

Access Class XI

Business Studies

Chapter 10 - Internal Trade

Internal Trade

Internal trade refers to the buying and selling of goods and services within a country's border. In this the buying and selling occur in the home country, with payments made or received in the home country and only a few formalities for traders to complete.

Internal trade can be classified into two broad categories:

- a. Wholesale trade
- b. Retail trade

Wholesale Trade

- Wholesaling refers to the actions of individuals or businesses that sell to retailers and other merchants, as well as industrial, institutional, and commercial users, but do not sell to end users in considerable quantities.
- They enable producers to not only reach a large number of buyers spread across a large geographic area (through retailers), but also to perform a variety of functions in the process of distribution of goods and services.
- They perform activities such as product grading, packing into smaller lots, storage, transportation, promotion of goods, collection of market information.

Services of Wholesalers

They provide both time and place utility by making the products available in a location where they are needed and at a time when they are needed for consumption or use.

The various services of wholesalers:

- Services to Manufacturers
- Services to Retailers

Service to manufacturers

a. Facilitating large scale production

- Small orders from a variety of merchants are collected by wholesalers, who then transmit the pool of orders on to manufacturers, who make bulk purchases.

b. Bearing risk

- The wholesale merchants deal in good in their own name take delivery of the goods and keep the goods purchased in large Lorts in their warehouses
- They bear a variety of risks such as the risk of fall in prices, theft, pilferage, spoilage, fire etc.

c. Financial assistance

- Cash payment is made generally, hence the manufacturers need not block their capital.
- Sometimes they also advance money to the procedure for bulk orders placed by them.

d. Expert Advice

- As the wholesalers are in direct contact with the retailers, they are in a position to advise the manufacturers about various aspects including customers taste and preferences, market condition, competitive activities and the features referred by the buyer.

e. Help in marketing function

- Release the manufactures from many of the marketing activities and enable them to concentrate on the production activity.

- A large number of customers get their goods from retailers who in return have actually bought the goods from the wholesaler.

f. Facilitate production continuity

- Facilitate production continuity through purchasing the goods as and when these are produced and storing them till the time these are demanded by retailers or consumers.

g. Storage

- When goods are produced in factories, wholesalers declare delivery and store them in their godowns /warehouses.
- They thus provide time utility.

Service to retailers

a. Availability of goods

- So as to provide a diverse assortment of goods to its customers, the wholesalers provide the retailers with varied products and services.
- Wholesalers hold the inventory of goods as well as handle the work of collecting goods from several producers thus relieving the retailers of the same.

b. Marketing support

- Wholesalers are responsible for a variety of marketing duties as well as providing support to retailers.
- The retailers are benefited due to this as it helps them in increasing the demand for various new products.

c. Grant of credit

- The wholesalers usually provide credit to their frequent customers.
- As a result, the retailer can run their firm with a modest quantity of working cash.

d. Specialized knowledge

- Wholesalers specialize on a single product line and have a good understanding of the market, which is further passed to the retailers.

e. Risk sharing

- Retailers can avoid the risk of pilferage, stockpiling, obsolescence, and demand fluctuations by purchasing small merchandisable quantities.

Retail Trade

- A retailer is someone who offers goods and services to the public directly.
- The retailer typically buys vast quantities of items from wholesalers and sells them in small quantities to end users.
- Arranges for proper storage of goods, sells the goods in small quantities, bears business risks, collects market information, extends credit to the buyers and promotes product sales via displays, participation in various schemes, and so on.
- Retail is the final stage in the distribution process, where goods are delivered from manufacturers or wholesalers to ultimate consumers or users.

Services of Retailers

Retailers act as a vital link in the distribution of goods and services between producers and ultimate customers. They give the following services:

- Services to manufacturer and wholesalers
- Services to consumers

Services to manufacturer and wholesalers

a. Help in distribution of goods

Provide help in the distribution of manufacturer's product by making goods available to the final consumer who may be scattered over a large geographic area. They thus provide place utility.

b. Personal selling

Personal selling by retailers relieves the producer of this activity and considerably assists them in the process of actualizing product sales.

c. Enabling large scale operations

Enable them to operate at a relatively large-scale level and thereby fully concentrate on their other activities.

d. 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 decisions.

e. Help in promotion

Manufacturers and distributors have to conduct various promotional activities in order to increase the sale of their product. Retailers participate in these activities and promotes sales of product

Services to consumers

a. Regular availability of products

- There is a continuous and regular availability of various products produced by different manufacturers which allows buyers to purchase things as and when they are needed.

b. New products information

- Because of the shelf space, and display retail stores have, the retailers provide new product information, features, etc to the customers, thus directing their buying behavior.

c. Convenience in buying

- The customers can buy goods in small quantities anywhere at any time, as the retail stores are available in every residential area thus adding to customers convenience.

d. Wide selection

- The retailers maintain stock of a variety of products of different manufacturers, thus enabling the consumer to make their choice out of a wide selection of goods.

e. After Sales services

- Services such as home delivery, delivery of spare parts etc is also a merit of retail stores.

f. Provide credit facilities

- Provide credit facilities to their regular customers, thus leading to high future sale prospects from the same customers.

