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INTERNAL TRADE

MODULE - 8 Trade & Consumer Protection



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You may be using a variety of products in your daily life, right from a notebook, a pen, soap, garments, vegetables, fruits to radio, television, fans and furniture. Where do you buy all these products? Your answer will be – from the nearby market. Sometimes during special occasions like a festival or a marriage we prefer going to a market that may be located at a distance from our residence. Now the question that arises is, how do all these products reach the market? There are a number of firms/people who are involved in this activity of bringing the product from the place of production to the market and then making it available to the ultimate consumers. They act as a link or bridge between the producers and the consumers. In this lesson, we will learn about the firms/people who link the producers and consumers within a particular country and also about the various options available to consumers to buy the products for their consumption.



OBJECTIVES

After studying this lesson, you will be able to:

- define internal trade;
- explain the meaning and characteristics of wholesale trade and retail trade;
- describe the role of middlemen in internal trade;
- differentiate between wholesale trade and retail trade;
- identify the types of retail trade and their role;
- explain the concept of large-scale retailing;
- explain the merits and limitations of different types of large scale retail trade and
- describe the recent trends in distribution such as direct marketing, tele-marketing and internet marketing.

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Protection***Internal Trade****Notes****22.1 MEANING OF INTERNAL TRADE**

You know that the goods produced in a country may be sold within the country or outside the country. When buying and selling of goods and services takes place within the geographical boundaries of a country, it is referred to as internal trade. It may take place between buyers and sellers in the same locality, village, town or city; or may be in different states, but definitely within the same country. Internal trade is also called domestic trade or home trade.

To clarify the concept of internal trade let us now learn about its features.

Features of Internal Trade

- (a) The buying and selling of goods takes place within the boundaries of the same country.
- (b) Payment for goods and services is made in the currency of the home country.
- (c) It involves transactions between the producers, consumers and the middlemen.
- (d) It consists of a distribution network of middlemen and agencies engaged in exchange of goods and services.

22.2 CLASSIFICATION OF INTERNAL TRADE

Generally we buy goods of our daily use from the local shopkeepers. These shopkeepers buy goods in bulk and sell them to us as per our requirement. But do you know from where these shopkeepers buy those goods? They generally buy goods in large quantity either from the producers directly or from any other shops that sell goods in bulk. Thus, we find that some shopkeepers buy goods in bulk and sell to others in bulk while other buy in bulk and sell in small quantities as per the requirement of the customers. Thus, on the basis of volume of goods traded we can classify internal trade as:

1. Wholesale trade, and
2. Retail trade.

Let us learn more about these two types of Internal Trade.

22.2.1 Wholesale Trade

Wholesale trade refers to buying of goods in large quantity from producers or manufacturer for sale to other traders or buyers in small quantities. Those who are engaged in wholesale trade are called wholesalers. They act as a link between the manufacturers or producers and the small traders. Generally they specialise and deal in one or a few products.

Functions of Wholesalers

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1. **Assembling of Goods :** Wholesaler purchases goods from different manufacturers and holds adequate stock.
2. **Grading and Packing :** Wholesalers divide the goods according to their size, weight, shape and quality. In this way he prepares the goods in small lots for sale to retailers.
3. **Transporting :** Wholesalers transport the goods from the production centers to his godown and from there to the retailers. Some wholesalers have their own vehicles for transportation of goods.
4. **Warehousing :** Wholesalers keep the stock for retailers in the warehouse so as to make available goods to the retailers whenever they need them.
5. **Financing :** Wholesalers buy goods from the manufactures and sometime make advance payment. They sell goods to retailers on credit. In this way they finance the manufactures as well as the retailers.
6. **Risk Bearing :** Wholesaler bears the risk of changes in demand during storage. He also bears the risk of damage of goods, risk of bad debt etc.
7. **Providing Market Information :** Wholesaler collect information about changes in the taste, fashion, buying habits etc. of consumers from the retailers, then they pass this information to the manufacturers, so that the manufactures may produce goods according to the requirements of the consumers.
8. **Selling :** Retailers are widely scattered all over the country. Many wholesalers employ sales persons to take orders from retailers. Thus, the wholesalers help in selling goods.

Services Provided by Wholesalers

Wholesalers provide services to the manufacturers and the retailers.

1. **Services to Manufacturers :** Wholesalers render the following services to manufacturers :
 - a) **Bulk Buying :** Wholesalers collect orders from a large number of retailers and buy goods in large quantities from manufacturers.
 - b) **Warehousing Facility :** Wholesalers relieve the manufacturers from storing function by holding large stock of goods in their own warehouse. Therefore, manufacturer is relieved of the function of warehousing.
2. **Service to Retailers :**
 - a) **Regular Supply :** Wholesalers keep a large stock of goods for retailers. They ensure that the goods are available to retailers at all times. In this way they maintain regular supply of goods to the retailers.

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- b) **Financial Help** : Wholesalers generally sell goods to retailers on credit. The retailers will make payment to wholesalers on the basis of the sales made. So with less capital they can easily manage the business properly.
- c) **Advertisement** : Wholesalers advertise their good regularly. so, the process of selling goods becomes easy for retailers.
- d) **Market Information** : Wholesalers provide up-to-date information about new product to the retailers. Wholesalers advice retailers on matters like price, quality and time of purchase.
- e) **Risk Protection** : Wholesalers keep huge stock of goods and sell to retailers on credit. As a result, retailers have to bear low risk.

22.2.2 Retail Trade

Retail trade refers to buying goods from the manufacturers or wholesalers and selling the same to the ultimate consumers. The retail trader generally deals in a variety of goods. Those who are engaged in retail trade are called retailers. Retailers sell goods in small quantities as per the requirement of consumers.

Characteristics of Retail Trade

Following are the characteristics of retail trade:

- (a) Retail trade generally involves dealing in a variety of items.
- (b) A retailer makes purchases from producers or wholesalers in bulk for sale to the consumers in small quantities.
- (c) Retail trade is normally carried on in or near the main market area.
- (d) Generally retail trade involves buying on credit from wholesalers and selling for cash to consumers.
- (e) A retailer has indirect relation with the manufacturer (through wholesalers) but a direct link with the consumers.

