

# Internal Trade

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## INTERNAL TRADE

### ❖ Internal Trade

**Meaning-** Refers to the trading of goods and services *within the national boundaries* of a country

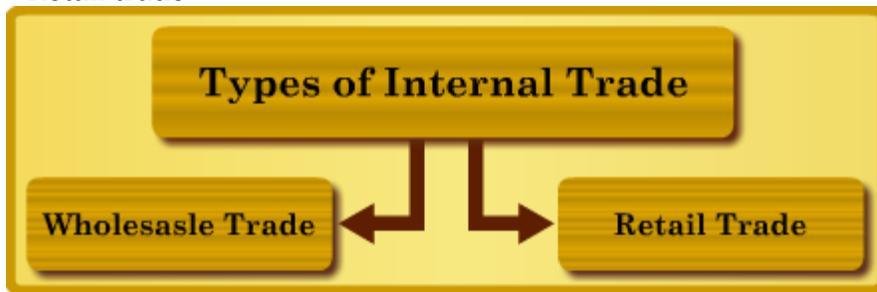
#### ➤ Features of Internal Trade

- i. Trading of goods takes place *within the national boundaries* of a country.
- ii. All *transactions are in national currency*.
- iii. Various *local modes of transport* are used for the movement of goods.

#### ➤ Types of Internal Trade

Internal trade can be classified into the following two categories:

- Wholesale trade
- Retail trade



### ❖ Wholesale Trade

➤ **Meaning-** Refers to buying and selling of goods in bulk, usually for resale in local markets.

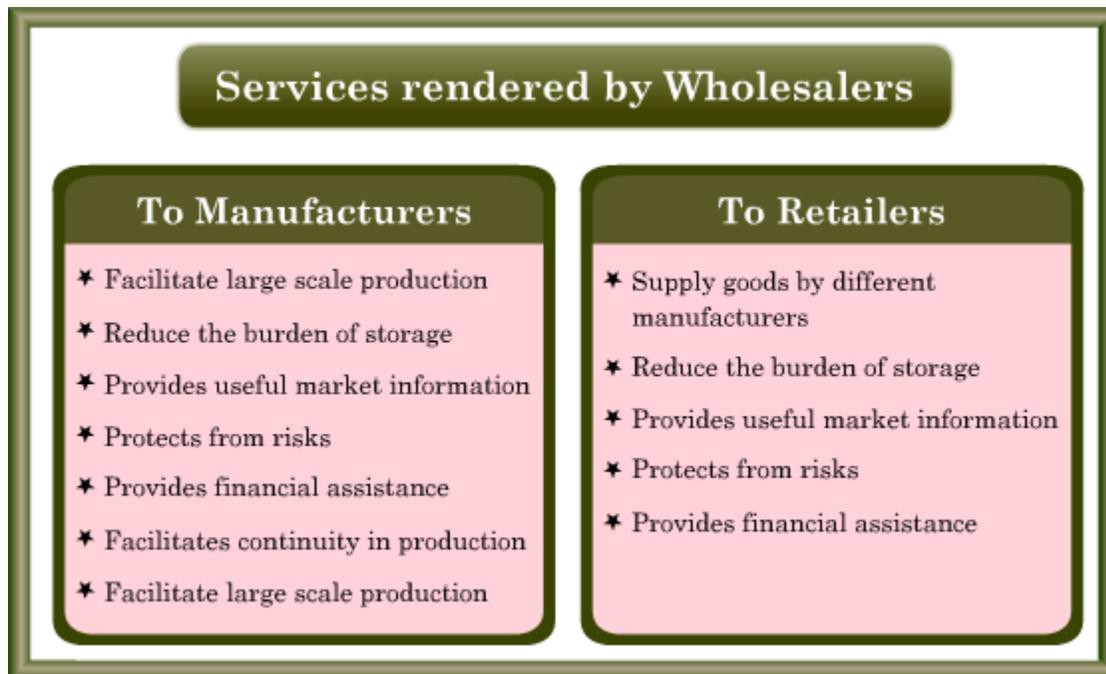
#### ➤ Characteristics of Wholesalers

- Act as *a link between the producers and retailers*
- Deal in *single line of products*
- Trade in *bulk quantities*
- Provide *various services to both manufacturers and retailers*

