Chapter 10: Internal Trade

Exercises — Exercises

Q1 What is meant by internal trade?

Internal trade means the buying and selling of goods and services within the boundaries of a nation. It does not matter whether the purchase is made from a neighbourhood shop, a central market, a departmental store, a mall, a door-to-door salesperson or an exhibition; as long as the seller is within the country, it is internal trade. Since the goods are part of domestic production and meant for domestic consumption, no customs or import duty is levied. Payment is generally made in the legal tender of the country. Internal trade is of two kinds: wholesale trade and retail trade. Its aim is equitable distribution of goods within the nation, speedily and at reasonable cost.

Q2 Specify the characteristics of fixed shop retailers.

Fixed shop retailers maintain a permanent establishment to sell their merchandise and do not move from place to place. Main characteristics: (a) Compared with itinerant traders they normally have greater resources and operate on a relatively larger scale, though sizes vary from very small to very large. (b) They may deal in different products, including both consumer durables and non-durables. (c) They enjoy greater credibility in the minds of customers and can offer more services such as home delivery, guarantees, repairs, credit facilities and availability of spares. This is the most common type of retailing in the market place.

Q3 What purpose is served by wholesalers providing warehousing facilities?

Wholesalers take delivery of goods when they are produced in the factory and keep them in their own godowns or warehouses. This serves several purposes. It relieves manufacturers of the burden of providing storage facilities for finished products, so they need not block capital in stocks. It enables production to continue throughout the year, since goods are stored until retailers or consumers demand them. It also creates time utility by making goods available when they are needed. Retailers too are spared the task of holding big inventories, and wholesalers bear risks like theft, pilferage, spoilage and fire while storing.

Q4 How does market information provided by the wholesalers benefit the manufacturers?

Wholesalers are in direct contact with retailers, so they know the market well. They can advise manufacturers on customers' tastes and preferences, market conditions, competitors' activities and the features preferred by buyers. They thus act as an important source of market information. Manufacturers use this to decide what to produce, in what form and quality, and how to compete, and to improve or modify their products according to demand. Having such information without spending on their own market research helps manufacturers take better production and marketing decisions.

Q5 How does the wholesaler help the manufacturer in availing the economies of scale?

Wholesalers collect small orders from a number of retailers, pool them, and place them with manufacturers as bulk orders; they themselves purchase in bulk quantities. Assured of such large orders, producers can undertake production on a large scale. Large-scale production lowers the cost per unit, because fixed costs are spread over more units and bulk purchase of inputs, specialisation and better use of machinery become possible. In this way the manufacturer takes advantage of the economies of scale, which would be difficult if he had to deal with many small retailers and consumers directly.

Q6 Distinguish between single line stores and speciality stores. Can you identify such stores in your locality?

Single line stores deal in a single product line, such as ready-made garments, watches or shoes, and keep a variety of items within that line; they are situated at a central location. Speciality stores specialise in a specific line of products, or even a narrower category within it, such as children's garments, men's wear, ladies' shoes, school uniforms, toys and gifts, college books or consumer electronics. Both attract customers by offering wide choice within their line, but a single line store covers a whole product line (e.g. all garments), while a speciality store focuses on a particular type or customer group (e.g. only children's garments). Examples in a locality: a shoe shop or watch shop (single line); a school-uniform or college-book shop (speciality). Students may name shops from their own neighbourhood.

Q7 How would you differentiate between street traders and street shops?

Street traders (pavement vendors) are itinerant retailers, small traders found where a huge floating population gathers, such as near railway stations and bus stands. They sell items like stationery, eatables, ready-made garments, newspapers and magazines. They have no permanent structure, though they do not change place as often as market traders. Street shops (street stall holders) are fixed shop small retailers found at street crossings or places with heavy traffic. They have a stall with limited area, deal in cheap goods like hosiery, toys and soft drinks, and take supplies from local suppliers and wholesalers. Thus, street traders belong to the itinerant category, while street stall holders belong to the fixed shop category.

Q8 Explain the services offered by wholesalers to manufacturers.

Wholesalers offer manufacturers these services: (i) Facilitating large-scale production: they pool small orders from retailers and buy in bulk, so producers gain economies of scale. (ii) Bearing risk: they take delivery in their own name and bear risks like fall in prices, theft, spoilage and fire. (iii) Financial assistance: they usually pay cash for goods purchased, so manufacturers' capital is not blocked, and sometimes they advance money for bulk orders. (iv) Expert advice: they inform producers about customers' tastes, market conditions and competition. (v) Help in marketing: they distribute goods to many retailers, letting manufacturers concentrate on production. (vi) Production continuity: they buy goods as produced and store them. (vii) Storage: they keep stocks in their warehouses, reducing manufacturers' storage burden.

Q9 What are the services offered by retailers to wholesalers and consumers?