Services Provided by Retailers

Retailers provide the following services to consumers and wholesalers.

1. **Services to Consumers** : Retailers provide the following services to the consumers.
 - a) **Regular supply of goods** : Retailers maintain a ready stock of goods for sale to consumers.
 - b) **Convenient Location** : Retail outlets are situated near residential area and remain open for long hours. The consumers can buy the goods from the retailers at their convenience.

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- c) **Wide Choice** : Retailers stock wide variety of products. Consumers like to purchase everything under one roof. So retailers stock products of different companies providing wide choice to consumers.
- d) **Home Delivery** : Without any extra charge, some retailers supply goods at the homes of consumers.
- e) **Consumer Education** : When a new product comes in the market, retailer clearly explain the merits and uses of the product to the ultimate consumers.

2. Services to wholesalers

- a) **Market Information** : Retailers supply valuable information to wholesalers about changes in tastes, fashion etc. of consumers.
- b) **Help in Distribution** : Retailers relieve the manufacturers and wholesalers of the burden of collecting and executing a large number of small orders from various consumers.
- c) **Large Scale Production** : Retailers help manufacturers to operate at a large scale.
- d) **Sell New Products** : New products will be displayed in retail outlets in a attractive way so as to persuade consumers to buy these products.



INTEXT QUESTIONS 22.1

1. State any two features of 'internal trade'.
2. Identify the following and write 'WT' for wholesale trade and 'RT' for retail trade.

(a) Dealing in limited variety of product.	
(b) Goods purchased from wholesalers for resale.	
(c) Providing facilities like grading and packaging.	
(d) Buying of goods in bulk from the manufacturers.	
(e) Trading activities carried on near the residential areas.	

22.3 MIDDLEMEN IN INTERNAL TRADE

Both wholesalers and retailers act as a link between producers and consumers in the chain of distribution of products. They are called middlemen as they come in the middle, i.e., between the producers and the consumers in the chain of distribution.

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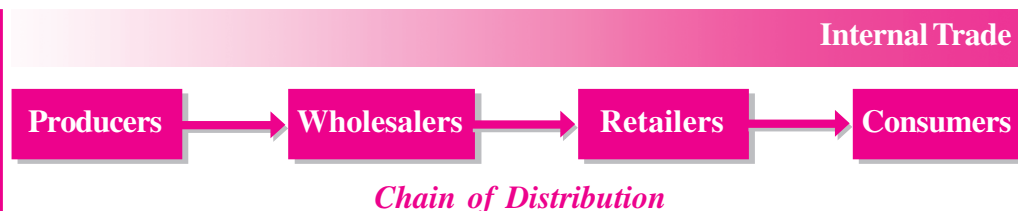
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The middlemen provide useful services to both producers and consumers. For the producer, they free him of the complexities of arranging for transport, warehousing, financing and marketing of his produce to a large extent. The responsibility of the producer gets limited to producing the product. Largely all efforts to sell and distribute the same is taken up by these middlemen. For the consumers too, these middlemen are beneficial as they make the products available at the place and time of convenience to them.

Now let us, learn in detail the role of wholesalers and retailers in the chain of distribution.

22.3.1 Role of Middlemen in the Distribution of Goods

- (a) **Role of Wholesalers :** The wholesalers through their services offer a number of benefits to the producers and retailers. They save the time and effort of the producers and allow them to concentrate on production of the goods while distribution is taken care of by the wholesalers. They deal with goods in bulk and reap the benefit of economies of scale. They provide goods in relatively small quantities to retailers and provide them with facility of credit purchase. They provide information to the producers about the consumers' preferences, changing taste and fashion, market demand etc. Wholesalers also bear the risk involved in holding of stock of goods and its transportation.
- (b) **Role of Retailers :** Retailers are engaged in selling the product to the end-users or the consumers. They cater to the demand of the customers by providing a variety of products collected from different locations. The retailers may offer credit facility to customers. They also offer pre and after sales services and communicate to consumers the technique of usage of the products. They act as salesmen of the product and persuade buyers to purchase goods and services. They provide information to the manufacturers or wholesalers about the feedback on consumers' response to the product.

22.3.2 Evaluation of the Role of Middlemen in the Chain of Distribution

As seen above, the middlemen provide a number of services in the process of distribution. Do they charge any money for their services? Yes, these services of middlemen do not come free of cost. They do charge their share of profit margin for the product, in return for the services they provide. This increases the sale price of the product considerably, as compared to the cost incurred in producing it. For example, a pen that costs Rs. 5/- to produce, may be sold by the producers to the wholesalers for Rs 6/-. In turn the wholesaler may sell it to the retailer for Rs. 7, who in turn may sell it to the ultimate consumer for Rs. 8.50. The middlemen's share of profit here is Rs. 2.50 (Re. 1 + Rs. 1.50) that has added considerably to the price of the product.

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(Price of the product in the Chain of Distribution)

It is often debated that the middlemen do not serve any useful purpose, but only escalate the price of a product unnecessarily. However, we must not forget that they render useful services to producers and consumers. To that extent, they are justified to get their share of profit in the sale of the product. But it should be a reasonable and not too high to become a burden on the consumers.

We must also give a thought to some of the problems that stem from the presence of middlemen in the chain of distribution.

If there are too many middlemen between manufacturers and consumers, each charging his share of profit or commission, the ultimate consumer ends up paying a very high price for the goods. Some middlemen indulge in unfair trade practices like hoarding and adulteration to increase their gains from the business. They, at times, promote the sale of inferior quality goods and exploit the consumers to get a high profit margin for themselves. The middlemen do not bear risk such as loss due to strikes, lockouts, changes in fashion and consumption habits. These have to be primarily borne by the producer. Sometimes the transfer of goods from one middleman to another causes delay in the smooth flow of goods, instead of facilitating it.

