

As per CBSE Revised Syllabus for 2021 Exam



Unit 9

Internal Trade

Revised CBSE Syllabus for 2021 Examination

- ❑ **Internal trade** - meaning and types of services rendered by a wholesaler and a retailer
- ❑ **Large scale retailers** - Departmental stores, chain stores – concept

Internal Trade: **Meaning and Types**

Meaning of Internal Trade

Buying and selling of goods and services within the boundaries of a nation are referred to as internal trade.

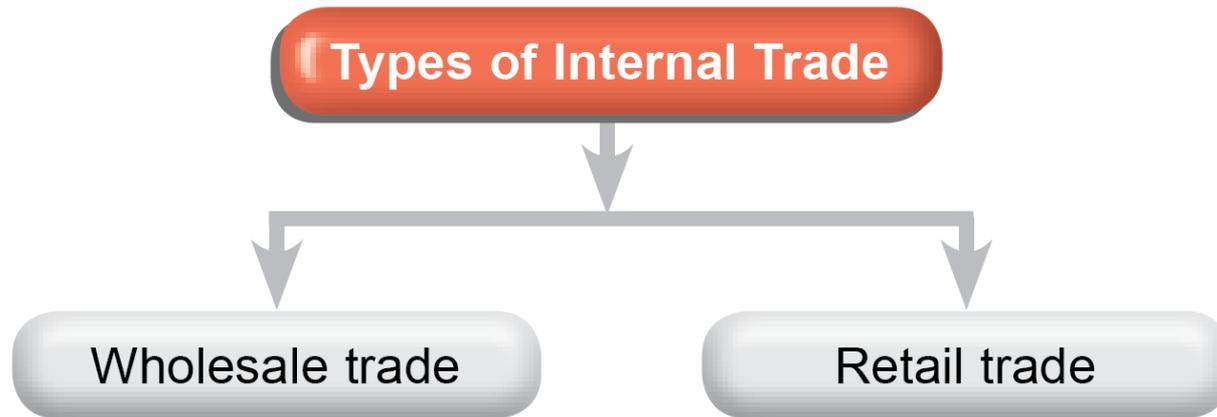
Whether the products are purchased from a neighborhood shop in a locality or a central market or a departmental store or a mall or even from any door-to-door salesperson or from an exhibition, all these are examples of internal trade as the goods are purchased from an individual or establishment within a country.

No custom duty or import duty is levied on such trade as goods are part of domestic production and are meant for domestic consumption.

Generally, payment has to be made in the legal tender of the country or any other acceptable currency.

Types of Internal Trade

Internal trade can be classified into two broad categories viz., (i) wholesale trade and (ii) retail trade.



Wholesale trade

Purchase and sale of goods and services in large quantities for the purpose of resale or intermediate use is referred to as 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.

Wholesalers serve as an important link between manufacturers and retailers.

- 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 generally take the title of the goods and bear the business risks by purchasing and selling the go-

ods in their own name.

- They purchase in bulk and sell in small lots to retailers or industrial users.
- 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.
- They also relieve the retailers of maintaining large stock of articles and extend credit facilities to them.



Top Tip

Most of the functions performed by wholesalers are such which cannot be eliminated. If there are no wholesalers, these functions shall have to be performed either by the manufacturers or the retailers.

Retail trade

Purchase and sale of goods in relatively small quantities, generally to the ultimate consumers, is referred to as 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.

A retailer performs different functions in the distribution of goods and services, as stated below:

- Purchases a variety of products from the wholesale distributors and others

- 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
- Promotes the sale of products through displays, participation in various schemes, etc.

Services Rendered by a Wholesaler and a Retailer

Services of Wholesalers

Wholesalers provide various services to manufacturers as well as retailers and provide immense help in the distribution of goods and services.

Services to Manufacturers

Major services offered by wholesalers to the producers of goods and services are given as below:

- 1. Facilitating large scale production:** 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. This enables the producers to undertake production on a large scale and take advantage of the economies of scale.

2. **Bearing risk:** Wholesalers deal in goods in their own name, take delivery of the goods and keep the goods purchased in large lots in their warehouses. In the process, they bear variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire, etc. To that extent, they relieve the manufacturers from bearing these risks.

