeing shares or debentures.
3. They receive commission as a percentage of the face value of subscribed shares or debentures guaranteed by them.
4. They pay or take unsubscribed shares or debentures.

**H: Clearing and forwarding agents.** Are persons or firms employed by importers and exporters to collect deliver and forward goods on behalf of them in return they are paid commission.

## DUTIES OF CLEARING AND FORWARDING AGENTS

1. To collect, deliver and forward consignments of importers and exporters.
2. Packing, marking and dispatch of the goods to the proper destination.
3. At the port of importation, they examine quantity and quality, warehousing arrangement or transportation to the premises of importers.

### Advantages of clearing and forwarding agents.

1. They have experience (knowledge) on importing and exporting procedures e.g.: customs formalities which is quite beneficial to importers and exporters
2. They reduce cost by dealing with various consignments of different clients of same location hence reduce transport cost.
3. They relieve importers or exporters from difficult task of collecting and forwarding the goods.
4. They charge lower commission.

**I: Manufacturing agents.** These agents are engaged by a manufacturer to sell part of his entire products in a specific territory or market area.

#### Features:

1. They are engaged by manufacturers(not employed)
2. They sell in a specified market area.
3. They do not fix prices and terms of sales as are fixed by manufacturers themselves
4. They are paid commission based on sales.

**J: Selling agents:** Middlemen employed by a manufacturer to undertake the entire marketing functions of all his output for the entire market.

#### Features

1. They are employed by manufacturers
2. They perform all marketing functions
3. They have greater authority in marketing than manufacturing agent
4. They determine price and terms of sale.

### How agricultural products are distributed in Tanzania

We have mainly four channels for agricultural products in Tanzania

1. Traders collect the produce from the farmers (producers) and transport to the relevant markets where there are customers.
2. Farmers (producers) especially small scale farmers sell direct to consumers by transporting goods from villages (farms) to various markets: E.g. Vegetable growers.

3. Farmers become members of cooperative societies and sell direct to the cooperative societies: Then cooperative societies sell the product either to local consumer industries or foreign buyers.
4. Farmer's sell to cooperative society, the cooperative society sell to marketing board, then the marketing board sells to a local buyer, foreign buyer or industries.

### **How imports and exports are distributed in Tanzania?**

#### **Imported goods.**

Tanzanians import goods from foreign producers through the following middlemen (intermediaries)

1. Import merchants.
2. Stockiest distributors.
3. Commission agents
4. Import brokers
5. Manufacturers' representatives.

#### **Exported goods:** Tanzanians export their products through:

1. Marketing boards
2. Export agents
3. Export merchant
4. Auction
5. Exchanges

### **DOCUMENTS RELATING TO THE PURCHASE AND SALE OF GOODS**

Documents are written records of transactions which take place between sellers and buyers. These documents can be divided into

1. Those related to the goods.
2. Those related to payment for the goods.

#### **Importance of documents**

1. Trade statistics: They form the basis from which the government can publish statistics like value of goods produced, value of goods sold within or outside the country.
2. Preparation of financial statements: Documents are used to draw up a set of accounts and financial statements.
3. A basis for a contract: Some documents act as contract on the parties concerned. E.g. an order
4. Tax assessment: Documents provide information which can be used by tax authority in assessing tax to be paid.
5. Used as evidence of transaction hence ownership.

Documents related to the goods (Purchase and sale of goods)

## In the sale of goods

1. Inquiries: A trader who intends to buy goods from a supplier will write a letter (letter of inquiry) to look for more information which he did not get from advertisement before the actual place of an

order. An inquiry can also be made orally through phones, or mere visit.

- The main purpose of an inquiry is to get information on whether the supplier stocks certain goods. Prices, quality of such good, discounts allowed whether credit is given, method of payment, terms of delivery etc.

## **Types of the letter of Inquiry**

1. General letter of inquiry: Asks for general description on particular products.
2. Specific letter of inquiry: Asks for interested specific features on the products or specifies the area of particular interest.
3. Quotations, Price list or catalogue, Preform Invoice, Estimate or tenders. On receiving a letter of inquiry the supplier may send:-

(i) Quotation: Is an offer to sell certain goods under conditions stated. It is more specific and it is used in reply to inquiries for which no regular or standard price lists or catalogues are available. It is in the form of a letter although some larger firms have printed quotation forms.

- Quotation can be

- a) First hand: quotations are those quotations given by manufacturers or Products to traders (wholesalers and retailers)
- b) Second hand quotations: Are those quotations given by Traders to consumers

It includes details of:

-Price charged trade discount, terms of delivery, terms of payment

(ii) Price list: Is a list of items sold together with their respective prices. It does not carry a lot of information and is useful only if the commodities listed therein are well known or are of popular brands.

### **Note:**

A price current: is a price list which shows the price of goods listed at the time it was made out or simply market price of goods listed at the time the list was made out. It does not constitute a promise to sell at the price stated. It is highly used by raw materials dealers.

(iii) Catalogue: Is a booklet which briefly describes each item offered for sale. Carries illustrations and is more informative and attractive than a price list photographs or prints of stocked goods if possible coloured and numbered.



(iv) Pro-forma Invoice: Is an Invoice given to a customer who decides to order.

Circumstances when the pro-forma invoice can be used.

- a) A quotation is asked for, by buyer
- b) Goods are sent on approval to inform the potential customer of the amounts to be paid if he decides to keep them
- c) An order has been received and the supplier wants payment before dispatching goods.
- d) Goods exported to inform overseas buyer or his agent of the price to be charged on the goods.
- e) An importer is processing foreign exchange from the central bank for the importation of goods.
- f) Given to the customs and excise authorities as evidence of the value of goods imported forming the basis for the calculation of duty.
- g) Requesting payment from an Unknown customer before goods are delivered to him.

(v) Tender: Is an offer to do something made in response to an advertisement/inquiry or inviting quotations for the supply of specified goods or for execution of specified work. E.g. tender for building classes asked by Government.

-Tender is the first step toward a contract

-The buyer calls tenders then competitive tenders are submitted with detailed quantities and qualities then interested one is accepted by placing order.

(vi) An estimate:

Is a written offer to do certain work at a stated cost in a specified way and under specified conditions. They are more often used in connection with premise.

Estimates are usually subject to adjustment based on alterations in market prices of materials.

(vii) An purchase order: A letter or pre-printed form sent by the prospective buyer formally asking for supply of specified goods, this is done after the trader has received all necessary information.

Order can be in any of the following ways:

1. Verbally
2. Writing an order letter
3. By filling in an order form

**NOTE:**

-It is not wise to place orders verbally as problems may arise due to misunderstanding of instructions, lack of proof or order.

-If there is an acute need for the goods and there is no time to go through the formalities of writing order verbal orders may be given followed by written order as soon as practicable.

**Contents of order**

1. Addresses of the customer and supplier.
2. The products or code number of goods ordered.
3. The ordering date. etc.

Acknowledgement note: Is a note sent by the buyer to those who submitted their tenders but could not get the goods ordered due to some reasons. The aim of this note is to thank and encourage them to submit more tenders in the future.

L.P.O (Local Purchase Order): Refer to an order issued in home trade.

**EXECUTING THE ORDER**

The following is a typical procedure usually followed in executing the order where the goods are in stock.

1. The orders received are stamped with the date of receipt.
2. The order department reviews the orders to identify any inaccuracies or ambiguities
3. Orders are then passed to the credit department, which they are stamped and credit approved if they are credit orders.
4. The orders are then passed to the invoicing section where numbered sets of invoice prepared
5. Instructing the warehouse keeper to prepare and pack the goods ready for dispatch.

(viii) Bought note: is a contract note send by a buyer to a seller stating the terms and conditions of a purchase arranged orally. It starts with words bought of

(ix) Sold note: Is a contract note send by a seller to a buyer stating the terms and condition of a sale arranged orally. It starts with words sold to

(x) Advice note: Is a document sent by the seller to the buyer informing him that the goods have been dispatched to him.

- It acknowledge the receipt of order and it shows when the goods will be delivered sometimes an invoice can serve as advice note.

(xi)Delivery note: Is a document sent by the seller to the buyer which shows the list of goods without their prices. It is used to check the goods delivered.

- It evidences the delivered of the goods.
- One copy of it is returned to the seller dully signed and a buyer return one copy.
- It proves that the goods have already been received by the buyer.
- It is used alone when goods supplied are not in different packages.

(xii)Packing note: is the document sent by buyers shows the list of items packed in a particular box, it is enclosed with goods.

- It shows the order number.
- It shows the number of packages.
- It uses is not very common because delivery note serves the same purpose.

(xiii)Invoice: is the official accounting document sent by the seller to the buyer setting out details of the goods supplied description, quality, unit price, value, trade discount, net amount, terms of payment

- Several copies are prepared according to the size of the business.
- Is used by the buyer to cross check against the quantities and qualities delivered.
- It notifies the buyer of the amount owed by him for the goods or services bought by him.
- It serves as the evidence of the debt.
- It is used as the basis of accounting entries.
- Once the buyer receives an invoice he should affect payment as per invoice.

**DISCOUNTS:** Trade discounts, quantity discount and cash discount.

(a)Trade discount. Is an allowance given by a trader (wholesaler or manufacture) to the retailer to enable the retailer to meet various business expenses and get a profit margin.

- It is made if goods are sold by one businessman (usually a manufacture or a wholesaler) to another businessman (usually a retailer)

- It is issued on goods whose price is either fixed, controlled or generally known
- The aim of giving it is to allow a retailer to get a certain profit margin and to meet various business expenses.
- It is expressed as percentage of gross value

(b)Quantity discount: is an allowance which is offered according to the quantity of the goods ordered.

- A higher rate of discount is offered for larger quantities
- It is offered in addition to trade discount i.e. both can be offered in respect of the same transaction.
- It is expressed as percentage of the gross value of the goods sold.
- It is not deducted from the invoice

(c)Cash discount: Is an allowance granted to the buyer to encourage him to pay within the specified period. I.e. prompt payment.

- Earlier payment by the buyer fetches a higher rate of discount and vice versa
- It is allowed only if payment is made within the specified period
- It is given to encourage buyers to pay their accounts promptly.

**A bill:-** Is a document issued to claim payment for the services rendered, examples professionals like doctors, lawyers set bills so as they can be paid for rendered.

- It is similar to an invoice.

**Debit note:** It the document sent by the seller to the buyer to correct for the undercharge on the original invoice which can be caused by charging wrong price wrong casting (totals), omission of item packed and sent, omission of deductions e.g. Taxes (VAT) or when a customer fails to return containers not charged for, in the invoice. It is usually printed in black or blue

**CREDIT NOTE:** Is the document sent by the seller to correct overcharge on the original invoice which can be caused by charging wrong price, wrong casting, when customer returns some goods due to defectiveness, delivered goods not ordered. It is usually printed in red to distinguish.

### **Difference between an Invoice and Proforma Invoice**

INVOICE	PROFORMA INVOICE
1. It is issued after the goods have been delivered	It is issued in response to an order or inquiry for goods
2. It shows the total value of goods sold on credit	It shows the total value of goods to be bought
3. It shows the buyer the amount due for goods bought on credit	It shows the prospective buyer the amount to be paid should goods be bought
4. Used as a basis of making payment	Used as a basis of preparing payment
5. Used as a basis of making entries into books of accounts	Can't be used to make entries in books
6. It serves as a notice of payment for goods bought on credit	It serves as a quotation for goods to be bought
7. It is used to demand payment for goods sold on credit	It is used to demand for payment in advance for good to be bought.

### **Procedures of buying and selling transaction (credit transaction procedures)**

Transaction: Is a process which involves the transfer of goods from one party to the other for consideration.

- Commercial transaction is where both or one parties are traders
- It can be cash or credit transaction

### **Procedures of buying and selling is made up to various stages.**

#### **Stages**

1. Getting Information on a product: The prospective buyer can get preliminary information using advertisement sources such as newspapers, magazines, films, trade fairs, leaflets and circulars to be aware of the goods available in the market.
2. Inquiry: When a trader wants to buy some goods he makes an inquiry with the purpose of finding out prices and quality of goods which can be supplied by different suppliers. This can be done through writing letter of inquiry, call tenders or advertisement in the press.
3. Reply to inquiry: reply to an inquiry involves different documents (discussed before)
4. Placing an order: After studying the reply's the buyer will make up his mind to buy.

5. Delivery of good: Delivery of goods is where the seller arranges to deliver the goods to the buyer as per order and various document are involved.
6. Invoicing: After delivery of goods the seller send invoice and other related documents.
7. Sending the statement of account.
8. Payment: After receiving the statements the buyer checks the amount due see if it is correct and makes arrangements to remit money to the seller.

### **E & O. E**

Means Error and Omission expected. This is printed on documents (Invoice, credit note and debit note).

It gives sellers the right to correct an invoice should be discover an error at a later date.

Statement (statement of account). Is a document sent by sellers to buyers (debtors) at periodical intervals normally every month showing the transaction which have taken place since the last statement date.

It shows the

It shows the date, particulars debits and credit transactions and final balance for every transaction.

It enables the buyer to compare reconcile entries in books

It notifies the buyer to pay the money soon.

Account sales. Is a statement rendered normally by an agent to his principal setting out details of transactions completed on behalf of his principal.

It shows total sales, expenses incurred commission deducted, net balance to be remitted to the principal.

### **DOCUMENT RELATED TO PAYMENT FOR THE GOODS**

Receipt: is the document which proves the receipt of payment (income received).

- On receipt of statement of account or invoice the buyer has to pay money when the seller receives money issues the receipt to the buyer for cash or cheque
- It shows name of supplier, Price, goods description, total amount paid –Extra 1 (discuss)

### **TERMS OF PAYMENT**

Trade transactions can be cash transaction or credit transactions

1. **CASH TERM:**-Is when a customer pays cash when the goods are sold to him.

- Cash term can be.

- a) Spot cash: Is when the buyer pays for the goods when he collects them from the sellers shop or premises.
- b) Cash with order: Is when the buyer pays for the goods when he makes order
- c) Cash on delivery: is when the seller collects money when he delivers goods to the buyers premises or shop
- d) Prompt cash: Is when cash is paid within few days after the delivery of goods.
- e) Credit terms: Is when customer makes payment for the goods after a specific period from the date of delivery.

- Credit terms can be

- a) Trade credit (monthly credit). This is between manufacturers, wholesalers and retailers where payment is made at the end of the month.

- Trade discounts and cash discounts are also allowed

- b) Consumer credit: Is that credit given to consumers (normally by retailers) consumer credit can:-

I. Short term credit: These are usually arranged informally:-

- Simple credit: Extended to customer by retailer for a short period of time usually one week. Customers take goods without paying for them and pay after seven days
- Credit account: customer are allowed to take goods at any time and pay at the end of the month
- Revolving credit (Budget account): This is offered by large scale retailers where a customer make cash payment (initial deposit) and then allowed to take goods exceeding the initial deposit but up to a certain limit provided he keeps the agreed amount in his account

II. Long term credit (extended credit): This involves formal arrangements where legal contracts are involved end items of high value are involved.

- They are of two types.
  - a) Credit sale or deferred payments
  - b) Hire purchase

**Means of payment: The buyer pays the seller in various forms:-**

- Promissory note
- a) Cash: By use of currency (notes and coins)
  - b) Instruments of credit like cheques, Bank draft or bill of exchange,
  - c) Through Post Office: By the use of money orders, postal orders, postal stamps registered mail.

Assignment:

**What do you understand by:**

- a) Debit card
- b) Credit card
- c) Consignment note
- d) Advice note
- e) Damage or return note.

Terms of delivery:

1. Carry PD: The seller is responsible for the delivery of the goods to the buyer's premises that is seller pays costs of delivery on behalf of buyer.
2. Carriage forward (carr fwd): This is where the buyer pays for carriage, the seller can arrange delivery.
3. Low (ex-warehouse price): Buyer will have to meet all the expenses and arranges for delivery for taking the goods from the warehouse of the seller.

**CREDIT CONTROL:** Is a deliberate move by a business to satisfy itself on the credit status (credit worthiness) of a buyer:-

- Before granting credit to the buyer the trader inquiry (credit status inquiry) on the credit worthiness of the buyer

**Source of information**

1. Trade reference:- The person requesting for credit facilities for the first time will be asked to supply the names of persons and firms with whom they have previously done business then information on customers credit worthiness can be obtained e.g. other customer supplies.
2. Bank references: The customer may be required to give the name and address of his banker. The bank will usually give information to a sellers bank (not the seller) about the customer's financial position and integrity.
3. Credit inquiry agencies: Specialized institutions in provision of information about customers upon payment of commission example about customer's business standing.



4. Trade associations or chamber of commerce. A trader can ask for confidential information and integrity of prospective customers for customers who are members of such trade associations or chamber of commerce.
5. Consumers associations: they usually have enough information on the credit status of the members
6. Other customers: The trader can ask for his regular customer who know the prospective customers on credit worthiness and habits

### **Problems of internal trade in Tanzania**

1. Lack of enough capital: Most traders does lack capital both for starting and expanding business.
2. Poor transport and communication: Especially in remote rural areas, this hinders timely delivery of goods or services and lead low production poor warehouse facilities. Most goods are poorly warehoused and sometimes no warehouses at all this affects the quality of goods lack of business skills. Many traders lack business skills like accounting, finance, marketing this weakens their performance especially in competitive market.

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## **WHOLESALE TRADE**

### WHOLESALE TRADE

This is the trade which involves the buying of goods in large quantities from a manufacture and selling them to the other traders i.e retailers rather than consumers.

A wholesaler is the person who buys goods on bulk from manufacturers and sells them to retailers. The main role of wholesaler is “bulk breaking “i.e. buying goods in large quantity and selling them in relatively small quantity to retailers

### **BROAD FEATURES OF WHOLESALER**

1. Is neither a producer nor retailer but act as a link between the two person i.e. producer and retailer.
2. He generally specialize on the commodities.
3. He doesn't deal directly with consumer but sell through retailer.
4. He requires huge capital to conduct the business.
5. He buys in bulk but sells in relatively small quantities to retailers.
6. Usually he keeps his stock of goods in the go down rather than in the shop.
7. He gets profit mainly due to trade discount rebutes or cash discount granted by producers.

## FUNCTIONS OF A WHOLESALER

A wholesaler perform the following functions in the process of making goods

- Buying and assembling

Wholesalers collect the agricultural goods in small quantities from small scale farmers (producer) and store them in the warehouses. He normally assembles goods from various producer so as a retailer may be able to buy what he wants from him at a right place, price, and time, quality and quantity.

- Warehousing

Wholesaler keeps a large stock of goods for retailer, he ensure that the goods are available to retailer at all time. The wholesaler helps to stabilize price by adjusting supply according to the demand.

- Grading , packaging and branding

Many wholesaler sort out goods according to size , shape ,quality etc they break goods into small lots re pack them and put their own branch names in this way the perform by grading and standardization, they ensure supply of uniform quality to retailer.

- Financing

Wholesaler provides finance to manufacturers / producer and retailer. They often buy goods from producer on cash basis and even make advance payment. Wholesaler generally sells goods to retailer on credit basis.

- Dispersing

A wholesaler distributes the assembled goods among retailer scatered all over the country . sells goods in small lots to retailers according to their advice.

- Transport

Wholesalers provide facilities for transportation of goods from the producer to their own godowns.

- Risk bearing

A wholesaler serves as a stock absorber. He bears a risk of change in demand and damage of goods when in transit and during storage , also the risk of bad debts by granting creadits to the retailer, a wholesaler therefore face many risks by buying bulk and storing goods in bulk.

- Market information

A Wholesaler forecasts the market condition. He collects information from retailers about change in tastes , fashion , buying habits of the consumers and passing them to producer. some wholesalers advice the retailer on which goodwill satisfy the needs of the consumers and at what price .

### **SERVICES RENDERED BY A WHOLESALER.**

A wholesaler provides useful services to both manufacture or producer and to the retailer also as follows:

#### SERVICES TO MANUFACTURERS

##### 1. BULK BUYING

A wholesaler collects orders from large number of retailers. He buys goods in large quantities, therefore producers are seemed to be in trouble to collect small orders from a large number of widely scatered retailers.

##### 2. STORAGE

By buying goods in bulk , a wholesaler relieves the producers the barden of carrying large stock . producers do not have to make arrangement for warehousing.

##### 3. PRICE STABILITY/ ECONOMIES OF SCALE

Wholesaler stores goods during the stock season and do sell them during the period of peak demand by so doing, he prevents the violent fluctuations of prices.

##### 4. FINANCING

A Wholesalers makes prompt and sometimes pay in advance to the producer. therefore producer have to invest lesser capital in the business.

#### B. SERVICES TO RETAILERS

- PUBLICITY AND ADVICEWholesalers advertise their goods regularly, such publicity help the retailers in increasing their sales . some wholesalers also guide retailers in store layout and selling techniques.
- CREDIT

Wholesalers grant liberal credit facilities to retailers as a result, retailers can carry on a large volume of business ever with small capital.

- ECONOMIES OF SCALE

Wholesalers operate in the large scale, therefore they can obtain heavy discounts and rebate from producers and freight costs. so retailers buy goods from wholesalers at the reasonable prices.

- PRICE STABILIZATION

By regulating the supply of goods , wholesalers maintain stability in price which enable retailer to take a fair margin in profit. Wholesalers also help retailers to take advantages of favorable fluctuations in prices.

- PROTECTION FROM RISK

Wholesalers relieve the retailers from several risk by keeping huge stock and selling goods on credit . retailers now can bear less risk of price fluctuation and spoilage goods.

- INFORMATION ABOUT NEW PRODUCT

A Wholesaler keeps in constant touch with producer, therefore he has up-to –date information about new product and new varieties of a existing products. He passes on such information to retailers.

- REGULAR SUPPLIES

Wholesaler stock variety of goods . by so doing he ensure that supplies to retailers are available at right time ,right place and at reasonable price .

### **ELIMINATION OF WHOLESALERS**

Wholesalers performs several useful functions and render many vital services . they provide a ready set outlets often to manufacturers and services as the source of stead supply of goods to retailer .therefore they provide a variable link between producers and retailers.

### **ARGUMENT IN FAVOUR OF ELIMINATION OF A WHOLESALER FROM CHAIN OF DISTRIBUTION**

Some people insist that wholesaler exploit producer and retailer for this case they should be eliminated and their function should be taken over by producer and retailer .