Nonetheless, when we compare the benefits of middlemen with the problems they pose, their benefits definitely outweigh the problems. In conclusion, one can clearly say that the middlemen play the role of a vital link between producers and consumers in the chain of distribution.

Now, let us compare the wholesale trade with retail trade.

22.3.3 Difference between Wholesale Trade and Retail Trade

Following are the differences between wholesale trade and retail trade:

<i>Basis</i>	<i>Wholesale trade</i>	<i>Retail trade</i>
1. Number of items	Deals in a few items.	Deals in a variety of items.
2. Quantity of goods bought and sold	Large	Small
3. Source of purchase	Manufacturers	Wholesalers/producers
4. Main activity	Sells goods for resale. resale.	Sells goods for consumption or final use.

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5. Amount of capital required	Large	Small
6. Nature of relationship with producers/ consumers.	Direct link with the producers and indirect link with the consumers.	Indirect link with the producers and direct link with the consumers.
7. Location	Located in the same area along with other wholesalers dealing in similar product.	Located near residential areas.
8. Display	Does not require elaborate display of goods.	Requires display of products attractively.



INTEXT QUESTIONS 22.2

- The middlemen should be eliminated. Do you agree? Give one reason.
- Rectify the following sentences if found wrong.
 - A wholesaler has direct link with the consumers.
 - The amount of capital required is less in case of wholesale trade.
 - Producer is a middleman in the chain of distribution.
 - Presence of too many middlemen increases the price of the product.
 - The wholesaler purchases goods from the retailer.

22.4 TYPES OF RETAIL TRADE

You have learnt about Retail trade in the previous section. In your village or town, you buy products from the nearby shops in small quantities. In cities you can buy a product from a large shop or a variety of products from a large number of counters in one big shop. They are all engaged in retailing business.

We can classify the retailing business on the basis of size as small scale, medium scale and large scales. On the basis of forms of ownership, it may be sole proprietorship, partnership, cooperative society or joint stock company. But the most common way of classifying retailing business is whether they have any fixed place of business or not. On this basis, one can have two categories of retailing business :

- Itinerant Retailing
- Fixed shop Retailing

22.4.1 Itinerant Retailing

Itinerant retailing is a type of small-scale retail trade in which retailers move around and sell a variety of items directly to the consumers. They do not have a fixed shop where they can sell. You must have seen them distributing newspapers early in the morning; selling peanuts, bangles, toys etc. in buses and trains; selling fruits and vegetables in your locality using a cart, selling ice-cream, *namkeens* etc. on a cycle; selling rice, earthen pots or even carpets by using a cart, etc. You can also see them on pavements in your locality.

In towns and cities we come across different type of itinerant retailers. There are traders who sell their articles on fixed days at different market places. In villages these market places are called “*Haat*” and in towns or cities they are called “weekly bazars”. The itinerant retailing also includes persons selling products from door to door. In most cases, the price of items is not fixed and mostly settled through bargaining. Moreover, in most cases the items sold are not branded products.

22.4.2. Fixed Shop Retailing

Here, the retailers sell goods and services from a fixed place known as ‘shop’. They do not have to move from place to place to serve their customers. These shops are usually located at market places or commercial areas or near residential localities. These shops normally deal with a limited variety of goods. On the basis of the volume of transaction or size of their operation, fixed shop retailing can be classified as

- (a) small scale fixed shop retailing, and
- (b) large scale fixed shop retailing.

Let us know about these two categories.

(a) Fixed Shop Retailing – Small Scale

In every locality you find fixed shop retailers dealing with goods and services on a small scale. They deal with limited variety and limited quantity of goods and cater to the needs of a local area. They require less capital and provide goods to a limited number of customers. The grocery shops of your locality come under the category of small-scale fixed shop retailing. On the basis of the nature of goods they deal in, we can classify these retailing businesses as :

- (i) General store or Variety store
- (ii) Single line store
- (iii) Specialty store
- (iv) Second-hand Goods shop

Let us know the details about these stores.



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- (i) **General Store or Variety Store :** These stores, as the name suggests, deal with a variety of items of general use. They sell products mostly required by people for their daily use. For example, in a variety store you can find different items of toiletry, hosiery, biscuits and snacks items, grocery, cosmetics, gift items and stationery, etc. Normally these retailers make direct sale by cash only. However, for their regular customers, these retailers may give discount, provide credit facility and also free home delivery of goods.
- (ii) **Single Line Store :** These stores deal with a specific line of goods. You must have seen medicine shops, bookshops, toy shops, ready-made garment shops, etc. These are all single line stores. They sell goods of different size, brands, designs, styles and quality of the same product line.
- (iii) **Specialty Store :** These stores deal with products of a specific brand or company. All varieties of any particular brand or manufacturer are made available in these stores. You must have seen stores, like Woodland shoe shops where products starting from shoes to apparel produced by Woodland company are made available to the customers.
- (iv) **Second-hand Goods Shop :** Now-a-days in cities and towns we find shops selling second-hand goods or used goods. These shops generally sell goods like books, furniture, clothes and other household items.



INTEXT QUESTIONS 22.3

1. What is meant by 'Itinerant Retailing'?
2. Identify the types of retailing business.
 - (a) Stores dealing with a particular line of good like books, toys etc.
 - (b) Stores dealing with a variety of goods of a particular brand.
 - (c) Stores dealing with a variety of goods of daily use.
 - (d) Selling goods on the pavement of a city.
 - (e) Stores selling used books or garments at cheaper price.

(b) Fixed Shop Retailing – Large Scale

Apart from small-sized outlets, as discussed above, there are a number of large-sized retail shops that sell products on a large-scale. They come under large-scale fixed shop retail trading category.

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Large-scale retail trade is the type in which single type of goods or a variety of goods is made available to a large number of consumers either in a big shop under a single roof or in various shops at the convenience of customers or directly delivered at the place of the customers.