Services to wholesalers and manufacturers: (i) Help in distribution, by making goods available to scattered final consumers (place utility). (ii) Personal selling, relieving producers of this effort. (iii) Enabling large-scale operations, as they are freed from selling in small quantities. (iv) Collecting market information on customers' tastes and preferences. (v) Help in promotion, by taking part in advertising and schemes such as coupons and free gifts. Services to consumers: (i) Regular availability of products. (ii) Information about new products through display and personal selling. (iii) Convenience in buying, being near homes and open for long hours. (iv) Wide selection of goods. (v) After-sales services such as home delivery and spare parts. (vi) Credit facilities to regular buyers.

Q10 Itinerant traders have been an integral part of internal trade in India. Analyse the reasons for their survival in spite of competition from large scale retailers.

Itinerant traders have no fixed place of business and move from street to street with their goods. They survive because of the following reasons. First, they take the products to the very doorstep of customers, offering convenient service, which large stores cannot match. Second, they deal in consumer products of daily use such as vegetables, fruits, toiletries, snacks and ice creams, and also in low-value goods like toys, fabrics and carpets, which many buyers want without travelling to a market. Third, being small traders with limited resources, they have low overheads and sell cheaply, catering mainly to lower-income customers. Fourth, market traders appear on fixed days, street traders gather where floating population is large, and cheap jacks and hawkers provide services like repair of watches, shoes and buckets. Fifth, their flexibility to change location according to a locality's potential keeps them in demand. Though their goods are not always reliable in quality and price, these advantages keep them an integral part of Indian trade.

Q11 Discuss the features of a departmental store. How are they different from multiple shops or chain stores.

A departmental store is a large establishment offering a wide variety of products, classified into well-defined departments, to satisfy practically every need under one roof. Features: (a) It may provide facilities such as a restaurant, information bureau, telephone booth and rest-rooms, giving maximum service to higher-class customers for whom price is secondary. (b) It is located at a central place in the city. (c) Being large, it is generally a joint stock company run by a board of directors with a managing director, general manager and department managers. (d) It combines retailing and warehousing, buying directly from manufacturers and so eliminating middlemen. (e) Purchasing is centralised, but sales are decentralised among departments. Differences from multiple shops: (i) Location: departmental stores are centrally located; multiple shops are spread across many localities. (ii) Range: departmental stores carry a wide variety; multiple shops deal in a limited range. (iii) Services: departmental stores offer maximum services; multiple shops offer only guarantees and repairs. (iv) Pricing: multiple shops have fixed, uniform prices; departmental stores may offer discounts. (v) Customers: departmental stores serve high-income groups; multiple shops serve all, including lower-income groups. (vi) Credit: multiple shops sell strictly for cash; departmental stores may give credit. (vii) Flexibility: departmental stores have more flexibility in goods handled.

Q12 Why are consumer cooperative stores considered to be less expensive? What are its relative advantages over other large scale retailers?

A consumer cooperative store is owned, managed and controlled by consumers themselves, with the objective of reducing the number of middlemen who raise costs. It buys in large quantities directly from manufacturers or wholesalers and sells to members at reasonable prices. Because middlemen are eliminated or reduced, members get goods of good quality at cheaper rates. It also sells mainly for cash, which reduces working capital needs and bad debts. Advantages: (i) easy formation, as any ten people can register a society; (ii) limited liability, restricted to capital contributed; (iii) democratic management, with an elected committee and one member one vote; (iv) lower prices; (v) cash sales; (vi) convenient location at public places. Compared with large retailers such as departmental stores, which run at high operating cost, it is thus cheaper, owned by its customers, and profits go to members as bonus and welfare funds.

Q13 Imagine life without your local market. What difficulties would a consumer face if there is no retail shop?

Without retail shops, consumers would face many difficulties. Retailers are the final link between producers and consumers, so goods from different manufacturers would not reach us. We would have to collect goods directly from many producers, often far away, and also buy in large lots. There would be no regular availability of products, no wide selection under one roof, and no convenience, since shops are near our homes and open for long hours. We would not get information about new products through displays and personal selling, nor after-sales services such as home delivery and supply of spare parts, nor credit from regular shopkeepers. Daily needs such as groceries, vegetables and stationery would be hard to obtain. Producers too would suffer, since they would have to sell in small quantities to individual customers.

Q14 Explain the usefulness of mail orders houses. What type of products are generally handled by them? Specify.

Mail order houses are retail outlets that sell goods by post, without direct personal contact between buyer and seller. Usefulness: (i) limited capital is needed, as no costly shops or infrastructure are required; (ii) middlemen are eliminated, saving money for buyers and sellers; (iii) there are no bad debts, since goods are delivered only against payment (advance payment, VPP or through a bank); (iv) wide reach, to all places having postal services; (v) convenience, as goods reach the doorstep. Products handled: only goods that can be (i) graded and standardised, (ii) transported easily at low cost, (iii) have ready demand, (iv) are available in large quantity throughout the year, (v) involve least competition, and (vi) can be described through pictures. Perishable and bulky goods are not suitable. The business also needs widespread literacy.