

Plus One Business Studies Notes

Chapter 10

Internal Trade

Contents

- Internal Trade – Meaning – Types
- Whole Sale Trade – Meaning – Function – Services to producers and retailers
- Retail Trade – Meaning – functions – services to producers/wholesalers and consumers
- Types of Retail trade – Itinerant Traders – Fixed shop retailers
- Departmental Store – Meaning – Features Advantages – Limitations
- Multiple shop – Meaning – Features – Advantages Limitations
- Mail order business – Meaning – Features Advantages – Limitations
- Consumer co – operative store – Meaning Features – Advantages – Limitations
- Supermarket – Meaning – Features – Advantages Limitations
- Vending Machines – Meaning
- Role of Chamber of Commerce and Industry

Internal Trade:

Buying and selling of goods and services within the boundaries of a nation are called internal trade. Internal trade can be classified into two broad categories viz.

- Wholesale trade
- Retail trade

Wholesale Trade:

Wholesale trade means buying goods in large quantities from the producers and selling them in smaller quantities to the retailers. Wholesalers act as an important link between manufacturers and retailers.

Functions of Wholesaler:

1. Buying and assembling:

The wholesalers buy goods from different producers and keep them in a central place.

2. Warehousing:

The goods are to be kept in the warehouses till they are sold to retailers.

The goods purchased are sorted out on the basis of quality and size. This is called grading. After grading they are packed in attractive packages

4. Pricing:

The wholesaler fix the price of products

5. Transportation:

The wholesalers move the goods from the production centre to the retail shop

6. Risk bearing:

They assume the risk like change in demand, spoilage, theft during transportation etc.

7. Financing:

Wholesalers purchase goods on cash basis from manufacturers and sell them to the retailers on credit basis.

8. Market information:

Wholesalers collect various market information for the benefits of manufacturers so that they can change the products accordingly

Services of Wholesalers to Manufacturers:

1. Facilitating large scale production:

As the wholesalers place bulk orders, the producers are able to undertake production on a large scale and take advantages of economies of scale.

2. Risk bearing:

Wholesaler deals in goods in their own name and bear variety of risks such as the risk of fall in prices, theft, pilferage spoilage, fire etc.

3. Financial assistance:

Wholesalers provide financial assistance to the manufacturers by making cash payment for the purchased goods.

4. Expert advice:

Wholesaler provide various useful information regarding the customer preference, market conditions etc to the manufacturer.

5. Help in marketing function:

As the wholesalers place bulk orders, it relieves the producer from many marketing activities and he can concentrate on production.

6. Storage facilities:

Wholesalers hold the goods in their own warehouses. It reduces the burden of storage of goods by the manufacturers.

7. Facilitate production continuity:

The wholesalers facilitate continuity of production activity throughout the year by purchasing the goods as and when these are produced

Services of Wholesalers to Retailers:

1. Availability of goods:

The wholesalers make the products of various manufacturers readily available to the retailers.

2. Marketing support:

They undertake advertisements and other sales promotional activities to induce customers to purchase the goods.

3. Grant of credit:

The wholesalers generally provide credit facilities to the retailers.

4. Specialised knowledge:

Wholesalers know the pulse of the market. They inform the retailers about the new products, their uses, quality, prices, etc.

5. Risk sharing:

Wholesalers sell goods to retailers in small quantities and thus retailers do not face the risk of storage, pilferage, reduction in prices etc.

Retail Trade:

Buying of goods in large quantities from the wholesalers and selling them in small quantities to the ultimate consumers is known as retail trade. Retailers serve as an important link between the producers and consumers in the distribution of products and services.

Functions of Retailers:

- 1.A retailer collects different varieties of goods. So he can satisfy different types of customers.
- 2.A retailer provides market information to wholesalers and manufacturers.
- 3.A retailer is in close contact with consumers. So he can persuade the consumers to buy the product.
- 4.Retailers locate their business in residential areas. It helps the consumers to purchase the product easily.
- 5.The retailers provide credit facilities to the consumers.
- 6.Retailers provide after sales services to attract consumers.