The following are the arguments given in favour of elimination of wholesalers:

- Production in price

Wholesaler charges the substantial margin of profit add to cost of distribution .this result into higher price payable by the ultimate consumer. hence price payable by consumer can be reduced by elimination of the wholesaler.

- Manipulations

Many wholesaler indulge in mal-practices such holding and adulteration .the push up the price by creating scarcity of goods such mal-practice can be eliminated by cancelling the function of wholesaler

- Faster distribution

Wholesaler are more transfer agents wholesaler up unnecessary made block in the process of distribution .their interference in the distribution channel obstruct the smooth and quick flow of goods from producer to retailers elimination of wholesaler goods can be supplied to consumer very quickly.

- Better alternatives: Large scale retailer such as chain store , departmental ,supermarkets etc. have adequate fund and space to buy goods in bulk directly from producer . they can bear risk and promote sales on large scale therefore they do not need the services of wholesalers.
- Perishable commodities:Thats to say when goods sold by wholesaler are perishable and cannot be stored for a long period of time.
- Purchasing by oder:Incuse retailers or consumers buy by ordering directly.This makes a wholesaler jobless.

## **ARGUMENT AGAINST ELIMINATION OF WHOLESALER**

Those who believe that the wholesaler trade is essential give the following/ argument.

### 1. STORAGE OF GOODS

In case wholesalers are eliminated, have to maintain large stock and bear the risk of price fluctuations . but retailers are generally to bear this burden due to limited capital.

### 2. SEASONAL PRODUCTS

Some product are produced through out the year but their demand arise only during a particular season.if wholesalers are eliminated, producers will have to keep huge bulk of stock like rain coats.

### 3. FINANCING

In case the wholesaler are eliminated , retailer will have to invest more capital in business.

### 4. NECESSARY FOR SMALL PRODUCERS

Small manufacturers or producer are not in better position in distribution of their product. Due to the large number of producers and retailer with small capital, wholesalers still dominate the field of distribution of goods

### 5. UNDIVIDED ATTENTION

If wholesaler are eliminated .the producers will have to under take the distribution of his goods in the small lots to the large number of widely scatered retailers. as a result, he will not be able to concentrate fully in production.

## 6. SAVING COSTS

Wholesaler are expert in the task of distribution . therefore they take expenses through more efficient marketing of goods . they maintain sale forces which call up on retailers regularly . their expenses are lower than those of manufacturers who sell directly to the retailers by eliminating the wholesalers costs of distribution may increase.

⇒ CONCLUSION DRAWN UP

By eliminating wholesaler , his function can not be eliminated .this function will have be performed by either producer / manufacturer or retailers

Therefore the elimination of wholesaler is desirable only:

In those case where producer or wholesaler can perform these function more efficiently than wholesalers therefore wholesalers are essential links in distribution of all such commodities where as producer and retailers are small and unable to consume the burden of wholesaler trade.

## **SERVICES OF A WHOLESALER TO THE PUBLIC**

- By holding large stock and releasing them regularly, a wholesaler helps the consumers to get stead supplies through frequently replacement.
- He plays an important role in keeping price stable which is obviously advantages to the consumers /public .
- He helps to make the process of distribution be smooth.

## **THE SOURCE OF SUPPLY OF A WHOLESALER**

The source from which a wholesaler obtains his supplies of course depends to the particular time of business but in general the source of supplies are as follows:

- i. Home grower for perishable goods
- ii. Commercial sales e.g. coffee ,tea, etc
- iii. Home manufacturers for manufactured goods
- iv. Import agent for over seas products
- v. Products exchanged for commodities e.g. grains , materials etc.

## **TYPES OF WHOLESALERS**

Wholesalers can be classified according to the areas saved by them or according to the goods offered by them . moreover according to the services performed by them .hence we have:

### **a. ACCORDING TO GEOGRAPHICAL AREAS**

- National wide wholesalers

These are wholesalers who are established in all major towns in order to save all parts of the country. This types of wholesalers operate in large scale like Tanzania training cooperation (TTC).

- Regional or local wholesalers

These wholesalers operate only in particular area of the country and may offer wide range of goods or a specified range of goods like (TTC)

- Export and import wholesalers

These are wholesalers specialized in foreign trade, they may sell outside the country (export) or buying from outside the country (import)

## **b. ACCORDING TO THE GOODS OFFERED BY THEM**

- General wholesalers

These wholesalers offer the varieties of goods in the number of field e.g. groceries, hardware, frozen food, sports goods and even house holds.

- Specialized wholesalers

these are wholesalers who carry a particular range of goods. this kinds of wholesalers usually offer great variety of goods but which are in one line of production or field of production e.g. books, soft drink, hardware etc.

## **a. ACCORDING TO THE SERVICES RENDERED BY THEM**

- Full services wholesalers

These are wholesalers who provides many services which are required to push up sales those marketing services are like buy and assembling of goods, storage, transportation etc full services wholesalers are such as general wholesalers, export and import wholesalers and specialized wholesaler

- Limited services wholesalers

These are those who perform particular function and leaves the other. this means they only perform few function and these are as follows:

- Mail order
- Truck wholesalers

- Drop shippers /dark jobber
- Cash and carry wholesalers
- Risk or pack of jobber.

## **PROBLEMS OF WHOLESALE TRADE**

Traders in East Africa experience a number of problem that prevent them not only from maximizing their profit but also from providing the types of magnitude of services to the customers that are available in the more commercial developed countries, some of them are :

- Small scale operation

Due to the lack of finance most traders in E. Africa operate in very small size which means they can not buy their goods in bulk and hence fail to get large discounts.

- Lack of capital

Many traders face the problems of un sufficient money to run smoothly the business . This makes /results traders to conduct mostly on cash basis rather than credit.

- Poor transport and communication

This makes difficult in the process of transport and distribution of goods and services to reach the users /consumers.

- Lack of training

Many people who enter in the business world thinking that trade is simple “give and take affairs ” soon discover that are ill equipped to handle the intricacies of the professional.



## WHOLESALE AND RETAILERS IN COMPARISON

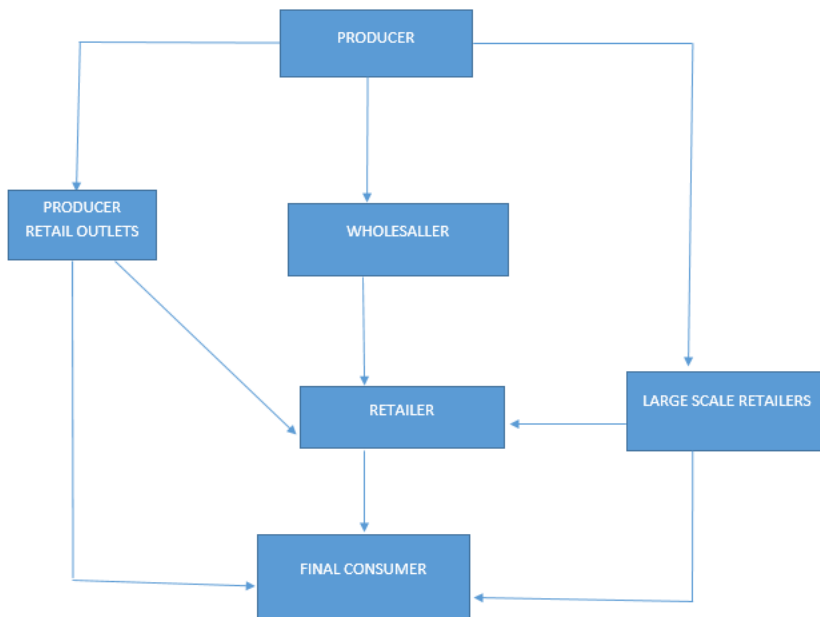
POINT OF DIFFERENCE	WHOLESALE	RETAILER
1. Scale of business	i. Large scale	• Small scale
2. Nature of goods	ii. specialization in one line	• Wide varieties of goods
3. Location	iii. Central location	• Near customers
4. Link	iv. between producer and retailer	• between wholesaler & consumer
5. profit margin	v. small	• large

### CHAIN OF DISTRIBUTION

The following steps would usually be involved in the distribution of goods and services from the producers to the final consumers:

- a. The producers may sell his product either to the whole seller or to a large scale retailer. In both cases, the quantities involved are very huge and some may operate their own retail outlets.
- b. The wholesaler also sells goods and services to the retailers. The quantity in which they sell to them (retailers) is always smaller than the quantity in which they buy.
- c. Some small scale retailers may purchase their goods from large scale retailers or retail shops operated by manufactures themselves.
- d. The retailers sell goods to the final consumers.

## CHAIN OF DISTRIBUTION



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## INSURANCE

### DEFINITION

Is the system of pooling risk where by a large number of people contribute to a common pool or fund from which they are paid or compensated if certain specified events/loss occurs to them.

### Pooling of risk

Everyone who is exposed to a risk should pay a small amount and all such collections should go to a pool. If there is a person suffers loss, should be paid compensation out of the pool.

### TERMS USED IN INSURANCE

I. INSURER

Is the party which grants insurance i.e. Insurance companies. In Tanzania, the insurance companies may be National Insurance Company(NIC), Zanzibar Insurance Corporation (ZIC) etc.

II. INSURED

- Is the person who takes insurance.
- Is a person / business firm who takes out an insurance and is promised by the insurance company to be compensated after event of a loss has occurred.

III. PREMIUM

- Is the payment made for an insurance policy under or usually on a regular basis e.g. monthly or annually.
- Is the sum paid by an insured to the insurer in order to insure the property.

IV. PROPOSAL FORM

This is the printed form on which the insured makes a written application for the issue of policy. Normally before issuing a policy an insurance company(insurer) will require information about what is to be insured.

V. ACTUARIES

These are high qualified mathematicians who are employed by the insurance companies for calculating premium and losses occurred.

VI. RISK

This is the event against which an insurance is taken out or the uncertainties which may occur and give unfavourable effect to the business.

VII. COVER NOTE

This is a document acting as a evidence of agreement to cover any loss that may happen between the time insurer accept the proposal and the insurer issue the policy to the proposer.

Its valid for a period of 30 days only after a policy has been issued.

VIII. POLICY

Is the document which sets out precisely the insurance cover provided (ie is an insurance contract).

IX. SURRENDER VALUE

Is the amount paid to a person who want to discontinue with the insurance contract.

X. INSURANCE BROKER

This is the intermediate engaged solely in the services between the insurer and insured.

A person who is going to expand to other people about the work of insurance company.

XI. ASSURANCE CONTRACT

Applies to those contracts of insurance which guarantee (promises ) the payment of insurance of events which must happen e.g. death or retirement etc.

XII. DOUBLE INSURANCE

This is an insurance where by more than one policy is taken to cover the same risk but the insured cannot be recovered more than insured value of the property from his insurers.

XIII. RE- INSURANCE

It is a procedure under which an insurance company enters into a contract with another insurance company with assumption that the insurer solely can not compensate wholly insured property due to high value.

**Advantages of re- insurance**

- i. It enables a wider distribution of risks.
- ii. The insurer can contract to indemnity more risks.
- iii. It stabilize incomes and loss over a long period of time.
- iv. It makes possible for insurer to undertake to indemnity even risks involving very large amount of money.

## IMPORTANCE OF INSURANCE

- I. Continuity of the business- insurance provides compensation to the insured. in the event of loss, the business is able to continue.
- II. Collateral security for credit - a life insurance policy may be used as a security to obtain loan(this because the loan will be paid to creditor even when the debtor death ).
- III. Savings - insurance can be used as a form of savings by policy holders the saving can then be used in future.
- IV. Create employment  

It create opportunities of employment in the economy eg. managers, assessors,actuaries etc.
- V. Surrender value  

This is the amount that an insurance company is prepared to pay if the insured no longer wishes to continue with the insurance contract and had already paid some premium
- VI. Credit facilities  

Insurance companies advance loans to their policy holders for personal development.
- VII. Economic growth due to revenue collected by government from differnt insurance companies.

## PROCEDURES FOR TAKING OUT AN INSURANCE / STEPS TO TAKE INSURANCE

The following are steps involved in taking out an insurance;

- I. The person wishes to be insured fill in a proposal form which constitute his application for insurance and is required to disclose all the material facts about the property he wants to be insured and state clearly the risks insured against.

- II. In the receipt of the proposal form, the insurer's agents calculate the premium . they may arrange to inspect the property before accepting the premium.
- III. The insured pay the premium and be insured with a cover note which is a proof that the premium has been made and accepted by the insurer who now undertakes to indemnify the insured.
- IV. Within 30 days of the issue of the cover note, the insurer issues the policy.
- V. If the events insured against happen, the insured is required notify the insurer and fills in a claim form to claim compensation.
- VI. The insurer now arrange the survey of the property to assess the extent of losses. on receipt of the survey report, the insurer pays due compensation to the insured.

#### PRINCIPLE OF INSURANCE (CANNONS )

##### 1. Utmost good faith (uberima fides )

A person applied for insurance is required to disclose all relevant and materials facts about property being insured so as to help the insurance company assess its suitable for insurance and calculate the premium accurately.

- If a person gives wrong information, insurance company has a right to refuse to pay any claim.

##### 2. Insurance interest

- This principle states that man/insured has to ensure those risks which affects him directly.This means man/insured has to ensure his property and not one's property e.g. I can ensure my house against fire but not to ensure my friend's house against fire.

NB

The principle of insurance interest and utmost good faith apply to all contracts of insurance I.e. assurance and insurance.

##### 3. Indemnity

This principle states that insurance does not aim at benefiting a person, its object is to compensate a person for what he has lost.

#### 4. Subrogation

This principle states that all salvage goods or stock will belong to the insurance company after the compensation of loss has been done. Insured has no right over his damaged property and can't gain anything.

#### 5. Contribution

This principle states that if the property has been insured by more than one company e.g. three companies, the compensation will be made by all three companies in equal contributions.

#### Example

If I have a house and insured it for 300,000/= against fire, in three different insurance companies then the house is completely destroyed by fire, each company will be pay  $\frac{1}{3}$  of the total loss

The insurance does not allow a policy to get a profit for a loss occurred by him/ her sometimes is known as double insurance

#### 6. Proximate cause

The principle states that " compensation will be made when the cause of damage to the insured was a result of insured risk

#### Example

If a person ensures his house against burning down by fire but unfortunately a house is burnt down by lightning, the insured would not be entitled to any compensation as the cause of loss is not directly related to the risk insured against.

INSURANCE IS NOT GAMBLING/DIFFERENCES BETWEEN INSURANCE AND GAMBLING

Many people think that insurance is the same as gambling because in both cases they find a number of people contributing amount and one person or a few person taking the lot of these are

INSURANCE	GAMBLING
i. Insurance aims at helping an unfortunate person who has suffered a loss and therefore has gain.	Gambling aims of giving prize to the winner the financial position of the winner improves after winning.
ii. The risk insured against may not happen.	The events speculated must happen to decide the winner.
iii. One must have on insurable interest in the property he/ she is insuring.	No such interest on gambling.
iv. It helps businessman and individuals.	It is the game of gambler people or street guys and doesn't help trade.
v. Insurance is legal.	Is legal only in few countries in most countries is illegal.
vi. One never loss or gain in the insurance.	In gambling person either he losses or gains.

#### TYPES OF INSURANCE

Insurance company in E. Africa offer mainly two classes of insurance namely

- A. Life insurance (insurance of human life )
- B. General insurance (insurance of properties )



## GENERAL INSURANCE

This cover insurance of properties. A person can insure any property he has an insurable interest e.g. fire insurance, accident insurance and marine insurance.

### 1. ACCIDENT INSURANCE

This policy provides for compensation of actual loss. accident insurance covers main categories

- Person accident
- Employers liability
- Motor accident

#### a) Motor policies

These provide for claims to be made for a damage in partial or in total to a vehicle.

This policy covers impact of fire and theft for private vehicle, commercial vehicle and motorcycle.

#### b) Burglary policy insurance

- Is a policy which cover private house, house breaking and larceny(theft )
- This policy is issued to cover contents of private or business premises against breaking in and theft carried there in.

#### c) Fidelity policy (fidelity guarantee)

- These policies provide a compensation of the loss of money and goods embezzled by any of employees .
- It may cover certain employees only or may cover the whole staff of the concern

#### d) Third party insurance

It covers loss of the property of third parties or bodily injury to third parties i.e. drives, passengers .

Example if your car hits some one else a result of your negligence. This insurance will make good loss to that person but not your car.

It's compulsory to have third party insurance before a vehicle is allowed on the roads

**e) Comprehensive policy**

Under this policy, the insurance company covers all possible types of risks

NB a motor policy may be third part or comprehensive

**f) Industrial injuries**

This type of insurance covers compensation to employee suffering injury arising from the conducted employment.

e.g. if an employee is injured while performing his duties, the employer is liable to pay compensation to the employee.

**g) Bad debts insurance**

It covers loss that a businessman can sustain for the failure of the debtor to settle their dues.

**h) Personal accidents and sickness**

These policies provide for compensation in the event of person accident involving injury to the person and temporary or permanent disablement of some parts of the body. This covers the following:

- I. Personal accident only.
- II. Personal accident and specified diseases.
- III. Personal accident and any form of sickness for a specified term of a year.

**2. Fire insurance**

This insures property against fire and acts of god like flood, lightning, earthquake, riot, etc. Policies of fire insurance are classified as follows.

KINDS OF FIRE POLICE

◆ SPECIFIC POLICY

In this policy the insurer undertakes to indemnify the insured any loss or demand to property caused by fire up to a sum specified against that particular property in the policy

Example

If the sum insured is 100,000/= in case of loss or demand to property the insurer is liable to compensate any loss up to the sum of 100,000/= depending on the extend of the damage. If the damage 60,000/= this will be paid.

◆ VALUE POLICY

In the policy the insurer undertakes to pay the insured the amount of value of the property declared in the policy in event of total loss, the insurer will have to pay this amount quite independent of the market value of property at the time of loss.

#### MAKING AN INSURANCE CLAIM

- ◆ Reporting in case a loss or risk for which an insurance is covered by the policy occurs, the insured is required to report to the insurer within specified period of time
- ◆ Filling in the claims form a claim form is issued by the insurer and the insured fills in the claim form, stating the full details of the loss.
- ◆ Assessing the insurer filter the report and sends out an assessor who surveys the extent of the damage and makes a report.
- ◆ Compensation the insured is compensated based on the report made by the assessor.

The following circumstance may prevent an insured person or institution from being compensated

- If he/she had defaulted or some of the premium.
- If he/she insured has intentionally instigate or cause or the occurrence of the insured risk.
- If the loss suffer is not directly related to the insured risk.

- Property is not owned by insurer.  
-If the insured may not a report from a police to show as evidence that the events actually occurred.

## MARINE INSURANCE

Marine insurance policy cover insurance of ships and cargo or goods in ship except proximate cause arising from wear and tear , theft , pilferage and losses from rates and vermin.

Marine insurance divided into two section.

- Marine hull - which deal only with the insurance of ships
- Marine cargo - this cover goods in ship or import

## TYPES OF MARINE INSURANCE

### 1) Hull policy

This policy cover the vessel it self or deal with the insurance of ships only.

### 2) Cargo policy

This policy cover the carried by vessels (ship) only.

### 3) Freight policy

This policy cover the services offered in the vessel by the ship owner.

### 4) Voyage policy

Is the policy for specified voyage only e.g. from London to dar es salaam.

## LIFE INSURANCE

Is the where a person insured his life it is referred as “ assurance” because an event insured against must occur either by maturity of the policy or death of the policy holder

Life assurance is an insurance against risk on a person life

#### TYPES OF LIFE ASSURANCE

##### A. Whole life assurance

- This require payment of premium through the life of the assured or for a specific period but the sum ensured is payable only after the death of the life insured.
- Whole life assurance policy is paid only at the death of the assured.

##### B. Endorsement assurance

Is for fixed term of years from the date of the policy and payable at that time or if death occur before the lapse of the time.

##### C. Education plan

This plan is meant to benefit your children by agreeing that the insurance company will undertake payment of fixed sums at intervals over a given period. This benefit is available provide the assured child is still a live when the company's liability to pay for his education become due.

#### DIFFERENCE BETWEEN INSUANCE AND ASSURANCE

##### INSURANCE

Is a system of pooling risks together by contributing small sum of money to a common poolin which compasation takes place to those who suffer losses.

##### ASSURANCE

Is applied to these contract which guarantee the payment of a certain sum on the happening of a specified events which is sound to be happen sooner or later e.g. death.

#### INSURABILITY OF RISKS

Risks that can be insured should fulfill the following conditions

- i. Loss must be foreseeable and subject to estimation of its value.
- ii. The risk coverage must be spread over a large number of policy holders in order to average out the risk.
- iii. The premium payable by insured must be within his ability to pay.
- iv. The policy holders should be dispersed over a large geographical area .

#### HOW TO CALCULATE AMOUNT TO BE COMPANSATED ?

##### Example

Andrew Mwakibibi has insured his stock in trade at shs 60,000/= but the correct value of his stock is shs 80,000/=. A fire destroys a party of his stock value at shs 50,000/=

Calculate the amount to be compensated

##### Solution

Sum insured shs ..... 60,000/=

Correct value in stock shs .....80,000/=

Value of stock lost shs .....50,000/=

Amount compensated

= sum insured X value of stock loss

Correct value in store

$$= \underline{60,000} \times 50,000$$

80,000

Amount to be compensated = shs 37,500/=

#### Example 2

Samwel has the property valued 15,000,000/= while the insured amount to 10,000,000/= and 6,000,000/= lost after an event of fire occur how much will be compensated ?

$$6,000,000 \times 10,000,000$$

15,000,000

= 4,000,000/= will be compensated

#### TERMS IN INSURANCE

##### I. **Re insurance**

This is when an insurance company find the large number of people insuring against a specified risk. This may lead claims of risk from insured will be high therefore it decide to insure it self with another large insurance company against the risks that it is covering.

##### II. **Co insurance**

This is where the property is insured by an insurer to various insurance company to spread the risks against valuable properties.

##### III. **Annuities**

In this case the insurer promise to pay the insured periodically a fixed sum of money until he dies.

##### IV. **Over insurance**

Occurs when the insured states a value for the property being insured that is higher than the true value of the property. This means that the insured pays higher premium when risk occurs, compensation is based on the true value of the property that has been insured.

