



## **WHOLESALE AND RETAIL:WHRT4**

### **LESSON 17**

#### **Unit Standard 117900: Wholesale and retail in South Africa**

#### **NOTES AND ACTIVITIES**

#### **TOPIC: The nature of wholesale and retail**

**NB :By the end of this unit, you should be able to:**

- 1. Describe the profit principle within the concept of stock for resale as it applies to wholesale and retail.**
- 2. Investigate and identify the types of products and services in a selected wholesale and retail operation.**
- 3. Identify and list the operational functions in the wholesale and retail environment**
- 4. Describe the flow of stock in the wholesale and retail environment**
- 5. Describe the flow of cash in the wholesale and retail environment**

## **THE PROFIT PRINCIPLE WITHIN THE CONCEPT OF STOCK FOR SALE.**

The profit principle refers to the general business objective of maximizing profit so that return on investment is also maximized. In order to do this, the business needs to determine the cost of goods it buys and sells.

**When calculating the cost of goods that the wholesaler purchases for resale to the retailer, the wholesaler needs to take the following into consideration:**

- The purchase price
- Transport costs
- Customs duties, if goods are imported
- Operating expenses
- Taxes
- Insurance



**Custom duty on imported goods is one of the important factors in determining cost.**

**When calculating the selling cost of the goods, the following factors need to be taken into consideration:**

- The cost incurred in selling the item, for example advertising and promotions
- Packaging if required
- Storage
- Profit
- Any adjustments that may need to be made as a result of obsolescence, damage or items going out of fashion
- A decline in the market value of the products

## **HOW TO MAXIMIZE PROFIT**

**To maximize profit, a business needs to do the following:**

- Maximize sales by selling products at the highest possible price that the consumer will pay for that item
- Maximize market share
- Maintain a good cash flow

## Products and services offered by wholesale and retail operations

### Products

Products stocked by wholesale and retail are divided into two categories:

- Perishable items
- Non-perishable items

### PERISHABLE ITEMS

Are products that need to be stored under specific conditions to maintain their freshness. They include food such as fruits and vegetables, meat and poultry. These items have a specified life span or sell-by dates

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### NON-PERISHABLE ITEMS



Are items those products that can last for a very long time. They include things such as stationary, furniture and clothes.

### SERVICES OFFERED BY WHOLESALERS.

#### Wholesalers offer the following services:

**The availability of goods:** Retailers need to offer a wide variety of products to meet the needs of their customers. Many wholesalers will stock a large range of manufactured products, thus enabling retailers to get all their products from one place.

**Marketing support:** Some wholesalers perform marketing functions as well as providing support to retailers. Wholesalers do this by advertising and running sales promotion activities that encourage customers to buy the product being advertised at the retailer. The retailer, in turn, benefit as the customers come to their stores to purchase the new items, without their having to spend money on advertising.

**The granting credit:** Wholesalers the may grant credit to those are credit worthy. This allows to sell the goods before they have actually paid for them. By doing this, the retailers are able to operate their businesses with small amount of working capital.

**Specialised knowledge:** Wholesalers who deal only in one product will be extremely familiar with their product. They will also know what new developments are available.

The advantage of using wholesalers like this is that they can pass on their specialised knowledge to the retailers, as well as keep them informed of new developments and will be able to sell them products at competitive prices in some cases, they will also advise retailers on how to display the products. They might also conduct demonstrations for the end users.

**Risk sharing:** As you already know, wholesalers buy products in bulk from or manufacturers and then sell these items in smaller quantities to retailers. This allows the retailer to store fewer products, thereby reducing the following risks:

- Heavy storage costs
- Theft of large stock volumes
- Obsolescence
- Holding stock that decreases in value.

## **SERVICES OFFERED BY RETAILS**

Retailers offer a variety of services to their customers. In most cases, the services will be influenced by the type of product that they sell. The services offered by retailers can be divided into the following categories:

- Self-service
- Limited service
- Full service.

## **SELF-SERVICE RETAILERS**



These retailers allow customers to locate their own products in the shop and take responsibility of comparing prices between different products. This type of retailer usually deals in fast-moving products like groceries. Examples of self-service retailers are supermarkets, cafés and clothing

## **Limited-service retailers**

These retailers provide the customer with some product information. To do this, retailers will make sure of sales assistants. This form of service is usually used for higher priced products such as furniture, high-end electrical appliances, etc.

## **Operational Functions in wholesale and retail**

- Operational functions of any business are there to improve the performance of the business so that the organisation mission, vision and goals are met.
- The specific operational functions will differ from business to business. The operational functions that are selected are usually based on what type of business it is.
- When a business chooses its operational functions, it must ensure that the selected functions are reliable and manageable