Types of Large-scale Retail Trade

In India, generally we find the following types of Large-scale retailing business:

- | | |
|--------------------------|---------------------------------|
| (i) Departmental Store | (ii) Multiple Shops |
| (iii) Super Market | (iv) Consumer Cooperative Store |
| (v) Mail Order Retailing | (vi) Franchise |

Let us now discuss in details about all these types.

(i) Departmental Stores

Departmental Store is a large-scale retail shop where a large variety of goods are sold in a single building. The entire building is divided into a number of departments or sections. In each department specific type of goods like stationery items, books, electronic goods, garments, jewellery etc. are made available. All these departments are centrally controlled under one management. Once you enter such a store you can do all your shopping by moving from one department to another. To encourage people to do all their shopping in one store, these stores also provide facilities like restaurant, telephone, toilet, ATM etc., for the conveniences of customers. These stores also provide the facility like free home delivery of goods, execution of telephonic order for goods, credit facility, etc. It is generally located at the main commercial centres of the cities and towns, so that customers from different localities can easily come to buy goods as per their convenience. Big Bazar, Vishal Megamart, Ebony, Shoppers' stop are some of the leading departmental stores in our country.

Merits of Departmental Stores

- They sell a large variety of goods to consumers, under one roof. So it saves time and effort of the customers.
- Departmental stores offer wide variety of goods produced by different manufacturers.
- They buy large volumes of goods, at a time directly from manufacturers, and get good amount of discount from them. They are able to reap the benefits of economies of large-scale operations.
- Since these stores are organised on a large-scale basis, they can afford to employ efficient and competent staff to provide the best services.

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- (e) Each department that is a part of the departmental store in a way advertises for the other departments. While visiting one department customers are attracted to see and even buy the goods displayed in other departments.

In spite of these advantages departmental stores have certain limitations also.

Limitations of Departmental Stores

- (a) Large amount of capital investment is required to start and run a departmental store.
- (b) They are generally located at places far from residential areas, so they are not very convenient for buying goods of daily use.
- (c) The operating cost of the departmental stores is very high since it includes cost of location (in the form of rent or purchase price of building), decoration of building, salary of large number of employees and provision of various facilities for the convenience of customers.
- (d) There is no direct contact between owners and customers in departmental stores. It is the employees of the store who interact with customers. The owners do not get first-hand information about the tastes, preferences, likes and dislikes of the customers.

(ii) Multiple Shops

In the previous section, we learnt that in a departmental store, the whole business is carried on in one building and the customers are drawn to it. Now we shall learn about multiple shops under which big manufacturers approach customers by setting up shops near the customers.

Have you ever observed that there are some retail stores running in your town/city having the same name, same decoration and dealing in the same type of products under a single brand name. Yes, you may say, there is Raymonds, Nirula's, McDonalds, etc. These are multiple shops. They sell similar range of commodities at the same price in all their shops. These shops are usually owned and run by big manufacturers/producers. They open a number of branches at different localities in a city or in different cities and towns in a country. These shops are also called 'Chain Stores'. Multiple shops deal with similar types of goods mostly of everyday use e.g., shoes, textiles, watches, automobile products, etc. The price is uniform for similar items in all the shops. These shops are usually conveniently located in the main market place or in busy shopping centers.

Merits of Multiple Shops

The multiple shops offer the following advantages to buyer and sellers. Let us learn about them.

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- (a) All multiple shops are often built alike, that helps customers to recognise the shops easily. They have similar window display, interior decoration of the shop and arrangement of the counter, furniture, sign boards etc.
- (b) They facilitate elimination of middlemen (wholesalers and retailers) in the process of distribution.
- (c) These shops enjoy the benefits of large-scale purchase or production of goods (centralised purchase/production). Also, due to common advertisements these shops are able to save on the cost of advertising.
- (d) The customers can get the goods at a cheaper rate because of low operating cost and elimination of middlemen in the process of distribution.
- (e) Since the customers get genuine and standardised goods directly from the manufacturers, chances of duplication of goods and cheating does not arise in these shops. Also, standard quality and uniform price of products help in winning the confidence of customers.

Limitations of Multiple Shops

In spite of all the above merits, multiple shops also suffer from the following limitations.

- (a) These shops deal in a limited variety of products and restrict the choice offered to customers.
- (b) Sales are made on cash basis only and the customer cannot avail of credit facilities from these shops.
- (c) Customers cannot bargain with sales person while buying the product. The prices of the product are fixed by the head office and individual shops have no control over it.
- (d) Each of the multiple shops is generally managed by the branch managers and they strictly follow the instructions of the head office. Often, they do not take initiative or special interest in satisfying the customers.



INTEXT QUESTIONS 22.4

1. The decoration, display, sign boards etc. of the multiple shops are built alike. Why? Give reason.
2. Answer the following.
 - (a) Who owns the departmental stores?
 - (b) Who owns the multiple shops.
 - (c) Which stores deal with variety of goods under one roof?
 - (d) Who manages the day to day affairs of the multiple shops?

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Super Market is another kind of large-scale retail organisation from where we can buy most of our household requirements for a week or a month in one visit. Let us learn about this form of large scale retailing system in detail.

Super Market is a large scale retail store that sells a wide variety of products like food items, vegetables, fruits, groceries, utensils, clothes, electronic appliances, household goods etc. all under one roof. It is formed with the objective of selling goods of daily necessity to general public at a reasonable price by eliminating the middlemen in the process of distribution. These stores are centrally located and also establish their branches near the residential areas. As compared to departmental stores, super markets do not offer free home delivery facility, credit facilities etc. You will also not find salespersons to convince the customers to buy the goods. Here, customers pick up the items of their requirement and bring it to the cash counter, make payment and take the delivery.

Merits of Super Markets

Let us consider the merits of super markets.

- (a) Super markets deal with a wide range of goods of daily household needs.
- (b) It provides standard quality items to the customers. Chances of adulteration and duplication are minimal/almost nil.
- (c) Due to economies of large-scale purchase and avoidance of middlemen the goods are available at a cheaper price in super market.
- (d) In a super market normally services of salesmen and shop assistants are not available. This reduces the cost of operation.
- (e) A customer can find goods of different brands at one place. This makes comparison and selection easy. You can take your own time to select items of your choice.

