

Second Edition

Wholesaling and Physical Distribution

Kenneth A. Ertel
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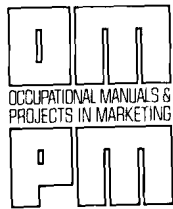
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PREFACE

In preparing for marketing jobs, the traditional emphasis has been on retailing, especially on selling. This is natural since most students are already aware of retailing, and they find their first part-time jobs in a retail store. But this emphasis ignores two vital fields—namely, wholesaling and physical distribution—which offer beginning workers a number of rewarding career opportunities.

The wholesaler plays a key role in the channels of distribution among producers, retailers, and consumers. One indication of the relative importance of wholesalers is the fact that their annual sales volume is 500 billion dollars. Fewer people are employed in wholesaling than in retailing because the volume and quantity of a wholesale transaction are considerably larger than those of a retailing transaction and, therefore, require fewer people per dollar of sale. Nevertheless, wholesaling provides employment opportunities for over 3½ million people.

Physical distribution—transporting, warehousing, and handling merchandise—is concerned with bringing products from producers to wholesalers and retailers, and finally, to consumers. The knowledge of physical distribution is important to virtually any marketing worker.

Wholesaling and Physical Distribution is a new manual that combines two formerly separate books into one. This was done because the fields of wholesaling and physical distribution are so closely allied that the competencies required in one area overlap those required in the other. This new manual prepares students for entry-level work in both areas. It also provides skills and knowledge on which the student can develop a buying and managerial specialty, for wholesaling and physical distribution are fields where specialization pays. This manual was written because the authors found that little available material had been designed to prepare young people for careers in wholesaling or physical distribution. Most of the existing texts concentrate on the buying and management functions, whereas the beginning student also needs to develop proficiency in the operational activities.

BEHAVIORAL GOALS

Wholesaling and Physical Distribution features a job-oriented approach based on performance goals.

The authors studied the most common basic and career-level jobs identified by the Office of Education as jobs in wholesaling and physical distribution. For each job, three things were determined: (1) the tasks that are performed, (2) the conditions under which the tasks are performed, and (3) the standards of minimum acceptable proficiency associated with each job. With the information from this study, it was possible to organize each chapter around one or several of these characteristics and to phrase these characteristics in terms of performance goals. These goals, which are stated at the beginning of each chapter, tell exactly what is expected of the student after completing the chapter, the chapter learning activities, and the chapter project. In some instances, the student is also told how his or her performance in achieving goals will be measured. The final examination is designed to measure terminal performance.

INSTRUCTIONAL STRATEGY

Chapter 1 identifies those marketing functions performed by wholesalers and physical distributors. It also discusses the operations of each field in a variety of market environments. Chapter 2 presents career opportunities in both fields, including the career ladders and lattices available.

In Chapter 3, the student learns the various customer services offered by wholesalers. Chapter 4 presents a complete strategy for promoting a wholesaler's services to a manufacturer who is seeking a channel of distribution or to a retailer who is seeking a wholesaler's services.

In Chapter 5, the student learns to prepare and route the various merchandise-handling and transportation documents. In Chapter 6, the student becomes familiar with the various carriers, including the advantages and limitations of each, the competitive areas of service, and the equipment, rates, services, and speed offered by each carrier. Chapter 7 presents an overview of the carrier's documents used in transportation and discusses the bill of lading and the waybill in depth.

Chapter 8 turns to the receiving room and discusses the procedures to be followed when a shipment arrives there. Next, warehousing and merchandise-handling procedures are discussed in Chapter 9. Chapter 10 ends the book with a dis-

cussion of the future of wholesaling and physical distribution.

COMPETENCY-BASED INSTRUCTION

This manual is a self-contained unit of instruction. It may be used alone and studied as an independent module, or it may be included as a 20- to 30-hour segment of a broader course in distribution or marketing. When used as a part of a broader course, it will serve to highlight the contribution of wholesaling to the distribution system and the role of physical distribution in marketing.

Wholesaling and Physical Distribution is one of 15 manuals in the Gregg *Occupational Manuals and Projects in Marketing* series. Built into the complete series are all the competencies normally required of a marketing worker, including marketing skills, basic skills, social skills, and economic understanding.