V. **Under insurance**

Occurs where the insured states a value that is less than the true value of the property being insured. This results in lower premium for the insured. If the insured risk occurs, compensation will only be for the sum insured that is less than the value of the property.

VI. **Insurable risk**

These are common risks whose values are easily accepted by insurers.

VII. **Non insurable risk / non calculatable risk**

These are uncommon risks whose values are difficult to determine. Many insurers tend to avoid assuming.

VIII. **Sum insured**

This is the amount of money stated at the time of taking out an insurance policy as the compensation to be paid to the insured where the insured risk occurs.

**ix. Insurance pool**

This is the sum of all the premiums paid by the clients of an insurance company at any time. It is from this pool that compensation is made.

XI. **JETTISON**

This is where the captain is forced to lighten the ship by throwing overboard some of the cargo in order to safeguard the ship, its crew and cargo.

Thus under jettison the cost involved is a general average sacrifice and as such it must be proportionally shared by the owner of the cargo and the ship, or by their underwriters.

XII. **BARRATRY**



This involves any wrong act which is fully committed by the master or crew of the ship which have a harmful effect (prejudices) on the owner in question.

XIII. **BOTTOMRY BONDS**

Bottomry is a contract by which the owner or the captain of a ship borrows money and pledges the ship as a security for a loan. If the ship is lost all voyage, the bond is void.

XIV. **RESPONDENTIAL BONDS**

It differs from a bottomry bond in that is only the cargo that is pledged as security interest rates of these bonds is very high because of greater risk involved.

XV. **LOSS**

This is the value of the property destroyed by the occurrence of the insured risk. It represents the loss suffered by the insured.

## QUESTIONS

1. What are conditions which must be met before an insurer pays any claim?

Answer

- There must be loss suffered by the insured.
- The insurer must be properly informed when this happen insurer sends a claim form to the insured which enables the insured person to send in details of the loss suffered.
- The claim must be legal.
- The insurance contract must be enforceable a problem would arise it is found that the insured did not disclose all material facts when completing the proposal form.
- The insurance policy must cover the actual cause of the loss suffered e.g. losses from some cause like earthquake may sometimes be excluded from the insurance.
- The size of the claim must be agreed.

2. How do you take an insurance policy?

Answer

- Procedures / steps involved in taking an insurance general
  - a) a person has to go to an insurance broker who acts as intermediary between the company and person seeking insurance and give advise to the client on general matters relating to insurance.
  - b) the person wishing to be insured will fill in a proposal form
  - c) on receipt of the proposal form, the insurance company calculate the premiums (using its actuaries) and if necessary, may arrange to inspect the property before accepting the premium.
  - d) the insured pays premium and issued with a cover note as a proof that the premium has been paid

3. What are reasons for the claim being rejected by insurer

- If the insurance contract is invalid.
- If the loss suffered by the insured was excluded because the insurance policy.
- If the loss is deliberated caused by insured.

4. What are losses involved in marine insurance?

- Marine loss fall into

- **Total loss**

- a. actual or absolute total loss

occur when the complete ship and cargo are lost e.g. a vessel leaves port and disappears completely.

Presumed total loss- is when actual total loss has been presumed as the ship concerned is missing and after lapse of a reasonable time, no news of her has been received.

b. Constructive total loss

Is when the ship and the cargo are so badly damaged that they are rendered completely useless

Or occurs where the subject matters is justifiably abandoned because its total loss appears unavoidable or where it is so damaged that it is commercially impracticable to restore it.

- **Partial loss or average loss**

Under marine insurance average loss signifies partial loss or damage to a property insured.

It may be total loss of the part of the goods insured or minor damage to the whole goods.

**Classes of partial loss**

▪ Particular average

Means partial loss of damage accidentally caused to the vessel or to a particular cargo by the perils of the sea insured against e.g. damage by sea water , stranding, collision or fire, 120/= amounting to total loss. Particular average loss must be borne by the owner of the cargo suffering the loss.

▪ General average loss

Means any extraordinary loss damage or expenditure reasonably ad voluntarily incurred for the purpose of preserving all the interests(ship, cargo and freight ) imperiled in the common adventure like e.g.

- Cargo jettisoned to lighten the ship order to refloat her after stranding.
- Damaged to cargo by water used for extinguishing a fire.
- The cost of lowing a disabled vessel to port.

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## STOCK EXCHANGE

### What is stock exchange?

This is the market where already issued securities like shares, bonds, stocks can be bought and sold. For example DSE, KSE, USE, In Dar es Salaam stock exchange, Kenya stock exchange and Uganda stock exchange.

### Functions of stock exchange

1. It provides a ready market for those who wants to buy and sale their securities.
2. It is part of saving by members of the public.
3. It facilitates the raising of capital for investment.
4. It is used to judge country's economy progress.
5. It is important means of raising up government revenue through tax.
6. It provides employment opportunities.
7. It publishes useful information, statistics and summary of various companies.

### Important terminologies used in stock exchange

1. Par value. This is a face or nominal value of a security as it is written on its face (cost price).
2. Market value. Refers to the current price of a security as it is sold in the market as per demand.
3. Cum. Div (including dividends). This word stands for "with Dividends" which implies that the price quoted in a security will include some amount of outstanding interest for the previous period when an investor/seller declares dividend for the first time.
4. Ex-Div (excluding Dividends). This term stands for "without dividends) which implies that the price quoted will include some amount of dividend to be paid in advance when an investor declares it for the first time.
5. Quoted company. Is a company which allows its shares to be traded in the stock exchange market. That is bought and sold will only apply to public ltd company e.g. CRDB, Precision airways etc.
6. Un quoted company. Is a company whose shares are not traded in the stock exchange. That is, all private companies and some public companies which may decide not to sell their shares at stock exchange market will be in this category. For example; Bakhressa, Mengi, Manji etc.
7. To go public. This is an act of converting (changing) a private limited coy into public company. This will happen when a private company wants its shares to be trades at the stock exchange market.
8. Staging. It is a speculation which occurs in the new issue of shares in the stock exchange.

9. Under writer. It is an institution or a person who is responsible to collect or sale shares on behalf of the issuing company under the authority of stock exchange.

**Members of stock exchange; Include**

1. Brokers
2. Jobbers

- **Who are brokers?**

These are people who buy and sale securities on behalf of others or owners.

- **Who are jobbers?**

These are traders who buy and sale securities on their own account. They trade in security like wholesalers or retailers.

Jobbers can be classified into three, namely as:

- Bulls
- Bears
- Stags

**Bulls**

These are jobbers who buy securities e.g shares when they are cheap hoping to sell them at higher price to make a profit.

**Bears**

These are jobbers who sales shares when the price is high speculating that the price will drop later on and be able to buy them again at the cheapest price.

**Stags**

These are jobbers who deal with new issue of securities for example blue chips hoping to sell them at a profit.

What are the differences and similarities between jobbers and brokers?

- **Similarities**

1. Both operate in capital market.
2. Both do not hold shares for investment.

- **Differences**

1. Brokers earn commission while jobbers earn profit by selling securities.
2. Brokers are the same like retailers in securities while jobbers are the same like wholesalers in securities..
3. Brokers do not speculate on security price while jobbers speculate on security price.

## **SECURITIES TRADED IN STOCK EXCHANGE/ SECURITIES BOUGHT AND SOLD IN STOCK EXCHANGE**

### **Its concept;**

Security is any document that gives the holder a right to money or possesses property. Among the securities traded in stock exchange are:

1. **Share.** This is a unity of capital of a company divided into units of uniform value whoever contributed to the capital of the company will be the owner and called a share holder. In that case a share certificate will be issued to certify that a person has contributed some amount of money in the total capital to be invested in the company. The shares can be divided into two classes
  - a. Ordinary shares-Are shares which are owned by promoters of company who are paid after all other shareholders have been paid.
  - b. Preference shareholder- Are shares of company which are considered first in the distribution of profits.
2. **Guilt edged.** These are securities which are mainly issued by the government in order to regulate circulation and use the to implement fiscal and monetary policy. For example; treasury bills, government stocks, government bonds etc
3. **Blue chips.** These are shares of companies of high repute. That is, companies which are performing better in business. For example CRDB, Precision airways, Swiss air etc.
4. **Bonds.** These are loan securities given by company or government or individual showing its indebtedness.
5. **Debenture.** This is a document or a loan certificate issued by the company under its seal indicating that a company or individual has acknowledged the debts. It can be naked, redeemable, irredeemable.
6. **Stocks.** These are set of shares which are issued in a bundle collectively or in a group e.g. TOL, TATCPA.

## **DAR ES SALAAM STOCK EXCHANGE (D.S.E)**

- **Historical background**

Is the financial market incorporated in 1996 and became operational in 1998. Its functions are the same as other stock exchange markets. It is located in twiga building, 4<sup>th</sup> floor, opened five days in a week from 10:00 am to 6:00 pm at samora avenue in Dar es salaam.

### **What are the securities traded in Dar es salaam**

1. Ordinary shares
  2. Bonds
  3. Government securities
- Questions pertaining stock exchange
1. Outline qualifications needed to be a member of stock exchange
  2. Identify procedures of joining stock exchange market

### **LISTED COMPANIES IN DSE**

Listed companies are the companies which operate and decide to sell their securities in DSE. Currently there are 14 listed companies which are as follows

- CRDB bank
  - Precision airways\Swiss port
  - Twiga cement
  - TAHACO
  - TOL
- **Common securities traded in DSE**
1. Ordinary shares
  2. Bonds
  3. Government securities

### **DSE MEMBERSHIP**

The membership in DSE consist of

1. Licensed dealing membership LDM
2. Associate membership AM

### **WHO ARE?**

1. LDM. Are members who are allowed to access the trading flow especially buying and selling e.g. listed companies
2. AM. Are institutions and companies which support the DSE e.g. banks, brokers and jobbers

## **TRADING SYSTEM IN DAR ES SALAAM STOCK EXCHANGE**

Trading is conducted in the DSE trading flow order special device called ATS (Automated Trading System).

This is an electronic system which matches bids vs officers using an electronic matching engine.

## **FUNCTIONS OF DAR ES SALAAM STOCK EXCHANGE**

1. To provide a market for buying and selling securities.
2. To set price for every security either bought or sold to investors.
3. To provide opportunities for more investments and savings as part of economic growth of the country.
4. To provide useful information and statistics for various companies especially prospective investors.
5. To prepare stock exchange index which is very essential in checking countries economic progress.
6. To provide advice in effective investment opportunities.
7. To ensure that the safety of investors is guaranteed.

## **ECONOMIC BENEFITS OF STOCK EXCHANGE**

- What are they?
  1. It enables industries and companies to mobilize savings more cheaply than otherwise.
  2. It enables to save some fluctuations in prices of commodities.
  3. It provides employment opportunities.
  4. It helps to channel funds to investment in economic sectors where earnings are high.
  5. It encourages companies and business with low performance to perform well.
  6. It helps to mobilize foreign exchange when securities are sold in other countries.
  7. It increases interdependency between the private sectors and public sectors through this market.
  8. It enables securities to be easily turned into liquid assets of companies, financial institutions and government.

## **What factors which influence the price of securities in stock exchange market?**

- Demand and supply of shares and stocks. These forces of demand and supply of the issued shares, securities and stocks can influence the price of share either to rise or fall at



a particular period of time. So when the share, securities and stocks are more demanded this will lead to the rise of price compared to when they are not much needed.

- Bank rate. Also the bank rate or interest rate affects much the price of stock exchange whereby when there is high bank rate this means most of people will be discouraged to lend money from banks so the supply of money in the society will decrease hence the price of stock exchange also will fall unlike when there is low bank rates the price of stock exchange will rise and investors will be encouraged to lend more money from banks and other financial institutions.
- Political situations. The political situation of a country also determines the price of stock exchange, when the country is facing conflicts and wars, there is absence of political freedom. Most of its citizens are refugees, they migrate from one place to another then the price of stock exchange will be low because people will not concentrate on investing or purchasing shares.

## **MEMBERSHIP OF THE STOCK EXCHANGE**

The conditions of becoming a member of the stock exchange are:

1. The candidate must obtain a nomination from a retiring member before applying for admission. However, before one is nominated, he has to pay a nomination fee.
2. Applicant must be over 18 years of age.
3. Applicant must provide referees in the form of a proposer and a seconder who are not under any financial obligation in the case of candidate default.
4. Should never have been declared bankrupt or if you have, have been discharged of the debt.

## **GENERAL PROCEDURES FOR PURCHASING SECURITIES**

1. Deciding on objective. Invest must decide on his/her objectives in relation to buying the shares.
2. Contacting stock broker. After the making a decision, the intending investor has to contact the stockbroker with whom he/she discusses matter concerning the investment. The buying broker who must have information regarding market trends.
3. Price quotation. The buying broker contacts the jobber who quotes the price for the shares. The jobber quotes two prices to the broker.
4. The bargaining day. The broker organizes and meets the jobber to bargain over the prices. After agreeing, the broker sends a contract note to the client (investor).
5. After agreeing on the price, the broker contacts the jobber on his /her client behalf.
6. The buying broker completes a stock transfer form and has it signed by the seller for whom she/he is acting.

## **WHY INVEST IN SECURITIES?**

Share holders enjoy many advantages that come with owning securities. These include,

1. Dividends. When companies make profits, the board of directors usually gives a percentage of profit to its shareholders in the form of dividend.
2. For investment purposes and they are mainly interested in making profits.
3. Some people buy shares and stocks as a means of saving because they are easily marketable.
4. Shares give the shares holders the right to attend and vote on important company policies during annual general meetings.

5. Shares may be accepted as collateral security against loans from financial institution.
6. Capital growth. If the company is growing, the value of share will also grow.

### **DISADVANTAGES OF INVESTING IN SHARES**

1. Share prices go up and down depending on a number of different factors like demand and supply etc.
2. If the company's profit falls, the dividend also falls. And if it makes losses, the company may not be able to pay dividend.
3. If share prices fall, their asset value is lessened and if the company collapses, the shares become worthless.
4. If the company goes into liquidation, the share holder are the last to be paid after all other creditors.

### **RIGHTS OF SHAREHOLDERS**

Shareholders have the following rights:

1. The right to amend the memorandum of Association.
2. The right to sell shares.
3. The right to vote at general meetings.
4. The right to approve or disapprove the sale or purchase of company assets.
5. The right to approve payment of dividends, issue of bonus shares, rights issues and increase in the share capital.

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## **SCOPE OF COMMERCE**

### General introduction

The concept of commerce

The word commerce originates from two Latin words

- (i) “CUM” which means with
- (ii) “MERX” which means “MERCHANDISE”

The term refers to any study or activities dealing with merchandise. The word merchandise means things/ goods/ commodities bought and sold for gain of profit.

### **DEFINITION OF COMMERCE**

Commerce is the subject which deals with exchange and distribution of goods and services in order to satisfy human needs or wants.

Commerce is a branch of production which concerned with exchange and distribution of goods and services from the producer to the consumer i.e. from the point of production to the profit of consumption.

Commerce is also known as “BUSINESS ECONOMICS” that means it is an art of economic activities which is mainly concerned with the exchange and all other activities which facilitate such exchange.

Exchange – is the process of buying and selling of goods and services

Distribution- movement of goods and services from where they are produced or found to where they are needed in order to satisfy human needs or wants.

### **THE MEANING OF SCOPE OF COMMERCE**

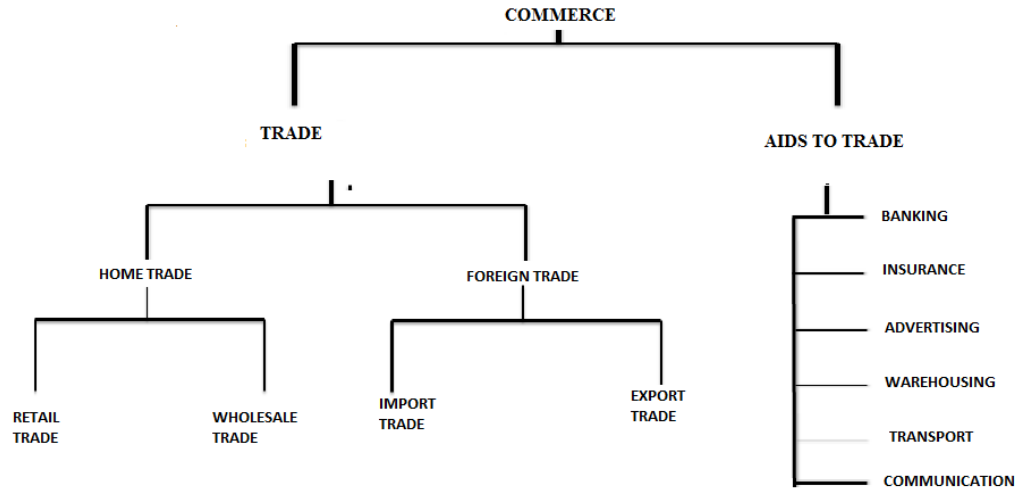
The scope of commerce means area of study covered in commerce. It comprise the study of all activities involved in the transfer (distribution) of goods and services from producer to consumer.

These activities include trade, transportation, communication, advertising, warehousing, banking and insurance,

The scope of commerce therefore covers the following.....

- (i) A study of trade, which is the mainly activity in the distribution and services.
- (ii) A study of auxiliary service (aids to trade) that make trade possible.
- (iii) A study of how best trade and aid to trade could be organized so as to satisfy the needs of consumer in the possible and most efficient way.

The scope of commerce can be illustrated by the chart below which shows the trade and Aids to trade.



## TRADE AND AIDS TO TRADE

### 1. TRADE

Trade – refers to the buying and selling of goods and services with the aim of generating profit. The person who engages in trading activities is known as trader.

Trade is subdivided into two main branches

- (i) Home trade (Internal trade).
- (ii) International trade (foreign trade).

#### (a) HOME TRADE

This is buying and selling of goods and services within one country.

Home trade is divided into two main branches

- (i) Retail trade.
- (ii) Whole sale trade.

#### (I) RETAIL TRADE

This is buying goods in large quantities from whole sellers or producer and selling them in small quantities directly to the final consumers.

A person who engages in this type of trade is known as a retailer or retail trade.

**(II) WHOLE SALE TRADE**

This is the buying of goods from producers or manufacturers in a very large quantities and selling them to the retailers.

A person who engages in this type of trade is known as a wholesaler or wholesale trade.

**(b) INTERNATIONAL TRADE (FOREIGN TRADE)**

This is the trade between one nation and other nation it consists of all trading activities that involves exchange across national boundaries.

Foreign trade is divided into two main branches

- (i) Export trade.
- (ii) Import trade.

**ENTER PORT TRADE**

It means buying goods from one country for purpose of re-exporting/selling to another country. It is also known as – RE-EXPORT TRADE.

**(i) EXPORT TRADE**

This is the selling of goods and services to other countries e.g. Tanzania selling coffee as its export. Goods and services sold to other countries are known as exports.

The person or countries which carry out this type of trade is known as importer.

**(ii) IMPORT TRADE**

This is the buying of goods and services from other countries e.g. Tanzania buys oil as its import.

Goods and services bought from other countries are known as imports.

The person or country which carryout this type of trade is known as importer.

**2. AIDS TO TRADE (Auxiliary services)**

Aids to trade are all those activities which assist or help and facilitate in carrying out trade to go smoothly. they include the following:

**1. TRANSPORT**

This refers to the physical movement of goods and people from one place to another. The chief form of transport is land. (Roads and Railways) water and air transport assist trade by distributing raw material to manufacturers, semi – finished goods to finished goods.

This kind of transport which is road, is normally used by countries which have no harbour like Uganda, Zambia etc.

**2. COMMUNICATION**

Is the art of spreading or transmitting information and ideas from one point or person to another. commercial information between producer and consumer can be transmitted by means of press, wireless , radio and television.

**3. WAREHOUSING**

This process of storing and protecting in a warehouse until they are demanded or needed. Storage of goods make them to be available when they are required and also protect them from being stolen, going bad due to extreme weather conditions and from other hazards.

**4. INSURANCE**

Insurance is a system of pooling risks together by contributing small sums of money to a common pool which in long run compensates those persons who suffer the actual loss.

All business activities are exposed to a number of risks. Goods may be stolen, catch fire, be damaged in accidents. Sink in the sea etc.

Insurance undertakes to compensate this business which incurs losses from the risks insured.

## 5. BANKING

Banks are institutions which aim at assisting traders by safeguarding their money.

Leading them money in a form of loans and overdrafts and also provide efficient, safe and convenient method of payment using cheques and other means.

## 6. ADVERTISING

This is the act of making goods and services known to the public. the aim is mainly to inform, persuade and remind potential consumers about the availability of goods or services into the market.

### INTER-DEPENDENCE BETWEEN TRADE AND AIDS TO TRADE

Trade and Aids to trade are inter-dependent on the following ways:

- (i) Trade involves buying and selling of goods and services. The process of buying involves buying from producer and selling them to the final consumer. These goods cannot reach final consumer without services of one or some of Aids to trade such as transportation and communication.
- (ii) Aids to trade likewise depend on trade. A demand for aids to trade is derived demand. Business men require Aids to trade such as warehousing banking and transportation when they buy and selling goods.

E.g A retail trade buys from the manufacturer or wholesaler, needs the services of transportation, communication, banking, advertising etc.



- (iii) Development of trade depends on the development of Aids to trade. likewise, development of Aids trade depends on the level of development of trade. when trading activities flourish, they call for the establishment of aids to trade such as banking, insurance warehousing, advertising, transport and communication on the other hand good services from aids to trade enable smooth running of trade.

## COMMERCE AND ECONOMICS

The relationship between commerce and economics

- Economics is concerned with how man can satisfy his unlimited wants with the limited resources. Since the wants are unlimited, choice must be exercised and should be based on the most immediate necessities of man.
- Commerce is a branch of production which deals with exchange of goods and services and all activities that facilitate the transfer of goods from producers to the final consumers.
- Commerce therefore facilitates satisfaction of ends (wants). Commerce is also known as business economics that is a part of economic activity which is mainly concerned with exchange and all activities which facilitate exchange.
- Since resources are scarce business/persons who are engaged in trade and aids to trade, must make economic decisions involving choices of what goods to be exchanged in order to maximize profit.
- Like economics, commerce is faced with the main economic problem of choosing few alternatives as a result of scarcity of resources and unlimited wants of consumers.
- Economics is concerned with the problem arising from the production and distribution of goods and services.
- Both the study of commerce and economics are interested in the distribution of goods.