#### ➤ Functions of a Wholesaler

- Purchasing and selling goods in *bulk*
- Bearing the *risk*
- Providing *warehousing and other facilities*
- *Packaging, grading and promotion* of goods

#### ➤ Services Rendered by Wholesalers to Manufacturers



The following are the services offered by wholesalers to manufacturers:

- i. The bulk purchase made by wholesalers encourages and **facilitates large-scale production** by the manufacturers.
- ii. Help **reduce the burden of storage of finished goods** on the manufacturers
- iii. **Provide useful market information**, such as the tastes and preferences of customers, the prevailing market conditions, level of competition in the market and type of goods demanded by consumers
- iv. **Provide warehousing facilities**, there by protecting the manufacturers from risks related to theft, spoilage or fire
- v. **Provide financial assistance** such as providing advances to the manufacturers while placing the order.
- vi. By storing the goods from the time of production till the final sale, they **facilitate continuity in production**
- vii. **Help in marketing and distribution of goods** over large geographical areas

• **Services rendered by Wholesalers to Retailers**

The following services are provided by wholesalers to retailers:

- i. **Supply goods produced by different manufacturers** simultaneously
- ii. Perform a variety of **marketing functions such as advertising**, thereby, helping the retailers save their time and money
- iii. **Offer goods to retailers on credit basis**, which in turn helps in reducing their working

capital requirement

iv. **Pass useful information** regarding products

v. By purchasing and storing the goods till final sale, they **bear the risk** such as theft and spoilage.

### ❖ Retail Trade

➤ **Meaning-** Refers to the buying and selling of goods in small quantities to final consumers.

#### ➤ Characteristics of retailers

- Deal in trade of goods in **small quantities**
- Offer a **wide variety of products** simultaneously
- **Operate in local markets** or near residential places
- **The capital invested is relatively small** as compared to the wholesalers

#### ➤ Functions of Retailers

- **Collecting and assembling goods** from various wholesalers
- **Selling goods in small and convenient units** to the final consumers.
- Providing **storage and credit facilities**
- **Collecting market information** for wholesalers and customers

#### ➤ Services by Retailers to Manufacturers and Wholesalers



a. **Provide useful information** such as the tastes and preferences of customers, prevailing market conditions and level of competition in the market

- b. **Facilitate distribution of goods** to the consumers for final consumption
- c. **Help in promotion of goods** to the consumers

• **Services Provided by Retailers to Consumers**

- a. **Provide useful information** regarding new products, their features, prices, etc.
- b. Offer a **wide variety of goods** simultaneously
- c. Provide **convenience to customers** in terms of location, timings, variety of goods on offer
- d. At times **offer goods on credit** to their regular customers
- e. **Ensure regular and timely availability of goods** produced by different manufactures
- f. Provide **after-sales services** such as repair or replace of goods

❖ **Difference between wholesalers and retailers**

<b>Basis of Difference</b>	<b>Wholesaler</b>	<b>Retailer</b>
Scale of operations	Large	Small
Linkage	Between manufacturers and retailers	Between wholesalers and consumers
Window display	Not required	A must for attracting consumers
After sale-services	Not provided	Generally provided
Specialisation	In single line product	No specialisation as a wide variety of goods are offered

❖ **Types of Retailers**



❖ **Itinerant Traders**

**Meaning-** Refers to those retailers who do not have a fixed place of operation and keep moving from place to place for the sale of products