Limitations of Super Markets

Following are some of the limitations of super markets :

- (a) Super markets require large amount of capital to start and run them.
- (b) Because of insufficient funds, benefits of professional management are not available to the super bazar.
- (c) Goods are sold to the customers only on cash basis. Credit facility is not available to them.
- (d) Super markets follow the principle of self service. So the items which require the service of salespersons are normally not dealt by super market.

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(iv) Consumer Cooperative Stores

Consumer Cooperative Store is another form of large scale retail trade which is owned by the cooperative society. When the consumers of a particular area or group find it difficult to get the items of daily necessity they usually form a cooperative society and run the retailing business. The consumer cooperative store purchase the goods directly from manufacturers or dealers and make them available at a cheaper price. Let us see the various merits of consumer cooperative stores.

Merits of Consumer Cooperative Stores

- (a) The consumer cooperative stores generally provide the goods at a lower price than the market, because they eliminate the profits of middlemen in the process of distribution.
- (b) These stores sell the goods on cash basis. So the risk of bad debts is avoided.
- (c) These stores are generally located near the residential area for the convenience of the members as well as general public.
- (d) The profit earned by the consumer cooperative stores are distributed among the members as bonus.

Limitations of Consumer Cooperative Stores

- (a) The consumer cooperative stores generally suffer from the limitations of inadequate funds because these stores are formed by the people belonging to limited income group.
- (b) Lack of fund or resources restrict the growth and expansion of business.
- (c) These stores are managed by the member who may not have sufficient experience in business management. Again, due to limited funds it is also not possible to engage professional managers.



INTEXT QUESTIONS 22.5

1. List five items of daily necessity that are available in super markets.
2. Make necessary corrections and rewrite the following sentences:
 - (a) Consumer cooperative stores are generally located at far off places from the residential area.
 - (b) The presence of sales person is very much required in super markets.
 - (c) The profit earned by the consumer cooperative stores is distributed among the members.
 - (d) Professional managers are engaged in the consumer cooperative stores to manage the day to day affairs.

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As the name suggests, this form of retailing makes use of the mail system (postal and courier) to communicate with and deliver the goods to the customers. You must be wondering how the customer comes to know about this retailer and the products he/she is selling without visiting the shop? To answer this question, let's now discuss the details of how the mail order retailing system operates.

The mail order retailers place the advertisements in newspapers, magazines etc. or publicise about their products in booklets, catalogues, brochures and handouts. These advertisements, leaflets, brochures etc. contain an order form or other details on how to order the product apart from a detailed description of the product being sold. On seeing the advertisement the interested customers can place an order by post and the retailer on receiving the order, dispatches the goods by post or courier. The payment for the same is either made by the customer through the money order or demand draft (at the time of ordering the goods) or through cash-on-delivery/VPP (Value Payable Post) arrangement (i.e., payment is made by the customer on receiving delivery of goods, not in advance).

This method of sale can be conveniently used by the buyer to order goods of his choice while sitting at home and the seller can sell his products even to customers living in very remote areas. However, this system is not suitable for all types of goods. Goods that do not need personal inspection and whose use can be understood by description only (books, plants seeds, cutlery) and light weight, non-perishable products (certain medicines, cosmetics, readymade garments, relatively low-valued electronic gadgets, cameras etc.) that occupy less space are suitable for mail order retailing. Goods having high demand in the market and those having delivery charges relatively lower than their price are also suitable.

Merits of Mail Order Retailing

The mail order retailing system has the following merits :

- (a) It is economical to start and run such a business because no shop has to be set-up for it. This saves the cost of rent for the shop, its decoration, employment of salespersons etc.
- (b) There is not only low capital investment but also efficient use of that capital in mail order retailing. There is no wastage of money in transporting the goods from one middleman to another. Goods are directly dispatched to the customers. Moreover there is no requirement of maintaining a stock of the finished product or display of goods in shelf for sale. Goods may be manufactured or procured after receiving an order from the customer. This reduces the need to block the capital in maintaining stock of goods to minimum.

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- (c) Mail order retailers have a wide geographical reach. They can cater to customers scattered over a wide area (in different countries also). The only requirement is that there should be postal or courier services available in that area.
- (d) Customers can order goods from the convenience of their home and receive the goods at their doorstep under this system. People living in remote areas also get access to a wide variety of goods.
- (e) Customers also derive benefit from the comparatively low price that the mail order retailers offer due to their low operating cost.

Limitations of Mail Order Retailing

Mail order retailing has certain limitation which are given as under:

- (a) Since there is no opportunity for the customer to personally examine the goods that he/she is buying, there is a probability that the customer may not get the desired product. The product may vary in size, color, design etc. from the one that shows in the advertisement or catalogue.
- (b) There is no personal, face-to-face contact between the customer and the retailer. As a result, the customer is unable to clear all his doubts regarding the product, its use and its maintenance.
- (c) Products that are ordered through this mode take some time to reach the customer. The customers have to wait till the order reaches the retailer, then the procurement and dispatch of goods by him and finally the goods reach the customer. Hence, this is not suitable for perishable products or products required immediately or on a short notice.
- (d) Mail order retailing is not suitable for all products. Items of daily consumption, bulky or voluminous articles and perishable goods cannot be bought and sold through it.
- (e) Mail order retailing is conducted mainly on cash basis. Credit facility is not provided to the customer.

After going through the merits and limitations of mail order retailing, a question may arise in our minds – Is mail order retailing a popular form of trade in our country? Even though this system exists since a long time, its use is not widespread. Have you wondered why is it not so popular, especially in our country?

