S.2 COMMERCE

MODERN DEVELOPMENTS IN THE RETAIL TRADE

These are changing patterns in retail trade. They are sometimes known as Retail trends. By comparing Retail Trade in the past with retail trade in the modern times. The trend of Retail Trade has greatly changed with a variety of new ways of trading.

The trends include the following.

1. INSTALLMENT SELLING

a) **Meaning of installment selling**

This is a method of selling where the buyer does not pay the entire amount for a commodity at once, but instead he/she pays it in agreed portions/bits.

The buyer has to pay the first deposit which is known as Down Payment and this is between 20% and 40% of the cost price of the item. The balance is paid in agreed bit/installment.

b) FORMS OR METHODS OF INSTALLMENT SELLING

Installment selling may take two forms, namely;

1. Hire purchase
2. Deferred payment

1. HIRE PURCHASE

This is a system of installment selling where the item remains property of the seller until all installments have been paid.

If the buyer fails to pay any of the installments the seller has a right to repossess the product.

- The buyer takes possession of the product after the down payment, but does not take ownership until all the installments are paid

2. DEFERRED PAYMENT

This is a system of installment selling where the item becomes the property of the buyer as soon as the first installment/down payment is paid.

If the buyer to pay any of the installments the seller cannot repossess the commodity but may sue the buyer to court for the unpaid amount. This method mainly benefits the buyer.

- An agreement should be made between the buyer and seller when goods are to be sold on installment. This is known as **Hire purchase agreement**

CONTENTS OF A HIRE PURCHASE AGREEMENT

i) Details of the item booked for example name and type
ii) Cost price of the item
iii) The down payment paid by the buyer
iv) The balance on the commodity
v) The credit period given to the buyer for paying the remaining installment
vi) The buyer’s name and signature
vii) The seller’s full address, name and signature
viii) That the commodity will be repossessed by the seller in case the buyer defaults.

DEFFERENCES BETWEEN HIRE PURCHASE AND DEFERRED PAYMENT

i) Under hire purchase the buyer does not take ownership of the product before paying all the installments while the deferred payment the buyer takes ownership and possession of the commodity immediately the down payment is paid.
ii) In case of defaulting under hire purchase/when the buyer fails to complete all the installments, the commodity is repossessed by the seller. However, in deferred payment the seller does not repossess the item in case of defaulting but sues the buyer to court or law.
iii) In deferred payment the buyer can use the commodity before completing all the installments but in hire purchase the item can only be used by the buyer when all the installments are cleared.
iv) Hire purchase normally used when purchasing very expensive items such as land, buildings, cars, but in deferred payment is more appropriate for items which are not necessarily very expensive like Radios and television sets.

c) **ADVANTAGES OF INSTALLMENT SELLING TO THE BUYER/CONSUMER**

i) It is a very convenient way of purchasing items since payment is spread over a long period.

ii) It enables low and seasonal income earners to acquire expensive items since payment is spread over a long period.

iii) It is a form of saving in form of durable goods instead of cash which can lose value.

iv) The expensive commodity bought may constitute security for loans from lending institutions.

v) An asset bought can be used to pay itself, for example, one can use the motorcycle before full amount to generate income to pay the balance.

vi) The buyer enjoys the item before completion of payment since he is in possession of it.

vii) It increases the buyers' standard of living as he or she accumulates more assets.

DISADVANTAGES OF INSTALLMENT SELLING TO THE BUYER.

(i) A consumer may be forced to buy more than he/she can afford to pay.
(ii) Higher purchase price is normally higher than cash price because there is no cash discount hence the consumer is exploited.
(iii) If the consumer fails to pay any installment, he may lose the item and no refund is made.
(iv) It over burdens the buyer for making regular visits to pay the installments. Therefore the buyer may incur additional costs in form of travelling.
(v) The buyer is always kept on tension because of the unpaid installments.
(vi) It may create bad relationship between the buyer and the seller in case of defaulting. For example, when the buyer is taken to court.

d) ADVANTAGES OF INSTALLEMENT SELLING TO THE SELLER.