Services of Retailers to Manufacturers and Wholesalers:

1. Retailers help manufacturers & wholesalers in the distribution of their goods & services to the ultimate consumers.
2. Retailers undertake personal selling efforts and thus, help manufacturers and wholesalers to increase the sale of the products.
3. Retailers help manufacturers and wholesalers to operate production on a large scale by undertaking distribution of goods.
4. As retailers are in constant touch with customers, they can provide various market information such as the tastes, preferences and attitudes etc. of consumers to the producers.
5. Retailers participate in various sales promotional activities conducted by producers and wholesalers.

Services Retailers to Consumers:

1. Retailers provide goods to consumers according to their requirements.
2. Retailers keep large varieties of products of different manufacturers. It enables the customers to select goods according to their choice.
3. Retailers provide important information about the new products to the consumers.
4. Retailers also provide after-sales services in the form of home delivery etc. to the customers.
5. Retailers often supply goods on credit to the customers.
6. Retailers keep ready stock of the products needed by the consumers.

Differences between wholesaler and Retailer:

Wholesaler	Retailers
1. They organize business on a large scale.	They organized business on a small scale.
2. Huge capital is required.	Less capital is required.
3. They have direct contact with producers.	They have direct contact with consumers.
4. Act as a link between producer and retailer.	Act as a link between wholesaler and consumer.
5. Location of business is not important.	Location business is important.
6. They do not provide after-sales services.	They provide after-sales services.
7. They deal in large quantities of goods.	They deal in small quantities of goods.

Types of Retail Trade:

Retail trade can be classified into the following two categories on the basis of whether or not they have a fixed place of business.

- Itinerant Retailers
- Fixed shop Retailers

Itinerant Retailers:

The retailers who do not have a fixed place of business to operate from are called itinerant retailers. They have to move from one place to another along with their goods in search of consumers.

Characteristics of itinerant retailers:

- 1.They are small traders having limited resources.
- 2.They generally deal in consumer products of daily use.
- 3.They emphasize on providing greater customer services.
- 4.They do not have any fixed place to operate from.

Types of itinerant retailers:

1. Peddlers and hawkers:

They 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 products at the doorstep of the customers. They generally deal in non-standardised and low-value products such as toys, vegetables, fruits etc.

2. Market traders:

They are the small retailer who open their shops at different places and sell the goods on fixed days such as every Saturday or Tuesday. These traders deal in single line of goods such as toys, readymade garment, crockery, etc.

3. Street traders:

These traders display their articles on busy streets, bus stand, railway stations etc. They sell low priced articles like pen, books, magazines, handkerchiefs etc. They do not change their place of business frequently.

4. Cheap jacks:

They are small retailers who have independent shops of a temporary nature in a business locality. They keep on changing their business from one locality to another but not very frequently. They deal in consumer items such as repair of watches, shoes, buckets etc.

Fixed Shop Retailers:

Retailers who maintain permanent establishment to sell their goods are called fixed shop retailers. Following are the main characteristics of fixed shop retailers.

- 1.They have greater resources and operate on a relatively large scale.

2.They deal in durable as well as non-durable goods.

3.They provide greater services to the customers such as home delivery, repairs, credit facilities etc.

Types of Fixed Shop Retailers:

The fixed-shop retailers can be classified into two. They are:

- Small shop-keepers

- Large retailers

Fixed Shop Small Retailers:

1. 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 deal products of daily use such as grocery items, soft drinks, Stationary etc.

2. Speciality shops:

These retail stores specialise in the sale of a specific line of products. For example, shops selling children's garments, men's wear, ladies shoes, toys and gifts, school uniforms etc. The speciality shops are generally located in a central place where a large number of customers can be attracted.

3. Street stall holders:

These shops are generally located at street crossings or in the main street. They usually display their goods on a table or by fixing shelf on the wall. Low priced articles such as pen, cosmetics, magazines etc. are sold in these stalls. .

4. Secondhand goods shop:

These shops deal in secondhand goods such as books, clothes, furniture, automobile etc. People who cannot afford to buy new articles, generally, becomes their customers.

Fixed shop large retailers:

Departmental stores:

A departmental store is a large scale retail shop selling a wide variety of goods in different departments under one and management. Each department deals in separate line of goods like stationary, books, furniture, clothing etc. Consumers can purchase all goods from the departmental store.