## DISTINCTION BETWEEN COMMERCE AND ECONOMICS.

- Economics is concerned with all activities involving production, distribution exchange and consumption  
while Commerce is concerned with one section of economic activity that is exchange and distribution.
- Economics is very wide which comprises of all activities of economy while Commerce deals with commercial occupation only.

## COMMERCE AND BUSINESS

The relationship between commerce and business can be described as follows:

Business is any activity carried out with an intention of making profits. Some businesses incur losses but their main aim is to make profit.

Business includes both commercial and non-commercial profit-making activities such as direct services and manufacturing while Commerce applies only to activities that involve trade and aids to trade.

- Commerce does not include business activities which are not related to either trade or aids to trade.

e.g Manufacturing is a business activity but is not an activity of commerce.

### CONCLUSION

- i) All commerce activities are business activities e.g retailing and wholesaling are both commercial and business activities.

### BUT

- ii) Not all business activities are commercial activities e.g manufacturing as a business activity but not a commerce activity.

### IMPORTANCE OF STUDYING COMMERCE

The study of commerce is important in the following ways.

- i) It helps in development of the country's economic, trade and aids to trade. enable goods produced to reach final consumer and therefore increase in production and national income.
- ii) Commerce enable producers to get information about the availability of goods and services in the market. Availability of goods to increase in production and information about availability of goods stimulates consumption and therefore reduce more production.
- iii) The knowledge of commerce enables learners to understand other field of knowledge like economics.

- iv) It enables business men and women to conduct trade by simply knowing means of exchange and source of supply briefly commerce should be studied because.
- o Everyone is involved in commerce either buying or selling
  - o Modern communication method can be difficult to understand e.g E- commerce.
  - o Consumer has to understand the marketing techniques
  - o Everyone can make contracts and commercial knowledge therefore may be important.
  - o He is necessary to understand changes in the commercial world as they affect us.
- v) He is useful introduction of these who to specialized later is any components of commerce e.g insurance, Banking clearing and forwarding agents.

## **HISTORICAL DEVELOPMENT OF COMMERCE**

The development of commerce can be looked at through the following stages

### **A.A :PRODUCTION WITHOUT EXCHANGE**

In primitive societies the producer himself was the consumer. he was compelled to provide himself with food, shelter and clothing under such circumstances, the question of commerce transactions or exchange of goods did not arise but slowly his wants started to increase in size and in number. He was no longer able to satisfy all his want by the goods produced with his labour alone with the development of division of labour it was realized that different members of the group had diffident talents. With division of labour each person is assigned to a job in which he could do it best.

The impact is that the total production of the whole group of people would be greater than if they each tried to be self supporting individual.

## **B. B: PRODUCTION WITH EXCHANGE**

The number of such group increased and the exchange of surplus production began to take place, the basic patterns of commerce emerged as the people began exchanging commodities with those produced by others.

This exchange of goods for goods was known as BARTER TRADE

Therefore the earliest kind of commerce took place in form of Barter.

### **1: BARTER TRADE**

Barter trade involves the exchange of goods for goods. However the barter trade could not persist for a long period of time due to the following limitation (draw backs)

1. (i). Problem of double coincidence of wants in order for exchange to take place. It was very difficult for a trade with surplus of a certain commodity to look for a person who wants what a trader has and at the same time to possess what trader wants before transaction take place. For example if there was a farmer who had maize and wanted a shirt, the farmer had to find a person who had a shirt and wanted maize but if he could not find such a person who wanted maize and has a goat then barter trade could not take place.

2. (ii). Problem of measuring of value

In barter trade it was very difficult to decide how much quantity of one commodity could be exchanged for a certain amount of another commodity.

For example it is very difficult to decide how much quantity of maize must be exchanged with cow.

(iii). Problem of store of value. Under barter system it was difficult to store perishable goods like vegetable, fruits, milk, meat, and fish and exchange them with other commodity in future.

(iv). Problem of measuring of value

In barter trade was very difficult to decide how much quantity of one commodity could be exchanged for certain amount of another commodity.

For example was very difficult to decide how much quantity of maize must be changed with cow.

(v). Problem of divisibility (indivisibility).It was not possible to divide some commodities into smaller units in order to exchange without units of other commodities. For example if a person has a certain units of cloth and wanted to exchange with some units of meat of cow the exchange was very difficult because a cow could not be divided into smaller units if the value of the units of cloth was not equal to the value of the whole cow.

(vi). Lack of standard of differed payments under barter system the borrowing and lending was made in term of goods. It was difficult to decide where the same value was returned latter or not.

(vii). Difficult in transport some commodities.Due to lack of modern means of transportation and due to immobility of some items, it was difficult to transport such items from one place to another for exchange. In view of the difficulties of the barter system different commodities were used as money in different period. The following commodities were used as money from time to time

- (i) Hides and skins, stones, arrows agricultural products like wheat, maize rice.
- (ii) Different metals like silver, copper, gold etc.
- (iii) Paper.

At present current notes and coins issued by central bank acts as main form of money.

The introduction of money has solved all the problems of the barter system.

The issue of money has converted a batter economy of the into monetary economy of today. Money is known and used as a medium of exchange. The goods and services are known sold and purchased with the help of money.

### **Definition of money**

Money is a commodity chosen by a common consent to be a measure of value and means of exchange between all other commodities.

#### Advantage of Barter system

Despite its drawbacks (limitations), barter system has the following advantages over the use of money.

- (i) The risk of theft is lower in barter trade than the risk of using money. Almost all modern forms of money can easily be stolen and are more vulnerable to theft than commodities.

This is because money is easier to carry than commodities

- (ii) The value of commodities tends to be stable over a long period of time unlike the value of money which depreciates in value after a certain period of time. Due to depreciation in value, money plays little role as a future store of value.

- (iii) Barter trade is very useful in non-monetary economies where money is too scarce to be used as a medium of exchange e.g. in rural areas barter trade is widely applied due to scarcity of money.

- (iv) The use of barter system makes the economy of the place less reliable to economic problems like inflation and deficit in the balance of payment.

#### **FACTORS THAT HAVE CONTRIBUTED TO THE DEVELOPMENT OR GROWTH OF COMMERCE**

1. The diversification of natural resources encourages the exchange of goods between different countries or areas.
2. The difference in human wants also introduces the exchange of goods.

3. Specialization or division of labour became another main cause of trade of exchange of goods.
4. Improvement in transport and communication system was also a great help in the expansion of commercial activities.
5. Development of money and banking system was another reason for great production and expansion of exchange activities.
6. Population increase
7. Different in skills and knowledge
8. Liberation of trade in industries
9. Advertisement in risk management
10. New consumers attitude towards debt

**AREAS / PLACE OF BARTER TRADE TODAY**

- (i) In rural areas where some people sometimes exchange crops for crops during harvesting period or crops for animal products.
- (ii) In international trade dealing with exchange of goods for goods.

## Importance of commerce

### 1. Bridges the gap between producers and consumers

Commerce enable producer to inform customers about the goods and services available for sale through advertising or communication.

### 2. Compensation for losses

Commerce enables business people to get compensation for losses caused by insured risks hence their business continue operating normally.

### 3. Acquisition for capital

Through commerce businessmen are able to acquire capital in the form of loans from banks.

### 4. Variety of Goods is enjoyed

Through commerce the public gets a variety of goods and services from different users. People are therefore given a chance to exercise their choice.

### 5. Creation of employment

Many people are employed in the commercial sector as importers, insurance brokers, wholesalers and retailers hence improving their standards of living.

### 6. Making goods available

Goods and services are made available to consumers through commerce.

### 7. Encourages production

With commerce goods are taken to the final user which makes the production of goods more profitable this encourages producer to produce more.

## Why should you learn commerce as a subject/ importance of studying commerce?

- (i) Enables you to understand and experience the developments in the world business



- (ii) Enables you to acquire the knowledge necessary for running your business in the future.
- (iii) Enable you to learn the commercial language used in the day to day commercial transactions.
- (iv) Gives you good background knowledge to the study of the subjects like economic, entrepreneurship, business law and accounting.
- (v) Helps you to find out the different goods and services available and why prices fluctuate.

**NOTE:**

**DIFFERENCES & SIMILARITIES BETWEEN  
COMMERCE & ECONOMICS**

Difference between commerce and Economics

- (i) Economics is concerned with chief problems arising from the various economic activities on production, exchange, distribution, consumption and allocation of resource while commerce is concerned with the process of exchange and distribution of goods.
- (ii) Economics is very wide since it comprises of study of all economic activities while commerce is a part of economic which comprise the study of commercial occupations only
- (iii) Economics is highly interested in analysis of the working system so that economic becomes a highly theoretical study seeking to understand the principals underlying economic activity for instance study of demand & supply while commerce is highly a factual or practical study of various business economic facts example operation of import and export trade, retail and whole sale trade.

Similarities of commerce and Economics

- (i) They are both social sciences

- (ii) They are both interested in the distribution and exchange of goods and services for satisfaction of human wants.
- (iii) They are both concerned with economic activities and facts especially money and banking.

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## RETAIL TRADE

### Introduction

The word retail come from French word which means to out a big lots into small lost. It describes the most important function of retailer which is buying goods in large quantity from wholesaler and selling them in small quantity to consumers.

### Meaning:

Is the process buying goods in large quantity from producers, manufactures or whole seller and selling them in small quantity to final consumers?

OR

It includes all activities which are related with buying goods in large quantities from producer manufacture or whole seller and selling them in small quantities to the final consumers.

### A Retailer

Is a person/trader who buys goods in large quantities from whole sellers and selling them in small quantities to find consumers.

### Necessary for retailing

Is necessary due to the following condition

- (i) Impossibility of consumers to approach different manufacture or producers and whole sellers who are scattered over large area.

- (ii) In ability of consumer to buy large stock due to having in a adequate funds.
- (iii) Impossibility of consumer to buy large stock and keep them in their houses which may expire or destroyed.

### **FUNCTIONS OF RETAILER**

A retailer performs the following functions: -

1. Market survey / market research

A retailer is required to perform about consumer preference that is what they like and what they don't like.

2. Buying

After making survey about consumers' preferences he must buy for them he must be a good buyer who buys goods of a quality and at fairly / cheap price.

3. Transport

A retailer arranges for transfer of goods from supplies ware house to his premises or sometimes he can arrange transport of goods from his shop to his customers place.

4. Storage

The retailer keeps goods for later use or delivery in order to avoid damage, oversupply or scarcity.

5. Breaking (Bulk breaking)

This means buying in large quantities and sell in small quantities.

6. Selling

He sales good to consumer usually in small quantities.

7. Advertising

After storing the goods he is able to require informing the consumer about what products are available in this shop.

8. Display and advice

He displays his goods in order to give his customer opportunity to select the one most suitable to them.

9. Selling and sales promotion

He is required to sell his goods to his customers together with giving in activity or motivation.

10. Financing

The retailer act finance through providing credit facilities (by allowing credit).

11. Stock control and book keeping

He is expected to keep books of record, regarding to receipt closing balance of stock in terms of quantities, Also he had keep the books of account in order to control the movement or other terms of money.

### **THE QUALITIES OF GOOD RETAILER**

The sources of retailer depend on a number of factors. The most important being person quantities qualities<sup>1</sup>. He should be pleasant in his dealing his customers

1. He should know how to communication with his customer i.e. use of soft and good language to customer e.g. you are welcome

2. He should be a good buyer by knowing what to buy, how buy, how much buy where to buy and unit price to buy.

3. They should be a good administrator and organizer so as to manage and control subordinates and also to control inflow and out flow of money in the business.

4. He should be able forecast the demands of his customer as regards to quality, quality taste, fashion package, change in demand and appropriate price to be charged to his customers.

5. He should be honest to his customer “The get rich quick” must sell him something types of altitude does not pay in the long run. Honest in dialing with customers without cheating is very important propaganda on selling do not pay positively in the long run.

6. He should be cooperative to his customers and pay them promptly. This would on the other hand earn him maximum cash discount.

7. He should be tactful person in his dealings with customers

#### **IMPORTANCE OF RETAIL TRADE IN COMMERCE.**

Retail trade is performed by a retailer. The following are the important of retailer to producers, whole sales and to the public or consumers.

#### **IMPORTANCE OF RETAILER TO PRODUCER AND WHOLESALER**

1. He acts as specialist in a selling.
2. He finances the wholesaler by buying from his and paying him important.
3. He offer storage facilities by doing so he clears production
4. He passes back the information regarding public demand for different types of goods.
5. The retailers sell in relatively small quantities can keep var red stock

#### **IMPORTANCE OF RETAILERS TO CONSUMERS**

(Services provide by a retailer to consumer) Public.

- i) The retailer act as the consumers purchasing agent
- ii) He supplies the right kind of goods at reason about price
- iii) Assure Variety of goods for customers
- iv) Offer after sales services

- v) Finance the customers by offering credit worthiness to them

### **SETTING OF BUSINESS IN THE RETAIL TRADE**

Factors to be consider before (starting) interring into retail

#### **1. CAPITAL**

Is on item of money must be available the amount of capital required also comprises. The following

- i) The required building whatever is to be rented or build'
- ii) Depends upon furniture and fittings.
- iii) The amount of stock needed to start with.
- iv) The amount needed to be as articulating capital.
- v) The moment needed to remain as a receive.

#### **2. SOURCE OF CAPITAL**

The sources of capital are

- i) Provision from own saving
- ii) By finding a partner.
- iii) By borrowing from friends , back and other financial institution
- iv) By borrowing back profit cones from his business.

#### **3. LOCATION (POSITION)**

You have to select an area that situated to the nature of the business choose of location depends of the following

- i) Availability of market
- ii) Good communication system
- iii) Reliable security banking facilities.

#### 4. PURCHASING OF STOCK

Buying of stock is the essence of the business. Any single mistake in purchasing will destroy the whole business; you need to make a decision in purchasing.

- i) The quality to buy
  - Good quality and update goods will always attract costumers

- ii) The quantity
  - Overstocking should avoided because.

- a) Fashion may change and goods may depreciate or become absolute.
- b) Turn over may be very small
- c) Prices may fall

#### 5. SOURCES OF SECURITY

For the retailer there is usually the source of supplies

- i) Wholesaler
  - These are common source of supply for the retailers
- ii) Manufacture / producers
  - Large scale retailers buy from manufactures or producers.

#### 6. ATTRACTING CUSTOMERS

A retailer has a task of attracting them through the following.

- i) Personality and creativity of retailer.

- ii) By keeping the shop tidy attractive and pleasant to powers. So that they may come again and more.
- iii) Offering delivery after sales services.
- iv) Insuring free supplies.
- v) Offering cash discount to these who pay promptly.
- vi) By exhibiting goods in shows and other displays.

## 7 DELIVERY

How goods are to be brought to your shop. The choice at which (made) of delivery to be used depend on types of goods their involved urgency quantity and also the time of delivery.

### FORMS /TYPES OF RETAIL TRADE

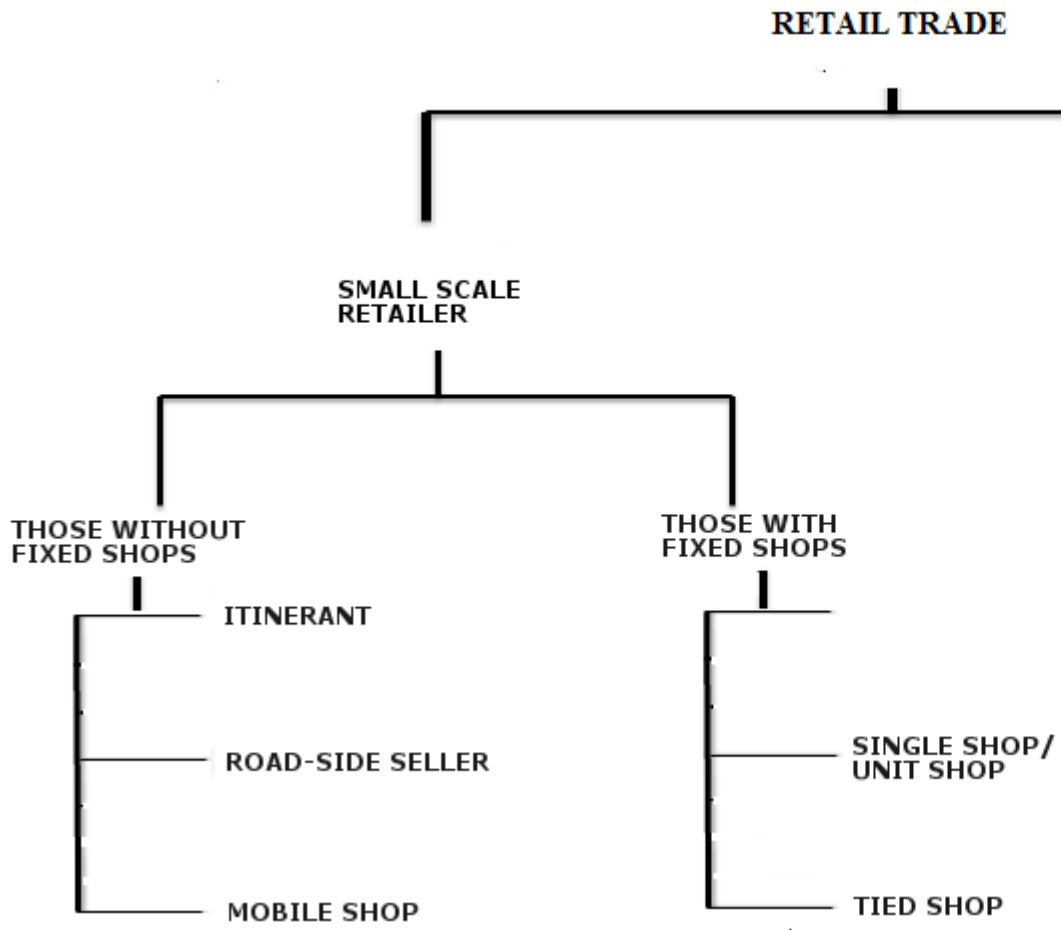
Retail trade is classification into main categories normally

- i) Small – scale retail operation
- ii) Large scale retail operation.

Small scale retail operation is condition by small scale retailers and large – scale retail is conducted by large scale retailers

Forms (types) of retail trade may be authorized in the form at chart as follows





### OTHER RETAIL OUTLETS

Other retailer outlets include.

Market stalls

Open market traders

Kiosks

Canteens

Automatic vending machines

### 1. SMALL SCALE RETAIL OPERATION

The trade is performed by small scale retailer's characteristics.

- i) Small capital
- ii) Small volume of business
- iii) Small stock at goods

Small –scale retailers on at two types

1. Those with it fixed shops which include.

- i) Itinerants ( pedlars and hawkers)
- ii) Road side sellers
- iii) Mobile shop

2. Those with fixed shop which include

- i) Single shop / unit shop
- ii) Tied shop

Itinerants traders is (traveling traders)

- These people move from one place to another or from house to house carrying their goods on their bicycle or heads.
- Itinerants include hawkers and pedlars

Hawkers

They carry small case holding items and visit densely populated residential areas visiting, house to house. They sometime use heads to carry their merchandize.

### Pedlars

- They use bicycles or motor vans as means of transport.

### Advantage of itinerant traders

- i) They offer personal services
- ii) Bring certain goods to the door steps at rural people.
- iii) Convenience that release the customers the walking around

### Disadvantage of itinerant traders

- They have no fixed premises
- Do not offer varieties
- Their goods are very expensive
- Sometimes sell goods as they are not interested in creating good will to customers.

### 2 Road - side sellers

These are trader who sit near bus stands, railway stations and their goods.

### Advantages of roads – side sellers

- Provide personal services.
- Require little capital.
- They offer varieties of goods like cigarette, sweet ,water juice.

### Disadvantage of road- sellers

- Not enough varieties are offered.
- They do not care very much about the qualities of good.
- Also their goods may be defective.

### 3. MOBILE SHOPS

There are motor vans organized as a shop in which customers can enter to purchase what they need.

- The mobile shop business differs from itinerant trading only with respect to the means to transport and the volume stock held the itinerant trader carries only part of stock to the potential areas with the whole shop.
- The mobile shops are shifted from place to place depending on previously prepared timetable.

Advantage of mobile shops

- Provide personal services.
- Offer slightly varieties.

Disadvantage of mobile shops

- Goods are expensive.
- Variety is very limited.
- Services are offer slow.

### 4 .Single shops / unit shops

- There are shops owned by one person or by the family manage the business. They are called single shop because the owners do not have other shops.

Advantage of single shops

- i) Slow services.
- ii) Normally sell at higher prices.
- iii) Variety is limited.
- iv) They have a little capital.

#### Disadvantage of single shops

- i) Conveniently situated near consumers.
- ii) Give personal services.
- iii) Can be opened long hours.

#### 5 .Tied shops / tied houses

This is a type single shops that deals with selling the products of one manufacturing only. E.g petrol station that are tied to one of the few oil companies for example B. P oil com, AGIP, CALTEX etc.

#### Advantage of Tied shops

- i) Offer personal service to the customers.
- ii) Conveniently situated near customer.
- iii) Offer services for long hours.

#### Disadvantage of Tied shops

- i) Limited variety of goods.

#### **OTHER RETAIL OUTLETS**

- Other retail outlets include market stall, markets trader , kind automatic vending mechanics.

## 1. MARKET STALLS

They are particularly found in markets. Constructed to local authorities they usually consist of small one business premises rented out to individual traders by local authorities. Stall can sell almost any product of services. However any one stall usually offer a limited variety of products or services.

## 2 .OPEN MARKET TRADERS

The name "Open market" refers to the fact that this form business is conducted in an open space rather than in building.

## 3 .KIOSKS.

Kiosks are small huts which are fixed on a wall of house or just front of house as a small shop.

These types of retailer outlets provide services similar to those offered by stalls and fixed shops.

## 4. AUTOMATIC VENDING MACHINES

These automatic machine are designed for selling packed goods.They operates when a coin is put inside and a buttons is pressed where desire good are sent out. Automatic vending machine is also used as selling posting stamps, telephone services etc.