(i) More goods are sold through this system as more customers are attracted to buy. This leads to increased sales and profits of the business.
(ii) Higher price is charged to customers hence increased profits.
(iii) In case of defaulting under hire purchase the article can be recovered and resold.
(iv) High interest is charged to the customers, hence a good investment.
(v) As customers constantly visit the seller they may identify other goods in the shop, hence goods advertise themselves.
(vi) It enables the seller to dispose off the durable and expensive items which would take long to be bought on cash basis.
(vii) It promotes good relationship between the buyer and the seller and this may create permanent customers for the seller.
(viii) The original price is not charged even if prices fall before completion of all installments by the buyer.

DISADVANTAGES OF INSTALLMENT SELLING TO THE SELLER.

(i) The seller stands a high risk of not being paid by some customers. This may lead to bad debts.
(ii) The seller needs more capital as most of his capital is tied up in debts.
(iii) The seller may incur a lot of expenses in terms of debt recovery and record keeping of the regular installments.
(iv) The item may be reposed when it is in bad conditions/old and therefore if the seller sells it to another person it may be sold at a loss.
(v) The seller may not increase the original price in case of increase in price of the commodity before full payment.

2) BRANDING

(a) MEANING OF BRANDING.

Branding is a process of giving a registered name /label/trade mark or symbol to a product by the producer to distinguish it from similar products of other producers.

Examples of Branded Goods.

- Washing detergents such as Nomi, Omo, and Arial.
- Shoe polish like Super shine, Kiwi and Dragon.
- Tooth paste like LMZ, Deldent, close up etc.
- Sugar like Kakira, Kinyara, Lugazi.
- Pens like BIC, Nice Clear.

(b) CHARACTERISTICS OF BRANDED GOODS.

(i) The name of the product is normally indicated.
(ii) They are normally packed.
(iii) Branded goods are usually of high quality.
(iv) They are packed uniformly.
(v) They usually bear a label or symbol.
(vi) They are easily identified from others of the same type.
(vii) If the brand is similar the price is usually the same.

(c) ADVANTAGES OF BRANDING TO THE PRODUCER /SELLER.

(i) It facilitates self-service retailing like in a supermarket.
(ii) Branded goods are easy to advertise. The producer advertises the brand name.
(iii) New commodities can easily be introduced to the market by the producer.
(iv) Since the goods are packed, they can easily be handled by the producer.
(v) Attractive brand names may attract more customers leading to increased demand and permanent customers.
(vi) A producer can easily differentiate his goods from similar goods of other producers.
(vii) Branding enables a producer to produce quality goods which leads to increased volume of sales.
(viii) Branding encourages market Research and this enables a producer to produce quality products.

DISADVANTAGES OF BRANDING TO THE PRODUCER/SELLER.

(i) Branding may increase the cost of production. Registering the brand name and trademark is expensive to the producer.

(ii) It creates competition among producers of related/similar products and therefore small firms may be kicked out of the market.

(iii) Branded goods are normally sold at fixed prices and therefore the producer may not easily adjust the prices.

(iv) The supplier has to stock a variety of brands of different quantities to meet the different demands of the consumers.

(v) Commodities may be duplicated by other producers by using original brand names of other producers who are popular.

(d) ADVANTAGES OF BRANDING TO A CONSUMER.

(i) Consumer is provided with a variety of commodities, which widens his choice.

(ii) Consumer can obtain high quality goods as a result of competition among producers of related products.

(iii) Branded goods facilitate self-service. This saves the consumer's time as goods are easily identified.

(iv) The buyer can easily differentiate similar goods of different producers.

(v) The buyer can obtain goods at reduced prices as a result of competition among producers of related products.

(vi) Consumers are assured of the same quality and prices of branded goods. This protects them from being cheated.

(vii) Consumers can deal directly with the producer because they know and can easily trace the brands needed.

(viii) Branded goods are usually packed and bear instructions about usage of the product. This protects consumers from misusing the commodity.

DISADVANTAGES OF BRANDING TO THE CONSUMER.

(i) Branded goods are normally expensive to the buyer. The cost of branding may be shifted to the buyer.

(ii) It makes choice difficult to make by the buyer especially where there are many brands.

(iii) A consumer may buy a poor quality product because of attractive brand names and trademark.