Features of a departmental store:

- 1.It Is a large scale retail organization.
- 2.A number of retail shops in the same building.
- 3.It offers a wide variety of products under one roof.
- 4.It is located at central places of the city
- 5.The products are arranged in separate departments
- 6.Sales, control and management are centralized
- 7.It offers various services and facilities like free home delivery etc

Advantages:

- 1.Central locations: As these stores are usually located at central places they attract a large number of customers
- 2.Convenience in buying: By offering large variety of goods under one roof, the departmental stores provide great convenience to customers in buying almost all goods of their requirements at one place.
- 3.Attractive services: A departmental store aims at providing maximum services to the customers.
- 4.Economy of large-scale operations: As these stores are organised in a very large-scale, the benefits of large-scale operations are available to them
- 5.Mutual advertisement:-All the departments are under one roof, so there is economy in advertising
- 6.Risk distribution: If there is a loss in one department, it may be compensated from the profit of other departments
- 7.Increased sales: Central location, mutual advertisement etc. will help a departmental store to increase its sales.

Limitations:

1. Lack of personal attention:

Because of the large- scale operations, it is very difficult to provide adequate personal attention to the customers in these stores.

2. Inconvenient location:

As a departmental store is generally situated at a central location, it is not convenient for the consumers who reside away from town.

3. High price:

A departmental store charges high price for the products because of high operating cost.

4. High operating cost:

As these stores give more emphasis on providing services, their operating costs tend to be high.

5. High advertisement cost:

The success and prosperity of a departmental store depends on advertisement. Therefore, it should spent large amount on advertisement.

6. Lack of effective control:

Departmental store works through a large number of departments. It creates so many problems.

7. High risk:

A departmental store keeps a large stock of goods. So changes in fashion, taste, price etc will affect the profitability of the business.

Chain Stores or Multiple Shops:

Multiple shop is a system of branch shops operated under a centralised management and dealing in similar line of goods. Branches are located through out the nation.

Features of multiple shops:

- 1.It deals in one or two lines of products.
- 2.All branches are dealing in similar goods
- 3.It has centralized management and unified system of control
- 4.It eliminates middlemen.
- 5.It works on cash and carry principle
- 6.It has centralized buying and decentralized selling.

7. There is uniformity in operation in all branches.

8. It deals in goods of daily use and durables.

Advantages:

1. It enjoys economies of bulk purchase because the goods for all branches are purchased by head office.

2. There is no risk of bad debts because all sales are on cash basis.

3. The advertisements for all branches are done by the head office. So there is economy in advertisement.

4. Multiple shops are located in towns and cities. They attract a large number of customers.

5. All branches of multiple shops are uniform in style, design and display of goods.

6. All the branches sell quality goods at uniform prices. It creates public confidence.

7. The economy in large scale buying, centralized management, etc. reduce the cost of operations.

8. Products having no demand in one branch can be transferred to another branch. It reduces business risk.

9. Multiple shops enjoy the benefits of quick turn over because of country wide location.

Limitations:

1. The multiple shops deal only in a limited range of products. So consumers have very little choice.

2. They will not provide any credit facilities to consumers.

3. There is lack of personal touch between the company and consumers because branches are managed by salaried managers.

4.Branch manager is only a salaried employee. He has no initiative to increase the profits.

5.As these shops deal in a limited line of goods, fall in demand will affect the business.

Difference between Departmental stores and Multiple shops:

Departmental store	Multiple shop
Located at the centre of big cities.	Locate near residential areas
Prices of articles may be different in departmental store	All the shops charge the same price.
High price	Comparatively low
Deals in all kinds of goods	Deals in limited line of goods
Offers credit facilities	Sell goods on cash basis
Requires more capital	Comparatively less capital is required.
Goods cannot be transferred from one department to another.	Goods can be transferred from one branch to another branch.
They deal in products of various manufactures.	They deal in products of only one manufacturer.
Operating costs is very high	Operating cost is comparatively low

Mail Order Houses/shopping by Post:

Mail order business is a form of retailing where the business transactions are done through post or mail. Under this system orders for goods, delivery of goods and payment is made through VPP (Value Payable Post).