Jobs in wholesaling and physical distribution are not confined to any one industrial classification or even to any one vocational service. Instead, wholesaling and physical distribution activities support virtually every area of distribution and every area of vocational education. They cut across the occupational grid and serve such diverse occupations as are found in the technical fields, the building trades, the health occupations, and agriculture.

SUPPORTING MATERIALS

A *Teacher's Manual and Key* is available for teachers using this manual. It contains specific teaching suggestions for each chapter, an answer key to end-of-chapter activities, and a ready-to-duplicate performance test with a key.

A *General Methodology Manual* that explains the philosophy underlying the development of the entire *Occupational Manuals and Projects in Marketing* series has been prepared for the teacher and the supervisor. A feature of this manual is an occupational grid that identifies the competencies needed in distributive education and recommends specific manuals in the series that contain instruction in these competencies.

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Kenneth A. Ertel
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CONTENTS

Preface

iii

Senior Editor/Mary Alice McGarry
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1 The Fields of Wholesaling and Physical Distribution

1

2 Careers in Wholesaling and Physical Distribution

13

3 Customer Services

27

4 Wholesale Promotion

37

5 Shipping Documents and Procedures

51

6 Carriers

71

7 Carrier's Documents Used in Transportation

87

8 Receiving Procedures

101

9 Warehousing and Merchandise-Handling Procedures

117

10 Your Future in Wholesaling and Physical Distribution

129

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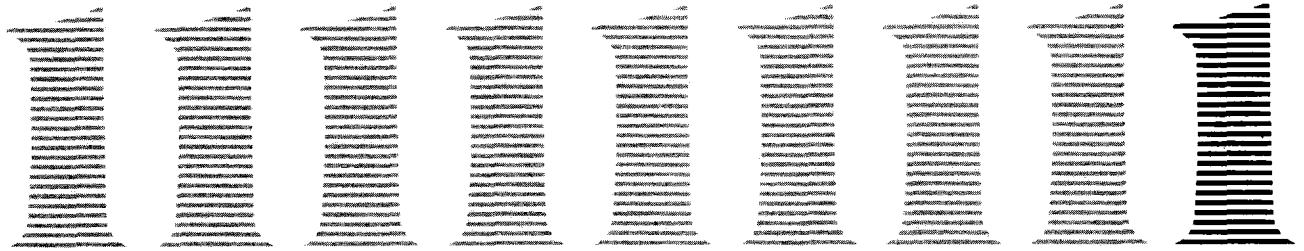
Wholesaling and Physical Distribution, Second Edition

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Wholesaling and Physical Distribution is a combined edition of *Wholesaling*, published in 1970, and *Physical Distribution*, published in 1969.

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The Fields of Wholesaling and Physical Distribution

YOUR GOALS

- *Identify the functions and purposes of a wholesaler.*
- *Identify the functions and purposes of a physical distributor.*

When you opened this book, you opened a window onto an exciting, busy world of airplanes, ships, trucks, trains, pipelines, warehouses—and the people who work in them. This world is wholesaling and physical distribution. Let's explore it, and learn about the many different jobs in this world. We'll discover how people who work in wholesaling and physical distribution perform their jobs. Careers that offer good starting salaries await you in these areas. With the help of this manual and your distributive education program, you can develop the skills and know-how that you need to obtain a job in these two related fields.

WHAT IS WHOLESALING?

Manufacturers use television, radio, newspapers, and magazines to advertise their products. Retail stores around the country, like your local food market, display these products attractively to encourage you to buy them. But did you ever wonder what happens to a product between the manufacturer and the retailer? The answer is that wholesalers make it possible for manufacturers and retailers to do business with each other by performing the functions and services that are necessary to move goods efficiently from the producer to you. **Wholesaling** means all the activities related to selling products for resale or business use. A **wholesaler** is a middleman who buys goods and then sells them to a retailer. In

turn, the retailer resells them to consumers or other businesses for use in their own operations and activities.

Understanding the Wholesale Market

The wholesaler's market is an industrial market that consists of many companies that make, buy, and sell products. The **industrial market** buys goods and services from the wholesaler (1) to produce other goods and services, or (2) to use in its own operations, or (3) to resell them to other middlemen. The middleman is the person who enables the manufacturer's products to reach the buyer.