(iv) Branded goods are sometimes advertised persuasively. This may influence a consumer to buy a product which he does not need.

(v) Branding leads to brand-loyalty. This may make consumers to get addicted to a particular brand and ignore other commodities.

(vi) Fake products may be sold to consumers using brand names and trade mark of popular producers.

3. PRE-PACKING/PACKAGING.

(a) MEANING OF PRE-PACKING.

This is the wrapping of goods in suitable containers/covers/boxes to protect them from damages and contamination. It is carried out by producers, Wholesalers and Retailers.
Examples of packed Goods: Tealeaves, sugar, cooking oil, Soap and tinned food.

(b) QUALITIES OF AGOOD PACKING MATERIAL.

(i) A good packing material should be attractive for example, decorated with different colours to attract the attention of the customers.
(ii) It should be strong enough in order to protect goods packed for a long period.
(iii) It should be light and not bulky for easy transportation of the goods packed.
(iv) It should be friendly to the environment. It should easily decompose in order not to cause any harm to the environment.
(v) It should serve other uses after removing the commodity. For example, Jerrycans, tins and boxes.
(vi) It should be well labelled. For example, bear the brand name and other details of the commodity such as weight and instructions to save the buyer's time.
(vii) It should not be very expensive to make/buy because this may increase the cost of the product.
(viii) Packing material of the same producer for a similar product should be uniform to avoid duplication.

(c) ADVANTAGES OF PRE-PACKING TO THE SELLER/PRODUCER.

(i) A good packing material may attract the attention of customers towards the commodity.
(ii) Packed goods can easily be handled especially if they are inform of capacities like cooking oil and sugar.
(iii) Packed goods are normally sold expensively. I.e. increases the value of commodities leading to more profits.
(iv) Packaging protects goods from damages and contamination.
(v) Packed goods can be sold through Mail-order business and using automatic machines.
(vi) Pre-packing facilitates self-survive since goods are already packed and the weight is indicated.
(vii) Packed goods can easily be transported and stored.
(viii) Packaging saves the sellers time because goods are weighed and packed in advance

DISADVANTAGES OF PRE-PACKING TO THE SELLER /PRODUCER.

(i) Packing materials are expensive to buy and this may increase the cost of production and reduce the profit margin.
(ii) Packaging may lead to increase in the price of a commodity due to the high cost of packaging. This may reduce the demand of a commodity.
(iii) Packaging is time consuming. A lot of time is wasted while packing the commodities.

(iv) Some producers may produce fake commodities and pack them in original packing materials of popular producers. This may spoil the image of the producers' products.

(d) ADVANTAGES OF PACKAGING TO THE BUYER/CONSUMER.

(i) The packing material may be used for other purposes after removing the good. For example, boxes, bottles and jerrycans.
(ii) Goods are free from damages and therefore a consumer is assured of quality goods.
(iii) Consumers are protected from fraud as a result of wrong weights. This is because the net weight is indicated on the packing materials by the producer.
(iv) Since commodities are already packed and the weight is indicated it enables self-service retailing and this saves the buyer's time.
(v) Packed goods can easily be handled and carried by the consumer.
(vi) Consumers can easily identify packed goods.

DISADVANTAGES OF PACKAGING TO THE CONSUMER/BUYER.

(i) Packaging materials are expensive to the seller. This may make the price of a commodity to be high.
(ii) The packaging material may be too attractive and this may influence the buyer to buy a poor quality product.
(iii) The net weight indicated on the packet may not be correct and therefore a consumer may be cheated.
(iv) Packaging may make commodities to appear bigger than real size. This makes the commodity bulky. For example small radio packed in a big box.
(v) Some packing materials may be too attractive and this may mislead a consumer to buy products he never intended.

4. BLENDING.

(a) MEANING OF BLENDING.

This is a process of mixing different materials/chemicals in order to produce a quality product as desired by the consumer

or

It is a process of adding flavor to a product to make it attractive.

For example, Coca Cola mixes different chemicals to produce different brands of soda which have different taste and colours. Tea leaves can be mixed with ginger to make it more delicious.

(b) ADVANTAGES OF BLENDING.

(i) It makes the commodity more attractive leading to increased sales of the business.
(ii) Blending enables a producer to compete favorably with other producers because his products are of a better grade.