Under this arrangement, the goods are delivered to the customers only on making full payment for the same. There is generally no direct personal contact between the buyers and the sellers in this type of trading.

This type of business is suitable for products that can be:

1.graded and standardised

- 2.easily transported at low cost
- 3.have ready demand in the market
- 4.are available in large quantity throughout the year
- 5.involve least possible competition in the market
- 6.can be described through pictures.

Bulky, heavy and perishable products are not suitable for this type of business.

Advantages:

- 1.It needs only limited capital because there is no need of building and other infra structural facilities.
- 2.Unnecessary middlemen between the buyers and sellers are eliminated.
- 3.Since the mail order houses do not extend credit facilities to the customers, there are no chances of any bad debt.
- 4.Under this system goods are delivered at the doorstep of the customers. This results in great convenience to the customers.
- 5.There is a wider scope for business.
- 6.It helps to avoid overstocking of goods as goods are collected only when the orders are received.

Disadvantages:

- 1.It has to spend a large amount for advertisement.
- 2.There is no direct personal contact between the buyer and the seller.
- 3.The buyer cannot inspect the goods personally before purchasing.
- 4.They are not suitable for heavy and perishable goods.
- 5.They do not provide credit facilities to customers.

6. There may be delay in getting goods.

Consumer Cooperative Store:

It is a retail store formed by the consumers on the basis of principles of co-operation. These stores are owned and managed by consumers. They deal all types of consumer goods.

Features of Consumers Co-operative:

1. It is a voluntary association of consumers.
2. The liability of members is limited.
3. Consumers can purchase quality goods at lowest cost from these stores.
4. Democratic control is exercised.
5. It eliminates middlemen

Advantages:

1. Consumers can purchase quality goods at lowest cost from consumers co-operative store.
2. There is no bad debts as goods are sold on cash basis.
3. Economies of large scale purchasing can be enjoyed.
4. Less advertisement expenses are required.
5. It restricts monopoly and wasteful competition.

Disadvantages:

1. A consumer co-operative store can collect low capital. So they cannot start business on a large scale.
2. The management of a consumer co-operative store is inefficient.
3. It lacks proper warehousing facilities.
4. It will not attract consumers because of no credit facilities.

Supermarkets/Super Bazaar:

Supermarket is a large scale retail organisation selling a wide variety of consumer goods. The important feature of supermarket is the absence of salesman to help consumers in selecting goods. Hence supermarket is also called 'Self Service Store'.

Features of Super Market:

- 1.They are located at the centre of a town.
- 2.They sell goods on cash basis only.
- 3.They deal wide variety of goods.
- 4.There is no salesman to help consumers

Advantages:

- 1.Consumers can purchase everything from supermarket
- 2.There is no bad debt as sales are on cash basis only.
- 3.They are located at the centre of a town.
- 4.It attracts a large number of consumers.
- 5.Consumers can select goods according to their taste and preferences.
- 6.Variety of goods is available in a supermarket.

Disadvantages:

- 1.Large premises at central location is not available easily.
- 2.It lacks personal advice of salesman
- 3.They do not provide credit facilities to customers.
- 4.The employees in a supermarket do not take initiative to increase sales.
- 5.It requires huge capital investment.
- 6.It is not suitable for products which require personal selling.

7. There is no personal contact with consumers.

Vending Machines:

They are coin operated machines which are used in selling several products such as milk, soft drinks, chocolates, platform tickets etc in many countries. The latest area in which this concept is getting popular is the use of Automated Teller Machines (ATM) in the banking service.

However, the installation cost and expenditure on regular maintenance and repair of these machines are quite high. Moreover, the consumers can neither see the product before buying nor can return the unwanted goods.

Role of Chambers of Commerce and Industry in Promotion of Internal Trade:

Association of business and industrial houses are formed to promote and protect their common interest and goals. They undertake following functions.

1. The chamber of commerce and Industry help in the inter-state movement of goods through various activities.
2. They ensure that imposition of octroi and other local taxes do not affect trade adversely.
3. They also undertake marketing of agro products and related issues.
4. They interact with the Government to make laws relating to weights and measures and protection of brands.
5. They discuss with government to get sound infrastructure so that business activities could be undertaken easily.