➤ **Characteristics of Itinerant Traders**

- Operate with **limited resources**
- **Move from place to place** to attract more customers
- Generally **deal in daily consumer products** such as fruits, vegetables and so on
- **Emphasize on customer services** and provide goods at the doorstep of the consumers
- **Keep only small inventories** of goods at home or other such places

#### ➤ Types of Itinerant Traders



The following are the types of itinerant retailers:

##### i. **Peddlers and Hawkers-**

- Are the **oldest forms** of retailers.
- **Sell low priced and low standard goods**
- **Do not have permanent shop/place** for conducting their operations and carry their goods on cycles, rickshaws or carts

##### ii. **Street Traders-**

- **Sell low-priced consumer items**, such as stationery, eatables, newspapers and magazines
- **Do not have permanent shops**
- Operate **in highly populated localities**

##### iii. **Market Traders-**

- **Sell goods on fixed days or fixed dates** in a locality and on some other days in other localities
- Generally **deal in one product**, such as fabrics or readymade garments

##### iv. **Cheap Jacks-**

- Small *independent retailers*
- Mostly *operate near business localities*
- Generally *deal in low-priced consumer items*
- *Provide repair services* such as watches, shoes, etc.

➤ **Benefits Enjoyed by Itinerant Traders over Large Scale Retailers**

a. As these retailers have little storage and inventories, they generally *offer goods at a lower price than the large scale retailers*.

b. They *provide personal attention to customers* and provide services at their doorstep.

c. They *make goods and services easily available* to consumers within a short time period.

d. As they deal with low priced consumer goods, they face *less probability of incurring losses*.

❖ **Fixed-shop Retailers**

**Meaning-** Refers to the retailers who have a permanent or fixed shop establishment

❖ **Characteristics of a Fixed-Shop Retailer**

The following are some of the characteristics of fixed-shop retailers:

- *Operate on a large scale* and have huge resources at their disposal
- Generally *deal in more than one product at a time*
- *Provide various services to customers* such as free home delivery and supply of goods on credit

❖ Difference between itinerant traders and fixed-shop retailers.

<b>Basis of Difference</b>	<b>Itinerant Retailer</b>	<b>Fixed Shop Retailer</b>
Place of operation	Does not have a fixed place of operation and moves from place to place to sell the product Has permanent or fixed shop establishments	
Amount of resources used	Limited.	Relatively large.
Type of dealings	Non-durable goods such as toiletry products, ice creams and snacks	Both consumer durables such as cars and furniture as well as non-durable goods

❖ **Types of fixed-shop retailers**

**Fixed-shop retailers can be classified in two categories:**

- Fixed shop *small* retailers
- Fixed shop *large* retailers



❖ **Types of fixed shop *small* retailers**



The following are the six types of fixed shop retailers:

**i. General Stores-**

- Deal in ***daily consumer goods*** such as grocery items and toiletry products
- Operate in ***residential areas or local markets*** and for longer hours
- Provide a variety of ***consumer services*** such as credit facilities and home delivery

**ii. Specialty Stores-**

- ***Specialise in a particular segment*** of the market
- Deal only in a ***particular type of product*** from the selected product line such as men's wear, college books, etc.
- Generally ***sell all the brands dealing in that product*** type

**iii. Street Stall Holders**

- Operate at **street crossings or on road sides** where the flow of traffic is high
- Mostly **deal in goods such as clothes, shoes**, grocery items and bakery items

**iv. Second-hand Goods Shops-**

- Deal in used or second-hand goods
- The **goods are usually sold at very low price** except those that are antiques or objects of historical value.

**v. Seconds Shops-**

- Deal in **goods that have some manufacturing defect** or that are not as per the desired specifications

**iv. Single Line Stores-**

- Deal in a **single kind of product** line
- Although offer single line products, they **offer a wide range of variety** within those single product lines

❖ **Types of Fixed Shop Large Retailers**



❖ **Departmental Store**

➤ **Meaning-** Refers to the fixed establishment stores, large in size and dealing in a wide variety of products under one roof.