(iii) The goods can easily be advertised since they are of a high quality.
(iv) Consumers enjoy high quality goods.
(v) Consumers are provided with a variety of goods.

(c) DISADVANTAGES OF BLENDING.

(i) It may lead to increased prices of goods due to cost of blending incurred by the producer.
(ii) The materials mixed may not be liked by some customers.
(iii) Blending may affect the quality of a product. For example too much colour may affect the taste and quality of bread.
(iv) It may increase the cost of production hence reducing profitability.

5. SELF-SERVICE.

(a) MEANING OF SELF SERVICE.

This is when a customer enters in a shop and picks what he/she wants and goes to the cashier at the counter to pay with little or no assistance from the shop attendants.

Prices are normally indicated on price tags and commodities are well arranged in the shop.

It is commonly practiced in supermarkets and Hypermarkets.

(b) ADVANTAGES OF SELF-SERVICE.

(i) There is time saving for the buyer because commodities can easily be identified.
(ii) The seller is relieved from too much haggling and bargaining as prices are already indicated on the items. This leads to time saving.
(iii) The buyer can make independent choice without influence from the seller due to the self-service system.
(iv) Supermarkets provide high quality goods to the customers.
(v) They give classic packaging materials to the customers at no cost.
(vi) They do not suffer from bad debts as goods are sold on cash basis.
(vii) Supermarkets employ a few workers due to self-service. Therefore management saves the cost of labour.
(viii) There is self-advertisement off goods in the supermarkets as the buyers move around the shop. Therefore they may be able to identify other commodities in the shop.
(ix) Goods are relatively cheaper compared to ordinary shops.
(x) Management makes a lot of profits due to large scale operation and because there is no bargaining.

(c) DISADVANTAGES OF SELF-SERVICE.

(i) It requires a lot of capital to establish a supermarket.
(ii) It requires large premises and space which may be expensive to rent.
(iii) Commodities are usually very expensive since customers are not allowed to bargain.
(iv) Credit facilities are not offered to customers because goods are sold by cash.
(v) They are concentrated in urban areas and therefore in rural areas their services are missed.
(vi) Small items may be pocketed by untrustworthy customers which may lead to losses to the management.
(vii) Few workers are employed in the supermarkets and this may lead to un employment to the public.
(viii) Sometimes there may be delays at the check points due to congestion.
(ix) Supermarkets tend to have a lot of overhead expenses such as rent and electricity bills due to operation from large premises.

6. AUTOMATIC VENDING.

a. MEANING OF AUTOMATIC VENDING

This is a system of selling goods and services to consumers through coin-operated machines. For example, public pay phones, the use of Franking machine, etc.

b. ADVANTAGES OF AUTOMATIC VENDING.

(i) It is self-service. Services are provided without shop attendants.
(ii) It is a faster method and therefore saves the consumers' time.
(iii) The system operates 24 hours.
(iv) The system is more accurate than human beings.
(v) There are no credit facilities.

c. DISADVANTAGES OF AUTOMATIC VENDING.

(i) It is expensive to buy and to install the machine.
(ii) The system is limited to a particular goods or services. Certain goods like bulky, heavy and living things cannot be traded.
(iii) Sometimes may be out of order and this may inconvenience customers.
(iv) If the machine is wrongly programmed it may cause greater losses to management.
(v) Sometimes customers may use fake coins and cheat.
(vi) It is normally restricted to urban centers.
(vii) There is no direct personal contact between the buyer and the seller.
(viii) The machine may not be used without electricity.
(ix) It does not offer credit facilities to the buyer.
(x) Customers are given an opportunity to bargain.

7. AFTER SALE SERVICE

These are free additional services which retailers offer to their customers after selling goods to them.

The services are normally given to those who buy in bulk or buy expensive items free of charge.

Examples of after sale services.

(i) Provision of **spare parts**.
(ii) Free repairing.
(iii) Free delivery of goods purchased.
(iv) Free installation of goods.
(v) Free packing yard.
(vi) Free packing materials.
(vii) Restaurant services such as free lunch.
(viii) Testing of commodities.
(ix) Technical advice on the use and maintenance of commodity bought.