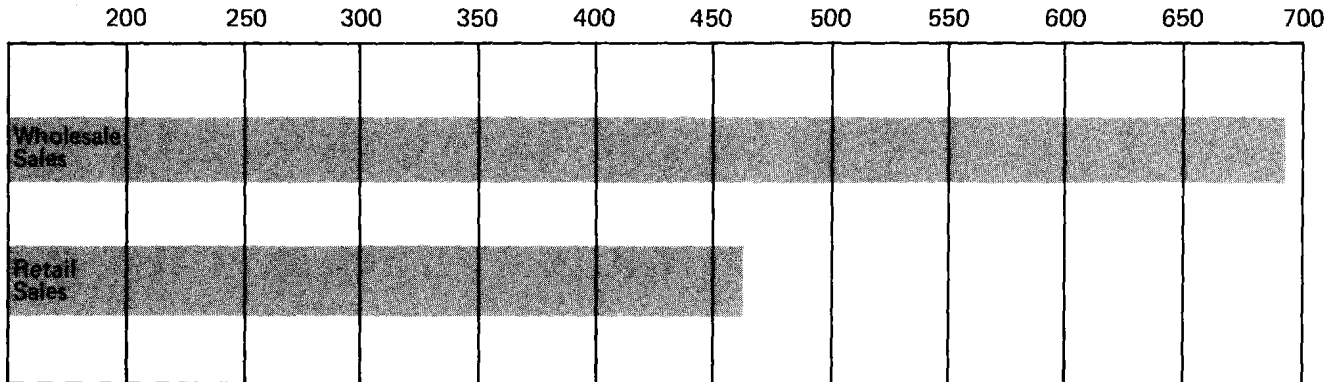
Goods that are used to make other goods or to provide services are called **industrial goods**. In contrast to the industrial market, the **consumer market** consists of people who buy goods and services for their own use. You're part of the consumer market, but you're learning how to handle a job in the industrial market.

You can form an idea of the size and scope of the industrial market by following the development of cotton shirts from the time the cotton is grown to the time the shirts are sold. Cotton bolls grown by farmers are sent to cotton gins where the fiber is separated from the bolls. The fiber is bought by spinning mills and turned into yarn. Other firms buy the yarn, weave it into fabric, dye and print the fabric, and then cut and sew it into shirts. Wholesalers then buy the shirts and sell them to retailers. Retailers sell them to you.

Just by tracking those shirts from the farmer to the consumer you can see that the industrial market consists of industries that supply raw materials, manufacturers who process the raw materials to make goods, and wholesalers and retailers who buy and sell goods. But that's not

Source: U.S. Dept. of Commerce, Census Bureau

Annual Sales in Billions of Dollars



This chart shows the ratio of wholesale to retail sales in billions of dollars. Why do wholesalers experience a greater sales volume than retailers?

all. The industrial market also consists of construction industries, service industries, and governments that buy goods and services.

Comparing Industrial and Consumer Markets

Middlemen buy manufactured goods in large quantities and sell them in smaller quantities to other middlemen or consumers. Such goods are called consumer goods, because they can be bought and used by consumers without further changes. Middlemen also buy machinery, equipment, and services for their own purposes. These uses include furniture, display racks, shelves and cases, store fixtures, office supplies, packaging materials, and delivery trucks.

Wholesalers are middlemen who sell to other

middlemen. Retailers sell directly to consumers. Whom do you think has a greater sales volume, wholesalers or retailers? Let's find out.

Retail goods are sold at higher prices than wholesale goods, and many retail products aren't bought from wholesalers at all. But recent U.S. Census Bureau figures show that the sales volume of wholesalers is about 51 percent greater than that of retailers. Why is this? Actually, sales to retailers account for only about 34 percent of wholesale sales. A much larger percentage—42 percent—is made to manufacturers and other industrial and commercial users who use the products in their businesses. Wholesalers also sell goods to other wholesalers for resale, and this accounts for about 17 percent of wholesale sales. About 7 percent is divided between the export, or foreign market; federal, state, and local governments; and sales made to the consumer.

TO THE STUDENT: When working a learning pacer, cover the answers. Write your answer in the space provided, or draw a line under an

answer if the question is a multiple-choice or true-false question. Check your answer by uncovering the correct answer.