Apart from its limitations that have been discussed above, there are certain other reasons why this business has not been very popular in India. A large section of our population is still illiterate due to which they are neither able to read the advertisements/catalogues of mail order retailing nor place an order for such goods. Due to some instances of

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fraud and other malpractices by certain retailers, customers do not have much confidence in mail order retailers. Possibility of fraud is more in this case than in face-to-face purchase of products from shops. Also, lack of credit facility dissuades a large section of our population from purchasing goods through the mail order system.

(vi) Franchise

You might have seen some restaurants, card and gift shops, readymade garments shops that carry the same brand name/trademark and have almost the same decoration. They sell the same products, yet they are not chain stores/multiple shops. This is because they are not controlled and managed by a single owner. You may be wondering how these different shops are able to use the same brand name, sell the same product etc. even though they are not under the same management. Moreover, these shops are run independently by different people in different localities. This is made possible through a retail arrangement called 'Franchise'.

Franchise is a form of retailing wherein two parties enter into an agreement in which one party authorises others to sell or produce and sell specified goods and services. The party that develops a product/service or is the owner of an expertise is called the 'Franchiser'. The other party, called the 'Franchisee' is an independent business unit that buys the right to sell the product/service of the franchiser in exchange of the specified amount of money. The franchisee functions as a retailer. He operates in certain geographical areas that he is permitted to, as per his agreement with the franchiser.

Franchising has gained popularity in our country, especially in the past decade. There are many businesses like fast-food joints and restaurants (e.g., McDonalds, Wimpy's), gifts and greeting cards shops (Hallmark, Archies), readymade garments (Benetton, Numero Uno, Petals), computer education (NIIT, Aptech) that have grown nationwide and are flourishing with the help of franchise arrangements.

Features of Franchise

Let us now know more about franchise by looking at its features:

- (a) It is based on an agreement between the franchiser and the franchisee, wherein they enter into a commercial relationship, generally for a specific period of time.
- (b) Under this agreement, the franchisee gets the right to use a particular brand name, process or product owned by the franchiser, for the purpose of retailing, in return of a fee.
- (c) The fee is generally paid partly as an initial payment at the time of entering into the contract and partly on regular payments either in monthly, quarterly or annually. This regular payment may be paid by the franchisee as a percentage of his sales volume or profit or a fixed amount agreed upon in the contract.

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- (d) The franchiser may also be required to invest money in arranging a large space in prime locations, in furnishing it and in procuring stock for the outlet. In most cases all franchise outlets are required to maintain uniform pre-determined decoration, method of serving customers, type of products etc.
- (e) Franchise as a system of retailing is suitable for brands that have earned a name for themselves in the market. Only then can a franchisee benefit from using that name over a new brand.
- (f) The franchiser is very cautious while choosing franchisees for his goods or services. Only competent persons with requisite entrepreneurial skills and commitment to quality/customer-satisfaction, in addition to, of course, a sound financial position will be able to run this business successfully. A franchisee who fails will bring disrepute to the brand and also hamper the franchiser's future business prospects.

Merits of Franchise

- (a) The Franchiser can expand his business without investing additional capital. The franchisee invests this money and also pays fee to franchiser in return of the right to use the brand name, products etc.
- (b) The Franchisee can capitalise on the goodwill of the existing brand of the franchiser.
- (c) The customer gets assurance of standardised goods and services both in terms of quality and price. With the network of franchisees, the product and service becomes widely available to consumers.

Limitations of Franchise

- (a) The Franchiser does not have close control over the activities of the franchisee. The franchisee's poor performance in dealing with customers may bring a bad name to the brand due to which the franchiser's business may be adversely affected.
- (b) If the franchisee is not able to make adequate profit out of the franchise business, the franchise fee may become a burden for him.
- (c) If consumers have complaints regarding the product/service, he may face a problem about whom to go to, the franchiser or the franchisee. Each may blame the other for the problem and not take on the responsibility of redressal of the grievance.



INTEXT QUESTIONS 22.6

1. Name any five products that are suitable for mail order retailing.
2. Define the following terms.
 - (a) Franchise
 - (b) Franchiser
 - (c) Franchisee

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22.5 RECENT TRENDS IN DISTRIBUTION

With the advancement in the information technology (i.e., use of computers, telephone, internet etc.) methods of distribution of goods from producers to consumers have witnessed new developments. Today consumers can conveniently buy products of their choice without leaving their home or office, any time during the day or night. Certain channels of distribution eliminate the long and expensive chain of middlemen. Manufacturers are directly approaching consumers, either through their websites using Internet or through their agent (direct selling).

Some of the recent trends in distribution are discussed below.

(a) **Direct Marketing :** Under this method of distribution the manufacturers bypass the chain of middlemen and approach the consumers directly and sell them the goods and services, without the help of wholesalers and retailers. The manufacturers inform the prospective customers about their products and its uses through advertisements (in newspapers, television, radio) or catalogues, letters and brochures. If the customer wants to buy the product, he/she may place an order to the manufacturers over the telephone or through a letter sent by post or e-mail. The product gets delivered to the customer through courier, post or by salespersons.

The benefit of direct marketing to the producer as well as consumer is in the form of doing away with the profit margin of middlemen. The manufacturer is able to supply goods to the consumer at a lower price, even after keeping a larger share of profit margin as compared to the situation of distribution through middlemen. Also, the time consuming process of the product changing hands from the producer to the wholesaler, then to the retailer and finally to the consumers, is avoided. Transactions are faster when the producer is face-to-face with the consumer. Also, the producer gets direct feedback from the customers for improvement in the products.

Direct marketing may be classified into different types, based on the mode of communication used by the manufacturers to approach the customers. The manufacturers may use

- Printed catalogues to inform the customers about the products called Catalogue Retailing;
- Television advertisements called Televised Shopping; and
- Brochures, letters etc. sent by mail called Direct Mail Retailing.

Products that can be conveniently and safely sent to the customers by post/courier and whose utility and description can be easily communicated through a catalogue, letter or television advertisement, are generally sold using the method of direct

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marketing. This includes books, magazines, physical exercise equipments, certain types of furniture etc.