3. Financial assistance: The wholesalers provide financial assistance to the manufacturers in the sense that they generally make cash payment for the goods purchased by them. Sometimes they also advance money to the producers for bulk orders placed by them.

4. **Expert advice:** Wholesalers advise the manufacturers about customer's tastes and preferences, market conditions, competitive activities and the features preferred by the buyers.

5. Help in marketing function: The 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 over a large geographical area. This relieves the manufacturers from many of the marketing activities and enable them to concentrate on the production activity.

6. Facilitate production continuity: The wholesalers facilitate continuity of production activity throughout the year by purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or consumers in the market.

7. Storage: Wholesalers take delivery of goods when these are produced in factory and keep them in their godowns/warehouses. This reduces the burden of manufacturers of providing for storage facilities for the finished products. They thus provide time utility.

Services to Retailers

The important services offered by manufacturers to the retailers are described as below:

- 1. Availability of goods:** The wholesalers make the products of various manufacturers readily available to the retailers. This relieves the retailers of the work of collecting goods from several producers and keeping big inventory of the same.

2. Marketing support: The wholesalers perform various marketing functions and provide support to the retailers. They undertake advertising and other sales promotional activities to induce customers to purchase the goods. The retailers are benefited as it helps them in increasing the demand for various new products.

3. Grant of credit: The wholesalers generally extend credit facilities to their regular customers. This enables the retailers to manage their business with relatively small amount of working capital.

4. **Specialised knowledge:** The wholesalers pass on the benefit of their specialised knowledge to the retailers. They inform the retailers about the new products, their uses, quality, prices, etc. They may also advise them on the decor of the retail outlet, allocation of shelf space and demonstration of certain products.

5. Risk sharing: The wholesalers purchase in bulk and sell in relatively small quantities to the retailers. Being able to purchase merchandise in smaller quantities, retailers are in a position to avoid the risk of storage, pilferage, obsolescence, reduction in prices and demand fluctuations.

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 to the consumers, wholesalers and manufacturers. Some of the important services of retailers are described as below:

Services to Manufacturers and Wholesalers

The invaluable services that the retailers render to the wholesalers and producers are given as here under:

- 1. Help in distribution of goods:** A retailer's most important service to the wholesalers and manufacturers is to 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 provide place utility.

2. 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.

3. Enabling large-scale operations: On account of retailer's services, the manufacturers and wholesalers are freed from the trouble of making individual sales to consumers in small quantities. This enables them to operate on, at relatively large scale, and thereby fully concentrate on their other activities.

4. Collecting market information: As retailers remain in direct and constant touch with the buyers, they serve as an important source of collecting market information about the tastes, preferences and attitudes of customers.

5. Help in promotion: From time-to-time, manufacturers and distributors have to carry on various promotional activities in order to increase the sale of their products. For example, they have to advertise their products and offer short-term incentives in the form of coupons, free gifts, sales contests, and so on. Retailers participate in these activities in various ways and, thereby, help in promoting the sale of the products.

Services to Consumers

Some of the important services of retailers from the point of view of consumers are as follows:

1. **Regular availability of products:** The most important service of a retailer to consumers is to maintain regular availability of various products produced by different manufacturers. This enables the buyers to buy products as and when needed.

2. **New products information:** By 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.

3. Convenience in buying: Retailers generally buy goods in large quantities and sell these in small quantities, according to the requirements of their customers. Also, they are normally 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.

- 4. Wide selection:** Retailers generally 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.

5. After-sales services: Retailers provide important after-sales services in the form of home delivery, supply of spare parts and attending to customers.

6. Provide credit facilities: The retailers sometimes provide credit facilities to their regular buyers. This enables the consumers to increase their level of consumption and, thereby, their standard of living.