8. LOSS LEADER POLICY.

This is where a retailer charges the price of some fast selling items below their cost price to attract more customers.

As customers come to buy the cheap items they may identify other commodities sold by the retailer.

9. CUSTOMERS REQUEST

- This is the recent move by retailers to get to know the goods and services required to be stocked.

- It is inform of a book placed in the shelves or on the counter table in which customers write down the items that they want a retailer to stock for them.

10. RESALE PRICE MAINTAINANCE

This is where producers indicate the retailing prices to be maintained by retailers. For example, the price of Newspapers is normally indicated by producers of the Newspapers.

11. GOOD WILL.

This is simply a loyalty the out-going owner of the business has already established with the customers.

In other words, it is the name/reputation gained by a business during its period of existence. For example, quality services, no competition, good relationship with customers and good location.

12. BAR CODING.

This is used in modern Retail businesses like supermarkets and book shops for pricing and stock updating of goods. The computer record every item sold and sends back the price to the sales assistant and reduces the stock level.

13. COMPOUND TRADING

This is a situation where a retailer stocks a variety of goods to meet the various needs of customers.

14. AUCTIONING:

This is when goods are assembled in front of potential buyers who compete for them and the highest bidder takes the goods.

It is normally used during fundraising in churches and schools.

15. TENDER:

This is an offer in response to an advertisement to supply goods or undertake a piece of work at a stated price

OR

It is an offer to supply specified goods or services.

16. MAIL-ORDER RETAILING:

This is where business is conducted through the post office. Goods are ordered for and delivered through the post.

17. PRICE DISCOUNT:

This is the money deducted from the original price of a commodity or service. It is normally done by retailers to increase the sales of a business.

TYPES OF PRICE DISCOUNT

There are two types of price discount.

(i) TRADE DISCOUNT:

This is the deduction from the original price of a commodity given to a customer by the seller to another trader for buying goods or services in bulk /large quantities.

Therefore a trade discount is given to encourage customers buy in large quantities.

(ii) CASH DISCOUNT:

This is the deduction from the original price given to a customer who pays promptly or with in the credit period given to him /her.

Therefore a cash discount is given for prompt settlement of debts.

EXAMPLE: 1

A retailer bought goods worth shs 400,000 at cash discount of 5% and Trade discount of 10%. What was the amount payable to the seller after the two discounts?

SOLUTION:

(Always start by calculating the amount payable after Trade discount, followed by the final amount payable after the cash Discount.)

1. First calculate the amount payable after trade discount.

$$= \frac{90}{100} \text{x} 400,000$$

$$= \text{shs } 360,000$$

2. Calculate the final amount paid after cash discount.

$$= \frac{95}{100} \text{ x } 360,000$$

= shs 342,000/= (Amount paid after the two discounts)

EXAMPLE 2:

A Retailer paid shs 342,000 for goods after a Trade discount of 10% and 5% Cash discount. What was the original price of the commodity before two discounts?

SOLUTION:

Let the original price be "a"

$$= \left[a \text{ x } \frac{90}{100}\right] \text{ x } \frac{95}{100} = 342,000$$

$$= a \text{ x } \frac{95a}{100} \text{ x } \frac{95}{100} = 342,000$$

$$= \frac{8,550a}{10,000} = 342,000$$

$$= 10,000 \text{ x } \frac{8,550a}{10,000} = 342,000 \text{ x } 10,000$$

METHOD 2

Get the reciprocal of the Trade Discount and Cash discount

Original price = $\left[\frac{100}{90} \text{ x } \frac{100}{95}\right]$ x 342,000

$= \frac{10,000}{8,550}$ x 342,000

= <u>shs 400,000/=</u>

Trial Questions:

1. A trader purchased goods worth shs 2,000,000 and was allowed 20% Trade D iscount and 10% Cash Discount. Calculate the amount paid by the trader after the two discounts.
2. Kadoma paid shs 3,000,000 for goods after being allowed a 10% Trade discount and 20% Cash Discount. Calculate the original price of the goods.
3. The price of a motorcycle is 250,000 and a 5 % Cash Discount and 15% Trade discount is allowed. Determine the net amount paid for the motorcycle.