- (b) **Internet Marketing :** With the widespread use of computers and Internet, today it is possible to buy and sell products over the internet, through websites maintained by producers. Products can be ordered instantly from anywhere in the world, 24-hours of the day, from the convenience of one's home or a nearby cyber-cafe.

On the website we can see the picture of the product, read about it and then order it, just with the click on the mouse of the computer. The payment for the product may be made using a credit card or by bank draft etc.

Internet marketing makes it convenient to do shopping anytime, anywhere and it is easy to compare prices of the same product charged by different producers. The only thing we have to do is to open different websites on the Internet. There is no need to physically go from one shop to the other, or one market to the other.

We can buy all types of products from flowers to foods, clothes to computers, from producer located even at a far-off place in some other country or continent. The producer is able to cater to a larger number of customers sitting anywhere in the world, efficiently and speedily, using Internet marketing.

But a drawback of this means of distribution is that the consumer can only see the image of the product. He/she cannot see the actual product nor touch it, try it nor witness a live demonstration of its use. Full information about the product may not be available on the website.

- (c) **Telemarketing :** Some producers/manufacturers approach the consumers over the telephone, to tell them about the product and its uses and ultimately persuade them to buy the product. This method is often used to sell credit cards, subscription to certain books and journals and also membership of certain clubs etc.

A marketing representative of the concerned producer calls up prospective customers over the telephone and tells them about the product and its uses. While interacting the caller can gauge the interest level of the customer towards the product and influence his decision to buy the product. If the customer is willing to buy the product, it is delivered to him by courier or post.

Now a days, if a large number of customer are to be approached through telemarketing, computerised calling system is used instead of a person calling up customers. The desired telephone numbers are dialed mechanically and the computer plays a pre-recorded voice message for the consumer. The consumer is given the option, after hearing the message, to record his own message that may be a query about the product or the order to purchase the product.

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22.5.1 Retailing in the Changing Times

You have read in the previous sections about the different forms of retailing, from hawkers and peddlers to huge departmental stores; from local general stores to mail order retailing Internet Marketing and Telemarketing.

As business has evolved over the ages, retailing, an important and dynamic part of it, has also kept pace with the changes. However, in the recent past there have been such drastic and far-reaching developments in this field that it is said that we are presently experiencing a 'retailing revolution', not only in India, but the world over.

Retailing has come a long way today in our country, from the local Kirana shops that existed since long, long ago. The focus now is not only on making retailing more convenient for the customer but also on making shopping an enjoyable experience for him/her.

The shift in approach in retailing aims at earning profit by offering customers more choice, more convenience and better facilities.

Let us now read about some of the interesting trends that have emerged in retailing, that you may have also observed on your own.

- In keeping with the changing lifestyles of consumers where they now have more purchasing power but lesser time, retailers are offering services like free home delivery, pre-packed goods (milk, juice etc.), after sales services, convenience of shopping for different products under one roof (departmental stores) and shopping through the Internet, e-mail, post, SMS or telephone.
- Many businessmen who were earlier focusing only on manufacturing of products, are now venturing into retailing (vertical integration). They are either opening their own exclusive showrooms/outlets under their brand name or tying up with existing retailers or employing direct selling agents (that link the manufacturer to the consumer by directly selling goods to final consumers, eliminating wholesalers and other retailers from the chain).
- In order to encourage consumers to buy products, retailers are offering attractive schemes of financing products, especially for consumer durables like refrigerators, television, air-conditioners etc. Very low rates of interest are charged by the retailer for financing the product. Some retailers also have tie-ups with banks for the purpose of providing consumer finance.
- With a view to offer variety to consumers with convenience and easy accessibility, today retailing includes automatic vending machines. Through these machines, consumers can buy items like newspapers, magazines, chocolates, contraceptives, cold drink cans and so on by inserting requisite denomination of coins and pressing a button. The item gets delivered from the machine without any human intervention.

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- Shopping malls have been another outcome of the 'retail revolution' in urban areas. They are like a huge shopping complex, housed in a single building, generally offering services like parking space, recreational facilities like cinema halls, variety of food outlets/restaurants (food courts) apart from a number of shops selling different goods. They may include a departmental store spread over multiple storeys/floors, apart from a number of other independent shops, all under the same roof. Shopping malls have gained popularity with consumers because they offer a convenient shopping experience to them, due to the many other facilities that they house. They are generally designed in such a way that they are accessible to the differently abled persons with facilities like ramps, wheel chairs etc.
- Another development in recent times has been the use of multiple channels for retailing a single product i.e., selling the product through mail order as well as through departmental stores or through itinerant retailers, general stores as well as over the Internet at the same time (for e.g., Amul Ice cream is sold through pushcarts, in local grocery shops, in departmental stores, and over the Amul.com website).

Some retail outlets are also using multiple format retailing, where the retail outlet combines the features of two different types of retailers. For e.g., a departmental store and chain store combination in the form of a chain of departmental stores across different parts of the country like Big Bazar, Vishal Megamart.
- The combination of a super market and a departmental store forms a hypermarket. It is a large scale retail facility which provides enormous range of products under one roof. A consumer can buy all his/her weekly or monthly requirements in one trip from the hypermarket.

Thus, we can see that trade within the country (internal trade) may assume different forms, depending on the needs and demands of consumers. Newer features in existing forms or newer forms of retailing keep developing with changing times and changing consumer preference.

22.5.2 Chamber of Commerce and Industry

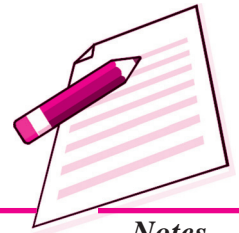
Chamber of commerce is a voluntary association of business people. Manufacturers, merchants and other business persons in a particular region or country will be the members of Chamber of Commerce and Industry. This organisation is formed to promote general business interests of all the members. Chamber of commerce promote the growth of commerce and industry in a particular region or country. This is a non-profit making organisation.