Types of Retailers:

a. Itinerant Retailers

b. Fixed Shop Retailers

i. Fixed Shop Small Stores

ii. Fixed Shop Large Stores

A. Itinerant Retailers

They are the retailers that continue to move their wares from street to street or from location to location in search of buyers.

Characteristics:

- Traders operate with limited resources.
- Deals in products of daily use.
- Providing excellent customer service by having things available at the customer's doorstep.
- Do not have fixed business establishment.

Types:

- **Peddlers and hawkers:**

They are little producers or petty traders who travel from place to place on a bicycle, a hand cart, a cycle-rickshaw, or on their heads, selling their wares at the customers' doorsteps. They mostly deal in non-standard and low-value items.

- **Market traders:**

The small retailers who open their shops at different places on fixed days or dates. They primarily serve people from lower socioeconomic backgrounds and specialise in low-cost consumer goods.

- **Retailers on the street:**

Retailers who sell consumer items of everyday utility, such as stationery, readymade clothing, newspapers and magazines, and are usually found in places where a large floating population congregates, such as around railway stations and bus stops.

- **Cheap jacks:**

Retailers who operate temporary independent stores in a business district. They continually move their firm from one location to the next, depending on the area's potential. They sell consumer goods as well as services such as watch, shoe, and bucket repair.

B. Fixed Shop Retailers

Retailers who have a fixed location where they offer their wares. As a result, they do not relocate from one location to another to service their consumers.

Characteristics:

- More resources and the ability to operate on a wide scale
- Work with a variety of products, including both consumer durables and nondurables.
- In the eyes of customers, they are more trustworthy.

Types:

- a. Fixed shop Small Retailers
- b. Fixed shop Large Retailers

a. Fixed Shop Small Retailers

- **General stores**

These businesses provide a wide range of products necessary to meet the day-to-day needs of customers in the surrounding area. They stay open for long periods of time at convenient times and frequently offer credit to some of their regular customers.

- **Speciality shops**

Rather than selling a wide range of products of various types, these retail establishments specialise in the sale of a single product line. Specialty stores are typically located in a central location where a big number of clients can be drawn, and they offer a diverse assortment of goods to customers. For example, furniture stores only deal in furniture etc.

- **Street stall vendors**

They cater to passing clients and specialise in low-cost items such as hosiery, toys, cigarettes, soft drinks, and other such items. They receive their goods from both local and wholesale sources. Because a stall's total size is so small, it can only hold a minimal amount of merchandise.

- **Second-hand goods shop**

These stores sell used or used items such as books, clothing, autos, furniture, and other household items. The shops selling used goods may be in the form of a stall with very little structure such as a table or a temporary platform to display the books at street crossings or in busy streets, or they may have reasonably good infrastructure, as in the case of those selling furniture, used cars, scooters, or motorcycles.

b. Fixed Shop Large stores

1. Departmental stores:

- A departmental store is a huge store that sells a wide range of products divided into distinct departments, with the goal of meeting almost every customer's demand under one roof.
- It is divided into several departments, each of which focuses on a single type of product.
- Shopper stop, Lifestyle are some examples of department stores.

Features:

- Provide maximum service to higher class of customers for price is of secondary importance full stop insert bullet
- These are located at a central place in the heart of a city which caters to a large number of customers.

- As the size of the store is very large, they are generally formed as a joint stock Company e managed by a board of directors former.
- A Departmental Store combines both the functions of retailing as well as warehousing.
- They have centralised purchasing arrangements, whereas sales are distributed across departments.

Advantages:

- As located at Central places, they attract a large number of customers offering a wide assortment of goods under a single roof.
- The company aspires to provide the best possible service to its consumers.
- They can reap the benefits of big-scale operations, notably in terms of purchasing commodities, if they are organised on a huge scale.
- They spend a lot of money on advertising and other promotional activities to increase their sales.

Disadvantages:

- It is very difficult to provide adequate personal attention to the customer in these stores.
- As more emphasis is given on providing services, their operating cost tends to be on the higher side.
- As a result of high operating costs and large scale operations, the chances of encouraging losses in a departmental Store are high.
- Because a departmental Store is usually located in a central place, it is inconvenient to acquire things that are required quickly.

2. Chain Stores or Multiple Shops:

- A number of shops with comparable appearances have been created in various locations throughout the country.
- These various stores usually sell standardised and branded consumer goods with a high turnover of sales.
- These stores are owned by the same company and have the same merchandising tactics, as well as the same products and displays.
- For example, such as bata, etc.

Features:

- These stores are in well-traveled areas where a large number of people can be approached.
- Centralised at the head office, from where the goods are dispatched to each of these shops.
- The shop is under the direct supervision of the branch manager who is held responsible for its day-to-day management.
- Controlled by the head which is concerned about formulating the policy and getting them implemented.
- The prices of goods in such stores are set, and all transactions are conducted in cash.