Extra Shots

Terms of Trade

The following are the main terms used in the trade:

- 1. Cash on delivery (COD):** It refers to a type of transaction in which payment for goods or services is made at the time of delivery. If the buyer is unable to make payment when the goods or services are delivered then it will be returned to the seller.
- 2. Free on Board or Free on Rail (FoB or FOR):** It refers to a contract between the seller and the buyer in which all the expenses up to the point of delivery to a carrier (it may be a ship, rail, lorry, etc.) are to be borne by seller.
- 3. Cost, Insurance and Freight (CFF):** It is the price of goods which includes not only the cost of goods but also the insurance and freight charges payable on goods upto destination port.
- 4. Errors and Omissions Excepted (E&OE):** It refers to that term which is used in trade documents to say that mistakes and things that have been forgotten should be taken into account.

Large Scale Fixed Shop Retailers

Departmental Stores

A departmental store is a large establishment offering a wide variety of products, classified into well-defined 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.



'Spencers' in Chennai

For example, there may be separate departments for toiletries, medicines, furniture, groceries, electronics, clothing and dress material within a store.

Thus, they satisfy diverse market segments with a wide variety of goods and services.

It is not uncommon for a department store in the United States of America to carry 'needle to an aeroplane' or 'all shopping under one roof.' Everything from 'a pin to an elephant' is the spirit behind a typical department store.

In India real departmental stores have not yet come in a big way in the retailing business. However, some stores on this line in India include 'Akberally' in Mumbai and 'Spencers' in Chennai.

Features

Some of the important features of a departmental store are as follows:

1. A modern departmental store may provide all facilities such as restaurant, travel and information bureau, telephone booth, restrooms, etc. As such they try to provide maximum service to higher class of customers for whom price is of secondary importance.
2. These stores are generally located at a central place in the heart of a city, which caters to a large number of customers.

3. As the size of these stores is very large, they are generally formed as a joint stock company managed by a board of directors. There is a managing director assisted by a general manager and several department managers.
4. A departmental store combines both the functions of retailing as well as warehousing. They purchase directly from manufacturers and operate separate warehouses. That way they help in eliminating undesirable middlemen between the producers and the customers.
5. They have centralised purchasing arrangements. All the purchases in a department store are made centrally by the purchase department of the store,

whereas sales are decentralised in different departments.

Chain Stores or Multiple-shops

Chain stores or multiple shops are networks of retail shops that are owned and operated by manufacturers or intermediaries.

- These different shops normally deal in standardised and branded consumer products, which have rapid sales turnover.



**Fast Food Chains of
McDonalds**

- These shops are run by the same organisation and have identical merchandising strategies, with identical products and displays.
- Chain stores are most effective in handling high-volume merchandise, whose sales are relatively constant throughout the year.
- In India, Bata Shoe stores are typical examples of such shops. Similar type of retail outlets are coming up in other products also. For example, the exclusive showrooms of D.C.M., Raymonds and the fast food chains of Nirula's and McDonalds.

Features

Some of the important features of such shops may be described as follows:

1. These shops are located in fairly populous localities, where sufficient number of customers can be approached. The idea is to serve the customers at a point which is nearest to their residence or work place, rather than attracting them to a central place.
2. The manufacturing/procurement of merchandise for all the retail units is centralised at the head office, from where the goods are despatched to each of these shops according to their requirements.

This results in savings in the cost of operation of these stores.

3. Each retail shop is under the direct supervision of a Branch Manager, who is held responsible for its day-to-day management. The Branch Manager sends daily reports to the head office in respect of the sales, cash deposits, and the requirements of the stock.
4. All the branches are controlled by the head office, which is concerned with formulating the policies and getting them implemented.

5. The prices of goods in such shops are fixed and all sales are made on cash basis. The cash realised from the sales of merchandise is deposited daily into a local bank account on behalf of the head office, and a report is sent to the head office in this regard.
6. The head office normally appoints inspectors, who are concerned with day-to-day supervision of the shops, in respect of quality of customer service provided, adherence to the policies of the head office, and so on.

Difference between Departmental stores and Multiple shops/Chain stores

Basis	Departmental stores	Multiple shops or Chain stores
1. Location	A departmental store is located at a central place, where a large number of customers can be attracted to it.	The multiple stores are located at a number of places for approaching a large number of customers. Thus, central location is not necessary for a multiple shop.
2. Range of products	Departmental stores aim at satisfying all the needs of customers under one roof. As such, they have to carry a variety of products of different types.	The multiple stores generally aim to satisfy the requirements of customers relating to a specified range of their products only.