LEARNING PACER

- Organizations that buy goods and services _____
(a) for use in producing other goods and services, (b) for their own use, or (c) for resale to other middlemen make up the _____.
- People who buy goods and services for their own use make up the _____.
- People who buy goods to resell them with-

out making any further changes in the goods
are called _____.

4. Wholesalers sell to many different types of

customers, but retailers sell only to _____.

1. industrial market; 2. consumer market; 3.
- middlemen; 4. consumers

WHAT IS PHYSICAL DISTRIBUTION?

The total process of moving, handling, and storing goods on the way from the producer to the consumer is **physical distribution**. Pack, load, sort, mark, check—these are a few of the job tasks in physical distribution. It's a multibillion-dollar industry that includes transportation, warehousing, and merchandise handling.

Physical distribution serves business by getting the right amount of a product to the right place at the right time. This service makes a product worth more than its original value. After all, can a product be of much value to you unless it reaches you? Physical distribution enables products to reach you, and other people, in any part of the nation or world.

There's a limit to how much consumers are willing to pay in order to get the products they

want. It's true that physical distribution adds value to products, but it also adds to the cost of marketing them. Marketing means more than selling a product. It means moving a product and persuading retailers, wholesalers, and consumers to buy it. All this costs a great deal of money. Costs must always be kept as low as possible. To keep costs down, streamlined distribution methods and tools have been developed. You'll learn about them later in this manual.

Now let's discuss the three main ways physical distribution serves business: by transporting goods, warehousing goods, and by merchandise handling.

Transportation

Does \$20 billion sound like a lot of money? If you had 20 billion \$1 bills, you could lay them end to end around the equator 21 times. That's the

Courtesy American Trucking Associations Inc.



Courtesy Sea Land Service, Inc.



People who work in physical distribution make sure that products get to the right place at the right time.

The Bettman Archive

Around 1900, horse-drawn vehicles were very widely used in wholesaling and physical distribution. Can you name some other changes in these related fields that have been brought about by modern technology?

amount of money companies spend each year to transport their products. Transportation is an industry that requires care and constant control. There are many different ways to transport goods, and in the process many different forms are used. You'll learn more about transportation in Chapters 5, 6, and 7 of this manual.

Warehousing

The process of storing and protecting goods is called **warehousing**. Once warehouses were dark, poorly heated, multistoried buildings. Sometimes they were located in run-down sections of cities. They were used only to store goods and protect them from the weather. Not any more. Modern warehouses still store and protect goods, but they are well-lighted and have temperature and humidity controls to keep perishable goods

from spoiling. Today's warehouses are often found in suburban areas. They're usually one- or two-storied buildings filled with automatic equipment. You'll learn what goes on inside warehouses in Chapter 9.

Merchandise Handling

Materials handling, or **merchandise handling**, is the process of receiving, unpacking, checking, and marking products for storage or display and of assembling, packing, weighing, and shipping products. Between shipping and receiving, a shipment of goods may be handled several times. Such handling may involve breaking the original shipment into smaller lots or combining it with other products into bigger lots. This process includes loading and unloading freight cars, trucks, airplanes, and ships. In Chapters 5, 8, and 9 you'll learn about merchandise handling.

LEARNING PACER

1. The total process of moving, handling, and storing goods is called _____.
2. Physical distribution adds value to goods, but

it also increases the cost of _____ goods.

3. The process of storing and _____

goods generally is called warehousing.

4. Merchandise handling is the process of receiving, unpacking, checking, weighing,

marking, displaying, assembling, packing, and _____ products.

1. physical distribution; 2. marketing; 3. protecting; 4. shipping

WHAT DOES THE WHOLESALER DO?

Wholesalers provide transportation and warehousing. They also perform six other important functions. These are (1) buying, (2) selling, (3) dividing or bulk breaking, (4) financing, (5) risk bearing, and (6) management services. Some wholesalers perform all these functions. Merchant wholesalers and manufacturers' sales branches are in this category. But sometimes customers handle some or all of these tasks. When this happens, customers add to their own business expenses but reduce what they must pay to wholesalers. It's a question of who can provide the best service for the least cost.