➤ **Features of a departmental store**



The following are the main features of a departmental store:

- i. Generally **located in central areas** or places where a large number of people can reach easily
- ii. The management in these stores **follows a defined hierarchy** as in a joint stock company.
- iii. They **eliminate the role of middlemen** and purchase goods directly from the manufacturers and sell them to the customers.
- iv. **Follow the system of centralised purchase with decentralised sales**, that is, goods from manufacturers are generally handled by a single division, and the sales of those goods are handled by the respective sections of the departmental store.
- v. **Offer numerous customer care services** such as travel, restrooms, telephone booth, and so on

#### ➤ Advantages of a Departmental Store

The following are the advantages of a departmental store:

- a. As they are located at central places, they are **able to attract a large number of customers**.
- b. **Offer a high degree of convenience** to the customers by making available a large variety of goods at one place
- c. **Provide a variety of services to the customers** such as free home delivery, taking telephone orders, credit facilities, etc.
- d. Spend a considerable amount on **advertisement and promotional offers** to boost their sales
- e. **Operate at a very large scale** and thus enjoy the benefits of economies of large scale

#### ➤ Limitations of a Departmental Store

The following are the various limitations faced by the departmental stores:

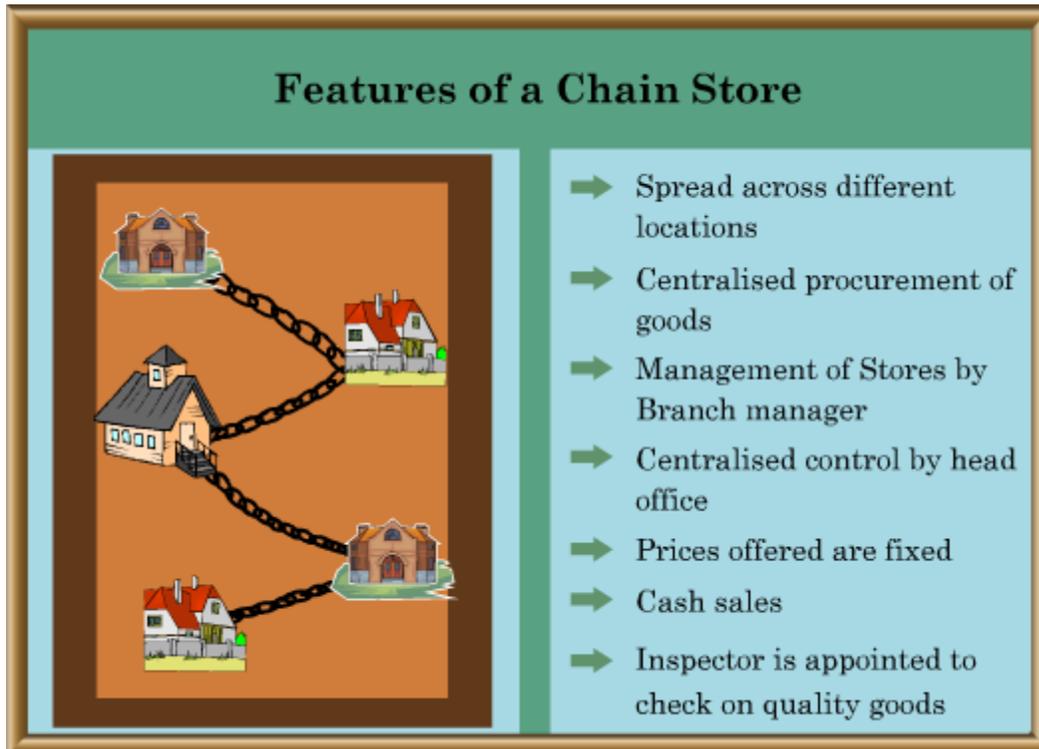
- i. **Face high operating costs** as compared to any other fixed shops
- ii. **Lack the personal touch** while serving their customers
- iii. As they operate on a large scale and maintain huge inventories of goods, they **face higher risk of losses**.

iv. They are often ***inconvenient for immediate and quick purchases*** due to central locations.