<p>3. Services offered</p>	<p>The departmental stores lay great emphasis on providing maximum service to their customers. Some of the services, provided by them include alteration of garments, restaurant and so on.</p>	<p>The multiple shops provide very limited service confined to guarantees and repairs if the sold out goods turn out to be defective.</p>
<p>4. Pricing</p>	<p>The departmental stores do not have uniform pricing policy for all the departments; rather they have to occasionally offer discounts on certain products and varieties to clear their stock.</p>	<p>The multiple shop chains sell goods at fixed prices and maintain uniform pricing policies for all the shops.</p>
<p>5. Class of customers</p>	<p>The departmental stores cater to the needs of</p>	<p>The multiple shops cater to different types of</p>

	relatively high income group of customers who care more for the services provided rather than the prices of the product.	customers, including those belonging to the lower income groups, who are interested in buying quality goods at reasonable prices.
6. Credit facilities	The departmental stores may provide credit facilities to some of their regular customers.	All sales in the multiple shops are made strictly on cash basis.
7. Flexibility	As the departmental stores deal in a wide variety of products, they have certain flexibility in respect of the line of goods marketed.	There is not much scope for flexibility in the chain stores, which deal only in limited line of products.

Questions

Question 1

Kharbanda Ltd. deals in a variety of consumer products like toiletries, groceries, electronics, clothing, etc. The work place has been divided into a number of departments and every department sells a particular commodity. In this way almost all the needs of customers are fulfilled under one roof.

Manchanda Ltd. deals in footwears. The company has 200 shops at different places of the country.

The speciality of the business of this company is th-

at at all its shops the goods available are of the same type, and there prices are also the same. All sales are made strictly on cash basis.

Identify the type of retail trade done by Kharbanda Ltd. and Manchanda Ltd. Also state any three features of each.

(6 marks)



Answer 1

Kharbanda Ltd. is running a Departmental Store. It is a fixed shop large retail trade.

Features:

- (i) These stores are generally located at a central place in the heart of a city, which cater to a large number of customers.
- (ii) A departmental store purchases its supplies directly from manufacturers (thereby eliminating undesirable middlemen) and operates separate warehouses.

(iii) As the size of these stores is very large, they are generally formed as a joint stock company managed by a board of directors. There is a managing director assisted by a general manager and several departmental managers.

The name of the trade of Manchanda Ltd. is Chain Stores or Multiple Shops. It is also a fixed shop large retail trade.

Features:

(i) These shops are located in fairly populous localities, where sufficient number of customers

can be approached.

- (ii) Sales are decentralised. Branch shops are just like ordinary retail shops.
- (iii) Each retail shop is under the direct supervision and control of a Branch Manager, who is responsible for its day-to-day management. He sends daily reports to the head office in respect of the sales, cash deposits and the inventory requirements.

Question 2

Bata is an example of _____.

(Choose the correct alternative)

- (a) Mail order houses
- (b) General stores
- (c) Chain stores
- (d) Departmental stores



Answer 2

(c) Chain stores



Question 3

Buying and selling of goods and services within the boundaries of a country are referred to as _____.

(Choose the correct alternative)

- (a) External trade
- (b) Export
- (c) Internal trade
- (d) Import

Answer 3

(c) Internal trade



Question 4

Wholesale trade refers to

(Choose the correct alternative)

- (a) Exporting goods and services
- (b) Importing goods and services
- (c) Buying and selling of goods and services in large quantities for the purpose of resale or intermediate use
- (d) None of the above

Answer 4

- (c) **Buying and selling of goods and services in large quantities for the purpose of resale or intermediate use**



Question 5

Services which wholesalers provide to retailers are _____.

(Choose the correct alternative)

- (a) availability of goods
- (b) marketing support
- (c) risk sharing
- (d) all of these

Answer 5

(d) all of these



Question 6

Services which retailers provide to consumers are _____.

(Choose the correct alternative)

- (a) wide selection of goods
- (b) after-sales service
- (c) provide credit facilities
- (d) all of these

Answer 6

(d) all of these