Buying

Wholesalers employ persons called product specialists who find and buy large quantities of products from many sources at the best prices. By merchandising, or selling, these products at central locations, they offer one-stop shopping to retailers and industrial users. This kind of service spares wholesalers' customers the problems and extra costs of making small purchases from many sources.

Selling

Wholesalers provide sales services to small manufacturers who can't afford sales forces. By representing many manufacturers and selling many



One service wholesalers provide their customers is advice about displays. Here a wholesaler's sales representative is showing a customer how a point-of-purchase (POP) display may be used to increase sales.

items, wholesalers are able to reach many small retailers scattered around the country and to obtain large enough orders to cover their sales expenses.

Dividing, or Bulk Breaking

The manufacturer reduces transportation costs by selling at least one railroad carload lot or one truckload lot to a wholesaler. The wholesaler breaks down these lots into smaller quantities acceptable to customers. Thus, the manufacturer benefits from lower rates charged for such lots, and the wholesaler's customer buys just the right quantity.

Financing

Customers of wholesalers may pay for goods month by month, or they may obtain discounts for paying sooner. This is called open-book credit. This type of credit enables retailers to operate with less money on hand, and it relieves manufacturers of the responsibility and cost of extending credit to retailers. Wholesalers also

help producers by buying seasonal goods before a season starts and paying for them before they are resold.

Risk Bearing

Storing goods and giving credit involves risk. When wholesalers take title to goods—that is, become the owner—they assume more risk bearing by taking responsibility for losses of money caused by spoilage and goods going out of fashion before they are sold. Another kind of risk bearing involves guaranteeing merchandise so that retailers suffer no loss because of imperfect goods.

Managing

Wholesalers understandably try to keep their customers. One way they keep them is by offering management services. Such services include training salespersons, advising about displays, and helping to set up inventory and accounting controls. Wholesalers also tell retailers about new products and give them up-to-the-minute marketing information.

LEARNING PACER

1. By reaching many retailers, the wholesaler is able to obtain large enough orders to cover _____.
2. Breaking up large lots into quantities that are acceptable to the wholesaler's customers is known as _____ or _____.
3. The wholesaler assumes the task of _____

_____ by taking responsibility for goods that spoil or go out of fashion.

4. The wholesaler offers the customer financial assistance by extending _____ to the customer.

1. sales expenses;
2. dividing, bulk breaking;
3. risk bearing;
4. open-book credit

TYPES OF WHOLESALERS

There are three main types of wholesalers: (1) merchant wholesalers, (2) manufacturers' sales branches and offices, and (3) agents and brokers. These types are based in part on how the wholesaler does business and in part on the number of services the wholesaler offers. By dividing wholesaling into these categories, the industry is able

to determine year to year which group of wholesalers is enjoying the most business. This information helps wholesalers decide whether or not to change their methods and services.

Merchant Wholesalers

Wholesalers who take title to goods are **merchant wholesalers**. Merchant wholesalers may perform

many functions or just a few. Usually they deal in large quantities and buy goods for resale to retailers and industrial users. Merchant wholesalers account for 51 percent of all wholesalers' sales, and they make up the largest segment of the wholesaling industry.

Manufacturers' Sales Branches and Offices

Wholesalers that are owned and operated by manufacturers in locations away from factories are called **manufacturers' sales branches and offices**. Sales branches carry merchandise, but sales offices simply take orders and relay them to

the factory warehouse for delivery to the buyer. These organizations are the fastest growing area in the wholesale field.

Agents and Brokers

Wholesalers who don't take title to the goods they handle, but negotiate sales and purchases for their customers, are called **agents and brokers**. A smaller percentage of wholesalers perform specialized services and are called limited-function wholesalers. Truck distributors and cash-and-carry wholesalers belong to this category. Some specialized services of a wholesaler, including cash-and-carry, are discussed in detail in Chapter 3.

LEARNING PACER

- Wholesalers who own the goods they handle and assume the risks for such goods are known as _____ wholesalers.
 - Organizations that are operated by manufacturers away from their factories are known as _____ and _____.
 - Wholesalers who don't take title to goods, but simply negotiate sales and purchases for their customers, are called _____ and _____.
1. merchant; 2. sales branches, offices; 3. agents, brokers

WHO BUYS FROM WHOLESALERS?