Merits:

- 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 sales are cash basis.

- The commodities that are not in demand in one location may be transported to another one where they are.
- The losses experienced by one shop can be compensated by the profit earned in other shops.
- Flexibility to shift to some other place if profit is not achieved in an area.

Limitations:

- They do not sell things made by other companies. In that way the consumer gets only a limited choice of goods.
- Due to the head office guidance in all matters, the creative skills of each store manager is reduced.
- Lack of initiative in the employees, which sometimes leads to differences and clashes.
- The management may have to sustain losses because of large stocks lying unsold at the central depot.

3. Consumer Cooperative Store

- A consumer cooperative store is a business that is owned, operated, and controlled by consumers. The goal of such stores is to reduce the number of intermediaries who raise the cost of produce and, as a result, provide better service to members.
- Cooperative stores buy huge quantities of goods directly from manufacturers or wholesalers and sell them to customers at low prices.
- Profits made by consumer cooperatives over the course of a year are used to pay out bonuses to members and to build up general reserves and general welfare funds or similar funds for the members' social and educational benefits.

- Some examples of consumer cooperatives are REI, UW Credit Union, etc.

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.
- The elimination of middlemen lowers the prices of consumer items for members.
- The majority of items sold in consumer cooperative stores are paid for in cash.
- Opened at convenient public places, where the buyers are able to reach easily.

Limitations:

- There is a lack of sufficient initiative and motivation among them to work more effectively.
- Due to the restricted membership, the stores frequently run out of money.
- Cooperative store members do not often shop there on a regular basis.
- There exists a lack of skill and expertise as they are not much aware of the intricacies regarding how to run a store efficiently.

4. Super Markets

- A supermarket is a large retailing business unit that sells a wide variety of consumer goods at low rates, with a large variety and assortment, self-service, and a significant emphasis on merchandising appeal.

- Food and other low-cost, branded, and widely used consumer commodities are the most commonly traded things.
- Supermarkets are usually found in the biggest shopping malls.
- Supermarkets are organised into departments so that customers may purchase a variety of products all under one roof.

Features:

- Generally carries a complete line of food items and grocery, in addition to none food convenience goods.
- Under one roof, a variety of things could be found.
- The price of the products are generally lower than other types of retail stores.
- Only cash sales are made.
- Located at centre locations to secure high turnover.

Merits:

- Diverse variety of goods are available under a single roof at satisfactory prices.
- Located in the heart of the city, so easily accessible.
- Keeps a wide variety of goods of different design and colour which enables the buyers to make better selection.
- As cash sales are made, there are no chances of bad debts.
- Advantages of large-scale buying and selling exist thus resulting in lower operating expenses.

Limitations:

- Absence of credit facilities affects the purchasing power of buyers.
- The principle of self service is there, therefore customers do not get any personal attention.
- Huge investment is needed.

5. Vending Machines

- In many nations, coin-operated vending machines are handy for selling a variety of things such as hot beverages, platform tickets, milk, soft drinks, chocolates, newspapers, and so on.
- Vending machines are excellent for selling pre-packaged brands of low cost products with high turnover and consistent size and weight.
- The initial cost of installing a vending machine, as well as the ongoing costs of maintenance and repair, are, nevertheless, rather significant.

6. Mail Order Houses

- In mail order houses, merchandise is sold through mail.
- In this sort of business, there is usually no direct personal contact between the buyers and sellers.
- Potential consumers are approached for orders through newspaper or magazine advertisements, circulars, catalogues, samples and bills, and price lists mailed to them.
- After receiving the orders, the items are thoroughly inspected to ensure that they meet the purchasers' standards, which are then carried out through the post office.
- There may be a variety of payment options available:
 - Full advance payment.

- The goods may be sent by Value Payable Post (VPP). The goods are sent via postal service and are only provided to consumers after full payment has been received.
- The commodities may be sent through a bank, which would then be responsible for delivering the items to the customers. There is no possibility of bad debt in this arrangement.

Suitability

- Only the goods that are:
 - Graded and standardised
 - Easily transported at low cost
 - Have ready demand in the market
 - Available in large quantities throughout the year
 - Less competed in the market
 - Can be described through pictures etc, are suitable for this type of trading

Goods and Services Tax

- On July 1, 2017, the Government of India adopted the Commodities and Services Tax (GST) in accordance with the 'One Nation, One Tax' philosophy, in order to create a unified market and ensure the smooth movement of goods across the country.
- Effective taxation ensures that public funds are effectively employed in fulfilling social objectives for sustainable development.
- 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 Streamlining the tax treatment of goods and services from producers to consumers throughout the supply chain.

- GST comprises Central GST (CGST) and the State GST [SGST].
- GST [CGST + SGST] is charged at each stage of value addition and the supplier offsets the levy on inputs in the previous stages of the value chain through the tax credit mechanism.
- There are four tax bands for all goods and services, namely 5%, 12%, 18%, and 28%.
- Tax liability takes place when the taxable person exceeds the exemption limit of Rs 20 lakh.