

Class XI Business Studies

Chapter 10 Internal Trade

Revision Notes

Internal Trade

- Buying and selling of goods and services within the boundaries of a nation are referred to as internal trade.
- Characteristic of Internal Trade are Buying and selling takes place in home country, there payment made or received in-home country with few formalities to be fulfilled by traders.
- Internal trade can be classified into two broad categories
- (i) wholesale trade
- (ii) retail trade

Wholesale Trade

- Wholesaling is concerned with the activities of those persons or establishments which sell to retailers and other merchants, and/or to industrial, institutional and commercial users but who do not sell in significant amount to ultimate consumers
- They enable the producers not only to reach large number of buyers spread over a wide geographical area (through retailers), but also to perform a variety of functions in the process of distribution of goods and services
- They undertake various activities such as grading of products, packing into smaller lots, storage, transportation, promotion of goods, collection of market information, collection of small and scattered orders of retailers and distribution of supplies to them.

Services of Wholesalers

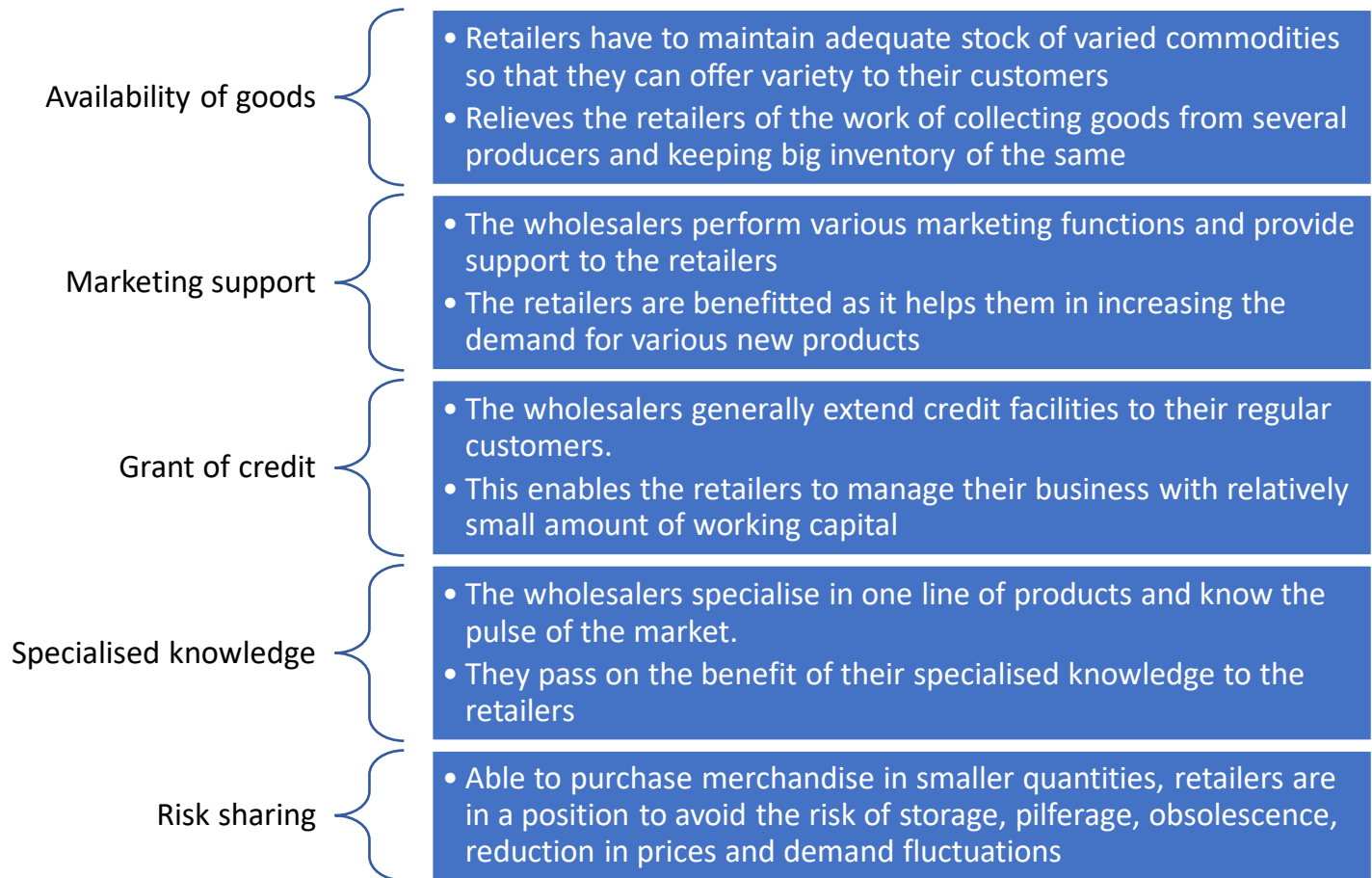
By making the products available at a place where these are needed and at a time when these are needed for consumption or use, they provide both the time and place utility. The various services of wholesalers:

1. Services to Manufacturers
2. Services to Retailers

Services to Manufacturers

Facilitating large scale production	<ul style="list-style-type: none">• Wholesalers collect small orders from a number of retailers and pass on the pool of such orders to the manufacturers and make purchases in bulk quantities
Bearing risk	<ul style="list-style-type: none">• The wholesale merchants deal in goods in their own name, take delivery of the goods and keep the goods purchased in large lots in their warehouses.• They bear variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire, etc
Financial assistance	<ul style="list-style-type: none">• They generally make cash payment for the goods purchased by them. To that extent, the manufacturers need not block their capital in the stocks.• Sometimes they also advance money to the producers for bulk orders placed by them
Expert advice	<ul style="list-style-type: none">• As the wholesalers are in direct contact with the retailers, they are in a position to advice the manufacturers about various aspects including customer's tastes and preferences, market conditions, competitive activities and the features preferred by the buyers.
Help in marketing function	<ul style="list-style-type: none">• Relieves the manufacturers from many of the marketing activities and enable them to concentrate on the production activity• Wholesalers take care of the distribution of goods to a number of retailers who, in turn, sell these goods to a large number of customers spread
Facilitate production continuity	<ul style="list-style-type: none">• Facilitate continuity by purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or consumers
Storage	<ul style="list-style-type: none">• Wholesalers take delivery of goods when these are produced in factory and keep them in their godowns/warehouses• They thus provide time utility.

Services to Retailers



Retail Trade

- A retailer is a business enterprise that is engaged in the sale of goods and services directly to the ultimate consumers.
- The retailer normally buys goods in large quantities from the wholesalers and sells them in small quantities to the ultimate consumers.
- Arranges for proper storage of goods, sells the goods in small quantities, bears business risks, grades the products, collects market information, extends credit to the buyers and promotes the sale of products through displays, participation in various schemes, etc
- The retail represents the final stage in the distribution where goods are transferred from the hands of the manufacturers or wholesalers to the final consumers or users

Services of Retailers

Retailers serve as an important link between the producers and final consumers in the distribution of products and services. They provide useful services as follows:

Services to Manufacturers and Wholesalers

Help in distribution of goods	Provide help in the distribution of their products by making these available to the final consumers, who may be scattered over a large geographic area. They thus provide place utility
Personal selling	By undertaking personal selling efforts, the retailers relieve the producers of this activity and greatly help them in the process of actualising the sale of the products
Enabling large-scale operations	Enables them to operate on, at relatively large scale, and thereby fully concentrate on their other activities
Collecting market information	Retailers serve as an important source of collecting market information about the tastes, preferences and attitudes of customers which is useful in taking important marketing decision
Help in promotion	Manufacturers and distributors have to carry on various promotional activities in order to increase the sale of their products. Retailers participate in these activities and promotes sales of products

Services to Consumer

Regular availability of products	Maintain regular availability of various products produced by different manufacturers. This enables the buyers to buy products as and when needed
New products information	Arranging for effective display of products and through their personal selling efforts, retailers provide important information about the arrival, special features, etc., of new products to the customers
Convenience in buying	They sell goods in small quantities and are situated very near to the residential areas and remain open for long hours. This offers great convenience to the customers in buying products of their requirements.
Wide selection	Keep stock of a variety of products of different manufacturers. This enables the consumers to make their choice out of a wide selection of goods
After-sales services	Provides after-sales services in the form of home delivery, supply of spare parts and attending to customers
Provide credit facilities	Provide credit facilities to their regular buyers. This enables the latter to increase their level of consumption

Types of Retailing Trade

Itinerant Retailers

They keep on moving with their wares from street to street or place to place, in search of customers

Characteristics:

- Traders operating with limited resources
- Deals in products of daily use
- Customer service by making the products available at doorstep
- Do not have fixed business establishment

Types:

- Peddlers and hawkers:
They are small producers or petty traders who carry the products on a bicycle, a hand cart, a cycle-rickshaw or on their heads, and move from place to place to sell their merchandise at the doorstep of the customers. They generally deal in non-standardised and low-value products
- Market traders:
The small retailers who open their shops at different places on fixed days or dates. They are mainly catering to lower-income group of customers and deal in low-priced consumer items of daily use
- Street traders:
Retailers who are commonly found at places where huge floating population gathers, for example, near railway stations and bus stands, and sell consumer items of common use, such as stationery items, eatables, readymade garments, newspapers and magazines
- Cheap jacks:
Retailers who have independent shops of a temporary nature in a business locality. They keep on changing their business from one locality to another, depending upon the potentiality of the area. They deal in consumer items as well as services such as repair of watches, shoes, buckets etc.

Fixed Shop Retailers

Retail shops who maintain permanent establishment to sell their merchandise. They, therefore, do not move from place to place to serve their customers

Characteristics:

- Greater resources and operate on a relatively large scale
- Deal in different products, including consumer durables as well as nondurables
- Greater credibility in the minds of customers

Types:

- Fixed Shop Small Retailers
- Fixed shop — Large stores

Fixed Shop Small Retailers

- **General stores**
These shops carry stock of a variety of products required to satisfy the day-to-day needs of the consumers residing in nearby localities. They remain open for long hours at convenient timings and often provide credit facilities to some of their regular customers
- **Speciality shops**
Instead of selling a variety of products of different types, these retail stores specialise in the sale of a specific line of product. The speciality shops are generally located in a central place where a large number of customers can be attracted, and they provide a wide choice to the customers in the selection of goods
- **Street stall holders**
They attract floating customers and deal mainly in goods of cheap variety like hosiery products, toys, cigarettes, soft drinks, etc. They get their supplies from local suppliers as well as wholesalers. The total area covered by a stall is very limited and, therefore, they handle goods on a very small scale.
- **Second-hand goods shop**
These shops deal in second-hand or used goods, like books, clothes, automobiles, furniture and other household goods. The shops, selling second-hand goods may be located at street crossings or in busy streets in the form of a stall having very little structure — a table or a temporary platform to display the books or may have reasonably good infrastructure, as in the case of those selling furniture or used cars or scooters or motorcycles

Fixed shop — Large stores

1. Departmental stores

- A departmental store is a large establishment offering a wide variety of products, classified into welldefined departments, aimed at satisfying practically every customer's need under one roof.
- It has a number of departments, each one confining its activities to one kind of product

Features	Advantages	Disadvantages
<ul style="list-style-type: none"> • Provide maximum service to higher class of customers for whom price is of secondary importance • Located at a central place in the heart of a city, which caters to a large number of customers. • As the size of these stores is very large, they are generally formed as a joint stock company managed by a board of directors • A departmental store combines both the functions of retailing as well as warehousing • They have centralised purchasing arrangements and sales are decentralised in different departments 	<ul style="list-style-type: none"> • As located at central places, they attract a large number of customers • Offering large variety of goods under one roof • Aims at providing maximum services to the customers • Organised at a very large scale, the benefits of large scale operations, particularly, in respect of purchase of goods are available to them • Considerable amount of money on advertising and other promotional activities, which help in boosting their sales 	<ul style="list-style-type: none"> • It is very difficult to provide adequate personal attention to the customers in these stores • As more emphasis given on providing services, their operating costs tend to be on the higher side • As a result of high operating costs and largescale operations, the chances of incurring losses in a departmental store are high • As a departmental store is generally situated at a central location, it is not convenient for the purchase of goods that are needed at short notice

2. Chain Stores or Multiple Shops:

- A number of shops with similar appearance are established in localities, spread over different parts of the country.
- These different shops normally deal in standardised and branded consumer products, which have rapid sales turnover.
- These shops are run by the same organisation and have identical merchandising strategies, with identical products and displays