### ❖ Chain Stores

➤ **Meaning-** Refers to the stores owned and operated by single organisations and spread across various localities.

#### ➤ Features of Chain Stores



- i. Generally located at ***different localities*** making it convenient for the customers to approach the stores
- ii. ***Practice centralised procurement of goods*** by the main head office
- iii. The ***management and supervision of each of the chain stores is with Branch Manager*** of that store. The branch manager takes care of the daily operations of the store.
- iv. ***Centrally controlled by the head office*** which is responsible for policy making and implementation
- v. ***The prices of the goods offered are fixed*** and no bargaining is allowed.
- vi. ***Sales are done on cash basis*** which is reported on a daily basis to the head office.
- vii. In each of the chain stores, ***an inspector is appointed by the main head office to keep a check on the quality of the goods and services*** being provided on a daily basis.

#### ➤ Advantages of a chain store

The following are some of the advantages of a chain store:

- i. As it operates on a large scale it is able to take ***advantage of the economies of scale***.
- ii. ***Eliminates the role of middlemen*** in the sale of goods
- iii. As sales are done on cash basis, there is ***no accumulation of debts***.
- iv. As a chain store has its operation in more than one place, ***goods not demanded in one***

**locality can be transferred to other localities**

- v. Simultaneous operation of multiple stores **enables diffusion of risk among the stores.**
- vi. **Has low cost of operation** because of centralised purchasing, centralised promotion and elimination of middlemen
- vii. **Has a high degree of flexibility** in the sense that if a store is not making profits in one location, it can be shifted to a different location or can be shut down without affecting the operation of other stores

➤ **Limitations of a chain store**

The following are the limitations of a chain store:

- i. The **variety of goods** offered to the customers **remains low.**
- ii. Generally, the **demand for the products of these stores keeps fluctuating** rapidly, which results in unsold stocks and risks.
- iii. Face **a high probability of incurring losses** as these stores deal in almost similar variety of goods all over the country. Thus, in case the tastes and preferences of the customers change, the chains are forced to sell the outdated goods at low prices in the form of clearance sale.
- iv. **Lack the personal touch** while serving their customers.

❖ **Difference between departmental store and multiple shops**

<b>Basis of Difference</b>	<b>Departmental Stores</b>	<b>Multiple Chain Stores</b>
Variety of products	Offer a wide variety of products as they specialise in various types of goods	Deal in a single line of product and specialise in it. Hence, the variety of products is limited
Customer services	Wide variety of customer services is offered	Limited customer services are provided
Location	Centrally located	Spread across multiple locations.
Pricing policy	Follow a flexible pricing policy	Follow a fixed pricing policy
Cost of failure	Very large because of the huge initial and operating expenses	Limited because initial investment is not very large and losses of one shop can be covered by the profits earned by others.
Class of customers catered to	High income groups	Lower income groups
Credit facilities	Provide to regular customers.	Not provided.
Flexibility	High, due to various goods offered	Low, due to the limited goods being offered.

❖ **Mail order houses**

➤ **Meaning-** Refers to trading units that use mails for merchandising their products

➤ **Features of mail-order houses**



a. Have a **wide geographical reach**

b. **Highly convenient** as the goods are delivered at the doorstep of the customers

c. **Reduced costs** due to elimination of middlemen

d. Require **limited capital** as the cost on buildings, showcase of products, etc. is cut down

➤ **Types of goods traded**

Following are the types of products traded by mail order houses:

a. Easily gradable and standardised

b. Involving low transportation cost

c. Having a high market demand

d. Readily available in bulk throughout the year

e. Involving least competition in the market

f. Simple to describe

➤ **Advantages of a mail order house**

The following are the important advantages of a mail order house:

i. As the goods are sent via mail or postal services, they have a **wide geographical reach**.