Wholesalers' customers may be divided into five categories. These are as follows:

- Retailers who resell to consumers (34 percent)
- Industrial firms and businesses (42 percent)
- Other wholesalers (17 percent)
- The export, or foreign market (4 percent)
- Federal, state, local governments (2 percent)
- Consumers (1 percent)

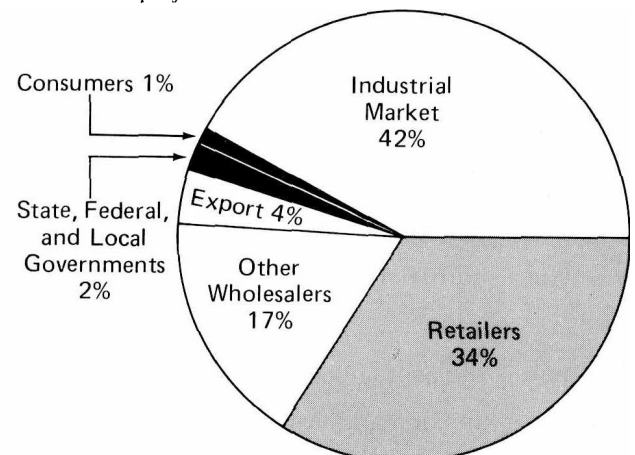
Industrial Market Customers

Buyers for the industrial market are quite different from ordinary consumers because:

- There are fewer buyers
- They buy goods in large amounts
- They are better informed
- The demand they make for one product is often

- dependent on the demand for another product
- Their decisions to buy usually involve several other persons in their firms

Source: U.S. Dept. of Commerce, Census Bureau



Wholesalers sell goods to many different types of customers.

Number of Buyers The 5 million businesses in the industrial market represent a small number compared to the more than 200 million persons in the consumer market. It takes specialized selling techniques to reach this small group of buyers, rather than the nationwide advertising used to reach the consumer market.

Amount of Goods Purchased Industries and businesses buy large quantities of goods and services for their own operations. They also buy expensive machinery and equipment. They make much larger average purchases than consumers usually do.

Buyers' Information Industrial buyers spend a great deal of time learning where they can buy the products they need at satisfactory prices. They collect much information in order to make good purchasing decisions.

Demand for Products When consumers demand more products, industrial buyers demand more products and services to satisfy consumers' demands. When consumers demand fewer products, manufacturers demand fewer raw materials, machinery, equipment, and services. This is known as **derived demand**, because the need for industrial goods and services is derived from, or based on, the demand for consumer goods.

Shirts are a good example of derived demand. If consumers buy fewer cotton shirts and more synthetic shirts, then shirt manufacturers demand less cotton fabric. This demand affects other manufacturers who process cotton, and it lowers

the sale of cotton fiber and the machinery and equipment used to process it.

Decision to Buy You, as part of the consumer market, usually decide to buy a product by yourself. But it takes several persons to decide to buy a product in a business. The purchasing agent who makes the final purchase usually talks it over with one or more persons in the company. Department heads, engineers, factory supervisors, company officers, and purchasing agents may be in on a decision to buy expensive machinery.

Industrial Market Goods

Industrial firms and businesses purchase five distinct types of goods from wholesalers:

- Raw materials—materials still in their natural or original state that haven't been processed into finished goods. Examples: iron ore, wool.
- Fabricating materials—processed materials used to make finished products. Examples: yarn, wood pulp.
- Installations—machinery and equipment used to process and manufacture goods, and equipment used to operate service businesses. Examples: a loom, a lathe.
- Accessory equipment—similar to installations, except that they have a shorter life. Examples: calculators, typewriters, small power tools.
- Operating supplies—goods used to operate a business that are fairly inexpensive, used quickly, and replaced often. Examples: cleaning supplies, floor wax.

LEARNING PACER

1. Goods that are still in their natural or original state are known as _____ materials.
2. The industrial buyer is usually better _____ about the products desired than is the average consumer.
3. When the demand for a consumer product decreases, the demand for the raw materials used to make the product, as well as the machinery used to make it, will also decrease. This is known as _____.
4. Materials that have been changed by processing and are used to make finished products are known as _____ materials.