### Advantages of automatic vending

- i) It is not necessary for a seller to be present for transaction to take place.
- ii) A traders is able to sell his product any time of the day and day of the week.
- iii) It is more accurate.

### Disadvantage of automatic vending

- i) It can be used only to sell very few items.
- ii) It is very expensive method.
- iii) Sometime the customers can cheat by using some fake coins.
- iv) The customers can have inconveniences if machines are worn out.

### Advantage of SMALL SCALE RETAILERS

- i) It can satisfy the need and tasks of his customers since he is in opposition to identify them.
- ii) The shop or business premises is usually conveniently situated.
- iii) He can give personal attention to his customers.

**Disadvantage of SMALL – SCALE RETAILERS**

- i) He faces a greater risk due lack of insurance against uncertainties like fire, thief ,etc
- ii) He can not undertake a sustained programme like advertising and other proportional techniques due to limited finds.
- iii) He buys his stocks on unfavorable terms as compared to large scale firm. Because of small quantities of goods he buys, he does not qualify for discount.

**2 .LARGE - SCALE RETAILERS**

These are retail outlets operating on a large scale.

**Large scale retailers have the following distinctive feature.**

- i) A large capital base
- ii) They buy a wide variety of stock in large quantities there enjoying economic resulting from discounts.
- iii) They usually buy their goods it discount and large scale turnover so they are able to sale their goods reduces price

**Large scale retailers include the following**

- i) Multiple chain store
- ii) Department store
- iii) Super market
- iv) Hyper market
- v) Co –operative retail store

## 1 MULTIPLE SHOPS/ CHAIN STORE

Is a system of branch shops owned and manage by one organization and operating or dealing in similar line products?

Main features of multiple shops

- i) They are under one ownership and control
- ii) There is uniformity of the premises, external shop front and internal layout.
- iii) They sell one type of product or related range of products
- iv) Profit and distribution of productions profit are done at the head office.
- v) prices are fixed by the central organization.

**Advantage of Multiple shops**

- i) Due to standard premises design they are recognized easily and become popular
- ii) Because they in bulk from manufacturing they enjoy discount.
- iii) Shortage their one branch can be solved.
- iv) Can afford expensive advertising and each branch advertises another.
- v) Because selling through numerous by turnover is high.
- vi) Stocks once easily replaced from head office

**Disadvantage of multiple shops**

- i) They are normally located urban centers neglecting rural area
- ii) They tend to specialize in one range of product they do not provide variety of goods.
- iii) Being large shop are not flexible i.e cannot easily change business.
- iv) An error in the decision from the head office may affect all branches.
- v) Require more capital to start



### Disadvantage of Departmental stores

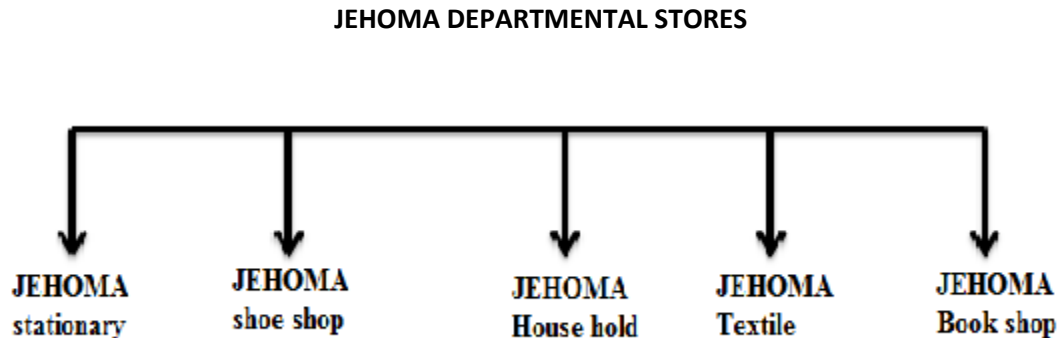
- i) They are front in urban centre neglecting rural area
- ii) Large capital is required to set up
- iii) They tend to offer delivery services to those who buy in large quantities and this increase over head expense by sharing in the department cannot be solved by transfer of goods from other department since they sell different items.

## 2. DEPARTMENTAL STORE

This is a collection of shops under one roof (building) selling different types of goods managed by one organization.

Each department is controlled by one manager known as department manager.

Department store sells different types of goods and also provides other services like rest rooms, telephone services, bank services, photocopies services e.g. Shopping centre.



### Advantage of departmental stores

- i) They have big sales and big profit.
- ii) Reduce the advertising costs because one department advertises for all departments.
- iii) Buy and sell all kinds of goods in one building, these businesses enable the customers to obtain all they need and save time.
- iv) Wide choice of customer due to variety of goods.

- v) They provide all shopping services in one building to customers.
- vi) A loss in one department can be covered by a big gain from other departments.

### 3 SUPERMARKETS (SELF SERVICE SHOP)

This is a type of retail trade which operates under self-service system.

Self service

This is when a customer goes in a shop and picks what he wants, then he goes to the cashier to pay. Among of the best supermarkets here in Dar es Salaam, are Imalaseko supermarkets, Shoprite, Dar es Salaam supermarket, Nakumati supermarket.

#### Features of supermarkets

- i) Offer self services to customers.
- ii) Price charged are usually fixed.
- iii) Goods of the some type are displayed in such. Way that customer is guided to a particular shelvies that he wishes to buy with title or no guidance from attendants.

#### Advantage of supermarkets

- i) Customers have the freedom to make their choice.
- ii) By stocking more items they are able to increase sales.
- iii) No credit facilities hence avoiding bad debts.
- iv) As customer move around the shelves they tend to buy other goods on top of they wanted. Since the items have their price or labeled it saves time.

#### Disadvantages of supermarkets

- i) It does not allow customers to exercise their bargaining skills.
- ii) No physical contact between buyers and sellers, except cashier.
- iii) Customers may delay inside as they compare goods.
- iv) It requires a large shopping area.

- v) Hold of the goods up to the check point may discourage customers.

#### 4. HYPERMARKETS

In terms of operation, hypermarkets are like supermarkets

- Hypermarket is a very large supermarket with not less than 5000 square metres of selling space.

Advantages of Hypermarket

- i) Offer easy and convenient packing.
- ii) Carries a large variety of merchandize.
- iii) Small numbers of workers are require resulting in less operational costs.
- iv) Provide credit facilities.
- v) Usually open for much long period than ordinary shops.

Disadvantages of Hypermarkets

- i) They required large sums of capital of establish.
- ii) Much working capital is tied in stock in the slowing items.
- iii) Caters mainly for those with cars since they are located far away from the town centres.
- iv) Cannot do well where the transport system is undeveloped.

#### 5. CO- OPERATIVE RETAIL SOCIETIES

These are retail outlets owned and managed by a group of members. Members of the Co-operative elect people who manage and run the stores on behalf of the group. Some co-operatives only serve the members only.

Features of Co-operative shops

- (i) Open membership.
- (ii) The society exist to serve the members.
- (iii) Profits are shared on proportional to share bought.
- (iv) Democratic control and decisions is undertaken by voting.Each member has one vote.

Advantages of co-operative retail shops

- (i) They are organized on the basic democratic principles.
- (ii) Minimize prices of goods sold to members.
- (iii) Ensure good and genuine supply of goods sold to members.
- (iv) Increase the economic well being to members by sharing profits.
- (v) Promote social understanding among members.

Disadvantages of co-operative retail societies

- (i) They have no society in their operation as many members have to be informed of the activities of the co-operations.
- (ii) The longer of having no full commitment by people on every member will dodge responsibilities but cause.

DIFFERENCES THAT EXIST BETWEEN MULTIPLE

SHOPS AN DEPARTMENT STORE

MULTIPLE SHOPS	DEPARTMENT STORE
Sells similar line of goods  Buying is the task (duty) of head office. work of selling is decentralized.	Sells different lines of goods from different manufacturers (wide choice of customers).

Does not provide after sales services.	The task of buying and selling is taken in different department manager.
All buildings (premises) look similar.	Provide after sellers- services.
Shops are located quite distant area e.g one or two shops for every district.	It is not necessary and rare for departmental stores to look similar.
	Shops are located under one building or a chain of buildings.

#### DISADVANTAGES OF DEPARTMENT STORES

1. The cost for establishing and running department store high .
2. Most of department store are located in towns where park facilities inadequate.
3. Not much credit is granted to customers .
4. Do not know their customers well.
5. Sufficient customers can mainly found in big cities where rent is most expensive.

#### QUIZ

Suppose you are a chair man of Tuendelee society and you have a responsibility of establishing a Tuendelee co-operative unit, what would be major factors to be considered before starting that unit?

Ans.

1. Capital

This is money or other facilities used to start / establish the co-operative society or trade.

2. Advertisement

This is enable the chairman to inform people who would like to join.

3. A chairman should be a good leader and organized so as to manage, control subordinates and also control all financial plans in the unit.

4. A chair man should be having a polite language respect and be honest to his members in order to avoid conflicts within a unit.

5. Co-operation in decisions making among the members.

This will help to standees their co-operative unit and also to qualify.

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## ADVERTISING

(a) – is the process of spreading information to the customer about the availability of product, persuading them to buy. Advertising is both informative and persuasive.

(b) – This is the art of making goods and services to be known to the public.

### TYPES OF ADVERTISING

I. Informative advertising

- This is mainly intended to inform the consumer about the availability of the product. This is aiming is to make announcement about old or new goods and services to make them known to the public.

e.g.

- “Bread is sold here “
- “Well sell motor vehicle spear parts”
- “Buy your animal food from rajab and colt”
- Employment opportunities.

- Sporting activities.

– This is the type of advertising is designed for conveying information to the public about the available products in the market or informing the public in particular events.

## II. Persuasive advertising /competitive advertising.

This form of advertising aims at persuading the public that a certain commodity or services is different from other or superior to the other

e.g.

“omo removes dirty and stains ordinary powder leave behind”

III. Competitive advertising. This is designed to provide information or sales one’s own product at the expense of that of its competitors. It also used a tendency to convince a potential market that product x is of a superior form or quality than product Y

## FUNCTIONS OF ADVERTISING

The functions of advertising can be analyzed under the following heading

1. Conveying information. Giving information is an essential part of advertisement advertising enable the consumer to know the availability of goods and all the features of production. A person who wants to buy a product would certainly to get a much information as possible about the product before he buys. This information is usually made available through advertisement.

2. Persuading the consumers. Advertising aims at creating an inclination in the minds of the consumer towards particular product. The aim is usually to persuade the consumer to buy the goods (product ) so when manufacturers says a drink is most refreshing is convincing consumer that he will get his money worth if he buys the product.

3. Creating the public. Advertising may create a public image for the firm which may make it in the commercial relation ship and there by retain the market. The aim is not only create the market for a product but still use a lot of money for advertising. This is because if it shaped these is a possibility that other company may succeed on seizing it.

4. Bridging the gap. Advertising creates a link between the producer and the consumer . by advertisement the production establishes contact with his ultimate uses.

#### ADVANTAGES OF ADVERTISING

✂✂✂ It make the consumer aware with the availability of goods and services to the market.

✂✂✂✂ It quicken the turnover (increase sales ) advertisement increase the sales of a particular product advertised.

✂✂✂✂✂ It ensure better quality of product

Every competitor seeks to advertise his product as one of the standard quality and hence at assure guarantee of quality.

✂✂✂✂✂•Created goodwill

Advertising makes a good name of manufacturer and his product everywhere.

✂✂✂✂ Its educative

Facts , figure , stories, tables etc used as illustration in advertisement increase the knowledge of customer.

✂✂✂✂✂ It gives wide choice of customers

Advertisement of different varieties of product enable the consumer to make comparative assessment of various product and to select any variety that suit them.

#### DISADVANTAGES OF ADVERTISING

- Advertising may increase the cost of production as such may increase the selling price.
- If advertisement are deceptive and misleading consumer to buy the product of poor quality.



- It increase the price of product due to high cost of advertising the product of advertising the product.
- It encourage impulse or irrational buying even of unnecessary product.
- Advertising leads to monopoly.

It leads only few firms which can afford to incur heavy advertising expenses to remain in the field of competition such firms letter may exploit the consumer by fixing high price of the commodity.

#### WHY ADVERTISING ( reasons of advertising )

Objective of advertising are:

- Creation of demand of a new product.
- Creating a goodwill by ensuring guaranteed standard of the quality and providing quick and honest services to his customer.
- To educate the public in the use of the product.
- Retain of the market of the product already captured (maintaining to existence of market of product ).
- To extend / expand the market of the established product by repeated stress on its falling point.
- To inform and persuade the public to buy the product.

#### ADVANTAGES OF ADVERTISING TO CONSUMERS

1. It educates them by informing what is available and uses of a product.
2. It assists to get to know what to buy and where to buy.
3. It informs the price, quality and other features of the products.

4. It exposes the consumers to wide choice and variety of products.
5. It enables consumers to compare price and other features of the products.

#### ADVANTAGES OF ADVERTISING TO PRODUCERS

- I. It creates awareness of the product to buyers.
- II. It makes possible mass sales which lead to increase in profit of the firm.
- III. It makes the quality of goods advertised improves because of competitions.
- IV. It may results in frequently use of product.
- V. It increases productions as sales volume are increased because of effective advertising.

#### ADVERTISING MEDIA (MEDIUM

Is the means through which an advertising message is conveyed to the public

The following are types of advertising media

##### 1. Press advertising

Press advertising is a medium of advertising by using newspaper , magazine and magazine and trade journal e.g. daily news, the guardian, majira and other magazines.

This is the most popular and the most important form of advertisement in Africa and Tanzania at large.

Advantages of press advertising

- i. Cover the selected are extensively.
- ii. They are good for local advertising.
- iii. Are flexible and timely.
- iv. It gives advertiser an intense coverage of local markets because many people reads news papers.
- v. Circulating cost are low.
- vi. A large amount of information can be given.

Disadvantages of press advertising



by all listeners in different areas. Radio advertisement normally accompanied with light music to ensure the regular response from the listeners.

#### Advantages of radio

- Local market may be easily reached.
- Cost are relatively low.
- Repetition are facilitated.
- It can use every language to convey message.
- It is very effective during day light hours.
- It can reach every class of people.

#### Disadvantages

- Radio makes only an audio impression.
- The life of a given radio message is short.
- Audience alteration often is at a low level.

#### 4. Cinema

The cinema is used to transmit visual and sound, message about product before the start of a show at the interval and the end of the show this is done both at cinema theatres and at mobile cinema shows which are common in rural areas.

#### 5. Posters

These are usually stuck on the walls of the shopping areas bus stands , near cinema halls and other places with highly population only product of low prices and interested to low income people can be advertised through this medium.

#### 6. Neon sign

These are electrical signs with are ordinarily placed on building to advertise products. The sign is usually very attractive , as they can be enhanced using colour. The main advantages of neon sign is that they are very appealing due to their attractiveness, especially at night.

#### 7. Window display

This method is use at the point where sales are made goods are nicely displayed so that the consumer can make choice easily . Neatly arranged goods create a powerful image in the mind of consumer.

8. Exhibition and trade fair

Exhibition of agriculture show and other trade fair are very effective of spreading information to the consumer of available product during trade fair of manufacturers from different countries all over the world come to display their goods.

9. Outdoor advertising

This involves the exhibition of advertisement at street corner , railway , station , bus stop, with the moving vehicles.

It is intended to attract the attention of pass by.

10. Direct mail

This is the method of communication directly with consumer and retailers by sending circular, pamphlets , catalogues etc by post. this is the most important when the product is being introduced for the first time.

#### FACTOR TO CONSIDER WHEN SELECTING ADVERTISING MEDIA

Its important that before process of advertising takes place right medium should be chosen because the misdirect advertisement can not serve the purpose of the factor that determine or influence the choice for advertising media are as follows

i. The age group to which the medium appeal.

Some media appeal to the young , other to the middle aged and some to the old people.

Selection of the medium will depend up on the group of the people you want the message to reach.

ii. Geographical coverage.

The choice of the medium will also depend upon the area the advertisement is going to cover e.g. newspaper, radio, TV have a country wide appeal while posters, neon sign and cinema. Have a local appeal. Thus if you want to introduce the product to the whole country then radio , newspaper are the right media. And product aimed at local market can be advertised through posters neon sign or cinema and product aimed at international market can be advertised through international magazine , exhibition and trade fairs.

iii. The cost of medium.

The choice will depend on the cost of the medium of advertisement, some media are expensive while some are not. Advertisement through TV is more expensive than through radio in most cases expensive commodities can be advertised through more expensive medium.

iv. The number of people reached by the medium.

Newspaper reach more people than magazine also radio reach more people than television , cinema etc.

v. The social class/ status.

Consideration should be taken as to what class of people is the message going to be relayed e.g. newspaper and posters appeal to ordinary people while TV appeal to better off people

vi. The economic group to which the medium appeal.

Some product are interested to some kind of people only example machinery have no interest to ordinary people such product can be advertised through journal e.g. medical journal for medical appliances , engineering ,journal for engineering etc.

#### ADVERTISING AGENCY

Advertising agency is an independent company set up to render specialized services in advertising in particular and marketing in general. Many producers use an advertising agency to do some or all of the advertising.

## FUNCTIONS OF ADVERTISING AGENCY

### I. Creating the advertisement.

They use information provided by advertiser about the nature of the products, strength and weakness in the markets at which its aimed.

### II. Placing the advertisement.

The agent find out which advertising media are to be used in the company.

The agency books advertising time on TV or space in the press in advance, its requirements and then place its advertisements.

### III. Producing the advertisement.

The agency's production departments then put the ideas of the copyright into practices. Artists produce drafts of posters and the film departments produces films in the agent's own studio on location.

### IV. Market research advertising.

Provide information about the products marketing research is carried out before the creation of advertisement company to enable the agents to know that advertisement aimed at research, can be conducted by researchers employed by company or they may use advertising agency.

### V. Advice..

The success or failure of a new product depends upon the way it is presented to the public. The advertising agency should be consulted in the early stages of product life cycle. Agencies can offer useful advice about the name of a new product, the packaging, colour etc. the agent advices about the best media for advertising the product.

## SERVICES OFFERED BY ADVERTISING AGENCIES

- i. They offer expert advise on the media to be used.
- ii. Arranger for publication or broadcasting of aids at very short notes and competitive price, because they have contacts with news papers, magazines, radios and TVs companies.

- iii. They have their art section that designs the advertising materials. They design news paper advertisements, pamphlets, categories' etc.
- iv. They have contract with printing press and arrange for printing of posters, leaflets.
- v. They design and make cinema and TV slides.

## E- COMMERCE / ECOMMERCE

This refers to business activities that takes place electronically using network and internet. It is process of buying and selling of commodities and pass information via computers networks. Its also termed as “ revolution in merchandise”

## IMPORTANCE OF E-COMMERCE

The fundamental benefit of electronic commerce is enhanced communication which allows for simplicity, flexibility and new approaches of doing business. The benefits of E-commerce is as follows





### TO ORGANIZATIONS

- Electronic procurements system is made cheaper. The use of e-commerce reduces cost of negotiating, ordering, searching and delivering of goods between companies.
- Reduces inventories. The electronic transactions help in reducing inventories and overhead costs.
- Expansions of market . with e-commerce, traditional geographical and time limitations are no longer presents.
- Lower telecommunication costs. The use of internet in business transactions is very fast ad much cheaper, reducing telecommunication costs.
- Increase in productivity and efficiency. E-commerce allows to improve services to customers and increases the production of quality goods.





## TO CONSUMERS

The main benefits of e-commerce are as follows

- i. Larger choices. the e-commerce provides costumers with wide choices in selections of goods and services at competitive rate.
- ⌘⌘  Quick information. The customers through internets, can get the full information in a very short period are about availability of commodities in international markets.
- iii. Twenty four hours services. E commerce makes it possible for the consumers to transact business 24 hours a day all over the world and through out the year.
- ⌘❖  Interaction between seller and buyers. E-commerce enable the customers and producers to interact each other in business dealing.

## TO SOCIETY/ PUBLIC

- ⌘  Sales of goods at lower prices due to stiff competitions in the electronic markets, which forces the producers to sale at lower prices.
- ii. Access to education. E- commerce enable people leaving in distant areas to get professional educations and earn college degrees.
- ⌘⌘  Saves customers from the burden of visiting shop to shop during purchases of commodities.

## LIMITATIONS OF E- COMMERCE

- Insufficient telecommunication facilities in most of LDC,s like Tanzania.
- No ability to touch and see the product and online images are sometimes exaggerated.
- High cost of installation and maintenance of internet net works.
- Many customers do not trust an unknown faceless sellers, paperless transactions of electronic money.
- With the use of e-commerce , there is break down of personal contact between buyers and sellers.

## TYPES OF E-COMMERCE

- **B2B(Business-to-Business)**

Companies doing business with each other such as manufacturers selling to distributors and wholesalers selling to retailers. Pricing is based on quantity of order and is often negotiable.

- **B2C(Business-to-Consumer)**

Businesses selling to the general public typically through catalogs utilizing shopping cart software. By dollar volume, B2B takes the prize, however B2C is really what the average Joe has in mind with regards to e-commerce as a whole.

Having a hard time finding a book? Need to purchase a custom, high-end computer system?

How about a first class, all-inclusive trip to a tropical island? With the advent e-commerce, all three things can be purchased literally in minutes without human interaction. Oh how far we've come!

- **C2B(Consumer-to-Business)**

A consumer posts his project with a set budget online and within hours companies review the consumer's requirements and bid on the project. The consumer reviews the bids and selects the company that will complete the project. Elance empowers consumers around the world by providing the meeting ground and platform for such transactions.

- **C2C(Consumer-to-Consumer)**

There are many sites offering free classifieds, auctions, and forums where individuals can buy and sell thanks to online payment systems like PayPal where people can send and receive money online with ease. eBay's auction service is a great example of where person-to-person transactions take place everyday since 1995.

Likewise, if we consider Government to be separate entity, as also Citizens, we can come up with many more types of ecommerce: B2G (Business to Government), G2B ( Government to Business ), G2E (Government to Employee), G2G (Government to Government), G2C (Government to Citizen), C2G (Citizen to Government)..

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## WAREHOUSING

This is an aid to trade involving storing of goods and raw materials against atmospheric conditions, pests, theft etc. Therefore it is protection offered to goods when they are not required until they are required.