ii. **Highly convenient** as the goods are delivered at the doorstep of the customers

iii. **Reduced costs due to elimination of middlemen**

iv. Require **limited capital** as the cost on buildings, showcase of products etc. is cut down

v. As they involve less operating costs, the **benefits of economies of operation** can be enjoyed by these houses

➤ **Limitations of a mail order house**

The following are the two limitations of mail order houses:

i. **Lack personal contact** with the customers

ii. Generally, **do not offer after-sales service**

iii. **Involve high cost of promotion** in terms of heavy advertising and exhibition of goods.

iv. **Do not provide credit facilities to its customers**, thereby discouraging customers with

limited resources

- v. The delivery of goods through these houses is a very **time consuming process**.
- vi. **Possibility of false claims about goods** in order to attract customers
- vii. **Have limited business prospects** as its success highly depends on the efficiency of the postal services available in an area or country
- viii. **Offer only a limited variety of goods** to the customers

#### ❖ Automatic vending machines

**Meaning-** Refer to the machines operating on coins or tokens used specially for selling beverages such as cold drinks and coffee as well as other products such as platform tickets and postage stamps

Vending Machines	
Merits	Demerits
➔ Highly convenient	➔ Creates hindrance
➔ Promotes a habit of 'self-help'	➔ Offers limited variety of goods
➔ Round the clock availability	➔ Involves high costs

#### ❖ Merits of vending machines

- i. **Highly convenient for customers** to purchase goods through these machines
- ii. **Promote the habit of 'self-help'** among the consumers
- iii. The goods that are offered by these machines are **available round the clock**

#### ❖ Demerits of vending machines

- i. **Create hindrance for the consumer** as he/she cannot have a look at the goods until they purchase it
- ii. Offer only a **limited variety of goods**
- iii. **Involve high costs** in terms of setting up the machines and their daily maintenance

#### ❖ All About GST- Goods and Services Tax

- GST was implemented from July 1, 2017 and it follows the motto '**One Nation and One Tax**'
- GST aims at developing a **unified market** to ensure smooth flow of goods across the country and making life easier for manufacturers, producers, investors and consumers.
- It is one of **most revolutionising tax reform** in the Indian taxation history.
- It is a **destination-based single tax** applied on the supply of goods and services from manufacturer to the consumer replacing the multiple indirect taxes by government.
- **Benefits** of GST include increasing the ease in doing business, tax compliance, reduce tax burden, improve tax administration, mitigate tax evasion, and boost tax revenues.
- GST **replaces 17 indirect taxes** (8 Central+9 State levels) and 23 cesses of Centre &

## States

- **GST (CGST + SGST)** is charged at each stage of value addition and supplier off-sets the levy on inputs of previous stages of value chain through tax credit mechanism.
- CGST/SGST payable on all intra-state supply of goods/services
- IGST payable on all inter-state supply of goods/services
- Tax liability when taxable person crosses exemption limit of Rs 20 lakh

### ❖ **Constitution of GST Council**

- Chairperson: Finance Minister
- Vice Chairperson: Chosen from Ministers of State Government
- Members: MoS (Finance) and all Ministers of Finance/Taxation of each State
- Quorum: 50% of total members
- States- 2/3<sup>rd</sup> weightage and Centre- 1/3<sup>rd</sup> weightage
- Decision: taken by 75% majority
- The Council make recommendations on GST including, rules and rates, etc.