Features	Merits	Limitations
<ul style="list-style-type: none"> • These shops are located in fairly populous localities, where sufficient number of customers can be approached • Centralised at the head office, from where the goods are despatched to each of these shops • Shop is under the direct supervision of a Branch Manager, who is held responsible for its day to- day management • Controlled by the head office, which is concerned with formulating the policies and getting them implemented • The prices of goods in such shops are fixed and all sales are made on cash basis 	<ul style="list-style-type: none"> • Enjoys economies of scale. • Able to eliminate unnecessary middlemen in the sale of goods and services. • There are no losses on account of bad debts as sale is on cash basis • The goods not in demand in a particular locality may be transferred to another locality where it is in demand. • The losses incurred by one shop may be covered by profits in other shops • Flexibility to shift to some other place if profits not achieved in an area 	<ul style="list-style-type: none"> • They do not sell products of other manufacturers. In that way the consumers get only a limited choice of goods • Looking up to the head office for guidance on all matters, and takes away the initiative from them to use their creative skills to satisfy the customers • Lack of initiative in the employees sometimes leads to indifference and lack of personal touch in them. • The management may have to sustain huge losses because of large stocks lying unsold at the central depot

Difference Between Departmental Stores and Multiple Shops

BASIS	DEPARTMENTAL STORES	MULTIPLE SHOPS
LOCATION	Central Place	Where Large customer approach
RANGE OF PRODUCTS	Wide range of products	Specified range of products
SERVICES OFFERED	Maximum service to customer	Limited service to customer
PRICING	No uniform pricing policy	Uniform pricing policy
CLASS OF CUSTOMER	Cater to High income group	Cater to different types of customers
CREDIT FACILITY	Credit facility is availed	Only Cash basis
FLEXIBILITY	Flexibility in respect to line of goods marketed	Not much scope of flexibility

Mail Order Houses

- Mail order houses are the retail outlets that sell their merchandise through mail.
- There is generally no direct personal contact between the buyers and the sellers in this type of trading.
- For obtaining orders, potential customers are approached through advertisements in newspapers or magazines, circulars, catalogues, samples and bills, and price lists sent to them by post
- On receiving the orders, the items are carefully scrutinised with respect to the specifications asked for by the buyers and are complied with through the post office
- There can be different alternatives for receiving payments.
 - First, the customers may be asked to make full payment in advance.
 - Second, the goods may be sent by Value Payable Post (VPP). Under this arrangement, the goods are sent through post and are delivered to the customers only on making full payment for the same.
 - Third, the goods may be sent through a bank, which is instructed to deliver the articles to the customers. In this arrangement there is no risk of bad debt
- Only the goods that can be (i) graded and standardised, (ii) easily transported at low cost, (iii) have ready demand in the market, (iv) are available in large quantity throughout the year, (v) involve least possible competition in the market and (vi) can be described through pictures etc., are suitable for this type of trading

Merits

- It can be started with relatively low amount of capital
- Unnecessary middlemen between the buyers and sellers are eliminated.
- They do not extend credit facilities to the customers, there are no chances of any bad debt
- Wide scope for business as a large number of people throughout the country can be served through mail.
- Goods are delivered at the doorstep of the customers

Limitations

- There is no personal contact between the buyers and the sellers under the system of mail order selling, there are greater possibilities of misunderstanding and mistrust
- There is heavy expenditure on promotion of the products
- There is absence of after sales services which is so important for the satisfaction of the customer
- They do not provide credit facilities
- Greater possibility of abuse to dishonest traders to cheat the customers by making false claims about the products or not honouring the commitments
- Depends heavily on the availability of efficient postal services at a place

Consumer Cooperative Store

- A consumer cooperative store is an organisation owned, managed and controlled by consumers themselves.
- The objective of such stores is to reduce the number of middlemen who increase the cost of produce, and thereby provide service to the members.
- The cooperative stores generally buy in large quantity, directly from manufacturers or wholesalers and sell them to the consumers at reasonable prices
- The profits earned by consumer cooperative stores during a year are utilised for declaring bonus to members and for strengthening the general reserves and general welfare funds or similar funds for social and educational benefits of the members

Merits

- Easy to form a consumer cooperative society
- The liability of the members in a cooperative store is limited to the extent of the capital contributed by them
- It has democratic management. Each member has one vote, irrespective of the number of shares held by him/her
- Elimination of middlemen results in lower prices for the consumer goods to the members
- The consumer cooperative stores normally sell goods on cash basis
- The consumer cooperative stores are generally opened at convenient public places where the members and others can easily buy the product

Limitations

- There is a lack of sufficient initiative and motivation amongst them to work more effectively
- The stores generally face shortage of funds as membership is limited
- The members of the cooperative stores generally do not patronise them regularly
- Lack expertise as they are not trained in running the stores efficiently.