1. raw;
2. informed;
3. derived demand;
4. fabricating

Talking Business

DIRECTIONS: For each definition or description in the center column, select the term in the left-hand column that best matches it in meaning. Write this term in the space provided.

agents and brokers	1. Organizations that buy goods and services for use in producing other goods or providing services, for use in their own businesses, or for resale to other middlemen	1. _____
consumer market		
derived demand		
industrial goods	2. All activities related to the sale of products or services to those who are buying for resale or for business use	2. _____
industrial market		
manufacturers' sales branches and offices	3. Keeping wanted merchandise on hand so that customers may place small orders frequently	3. _____
merchandise handling		
merchant wholesalers	4. People who take title to the goods and assume all the risks that generally go with it	4. _____
physical distribution		
warehousing	5. People who negotiate sales and purchases for their customers	5. _____
wholesaler	6. People who buy goods and services for their own use	6. _____
wholesaling	7. Demand for goods in the industrial market that is dependent on the demand for the consumer goods they produce	7. _____
	8. Organizations owned and maintained by manufacturers in locations away from the factory	8. _____
	9. Goods used to produce other goods or provide services	9. _____
	10. A middleman who buys goods and sells them to a retailer for resale to the consumer or to other businesses for industrial or internal use	10. _____
	11. The total process of moving, handling, and storing goods on the way from the producer to the consumer	11. _____
	12. The process of receiving, unpacking, checking, and marking products for storage or display	12. _____

Sharpening Your Outlook

1. What kinds of customers make up the industrial market?

2. Are wholesale sales greater than retail sales? What are some reasons for this?

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

3. What is the principal difference between a retailer and a wholesaler?

[illegible]

4. How are buyers in the industrial market different from those in the consumer market?

5. Describe the role that physical distribution plays in wholesaling.

[illegible]

6. What are the three types of wholesalers?

7. Name the important functions that wholesalers perform.

[illegible]

Working with People

You want a chance to apply for a job in a local wholesale warehouse. You must be there by 2:00 p.m. to have a chance at the job. You feel good doing hard, physical work. You like an active job. You need cash, and the pay sounds good.

But this afternoon your teacher has scheduled you to take the College Entrance Examination. It will not be given again until next year. Your early high school aptitude tests indicate you should go on to college and plan for a career in social work or in business. Your parents want you to go to college so you can get a “better” job. The College Entrance Examination starts at 1:00 p.m.

- a. Identify the true problem.

- b. What are the important facts to be considered in this problem?

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

- c. List several possible solutions from every point of view.

[illegible]

- d. Evaluate the possible results of each solution.

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper appears to be a standard notebook page or a sheet of stationery.

- e. Which solution do you recommend? Why?



Wholesaling in Your Community

NAME _____

CAREER INTEREST _____

ESTIMATED COMPLETION TIME _____

DATE ASSIGNED _____ DATE COMPLETED _____

EVALUATION _____

YOUR PROJECT GOAL

- *Locate and describe the number and type of wholesale firms doing business in your area; determine the total number of people employed by those firms.*

All Students This is an individual student project. However, if others in your class are studying wholesaling, you could combine your efforts to get one set of data. Set up the data for a limited business area, for instance, your town, your county, or the major metropolitan area

where you live. If you live in a rural state, you may have to use data for the whole state. Information will be available on those bases. You can get information from the U.S. Census of Business, Wholesale Trade Area Statistics in your local library. Other places where you might get information are (1) your local U.S. Employment Security Office, (2) your telephone directory, (3) your city directory, or (4) your chamber of commerce.

Go to your selected sources and get all the necessary data. Record them in the following table.

Sources of information _____

TYPE OF FIRM	NUMBER OF FIRMS	TOTAL NUMBER OF EMPLOYEES
General merchandise wholesalers		
Manufacturers' sales or branch offices		
Agents and brokers		
Limited-function wholesaler (specify)		
Grand total		

On a separate sheet of paper, draw a map showing the area covered by the information in your report. Attach the map to this project.

On a separate sheet of paper, write a brief report describing the wholesale industry in your area. Use the following topics in your outline:

1. Total number of firms
2. Total number of employees
3. Types of wholesalers who provide the most number of jobs