### ❖ **Role of GST in empowering citizens**

- Lower tax burden (no hidden taxes)
- A more unified and harmonised market for goods and services
- Availability of a higher level of disposable income in hand
- Availability of a wider choice to customers
- Increase in economic activity as more employment opportunities are available

### ❖ **Features of GST**

- Greater Applicability:** GST is applicable throughout the country, including J&K.
- Applicable on Supply:** Applied on 'supply' of goods or services and not on manufacture/sale.
- Destination based:** Destination-based consumption tax; not origin-based.
- IGST on imports:** IGST is applicable on import of goods and services as they are treated as inter-state supplies in addition to customs duties.
- GST Council:** Rates of CGST, SGST and IGST and other GST related decisions are mutually taken by Centre and State under the guidance of GST Council.
- Tax Slabs:** Slabs of 5%, 12%, 18% and 28% are there for all goods or services.
- Zero GST:** Zero rate on exports and supplies to SEZ.
- Modes of payment of tax:** Internet banking, debit/credit card and NEFT/RTGS.

### ❖ **Role of commerce and industry associations in promotion of internal trade**

The following are some of the functions performed by commerce and industry associations:

## Role of Commerce in Promotion of Internal Trade

- ➔ Facilitates interstate movement of goods
- ➔ Levies Octroi and other local taxes
- ➔ Brings together the sales tax and VAT structure of different states
- ➔ Development of a sound infrastructure
- ➔ Formulation of laws
- ➔ Promotion and marketing of agricultural products
- ➔ Prevention of duplication of brands

- Facilitate interstate movement of goods** by registering vehicles, formulating transport policies and by constructing roads and highways
- Levy Octroi and other local taxes** which form an important source of revenue for the local government
- Bring together the sales tax and VAT structure of different states** and ensures that these taxes are uniform across states for maintaining a balance in trade
- Develop a sound infrastructure** through constant interaction with the government and convincing them to invest in the development of infrastructure
- Formulate laws** and policies with the government to protect the interest of both the consumers as well as the traders
- Help in the **promotion and marketing of agro products**
- Prevent duplication of brands** so as to protect the interests of the buyers and the producers

### ❖ Documents used in internal trade



The following are the documents used while conducting internal trade:

**a. Proforma Invoice- I**

- Refers to the **document containing all the terms and conditions of trade** to which the buyer and the seller agree
- Is basically the **sales quote sent in advance** to the buyer before the commercial invoice
- Includes **information of quantity of goods, their value, shipping weight and transportation charges**

**b. Invoice-**

- Refers to the **bill prepared by the seller after the goods are dispatched** to the buyer
- Contains the **details of the transaction conducted such as description of the goods dispatched, amount to be paid by the buyer and date of dispatch**

**c. Lorry receipt-**

- Refers to **receipt issued by the transport company in case the goods are being sent through road transport**
- **Acts as an undertaking for the company** to deliver the goods to the point of destination

**d. Debit note-**

- Refers to the **note stating the error in calculation**, if any, in the invoice
- Can be sent either by the seller to buyer stating any undercharging or by buyer to the seller stating any overcharging

**e. Railway Receipt-** Refers to the **document issued by the railway authorities when the goods are dispatched** through railways

**f. Credit Note-** Refers to an **instrument issued by the sellers to their regular customers for the purchase of goods on credit**

❖ **Terms of trade**

The following are the terms used in internal trade:

**a. COD (Cash on Delivery)-** Refers to method of payment that **allows the customers to make payment for the goods at the time of actual delivery**

**b. FOB (Free on Board)-** System wherein **the seller bears all the expenses including shipment and loading costs** till the goods are loaded on the carrier at the port of departure specified by the buyer

**c. CIF (Costs, Insurance and Freight)-** System in which the **seller agrees to not only deliver the goods to the customer but also to bear all the expenses such as costs of transportation, freight and insurance.**

**d. E & OE (Errors and Omissions Excepted)-** Term used to **reduce the legal liability on the seller** that may arise due to the incomplete information provided by the seller in trade related documents like a price list or a quotation list

**e. C&F (Costs and Freight)-** System where the **seller delivers the goods and also bears the freight charges.** However, the risk of loss or damage is borne by the buyers