#### **WHY IS WARE HOUSING NECESSARY (FUNCTIONS OF WARE-HOUSING)**

1. It enables a stock of goods to be stored until they are required.
2. It enables manufacturers to continue with the production processes as there is room to store the produced goods.
3. Seasonal goods are kept for consumption during periods of no consumption.
4. It facilitates preparation of goods for sale through advertizing, sorting, weighing, parking, branding of goods.
5. It enables the storage of goods to prevent price fluctuations especially with agricultural goods or products.
6. It enables the importer or trader to look for the market while the goods are kept at the ware house.
7. It enables the breaking of bulk to meet the needs of individual retailers.
8. It keeps the stored goods in strict and suitable conditions against bad weather and any form of contamination.
9. It enables goods to be stored to meet a continuous flow of goods and thus avoiding scarcity.

#### **TYPES OF WARE HOUSES**

##### **(a) Public ware houses.**

These are privately owned by people whose business is to rent out spaces to those who may have need for temporary storage of stock. They are usually located at sea ports, railway stations, air port for any importer or exporter who has limited space in his premises. They are often used for storing goods for short periods which are in transit.

##### **(b) Private ware houses.**

These are ware-houses owned by private individuals for storing their goods. They may be for wholesaler's, ware-houses owned by manufactures or whole sellers where they store their goods before sale.

**(c) Bonded ware-houses**

These are the special kind of ware-houses where imported goods are kept until payment of customs duties is made. Goods are only released from the bonded ware-house after the customs duty is paid and a release warrant is issued.

**(d) Free ware-houses**

These are the ware-houses which keep goods that are not subjected to any customs duty or controlled by customs authorities.

**ADVANTAGES OF BONDED WARE-HOUSES TO THE IMPORTERS**

1. The importer may not pay the customs duty if the goods are bought while in bond but it is passed on the buyer.
2. Goods may advertised, blended, branded and classified in the bonded ware-houses.
3. The importer may look for buyers before paying the customs duty.
4. If the importer desires to re-export the goods, the customs duty is not paid but only pays storage charges.
5. Some goods lose weight while in the bonded house so the customers duty paid becomes lower if it is based on the weight of goods (specific taxi).

**ADVANTAGE OF GOVERNMENT**

1. Bonded ware-houses ensure that no duty is avoided (dodged) since the goods cannot be released without payment.
2. It enables the government to check on prohibited goods and smuggling.

**QUALITIES OR ESSENTIALS OF A GOOD WARE-HOUSE**

1. It must be located in those places where goods are produced in greater quantities and are used at mature stage.

2. It should be fully equipped and have all the necessary facilities to store goods for a long time without being spoil or damaged.
3. It should be large enough to allow future expansion and storage of different type of goods safely.
4. It should have a good transport system so that the goods do not go bad due to delivery of goods to the market. It would also facilitate the transportation of raw materials to production centre.
5. It should have efficient staff in order to acquire efficiency and protecting goods against any lose or damage.
6. It should have adequate (enough) protection measures so that chances of loses or damages would be prevented by all means possible.
7. It should be located as near as possible to the buyers so that the transport cost to the market is minimized.
8. It should stock goods according to peoples demand in order to avoid wastage of goods and money (Resources).

#### **ORGANIZATION OF WARE-HOUSES/ MANAGEMENT OF WARE-HOUSE**

In the organization of a ware-house, the owner is on top of list followed by the general manager who is usually the chief executive. A warehouse has the following department with their responsibilities.

##### **(a) PURCHASES DEPARTMENT.**

This department is headed by a purchasing manager responsible for buying stock to the warehouse. Its major duties are: -

- (1) Placing orders for goods needed in the warehouses with the most suitable manufacture.
- (2) Looking for cheap sources of supply so that a business man is able to make high profits.
- (3) He is responsible for assessing the changes in fashion and tests so that only goods demanded are stored in a warehouse which would avoid loses to the business man.
- (4) Receiving goods from the suppliers and making sure that they are safely stored.
- (5) Maintaining a list of regular suppliers for easy contact and purchasing of goods when required.
- (6) It is responsible for parking, blending or branding goods thereby ensuring that goods are ready for sell.

(7) Maintaining stores records in order to show receipts ensued and balance in stock.

**( b) SALES DEPARTMENT**

This is headed by sales manager and he is responsible for the profitability of the entire business. It is responsible for the following: -

- (1) To carry out sales promotion strategies such as advertizing branding free samples etc.
- (2) To receive orders from the customers and dispatching goods as required by the buyer.
- (3) It also maintaining the list of all regular customers classifying them according to areas or credit worthiness so that he can attend to them appropriately.
- (4) It arranges for the transport of goods from the ware house to the retailers premises according to the agreed terms.
- (5) It handles the customers complains regarding the good supplied and making sure that appropriate steps are taken to solve problems related to these complaints.
- (6) It ensures that required goods are available so as to avoid strategies which may cause price fluctuations.
- (7) It maintaining a regular sales force arranging for its traveling so as to acquire efficiency in the ware house.
- (8) To ensure that there is credit control so as to avoid in current bad dept.

**(c) ACCOUNTS DEPARTMENT.**

This is headed by a chief accountant and handles all accounting works . The major activities it carries out include: -

- (1) Receiving and effecting payments on behalf of customers.
- (2) Preparing budget and enforcing costing systems which make proper accountability of the ware house funds.
- (3) Ensuring that all the financial commitment of the business are conveniently met.
- (4) It carries out financial account at the end of each year in form of preparing the balance sheet.

- (5) Preparing invoice and statement to be sent to customer's so that accountability can be made by the chief accountant's easily.
- (6) Preparation of wage sheet and payment of wages

#### **(d) SECRETARY DEPARTMENT**

Its headed by the secretary or office manager and it handles all the correspondence legal affairs and personal matters and records. It is responsible for the following duties: -

- (1) To keep up to date with correspondence this may be regarding or sales of good.
- (2) Maintaining the necessary files which cause the smooth running of the business possible.
- (3) Advising the management on the matters of legal importance e.g company registration divided.
- (4) A pointing staff members or in case of senior employers advice the general manager and the owner on their appointments.
- (5) Arranging for the training of personal so that there is efficiency in duties performed in the staff.
- (6) Maintain staff records which can be reference in case of promotions and any other appointment among the staff.

#### **(E) SALES PROMOTION DEPARTMENT.**

It is headed by the sales promotion manager who is responsible for the following:-

- (1) Handling all advertisement aimed at promoting sales.
- (2) Printing catalogs and prices and other documents which can be sent to prospective buyers.
- (3) Arranging for special demonstrate of foods offered by the business with the aim of promoting the volume of sales.
- (4) Participate in trade shows like SABA-SABA trade fair and international trade fairs so as to interact with prospective buyers.
- (5) Attending to customer's complaint and making sure that such complaints one solved.

## **STOCK ADMINISTRATION**

Stock administration is the management of stocks in a business so that the goods for selling are always in sufficient quantities without running short of supplies or carrying more stock than the recovered turnover.

### **FUNCTIONS/ ACTIVITIES IN STOCK ADMINISTRATION**

The main activities in stock administration or function of stock administration are:

#### **1.STOCK CONTROL**

This is the keeping and checking record of stock in the firm. Stock control is the main activities in stock administration.

#### **2.ISSUING OF STOCK**

This involves releasing sold stock to the customers.

#### **3.RECEIVING STOCK**

This involves taking delivery of good from the suppliers.

#### **4.CARE OF STOCK**

This involves keeping stock in good order and at a right place.

#### **5.STOCK TAKING**

This is the process of finding the quantity of stock held at specific period of time. OR  
This is the physical counting and finding the value of all items sold. This includes the following;

-To check pilferage.



- To check accuracy of records.
- To check weakness in the system of stock control.
- To support the value of closing stock which will be used for final account.

## 6. PLACING OF ITEMS

This is allocation of goods in appropriate place. Stock must be arranged in such a way that will reveal those old ones from new ones.

## 7. STOCK VALUATION

This is the process of finding the value of stock held at a specific period of time. E.g. value of stock at the end of the year.

### STOCK LEVELS

There are various points volume of stock at different times. Stock levels include the following

- Minimum stock
- Maximum stock
- Average stock
- Order – point/ Re-order point

#### - MINIMUM STOCK

This is the lowest amount which should be kept to safeguard against unforeseen events like delay in deliveries. OR

This is the quantity of a certain commodity that should always be in stock to safe guard sales against unforeseen delays in delivery of commodity. OR

Is the level below which the stock of any given commodities should not be allowed to fall.  
Minimums stock = order point-(Normal consumption x lead time).

- **MAXIMUM STOCK**

This is the highest level of stock recorded after receipt of new deliveries. Is the level reached immediately at the receipt of new supply of goods.

- **AVERAGE STOCK**

This refers to the average of numbers of stock levels within a period, usually a year. Average stock can be calculated as follow: -

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

**ORDER- POINT**

This is the level at which the placing of new order must be done. OR

Is the level in which new order is required.

Determinants of stock-order are

(a) Daily sales/ wages/ consumption

(b) The period between placing order and receiving delivery /minimum stock level.

ORDER-POINT = (Daily sales x time of delivery) + minimum stock

**Example 1**

From the data given, calculate order point

Daily sales \_\_\_\_\_ 100kg

Delivery time \_\_\_\_\_ 3 days

Minimum stock \_\_\_\_\_ 200kgs

**Solution**

ORDER-POINT = (Daily sales x time of delivery) + minimum stock

$$= (100 \times 3) + 200$$

$$= 300 + 200$$

$$= \underline{500\text{kg}}$$

### Example 2

Given the following data of sales

Daily volume of sales = 50 tones

Time of delivery = 12 days

Minimum stock = 200 tons

Calculate order point

### Solution

$$\text{ORDER-POINT} = (\text{Daily sales} \times \text{time of delivery}) + \text{minimum stock}$$

$$= (50 \times 12) + 200$$

$$= 600 + 200$$

$$= \underline{800 \text{ Tones}}$$

### ECONOMIC ORDER QUANTITY (EOQ)

Is an amount of quantities delivered from supplier of materials. Economic order quantities is given by a formula below;-

$$EOQ = \sqrt{\frac{2COD}{Cc}}$$

Where

C = ordering cost per order

D = Demand per annual

Cc = carrying cost per item per annum

### Examples

Find the economic order quantity where demand is 20,000 units per annum, the ordering cost is Tshs. 500 per order; the carrying cost per item per annum is Tshs. 120

### Solution

$$EOQ = \sqrt{\frac{2C_o D}{C_c}}$$

Demand per annum = 20,000 units (10,000)

Carrying cost per item = Tshs. 120 (100)

Ordering cost = Tshs. 500 (180)

$$EOQ = \sqrt{\frac{2 \times 20,000 \times 500}{120}} = \sqrt{\frac{200,000,000}{120}}$$

$$\therefore \underline{EOQ = 408.24 \text{ Units}}$$

### STOCK TAKING

This is a process of verifying the balances of items held in stock at the end to the pre-determined period by counting, weighing and measuring. Stock taking can be divided into three (3) categories

#### 1. ANNUAL STOKING

This is done once per year to find the ending balance for the purpose of preparing financial report.

## 2. PERIODIC STOCK TAKING

This is an activity of finding the balances of stock for an interval period.

## 3. PERPETUAL STOCK TAKING

This is the continuous stock taking of recording the transactions made of receiving and issuing of materials in stock.

### CALCULATING CONTROL LEVELS

#### 1. LEAD TIME

Is the period of time between ordering and replacement. i.e. when goods are available for use.

#### 2. RE-ORDER LEVEL

Is the level of stock at which a further replacement order should be placed.

Re-order level = maximum usage x maximum level time.

Minimum level = Re-order- (Normal consumption x lead time).

### TURN - OVER

Turn-over refers to total sales at a certain period of time.

Turn-over = price x Quantity

$$= P \times Q$$

### RATE OF STOCK TURN OVER

This is the number of times the average volume of stock held has been turned over. i.e. Sold during a given period.

$$\text{Rate of stock turn over} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

## GROSS PROFIT

This is the excess of sales (turn over) the cost of sales.

G.P = Total sales – cost of sales.

### Example 1.

Given

Sales = 12,000

Purchases = 100,000

Gross profit = 120,000 – 100,000

= 20,000

### Example 2

Given the following data of a firm opening stock at the beginning of the year = 250,000

Purchases = 300,000

Closing stock at the end of the year = 20,000

Goods returned to supplier (Returns outwards) = 10,000

Goods returned by customers (returns inwards) = 20,000

Total sales = 800,000

Find gross profit

**DR TRADING A/C CR**

Opening stock	250,000	Sales	80,000
Add: Purchases	300,000	Less: returns inwards	20,000
Less : returns outwards	10,000	Net sales	780,000
Net purchases	290,000		
Goods available for sale	540,000		
Less: closing stock	20,000		
Cost of goods sold	520,000		
Gross profit	<u>260,000</u>		
	<u>780,000</u>		<u>780,000</u>

**NET PROFIT**

This is the revenue which remains after making deductions of expenses running a business.

In order to calculate net profit, a profit and loss A/c must be drawn up, showing on the credit side the gross profit brought forward from the trading A/c and on the debit side, the various expenses such as rent, rates, taxes, wages, insurance, interest on loans (if any), advertising , light and heat, depreciation etc.

Net profit = gross profit – expenses

**BUSINESS CALCULATIONS**

**(a) MARK-UP**

This is gross profit as a percentage to cost price.

$$\text{Mark-up} = \frac{\text{Gross Profit}}{\text{Cost of sales}} \times 100$$

Example

Given

Cost price = 50,000

Gross profit = 25,000

$$\therefore \text{mark-up} = \frac{25,000}{50,000} \times 100$$

$$= 50\%$$

### (b) MARGIN

This is the gross profit as a percentage to sales price.

$$\text{Margin} = \frac{\text{Gross Profit}}{\text{sales price}} \times 100$$

Example:

Given

Selling price = 100,000

Gross profit = 20,000

$$\text{Margin} = \frac{20,000}{100,000} \times 100$$

$$= 20\%$$

### DISCOUNTS



This is the allowance given to the trade on the goods purchases. There are 3 types of discounts.

**(a) TRADE DISCOUNT**

This is an allowance (deduction) made if goods are sold by one businessman to another businessman on goods whose price is either fixed or controlled or is general known.

**Example**

Mr. Bukagile sells his products at Tshs. 1000 per unit. He gives trade discount of 10%. If a customer bought 50 units the trade discount will be:-

$$(50 \times 1000) \times 10\% \\ = 5000$$

**(b) QUANTITY DISCOUNT**

This is the discount allowed in addition to a trade discount if the quantity of goods sold is large.

**Example**

A wholesaler selling soda may allow trade discount to retailers of 20% to quantities less than 50 crates and additional quantity discount of 5% to any amount exceeding 50 crates.

**(c) CASH DISCOUNT**

This is a discount given to induce the trader to pay promptly.

Example: 5% discount will be allowed if payment is made within 1 month, 2% if payment is made after 1 month and 1% if payment is made after a month.

**TYPES OF CASH DISCOUNT**

**(i) DISCOUNT ALLOWED**

This is the amount which is allowed to the debtor. It is an expense to a business.

(ii) **DISCOUNT RECEIVED**

This is a discount which is received from creditors.

**DOCUMENTS USED IN WARE-HOUSING**

1. Ware-house warrant.

This is a document authorizing the removal of goods. This is a document issued to the importer after storing his goods in a ware-house.

2. In-bond notes.

This is a document that shows the amount of goods which are in a ware-house.

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## TRANSPORT AND COMMUNICATION

### A. TRANSPORTATION

- means the process whereby the passengers and goods are moved from one place to another place.
- Transport is one of the aids to which assets in moving or goods from the place where they are produced to where they are consumed.
- Is actual movement of passengers and goods physically from one place to another? Units of carriage such as trains, lorries, tankers, ships and aero planes are needed for carrying passengers and goods.

### FORM OF TRANSPORT

There are three main forms of transport i.e. Land, water, and air.

⇒ Water transport may be sea, canal, lakes and rivers

⇒ Land transport may be rail, road, pipeline

★ Railway, road, pipeline, canal are man made whereas water i.e. sea, lakes, oceans are natural ways

## ELEMENTS OF TRANSPORTATION / FACTORS FOR EFFECTIVENESS OF TRANSPORTATION

Are those things which make transport to be smooth.

### These factors are as follows

❖ The way.

Goods must be move on something, on water , on land , or in air. This can be natural like sea , the air, or lakes or man-made like roads, railway tracks or bridge.

❖ Unit of carriage.

Goods do not move themselves. They must be carried in some vehicle, may it be a truck , a lorry , a train, a ship or an aero plane.

❖ Method of propulsion

A unit of carriage must be driven by some force or power. Common methods of propulsion are petrol engine, jet engine, and electric motor. To choice depends on the size of the vehicle, speed desired and the fuel available.

❖ Terminal

Goods must be loaded and off-loaded somewhere. These places of one unit of carriage is the starting point of another vehicle example railway station, bus stands, airport , and harbors, this are very important factor to be in mind when deciding the means of transport.

## TYPES /FORM OF TRANSPORT

There are three main forms of transport , These include ;

A. Land transport - This type of transport consist the following form

- I. Road transport
- II. Railways transport
- III. Pipeline transport

B. Water transport

- C. Air transport
- D. Containerization

### 3. ROAD TRANSPORT

- This involves the movement of goods and passengers by vehicle on road e.g. lorries, business trucks ,pick-ups and tankers are the main units of carriage in road transport.



1

Fig 2. Transportation of goods from one area to another

#### ADVANTAGES OF ROAD TRANSPORT

- Flexibility

Road transport route are connected to nearly all the consumer where motor vehicle cannot reach motor bicycle and pick –ups are used.

- Speed

When considering short distance road transport in relatively fast, the loading and off loading can be effected any where unlike railway and sea transport where this is line under special designated station.

- Cost

The transport cost passengers and cargo is relatively cheaper comparing with air transport.

-Convenience

There are no fixed time tables in road transport thus making it convenient to travel at any time you need it affords the transport of any size of load at any time it also allows passengers and goods to board, load, disembark, and off loaded at any price.

-Low construction and maintenance cost

Initial and operating cost is relatively low compared to other modes of transport.

#### DISADVANTAGES OF ROAD TRANSPORT

- I. Road transport can handle limited quantities of bulk and heavy materials like coal, timber, iron, cement etc.
- II. Road transport is expensive in congested areas e.g. urban centre and industrial areas.
- III. Weather conditions tend to disrupt road transport more easily than air.
- IV. Compared to air transport road transport is slow to cover up expected distance.
- V. Is too risky especially for delicate goods this can cause breakage or destruction goods like computers and glass materials causing a great loss.
- VI. Transport facilities contribute air and water pollution in the world.
- VII. Construction of roads encourage land degradation.

#### 1. RAILWAY TRANSPORT

- Involving the carrying of goods and passengers by train. railway transport is the means of transport which transport bulky goods.

#### ADVANTAGES OF RAILWAY TRANSPORT

- ▶ It is convenient to the businessmen in industries linked to railway tracks.
- ▶ It is less affected by weather than the other form of transport.
- ▶ Routes are more direct and there is a specific timetable of railway services.

- ▶ It is suitable and quite cheap for carriage of bulky goods over long distance.
- ▶ Rail services can be provided to greater number of person and more load can be carried as compared to road or air transport.
- ▶ Passenger trains charge relatively cheap compared to other forms of transport especially air transport.

#### DISADVANTAGES OF RAILWAY TRANSPORT

- I. Railway transport is not flexible because routes are fixed.
- II. Its speed is low over short distances i.e. it is a slow form of transport compared to road transport.
- III. Its expensive for short runs and small cargoes.
- IV. Initial cost of setting are quite higher i.e. its expensive to constructs railway lines.
- V. It has fixed schedule i.e. trains are time tables so users are limited by these schedules.

## 2. WATER TRANSPORT

Is the type of transport where by goods are transported by using water i.e. on seas, canals, lakes and rives

#### Advantages of water transport

- ☞ Little time is wasted in traffic control.
- ☞ The way is natural. i.e. don't need construction or maintenance expenses/expenditure.
- ☞ It is cheapest for bulk and low quality goods.
- Breakable goods like glass can be carried without the danger of damage in the absence of shaking and jolting on inland water ways.
- Where the port of dispatch and delivery are in the waterside, there are no added costs of collection and delivery .
- The water transport is relative free from weather conditions compared to road and air transport.
- Special ships like oil tankers may be constructed to carry special type of goods . this is a great advantages that sea transport has over other forms of transport used for long distance

### Disadvantages of water transport

- 📄 Maintenance charges of canal are high
  - 📄 Providing facilities at ports may be very expensive. not every country is blessed with natural harbours
  - 📄 Perishable or urgent required goods cannot be transported by canal since their speed is low.
  - 📄 canals serve a limited area where water exist. The same applied for sea, lake and river transport
  - 📄 Canal and river suffer from drought in dry seasons and are liable to be frozen in very cold seasons
- Port congestion may lead to delay in delivery . this is particularly true to east Africa ports which don't have enough facilities to handle the great volume of cargo off loaded everyday

### VESSELS INVOLVED IN WATER TRANSPORT

#### a) Cargo ship

These carry bulk freight such as coffee, , cotton , sisal, food- stuff, machinery and a few passengers. They operate on the fixed routes. Also They carry particular class of cargo of every route on which they sail.

#### b) Lash ship /tramp steamers

- These do not have set routes but operate like taxis going wherever they can get cargo. These tramp steamers are owned by individual, companies and partnership and carry low grade goods sent in bulk such as coal and another minerals and raw materials
- These are ship which do not follow a regular route or timetable but are available at the demand of the customer therefore speedy than liners. They resemble to the taxis in road transport. They are best for those customer in need of maximum speed/urgency.

#### c) Passenger liners /liner

These are ships which carry people, tourist , and small cargo of travelers/ passengers. They sail on fixed routes at regular intervals.

#### d) Tankers /oil tanks

These are owned by oils companies and tank owners and carry oil, oil product and other liquids.

#### DOCUMENTS USED IN WATER TRANSPORT

##### I. charter party

- a) This is an agreement between the person owning the ship and the person hiring entire ship or a number of voyage. Is the agreement between ship owner and the person who want his goods to be carried in the ship for the charge.

A charter party constitute an agreement between the shipper and the chartering businessman and gives the businessman who hires absolute control over the vessel for the period of contract.