Super Markets

- A super market is a large retailing business unit selling wide variety of consumer goods on the basis of low price appeal, wide variety and assortment, self-service and heavy emphasis on merchandising appeal.
- The goods traded are generally food products and other low priced, branded and widely used consumer products
- Super markets are generally situated at the main shopping centres
- Super markets are organised on departmental basis where customers can buy various types of goods under one roof.

Features	Merits	Limitations
<ul style="list-style-type: none">• Generally carries a complete line of food items and groceries, in addition to non-food convenience goods• Different products as per their requirements under one roof• Distribution cost is lower• The prices of the products are generally lower than other types of retail stores• The goods are sold on cash basis• Located at central locations to secure high turnover	<ul style="list-style-type: none">• Offer a wide variety of products at low cost under one roof• Located in the heart of the city so, easily accessible• Keep a wide variety of goods of different designs, colour, etc., which enables the buyers to make better selection• Sales are made on cash basis, there are no bad debts• Benefits of large scale buying and selling because of which its operating costs are lower	<ul style="list-style-type: none">• No credit facilities restricts the purchasing power of buyers• The principle of selfservice is followed therefore, do not get any personal attention• Some customers handle the goods kept in the shelf carelessly. This may raise costs• They incur high overhead expenses• Establishing and running a super market requires huge investment

Vending Machines

- Coin operated vending machines are proving useful in selling several products such as hot beverages platform tickets, milk, soft drinks, chocolates, newspaper, etc., in many countries
- Vending machines can be useful for selling pre-packed brands of low priced products which have high turnover and which are uniform in size and weight.
- However, the initial cost of installing a vending machine and the expenditure on regular maintenance and repair are quite high

Goods and Services Tax

- The Government of India, following the credo of 'One Nation and One Tax', and wanting a unified market in order to ensure the smooth flow of goods across the country implemented the Goods and Services Tax (GST) from July 1, 2017
- Effective taxation ensures that public funds are effectively employed in fulfilling social objectives for sustainable development

- GST is a destination-based single tax on the supply of goods and services from the manufacturer to the consumer, and has replaced multiple indirect taxes levied by the Central and the State governments, thereby, converting the country into a unified market
- The GST has replaced 17 indirect taxes (8 Central + 9 State levels) and 23 cesses of the Centre and the States, eliminating the need for filing multiple returns and assessments and rationalising the tax treatment of goods and services along the supply chain from producers to consumers.
- GST comprises Central GST (CGST) and the State GST (SGST), subsuming levies previously charged by the Central and the State governments respectively.
- GST (CGST + SGST) is charged at each stage of value addition and the supplier off-sets the levy on inputs in the previous stages of value chain through the tax credit mechanism
- There are four tax slabs namely 5 per cent, 12 per cent, 18 per cent and 28 per cent for all goods or services.
- Exports and supplies to SEZ are zero-rated
- Tax liability arises when the taxable person crosses exemption limit i.e., Rs 20 lakh

Role of Commerce and Industry Associations is in promotion of Internal Trade

Interstate movement of goods	The Chambers of Commerce and Industry help in many activities concerning interstate movement of goods which include registration of vehicles, surface transport policies, construction of highways and roads
Octroi and other local levies	These are collected on the goods and from people entering the state or the municipal limits. The Chambers of Commerce try to ensure that their imposition is not at the cost of smooth transportation and local trade
Harmonisation of sales tax structure and Value Added Tax	The sales tax is an important part of the state revenue. A rational structure of the sales tax and its uniform rates across states, are important for promoting a balance in trade
Marketing of agro products and related issues	Streamlining of local subsidies and marketing policies of organisations selling agro products are some of the areas where the Chambers of Commerce and Industry can really intervene and interact with concerned agencies like farming cooperatives
Weights and Measures and prevention of duplication brands	Laws relating to weights and measures and protection of brands are necessary to protect the interest of the consumers as well as the traders. These need to be enforced strictly
Excise duty	Central excise is the chief source of the government revenue levied across states by the central government. The excise policy plays an important role in pricing mechanism
Promoting sound infrastructure	The Chambers of Commerce and Industry hold discussions with government agencies for investments into infrastructure projects
Labour legislation	A simple and flexible labour legislation is helpful in running industries maximising production and generating employment. The Chambers of Commerce and Industry and the government are constantly interacting on issues with government