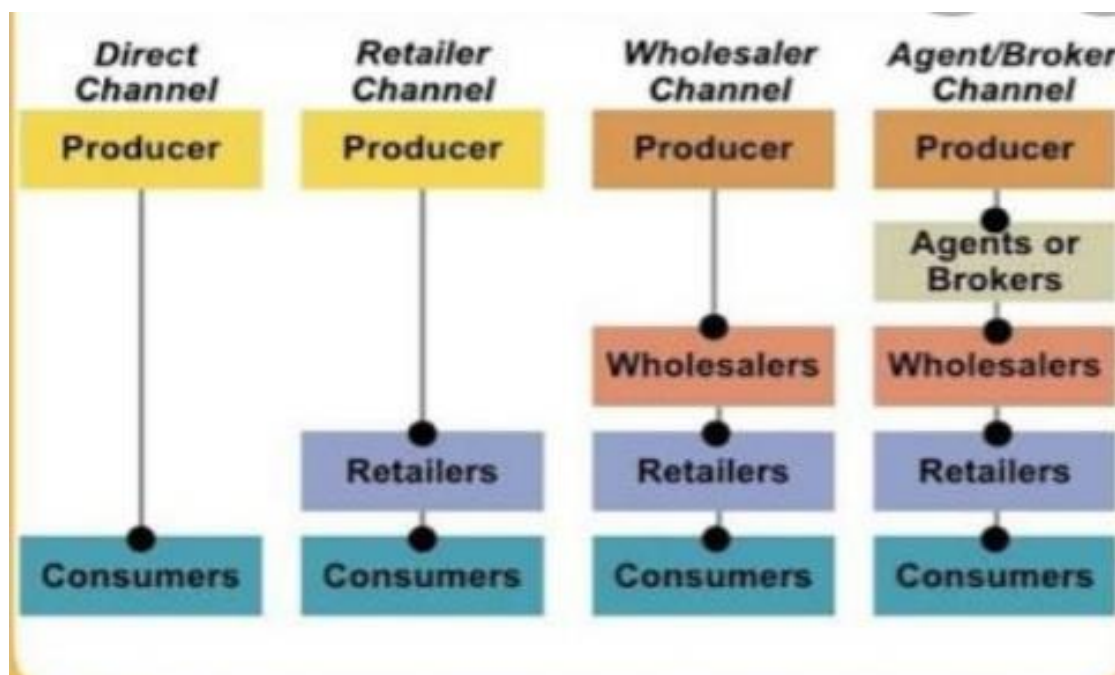
Listed below are operational functions and responsibilities of wholesale and retail business.

- The purchasing department – is the department responsible for sourcing out the correct product at the correct time, at the correct price and in correct quantity.
- The quality control department- ensures that the products received are of the correct quality and the meet manufacturer’s claims.
- The warehousing department – ensures that the product is stored correctly and proper stock-control methods are implemented.
- The logistics department –organises and manages the transportation of products from the manufacturer, as well to the retailer.
- The finance department – ensures that the creditors and debtors are managed in the correct manner and that the cash flow remains positive.
- The marketing department – usually divided into sales and promotional divisions.
  - a) The sales division is responsible for selling products that are stocked by the wholesaler.
  - b) The promotional division is responsible for certain a demand for the product.

## THE FLOW OF STOCK

**A supply chain** is the movement of a product or item of stock from one party to the next. In order for this movement to take place, a stock flow system, involving people, technology, information and resources must be set up.

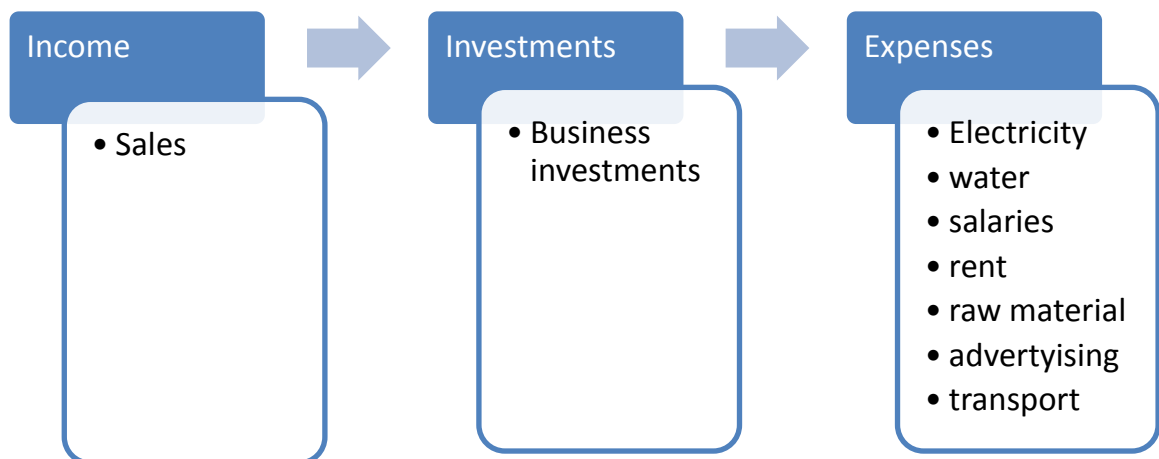
**N.B** Each time another party is added to supply chain the price of product usually increases.



The traditional way is where goods are routed via wholesalers to the retailers and to consumers.

## THE FLOW OF CASH

- The term **flow of cash** relates to the movement of money **in** and **out** of the business.
- As it is shown in the flow diagram below, money goes out of the business to pay for raw material, products, salaries, rent, advertising electricity etc. (to pay expenses), therefore business needs to make money. It does this by selling products and/ or services. In sustainable business, money coming in is more than the money going out of the business.



### Activity 1

- 1.1 1. Describe the profit principle in your own words. (2)
- 1.2 Name at least four things that the wholesaler needs to consider when calculating the cost of the goods bought for resale to the retailer. (4)
- 1.3 Identify the operational functions in the wholesale and retail environment (5)
- 1.3 Describe the flow of cash in the wholesale and retail environment. (4)

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