##### Contents of charter party

-Place where the ship will go.

☞The type of goods to be carried in the ship hired.

☞The amount /charge to be paid by one who hire the ship.

-Time of loading the goods and time of unloading the goods.

-Right of the ship owner to hold goods because of failure to pay the bill.

##### b) Bill of lading

–A bill of lading is issued by the ship owner to the exporter a copy is sent to the importer and copy is retained by the ship owner. Its saves the following duties

- a) It is official receipt for the goods shipped in one of the owner's vessels
- b) It is agreement between the exporter and ship owner to carry cargo up to destination.

### 3. AIR TRANSPORT

- air transport this is movement of goods and passengers by the aero plane.

#### ADVANTAGES OF AIR TRANSPORT

☞It provides regular, convenience ,efficiency and quick services.



- ☞ There is greater security and protection in transit since there is a shorter traveling time
- ☞ Air transport is particular suitable for the carrying of items here speed is essential e.g. drugs for saving life, mails , perishable and fashion goods.
- ☞ Its suitable for transport valuable items like gold copper, glass etc. .
- ☞ Air transport helps in transporting goods to areas un accessible by any other means of transport.

## DISADVANTAGES OF AIR TRANSPORT

- i. The cost of operation of the air transport is higher as compared to ocean ,road or rail transport
- ii. Can be affected by bad weather conditions e.g. heavy storms etc.
- iii. Dangerous articles like those which can be easily catch fire and alike are not accepted on planes. E.g. fuel
- iv. Air crafts have limited carrying capacity compared to railway and water transport
- v. It is not flexible i.e. airport are allocated outside city centers

## DOCUMENTS USED IN AIR TRANSPORT

- I. Airway bill, this documenty issued by an airline company to act as a contract between the airline company and the sender of the goods. Twelve copies are issued but of those three are originals, one copy is given to the carrier of the goods, second to consignee and the third to the sender of the goods. However, the remaining copies are retained by the air line company for the administrative purposes.

## 4. PIPELINE TRANSPORT

These are type of pipes constructed to carry liquid materials such as oil. For example of these pipeline is the TAZAMA pipeline which is jointly owned by TANZANIA and ZAMBIA carries oil from Dar es salaam to Ndola in zambia.

- ❖ Pipeline can be constructed under or on the earth surface.

- ❖ Some time pipeline include small pipes inside which transport more than one kind of liquid goods e.g. one pipe can be used to transport petroleum , another kerosene, and another diesel and so on

Example shown below is one type of pipeline which constructed on the earth surface.



#### Advantages of pipeline

- ▶ It is economical since it involves low cost of operation and maintenance
- ▶ It is not effected by the unfavorable weather conditions
- ▶ It can cover over long distance
- ▶ It can carry large volume of goods
- ▶ It is reliable source

#### Disadvantages of pipeline

- ☞ The risk of destruction are very high
- ☞ In case of accidents enormous damage can occur
- ☞ It can not be effective in mountainous areas
- ☞ Initial cost of construction is very high
- ☞ It is not suitable for solid goods
- ☞ In case of damage it can cause environmental hazard

#### 5. CONTAINERIZATION

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- It is a recent development that has revolutionized sea transport. It involves parking the cargo in standardized containers which are sealed by the exporter or his agents.



### Container Ship

A container ship, the *Arlberg*, leaves New York Harbor. The ship is part of an intermodal transport system in which containers can be transferred between ships, lorries, trains, and planes.

### ADVANTAGES OF CONTAINERIZATION

- a) Use of modern cargo- handling machinery. machines like automatic cranes can handle cargo effectively when the goods are packed in containers.
- b) Use of modern machines save time and labour handling costs.
- c) Efficient use of space. when goods are packed in containers , it is possible for only small space to use than if could be ordinarily wrapped. This aspect is very important especially in modern transport where terminals handle large volume of goods.
- d) Safety ; containers are sealed at the exporter’s premises and delivered without the seal being broken to the importer which makes them safer from loss/ damage also as containers usually do not bear any marks showing the contents, the risk of theft is minimized. This means insurance premium are lower on containerized cargo and goods arrived in better condition.
- e) Transporting containers by road after they have reached the port of destination is also simple than handling a mass of irregularly shaped goods.
- f) Special containers may be built to handle special types goods like chemicals and so on.

## DISADVANTAGES OF CONTAINERIZATION

- a) Not suitable for small quantities where the cargo is not enough to fill the whole container then it is impossible to transport the items by this methods
- b) Required special machinery. if the terminals don't have modern tools like cranes ,winches and the likes transporting goods through containers become difficult and sometimes impossible
- c) Increasing cost of goods. containerization adds costs to the importer as the containers have to be paid in most cases exporters don't own containers but borrow them from firms specialization in the services.
- d) Unsuitable for some goods. containerization is not suitable for bulky and awkwardly shaped items because of the size.

## FACTORS TO BE CONSIDERED WHEN CHOOSING THE MEANS OF TRANSPORT OF GOODS

Various forms of transport have their advantages while choosing a mode of transport. one has to balance variety of advantages and disadvantages. The main factors which determine the mode of transport are

### 1. The kind of goods /types of the goods

Goods are often classified as manufactured goods , produce ,dry goods and wet goods, fragile goods perishable goods and so forth. Fragile goods should be handled with care to ensure safe delivery to the consumer while perishable goods should be hummed to the consumer to the consumers before they get spoil.

#### **Weight of goods**

Small and light goods of high value may easily and cheaply be carried by air. Bigger and heavier goods may be carried by road. Very bulk and heavy consignments should be carried by railway or on water.

#### **The location of the seller's premises/warehouse.**

It may also influence choice of a transport methods for his/her goods. If the warehouse are near railway station, railway may be preferred .

#### **The speed and urgency**

If the buyer urgently needs the goods the fasten means available should be considered.

#### **Goods that are bulky but light.**

Require a lot of space permit of weight transported the weight transported. The weight to volume ratio of a consignments may determine the methods of transport chosen .

### **The cost of transport.**

The cost of transporting an items an item should bear a reasonable proportion to it is value. Only in case of acute urgency can this factor be over looked.

### **The distance**

For shorter distance road transport is best , for longer distance the railway may be advisable and for very long distance sea transport may suit , a summing that all the three means are equally available.

### **Flexibility**

The a ability of the mode of transport to reach any destination is important. Road transport is more flexible than the rest and variation and diversion can be made.


## **IMPORTANCE / CONTRIBUTION OF TRANSPORT TOWARD PRODUCTION**


- I. It makes possible mass production because business are able to get supplies from different parts of the world.
- II. Transport helps the growth of trade and industry by providing with raw materials and by carrying finished goods to the market.
- III. Division of labour and specialization has been possible because of development means of transport.
- IV. It makes goods and services available where they are demanded by consumer
- V. It avoids wastages by transferring surpluses of goods to areas where they are shortages hence stabilizing prices.
- VI. Transport accelerates the growth of other aids to trade such as were housing, banking, insurance etc.

## **IMPORTANCE OF TRANSPORT IN COMMERCE**

 transport makes goods and services available where they are demanded

 improve trade relations within economic units

 since transport enables goods and services to reach various markets, it encourage production

 transportation enables specialization

- ❖ 🚚 transportation influence industrial location
- ❖ ✂️🚚 it makes possible mass production because business are able to draw supplies from and sell goods to all parts of the world
- ❖ ✂️✂️🚚 transportation improves international trade
- ❖ ✂️✂️✂️🚚 transportation enables people to move from one place to another e.g. from home production places and vice versa

## B. COMMUNICATION

### Communication

- is an aid to trade which deals with transmitting information and ideals from one place to another OR
- is the process that involves sending and receiving message information and ideals between two or more separate locations in the business. communication is of great advantages because before any transaction to made, there must be communication between two parts

### PURPOSES OF COMMUNICATION

The first steps in planning any messages is to determine the purpose of your communication. The following are main purpose of communication

- ❖ **To inquire** - this is the situation whereby one is in need to get certain information which is not known before. For example one can ask a questions like when did you learn to use this digital computer
- ❖ **To inform** – is the situation of letting someone know something which has not been known before. A good example is to answer the questions of the previous paragraph “ this digital computer is six month old”
- ❖ **To persuade** - the situation to influence others in accepting or love something for example “you really will save time and money if you use digital computer.
- ❖ **To develop goodwill** - communication is aimed to maintain good relationship between a sender and receiver.

### ELEMENT IN COMMUNICATION PROCESS

Communication always involves very important element which make up communication to be process. These element includes

a. Source (encoder )

Its where a message originates, this can sometimes be a person, things , materials or condition from which a message is transmitted

b. Message (information )

This comes from a sender / source message is always in form of written verbal talk, song or even in a state or condition

c. Medium /channel

This is the way through which the message from the sender passes so as to reach the intended person or things.

d. Receiver (decoder )

These are the persons or people who receive the message from the sender and respond that message. A receiver receives information and interprets before reacting on it by giving feedback.

e. Feedback

This is the outcome of receiver's interpretation of the message. It is the reaction of what he has received from the sender. Feedback is important since it makes a cycle. Always feedback is in the form of physical reaction like asking questions laughing and crying.

Mention communication media

- Telephone
- Television
- Radio
- Computer
- Cinemas
- Internet technology
- Electronic mail
- Mobile phone

**TYPES OF COMMUNICATION / CHANNELS OF COMMUNICATION**

I. oral communication

- this is face to face and telephone communication where by people communicate by words of the mouth OR
- is the kind of communication uses spoken words to exchange ideas and information. this types of communication consist of telephone calls. This vital services is given by Tanzania telecommunication company (TTCL) and other private companies.

#### Form of Oral communication

- Interview , joint consultations , meeting and conference , conversation.

- Radio call

For people living and working in some remote towns the TTCL provide services called RADIO CALL SERVICES

Advertising through radio and television is also a form of oral communication. message intended for great number of people may be transmitted through radio. More economically than by ringing to everybody.

#### II. written communication

Tanzania post corporation provide the main services of carrying written communication. Written communication are usually through letters ,parcel, newspapers , samples, postcards, telegrams and other these may be analyzed as follows

##### a) letters and printed matter

these may be sent to any destination in or outside of Tanzania by surface or airmail through the post office. Expressed letters are given priority in sorting and reach their destination faster than ordinary letters.

N.B

ordinary letter/ordinary post is the kind of letter sent by ordinary post by fixing the necessary postage stamps. These postage stamp can be purchased from any post office sometime postal franking machine can be used.

Ordinary post may be :

- a. surface mail- letter sent within the country
- b. airmail –letter sent to the other countries

##### b) Telegrams

This method of communication is used in transmitting information by filling a special form from the person to whom the message is sent gets the copy of the message the same day or the following day this message is dictated to the post office over the phone. The charges are higher than those charged on letters and depends on the length of the messages



c) business reply cards

- this is the device by which a business can send out a prepaid card for a reply. In this case postage is payable only if the card is actually posted.

A license is to be acquired for the use of special design including the license number of the firm.

d) franking machine

In order to save time in affixing stamps to letters, a franking machine can be obtained. This machine prints the amount of the postage on the envelope with the name of the sender. The post office is paid the total shown by the machine at the end of each month or at an interval agreed by the two parties.

e) registered letters /registered mail

- if the letters are registered and payment made to the post office, it undertakes to compensate the sender if the letter is lost.
- Letters or parcels can be sent anywhere within the country or abroad and are insured by a registration fee against damage or loss.
- These are the services offered by the post office in which letters are registered and posted to the destination place. In case a letter is lost on the way, the post office compensates the sender. Thus, the sender must pay a registration fee and postage. He will be given receipts to prove that the registration fee has been paid so that compensation will be done when the letter is lost on the way.

f) telex services

This provides a direct link between subscribers and other users all over the world. Messages typed at the sender's machine are automatically printed at the receiver's set.

iii. non verbal communication

This is the kind of communication without words. Non-verbal communication is an important form of communication. In this communication, one expresses feelings, emotion, or ideas by using body language, gesture.

## COMMUNICATION INSTITUTIONS IN TANZANIA

In Tanzania, there are several institutions which provide communication services. Some are owned by the government and others by the private sector. These institutions are

### 1. TANZANIA POSTS OFFICE CORPORATION

This involves transferring and carrying written communication from the person who send letter/parcel (sender ) to the person who is expected to receive the letter/parcel

This corporation offer two services which are

i. Sending and delivering letter and parcel

a. Ordinary posting

This services provided by post office where by written down letter and printed and sent within or out side the country

Feature of services

- Letter are placed in envelop
- They must have stamps

b. Registered mail

This is the services offered by the post office where by letter are charged registration fee and receipt is issued to sender as evidence when compensation is done to the sender when letter lost on the way.

c. Business reply services

This services enable member of public to send short replies to the business organization without paying stamp.

d. Recorded delivery services is This is services provides proof that sender has posted a letter and that it was delivered to the intended receiver. There is charge for this services.

e. Poste restate.

This a services provided by the postal office to travelers or business men who are supposed to be in particular town for only short time hence not having number in that town under this circumstances they will advice their friends/traders they are likely to be in on given dates so that their letters can be sent to that particular post office of the town addressed as say,

Ms sakatwa Johnson

Poste restate

Kyela post office Tanzania.

f. Certificate of posting

Post office issue a certificate to the sender proof that you have posted a letter to a particular address.

ii. Remitting / receiving money and making payment

Post office offer the following financial services.

a) Sending of cheque

A cross cheque can be sent through ordinary mail to the payee to be deposited in his bank account.

b) Postal order

A postal order is useful for the transmission of small sums of money by post especially to people who do not possess cheque books. They are issued for any amount for paying a fee or services to be obtained.

c) Money order

This is an order for money paid in at one post office to be payable at another post office as stated on the money order.

d) Telegraphic money order

This services enable money to be sent to a specified person by telegraph.

e) Post office saving bank

A post office operates a saving bank. This bank is intended to promote saving habit among the citizens. It mainly operates saving account.

f) Cash on delivery

This is additional services which is useful to traders. The post office undertakes to collect payment for the goods being delivery before they are actually handed over

## 2. TANZANIA TELECOMMUNICATION CORPORATION LIMITED

This corporation provides the following services.

a) Telephone services

A telephone is an instrument which enable an individual with organization to speak to another person who is in another place the telephone's immediate advantages is speed. A trader can place an order

for goods or get a quotation or them much more rapidly by telephone than by letter.

b) Telegram.

This is a means of sending short written messages which may be very important urgently needed. The receiver of the message will receive the messages on the same day.

c) Telex services.

A telex is a combination of a telephone and a typewriter subscribers to this services have a teleprinter installed in the office and are given number in the same way as telephone users messages can then be sent to other subscribers. The telex operator types the messages out and it is automatically printed at the recipient's office.

d) Facsimile telegraphy.

This is the transmission of written information like maps drawings and diagrams. Messages to be transmitted are fed into a machine which is connected by a telegraphic or telephone wire similar to a machine elsewhere which produces it in photographic details.

e) Datel services.

Datel services provides a means of transmitting information from one computer to another, using the public telephone network.

f) Teleconferencing.

This is the system that enable people to hold a meeting through a system of videoconference and audio conferencing without meeting in the same location.

## FACTORS WHICH DETERMINE/INFLUENCE THE CHOICE OF A COMMUNICATION MEDIA

I. speed or urgency of the messages

before selecting the means of communication one should consider whether the information is urgently needed or not. Information which requites urgently communication may be transmitted by a quick means of communication e.g. telephone, telex, fax etc hose which are not very urgent may be transmitted by normal letters through the post.

II. availability of the medium

in most cases the person who will use the medium of communication which is available of the means of communication available is only a telephone and the

person who is to receive the message has got a telephone than the message will be used.

### III. the cost of the medium

before deciding what means should be used in transmitting the information one should think of the cost involved

### IV. Distance

Consideration should also be taken as to the distance the information is going to be relayed longer distance would require a quick means of communication

### V. Confidentiality and security

Confidential matter would need a confidential means of communication while normal information may require any means of communication

### VI. Flexibility of the medium

Before choice is made one should think of how flexible the means of communication is to effect any changes in order for information transmitted to reach the person concerned efficiently.

#### NOTE

Communication can be oral or written, nowadays businessmen usually communicate through phone, internet etc.

## IMPORTANCE OF COMMUNICATION IN TRADE

### I. Good reputation

When a company communicates with the general public to keep them when informed about its activities and services then more people become interested to deal with that company example Vodacom Ltd in Tanzania.

### II. Better prospects

Due to good communication, company can attract more customer. The company can increase the sale of its products.

 Choice of customer

A company can get the information about the liking and disliking of the customers. This information helps the company to produce goods according to the choice of customers.

 Greater efficiency

The sound of communication system enable management to instruct the supervisors and subordinates staff about change of policy. As a result, the efficiency of workers increases.

✚👉 Better understanding

Good material communication improves the understanding between the employer and employees. If the complaints of staff are communicated to the employees in time and in right way then the chances of any misunderstand become minimum.

Summary of importance of communication to the business

✚👉 It help to create market for goods and services.

✚✚👉 It makes possible mass production by ensuring market for the goods produced.

✚✚✚👉 It makes goods available where they are needed for consumption.

✚❖👉 It bridge the gap between producer and consumer.

❖👉 It makes easy contract between producers seller and consumer.

✚✚👉 It increase the mobility of labour.

❖✚✚👉 It create employment to the people.

❖✚✚✚👉 Technology can be easily be transferred from one area to another through communication.

Barriers of affective communication

- I. Noise, in the absence of noise people cannot communicate well because they bring about misunderstanding between the sender and the receiver of the message.
- II. Break down of the communication channel  

Sometimes when people are communicating break down of the communication channel can happen, in such situation people cannot understand each other. This is especially for electronic channel of communication such as phones, radio etc.
- III. Semantics, by semantic we mean that the same words may have different meanings for different people e.g. manager may call in a new secretary and ask him or her to “burn” a copy of particular blue print since there is only one copy with correction on it, the manager may want more copies. But the secretary, being unfamiliar with this “technical forgot” may literally put a match to the blue print.

- IV. Language used  
If language used is complex or not known by the receiver it might be the barrier to effective communication because the parties will talk to a person who does not know English language.
- V. Increase running costs.
- VI. Large capital outlays.
- VII. Remoteness of some areas makes it difficult to be accessed.
- VIII. Bad weather conditions destroy means of communication.

#### DISCUSS THE FOLLOWING QUESTIONS

1. discuss the factors to be considered when choosing means of transport of goods.
  2. what are advantages and disadvantages of air transport?
  3. (a) What is production?  
  
(b) Describe the contribution of transport towards production
  4. outline the main advantages of containerization
  5. (a) what is the importance of communication in trade ?
- b) explain briefly four (4) barriers to effective communication
6. what are the factors that determine the effectiveness of transport ?
  7. outline five (5) advantages and five (5) disadvantages of air transport
  8. write short notes on the following
    - a) charter party.
    - b) containerization.
    - c) pipeline.
    - d) airway bill.
    - e) registered post.

9. with the help of a post office guide. make a list of services offered by Tanzania post office and telecommunication corporation.
10. Differentiate between a written communication and verbal communication.
11. What are different forms and element of transport?
12. Discuss the main features , advantages and disadvantages of road transport.
13. Discuss the main features advantages and disadvantages or rail transport
14. What do you mean by pipeline ? discuss its advantages and disadvantages
15. Define containerization. Discuss the advantages and limitation of containerization
16. What are channel of communication ? explain
17. What are remittance services provided by the post office ?

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## PRODUCTION

This is the process of making goods or rendering services for the satisfaction of human wants e.g. process of changing the goat skin into pairs of shoes.

Production can also defined as the creation of utility . there are several types of utility .these are :

### FORM UTILITY

This is the utility which provided by the manufacturing or constructive industries which deals with changing the form of production .

### TIME UTILITY

This is the utility which is provided by warehousing which deals with changing the time of consumption

### PLACE UTILITY

This is the utility which provided by transport which deals with the changing of the place of consumption

### POSSESSION UTILITY

This is the utility which is provided by trade which deals with changing the ownership of consumption

### PURPOSE OF PRODUCTION



The main purpose of production is the satisfaction of human wants and needs through creation of utility of goods and services .

NEEDS - these include all goods and services which are necessary for human existence . needs of modern society and broadly grouped into five groups namely food ,accommodation ,clothes education and health care

WANTS - these include all goods and services that are required to supplement the needs of human being .

## **CHARACTERISTICS OF WANTS**

### **1. WANTS ARE INSASTIABLE**

This means wants can not be satisfied . .there are always new wants to satisfy .Man always cultivates for the new wants and he /she never satisfied at all i.e. wants plenty and infinite.

### **2. WANTS ARE HABITUAL.**

Certain wants are created and sustained though a habit e.g. cigarettes smokes ,drinkers etc and in the many cases they depend on the financial position of a person.

### **3.WANTS ARE RE-CURRENT**

Wants cannot be satisfied once and there fore all the keep on recurring quite often.

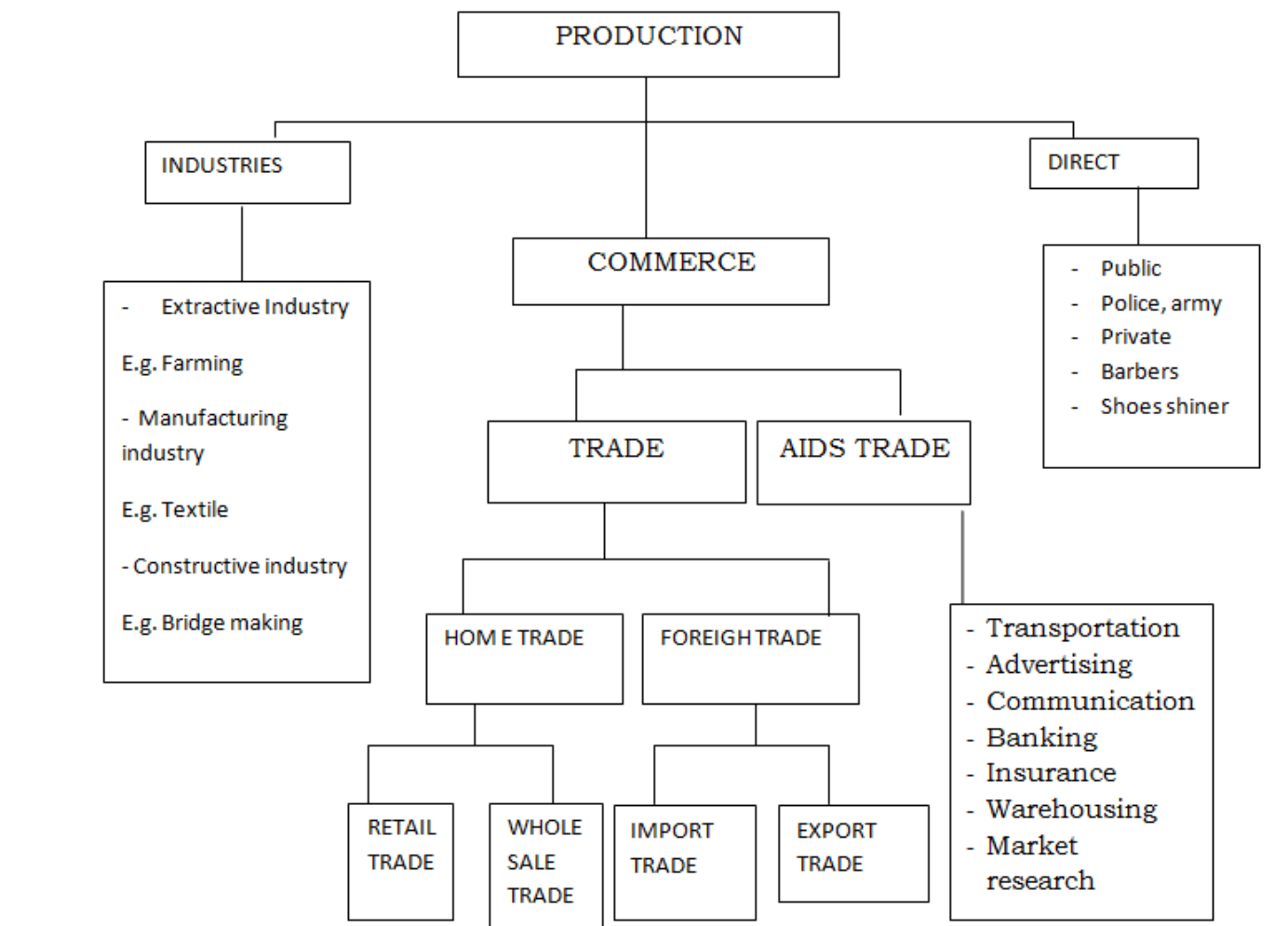
### **4.WANTS ARE COMPLEMENTARY**

Satisfaction of single wants way make necessary to consumer a number of product e.g. hot drinks will require tea leaves or cocoa ,milk .sugar ,water and fuel to boil the component ink and pen electricity lamp and switches.

### **5.WANTS ARE COMPETITIVE**

The are many product to satisfy a single want e.g. a want for the soft drink .there are cocacola ,pepsi etc hence he/she has to make selection from many goods.

## **PRODUCTION FLOW CHART**



## PRODUCTION COSTS/COSTS OF PRODUCTION

Production costs refer to the expenses or money used in the process of production. For example amount of money used to purchase raw materials, rent, salaries e.t.c.

### TYPE OF PRODUCTION COST

Production costs are mainly categorized into two groups

- (i) Fixed costs
- (ii) Variable costs

#### 1. FIXED COST

These are the costs which do not change as output changes. i.e do not vary without e.g. Rent, Interest, Salaries etc.

Fixed Cost = Total costs - Variable Cost

$$F.C = TC - V.C$$

## 2. VARIABLE COSTS

These are costs that vary directly with the output of the goods produced e.g wages of direct labour, raw materials, water, electricity etc.

Variables costs = Total costs - Fixed assets.

$$V.C = TC - F.C$$

## 3. TOTAL COSTS

These are overall expenses incurred in the production process i.e It is the sum of fixed costs and variable cost.

$$TC = F.C + V.C$$

## 4. AVERAGE COSTS

These are costs per unit of output produced

$$\text{Average Costs} = \frac{\text{Total cost}}{\text{Output}(Q)}$$

$$AC = \frac{\text{Total cost}}{Q}$$

## 5. MARGINAL COSTS

These are additional costs incurred due to extra unit of output produced.

Marginal Costs =  $\frac{\text{Change in total cost}}{\text{Change in output}}$

$$MC = \frac{DTC}{Dq}$$

Where DTC = Change in Total costs

Dq = Change in output

## 6.EXPLICIT COSTS

## 7.IMPLICIT COSTS

## 8.ETC

## PRODUCTION STAGES / LEVELS OF PRODUCTION

There are three stages of production namely :

### PRIMARY PRODUCTION

This is the first stage of production which deals with the extraction of raw materials from nature e.g. fishing ,mining agriculture etc often the output of the production is the input of secondary

production .But the output of primary production can be used direct by the consumer e.g. all fruit ,vegetable etc.

## **SECONDARY PRODUCTION**

This is the second stage of production which deals with processing raw materials extracted and collected by the primary production i.e. output of primary production e.g. manufacturing industries deals with it and constructive industries e.g. government manufacturer ,textile industries, bridge making .

## **TERTIARY PRODUCTION**

Production process is incomplete in the second stage because do not reach to consumer .since we know the aim of production is to satisfy human wants and needs .

There are services such as transport , while selling , distribution and exchange and personal services such as medicines , security etc

## **METHOD OF PRODUCTION (TYPES OF PRODUCTION)**

There are mainly two methods of production namely;

### **DIRECT PRODUCTION**

This is the method of production where by goods and services are produced by an individual for his/ her own use .No surplus is obtained hence no exchange to take place .The method also known as SUBSISTANCE PRODUCTION

### **INDIRECT PRODUCTION**

This is a method of production where by goods and services are produced by an individual for the sake of exchange i.e.selling to other people .This method is also known as MARKET PRODUCTION.

## **MASS PRODUCTION AND THREE “S”**

The mass production is the process of producing large amount of output by using fewer workers .

The term can be affected by the following factors

Simplification

This is the process of simplifying the manufactured products and keeps them in the functional .this means that the simplified product will be cheaper and customer will afford to buy if the previous was worn out.

### Standardization

This is the process of putting the goods into the standard parts. This means the items produced can be used in the various alternative therefore this widen the markets for the product

### Specialization

This is the process of concentrating the effort on a particular job . this means one will perform a work which he/she is suited to do best .therefore the productivity will tend to increase due to the fact that a person may concentrate in his/her activity

## **SPECIALIZATION AND DIVISION OF LABOUR**

### Specialization

Is the process where by a person would be required to concentrate on one activity/ job in which has the best skills or can do better.

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### Division of labour

Was defined by E.THOMAS that , it is an arrangement of labour power in such a way that maximize the amount and quantity of output.

## **ADVANTAGES OF SPECIALIZATION**

- time and energy saving

Since a person concentrate on his/her field then the time which will be used for switching from one job to another will be saved as also energy will do the same.

- increase production

Different people with their professional are given their field , the production of output will increase because labourers have different skills and knowledge.

- degree of choice

People are able to choose their field because in the specialization, a person is given a work/job which he/she can do best

- development skills

Having to do the same work repeatedly, a person may become highly skilled in his field by knowing where the mistake was and where it is, people become qualified totally in their works.

- Inventions and innovations are encouraged in production process due to the use of machines hence high quality output is produced.
- Avoids boredom in the process of production since labourers concentrate only in activities where they have the best skills

## DISADVANTAGES OF SPECIALIZATION

- Boredom – this is due to doing the same task again and again hence monotonous
- Unemployment- this is due to use of machines in production process
- High cost of buying machinery-
- Limited form of production- this due to the factor that a person concentrates on one production activity
- Loss of craftsmanship of natural resources due to the use of machines

## FACTORS OF PRODUCTION

These are resources available to produce goods and services needed and wanted by the community. There are four factors of production

### 1. LAND

This includes not only land itself, but all that grown on it such as natural forest and any thing obtained from lakes, sea, rivers, oceans and canals. Land provide a space where factories are built and it is the ultimate source of all materials.

### How land aids production?/ IMPORTANCE OF LAND

1. It provide space where productive activities can be located.
2. It provides raw materials and other commodities which can be used in production.
3. It is a form valuable natural resources.
4. It contains minerals which are very useful almost to all productive forces.
5. Provides agricultural commodities of all types which can be used as raw materials.

## CHARACTERISTICS OF LAND

- Land is the gift of nature. Basically man has just found land for his/her use and has done nothing to bring it into existence.
- Land is limited in supply. Land strictly limited in supply but its supply can be conducted in absence of it i.e. industries are located on the land.
- Land is an immovable factor of production. Land can not move from one place to another .
- is subjected to the law of diminishing return. The law applied to the agricultural sector where when more factor of production (labour) are employed the output decreases.

## PRODUCTION OF LAND

- Fertility

Improvement and development made on the land (agricultural techniques)

Situation is to population and market i.e. space for housing and production

Geographical situation (temperature zone , tropical or southern and northern hemisphere and desert.)

- Nature of surface of land . This means whether mountaineers or low and high land.

## 2. LABOUR

These are all human efforts mentally and physically which engaged in production ;

but not that labour is human effort ,but all human effort is not labour because labour must be aimed at production and paid for . thus if person plays football for his own pleasure his effort would not be called labour but if he in he works in the factory or otherwise contributing effort to any meaning of labour activities of person engaged in the giving direct services also termed as labour .

## CHARACTERISTICS OF LABOUR

1.High mobility.Labourers are easily shift from one industries to another or from one geographical location to another as well as from one occupation to another.

2. its availability depend on the size and structure of the population.

3. it requires close supervision and human relation to increase its efficiency.
4. Labour differs on the level of ability and efficient.
5. Labour sells his services and not himself.
6. has feelings and emotion and likings

Labour is any human effort both physical and mental at production of goods and services. Labour is mainly classified into three categories as follows;

1. Skilled labour
2. Semi skilled labour
3. Un-skilled labour

What are the importance of labour in production?

1. Simplify production activities
2. Facilitate other factors of production
3. Reduce costs

## **PRODUCTIVITY OF LABOUR**

Sometimes known as efficiency of labour which means the quantity and quality produced by the labour .if a labour produces the products of superior quality in large quantity at a specific time , labour is said to be efficient.

## **FACTORS AFFECTING LABOUR EFFICIENCY AND PRODUCTIVITY**

- Working condition
- Means of production.ie labour intensive or capital intensive technique
- Peace of mind.
- Incentives.
- Altitudes of the workers towards work.
- Degree of specialization and division of labor
- Efficiency of other factors of production ( especially entrepreneur)



- Education and training

## MOBILITY OF LABOUR

This is the movement of labor from one place to another or from one occupation to another .

The mobility of labour has the following types.

- Geographical mobility

This is the movement of labor from one place to another the development of transport and communication services expansion of education and employment opportunities in the some areas have called the movement of labor from one area to another .

- Occupational mobility

This is the movement of labor from one occupation to another e .g. movement from agricultural sector to industrial sector the occupational mobility is due to the expansion of education which cause people shift from agricultural sector to industrial sector

Occupational mobility is further divided into two forms of labour mobility.

1. Horizontal mobility

This is the movement of labor from one firm to another at the same level e.g. moving from firm A to firm B where you will remain at the same level as account.

1. Vertical mobility

This is the movement of labor from low grade to the higher grade . the movement from accountant to the senior accountant is the vertical mobility of labor

## BARRIERS TO THE MOBILITY LABOUR

### a) GEOGRAPHICAL MOBILITY

- Monetary cost. moving a family with its possession can be expensive operation.
- Housing shortage.this is the common feature especially in the large town and cities . It is particularly a difficult problem in the cases of the rented accommodation.
- Social ties. many people do not need to live beyond their friend and relative and face the prospective of establishing social relationship in the strange town.
- Education.many families tend to be immobile a certain state of their children education.
- National and international immigration laws often acts as a constant.

## OCCUPATIONAL MOBILITY

- Natural mobility. people differ in natural mobility and some occupation requires a high level of intelligence of a particular natural aptitude which is only possessed by a certain proportional of the population which could be a small proportional such as surgeons , physicians , mathematician designers etc
- Trainers.professions which demand a very long time of education and training e.g. doctor leads into groups of these profession being very small and you can not shift very easily from either job into those jobs which requires training.
- Ignorance of employment opportunities in different areas.
- limited skills of individuals hence failing to acquire jobs.
- changes in science and technology e.g. use of machines in production process.

## **POLICIES TO ASSIST MOBILITY OF LABOUR**

Government should provide financial assistance in form of transport allowances and accommodation to enable people search jobs in distant areas.

Due to ignorance about the presence employment opportunities, then jobs should be advertised through different advertising media

## **ADVANTAGES OF MOBILITY OF LABOUR**

- Higher employment level. Labor mobility helps to reduce un-employment because workers can move to various with place with employment opportunities.
- Higher wages. A worker move from one job to another for the sake of earning higher wages i.e. in the vertical mobility.
- Greater productivity and efficiency. This is when labour moves from low or pour working conditions places
- Job satisfaction. Labor mobility allows workers to choose jobs are interested and satisfied with. This may bring a peace of mind.
- International understanding. Geographical mobility of labour creates and strengthen ones conditional of international community understanding between different countries of the world .people of the different races , from various countries working together can become broad minded to the extent of forgetting their racial ,tribes ,religious differences.

## **CAPITAL**

Capital refers to man made resources used to create for the goods and services .capital is a factor of production as well as a means of earning income. capital is the factor of production be cause it consist raw materials ,total machinery ,roads ,buildings works, etc. this actually renders production possible and more efficient

## **FUNCTIONS OF CAPITAL**

- Increase standard of living of the people, by use of money capital to acquire basic needs.
- Increase production due to the use of capital goods like machinery or tractors.
- Provide production with capital.
- Provision of employment. investment of capital all sectors of economy e.g. agricultural industrial ,trade ,transport banking creates employment to numerous people.
- Makes specialization and division of labor possible.
- It also helps by( financial them) in the creating the auxiliary services like insurance , transport ,warehousing.

## **CHARACTERISTICS OF CAPITAL**

- Its availability depends on the relative interest and profit obtained in the industries at a given point of a time.
- Its productivity depends on the level of technology , the deficiency of other factors and the extent to which , it put into use .
- Its mobile in the both senses ( as a factor of production and as a means of earning income) although some types of capital are extremely mobile e.g. ship yard ,railways network which are in geographical site.
- Capital is subjected to the law of increasing return the law refers to the landed of more economic working of the business when scale of production is enlarged .

## **3. ENTREPRENEURSHIP**

This is defined as art and science managing business. It involves organizaing and coordinating all other factors of productions like land, labour in the process in productions.  
Organization

### **Entrepreneur**

This is the is the person or group of people who undertakes the projects . He supplies the necessary money to arrange and pay the factors of production . From the proceeds of sale he pays for the use of the other factors of production and he balance constitute his profit.

### **FUNCTION OF AN ENTREPRENEUR**

- To start the business .This means he initiation of the ideal of starting up the business
- To employ the factor of production i.e. land labour and capital. It means he is the one who assembles all factor of production .
- To produce product . he is the one who decides what to produce and how to produce.
- To sell the product produced . the product after being produced are sold to the dealer of final consumers.
- To reward factor used i.e. to pay rent, wages ,interest. This means after selling the products the factors are rewarded
- To bear responsibility of profit or loss .the entrepreneur bears all risk in the market.
- To control the business and make sure that the cost and wastage are minimized.

## ROLES OF PROFIT IN BUSINESS

Profit making is essential in the business due to the following factors:

- Incentive. Profit is the a chief motivating factors in the business .it provides the necessary incentives to work hard and also services as a reward for risk bearing.
- Survival . Profit is essential for the cost of staying in the business and their risk..
- Growth and expansion. Profit ensure supply of capital for future innovation and expansion. It services as means of self-financing or pouching back profit. profit enable to attract new capital from shareholders and debenture.
- Prestige. a profit made concern enjoy goodwill in the society a loss making business shaved by every body in the society.
- Measure of efficiency. Profit is considered to be endorsed of success in the business it measures the efficiency and effectiveness of the business efforts . it serves as means of evaluating business performance

## NATURE OF THE BUSINESS RISKS

Business is the full of un-certainties .there is chance of loss from days , goods produced anticipation of demand to the day they are sold and payment is received , goods may decrease in the value due to the following reasons .

- Physical deterioration or shrinkage
- A fall in the market value
- Natural and man made catastrophe e.g. earth quake , fire and bad debts.
- A business may not be able to sell all goods due to the competition thus there is element of rise at every stage of production

## CHARACTERISTICS OF BUSINESS RISKS

- Uncertainty. Business arises due to the uncertainty about the future cause of event .there are several types of uncertainty but some are Man made uncertainties e.g. lockout theft , bad debts such accidents caused by human failure lead to loss and Natural uncertainties e.g. flood, famine, drought , earth quake hails storm etc can result in the loss
- Variability. The degree of risk varies with size and nature of the business. Big firm often involves a higher degree of risks. A degree of risks also varies with time .period and degree of competition . firm dealing in the fashion goods faces risks than a firm dealing in essential commodities
- Profit in the level of breaking risks. An entrepreneur is willing to take risks in the hope of getting profit. That is way there is risk , also there possibility gain .

## CAUSES OF BUSINESS RISK

- *Natural causes.* causes events such as floods , drought ,famine ,earth quakes ,volcanic eruption ,lighting snow falls ,epidemic results in the heavy losses of properties and income , human beings have most no control over nature.

- Human causes. The human factors is the main causes of risk in the business negligence or carelessness on the part of employees may lead to serious accident involving loss of life or properties . dishonest of the part of employees and costumers may result in forgery misappropriation of cash ,theft of goods etc in efficient accident management is often a cause of loss in the business.
- *economic causes*. This refers to the change of economic condition due to the fluctuation in demand and price of product and trade cycle and other un foreseen changes in income may also create a business risk .
- *technical causes*. Technical changes and mechanical defects also results in the business risk . change in technology may make machines absolutely before their expected life .mechanical failuer such as out burst of boiler, leakage of gas etc may lead to heavy loss of life and properties , assets used in the business may be depreciated due to the shrinkage , loss in weight , vaporization etc
- *political causes* Political disturbance such as fall in the government , civil war etc . may lead to the heavy loss of life and properties

## TYPES OF GOODS PRODUCED IN PRODUCTION PROCESS

What are they?

1. **Free goods:** Are those things which are free by nature e.g. water, air, sun shine
2. **Economic goods:** Are those goods which are scarce and to obtain them human efforts is required e.g. machines etc
3. **Consumer goods:** Are those goods which are used directly by final consumers. They are either durable (long lasting) or perishable (take a short time to go bad)
4. **Producer goods (capital):** Are those goods which are used in the production process i.e. they are used to produce other goods like machines, spare parts etc
5. Perishable goods. Are goods which can easily go bad eg milk, fish, vegetable etc.
6. Demerit goods. Are goods which are harmful to human lives.

## DIVISION OF LABOR AND SPECIALIZATION IN PRODUCTION

### Concept of division of labor

-This is separation of jobs, activities and processes so that each person or group of people concentrate on what on what they can best, leaving others to do the rest. In the end there will be exchanging with one another.

### Types of specialization

-This happens when one concentrates on a particular task effectively leaving others to be alone by the rest. Specialization is categorized in the following forms

1. specialization Professional
2. Regional specialization

3. National specialization
4. Specialization process.
5. Specialization by commodities.

## LOCATION AND LOCALIZATION OF A INDUSTRY

### Factors to be considered:

1. **Availability of raw materials:**

A production center should be located near to the source of raw materials to avoid cost of transportation and others

2. **Nearness to the market.**

A production industry should be located in areas where the markets for the finished products is readily available

3. **Nearness to the power and water supply.**

Since most of production industries need electricity for the machines to operate and water for their smooth running then they should be located in areas where water and electricity power can be readily available

4. **Availability of labor supply.**

Production industries should be located in a place where labor is cheap and abundant (plenty)

5. **Availability of transport and communication.**

These facilities are essentials to transport raw materials and finished goods to different places. This includes good roads, communication network and other infrastructure

6. **Site for expansion.**

The location required should be large enough to allow for future expansion when the firm grows naturally due to increased investment,

7. **Government policy**

8. **Availability of other services**

## LOCALIZATION OF INDUSTRIES

-Is the concentration of industries in a particular area or region, in this case all industries are established in one particular town. For example textile industries, and sugar industries etc

### **Advantages of localization**

1. It leads to the development of other basic infrastructure
2. It brings about employment opportunities
3. It leads to the development of new subsidiary industries
4. Reduces the cost of production for the localized industries

### **Disadvantages**

1. It brings about regional imbalances
2. Economy becomes dependent on a localized area
3. Employment opportunities are limited to a particular type of labor
4. High cost of living

## **ECONOMIES OF SCALE IN PRODUCTION**

What is it?

-These are the advantages which occurred to the firm because of producing on a large quantity (scale). In that case, larger scale operations will result to the reduction costs

### **Advantages of large scale enterprise/ Economies of Scale**

1. It leads to specialization in better quality work
2. It offers facilities and fringe benefits which stimulates workers in better production
3. Better use of machines which increase production efficiency at minimum goals
4. Large scale can afford advertising which provides and maintain its scale hence increased revenues
5. Large scale firm also affords to research which is geared to its improvement and better quality products

### **Disadvantages of large scale enterprise/Dis-Economies of Scale**

1. A firm needs to have a larger market so as to continue large scale production
2. It is often more difficult to control and manage the enterprise
3. The firm incurs the increase cost of production as a result of advertising staff welfare, offering discounts etc
4. They lack personal attention of the customers
5. Decisions take longer period to be implemented because of bureaucracy

## **COSTS OF PRODUCTION**

What are they?

-these are expenses to be incurred in production process. They include the following

1. Fixed costs
2. Variable costs

**What is fixed cost?**

-these are expenses which do not change (remain fixed) as the production change i.e. output change for example salaries

**What is variable cost?**

-these are expenses which change (vary) with the change of output e.g. cost of raw materials, electricity

NB:

1. Total cost; is the sum of total fixed cost and variable cost of production
  2. Marginal cost; is the extra cost to be incurred for producing one extra output
  3. Average cost; is the average of total variable and fixed costs of production
  4. Opportunity cost; Is the alternative that has been foregone after making a certain choice due to scarcity of resources
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