22.5.3 Documents Used in Internal Trade

Following documents are used in internal trade :

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1. **Performa Invoice :** It is a document sent prior to the actual sale to the buyer. It informs the buyer about the amount he is required to pay for the specified goods purchased by him. It provides almost the same information as an invoice provides. It is sent in the following cases :
 - a) When goods are sent on consignment basis.
 - b) When goods are sent abroad.
 - c) When supplier expects payment before dispatch of goods.

2. **Invoice :** It is a document sent by the seller to the buyer when goods are supplied. It is a document which shows the nature rates and terms of payment at which goods will be dispatched. Invoice perform the following functions :
 - a) It help the buyer to locate error in the order and supply of goods.
 - b) It is a basis for recording transactions.
 - c) It informs the buyer about the dispatch of goods.
 - d) Seller can have an idea of the amount to be collected from buyer.

3. **Debit Note :** It is a document prepared by one party (either by the seller or the buyer) to inform the other party (either the seller or the buyer) that receiver's account has been debited with the specified amount and for the specified reasons.

Seller may send a debit note to the buyer in the following cases :

 - a) When the goods are undercharged in the invoice.
 - b) When some goods are not included in the invoice by mistake.
 - c) When some more items have been sent than invoiced.

Buyer may send a debit note to the seller in the following cases :

 - a) When the goods are returned by the purchaser to the seller and seller is ready to give allowance to the buyer for the same.
 - b) When the seller failed to sent same goods charged in the invoice.
 - c) When the price charged in the invoice is higher.

4. **Credit Note :** It is a document prepared by one party (buyer or seller) to be sent to another party (buyer or seller) to inform the receiver that his account has been credited with the amount mentioned and for the reasons stated therein.

A seller may send a credit note to the buyer in the following cases :

 - a) When goods are returned by the purchaser.

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- b) When same goods are damaged and acceptance has been made by the buyer at a reduced price.
- c) When less goods have been sent than invoiced.

A buyer may send a credit note to the seller in the following cases :

- a) When the seller has by mistake sent more goods than invoiced.
- b) When same item has not been charged in the invoice by mistake.

22.5.4 Lorry Receipt (LR)

When the goods are sent through a transport company, a Lorry Receipt is issued by Transport Company at the time of booking.

1. Name, address and phone number of the transporter.
2. Name, address and phone number of the sender.
3. Name, address and phone number of the person to whom the goods are likely to be delivered.

22.5.5 Terms of Trade

- i. Cash on Delivery (COD) : It is a type of transaction in which payment for goods is made at the time of delivery. If the purchaser does not make payment when the goods are delivered, then the goods will be returned to the seller.
- ii. Free on Board (FOB) : This includes all charges at the port of shipment upto the loading of goods on board the ship and export duty, if any.
- iii. Cost, Insurance and Freight (CIF) : This includes the cost of goods all expenses incurred for taking the goods to the port of destinations and insurance charges.
- iv. Errors and Omissions Excepted (E & OE) : It is an expression that is used as a disclaimer against clerical errors.



INTEXT QUESTIONS 22.7

1. What is meant by 'Shopping Mall'?
2. Name the method of distribution in the following cases :
 - (a) The manufacturer approaches the customers directly.
 - (b) The marketing representative calls the customers over telephone.
 - (c) Sale of goods and service by using internet.
 - (d) Sale of goods through machines without any human intervention.

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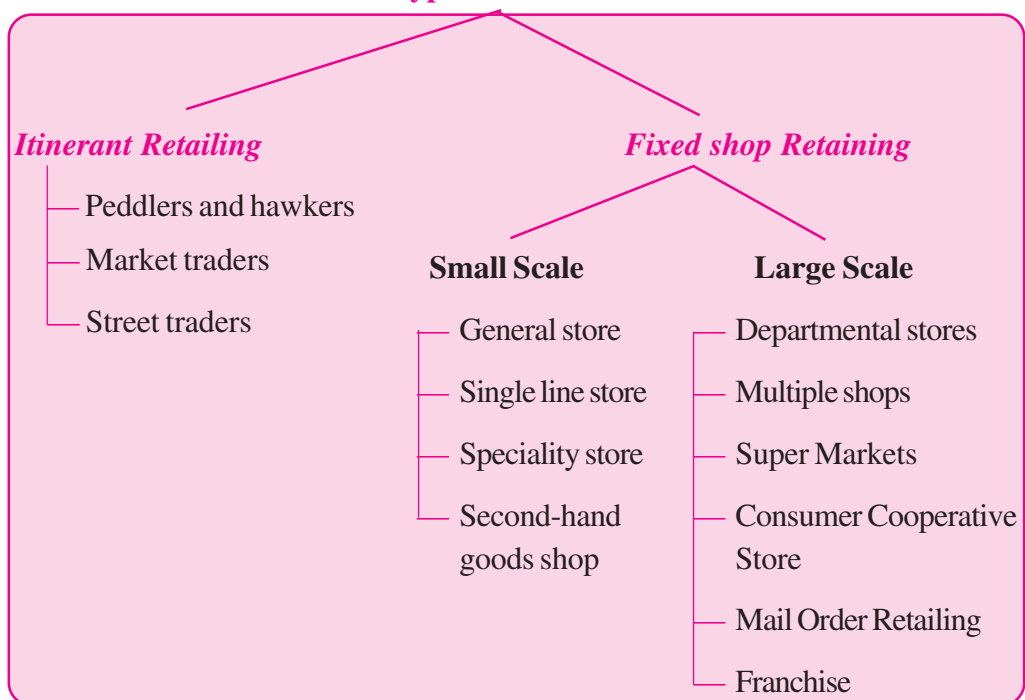
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WHAT YOU HAVE LEARNT

- Buying and selling of goods and services within the geographical boundaries of a country is referred to as internal trade.
- On the basis of volume of goods traded we can classify internal trade as wholesale trade and retail trade. Wholesale trade refers to buying of goods in large quantity from the producers or manufactures for sale to other traders or buyers in small quantities. Retail trade refers to buying goods from the manufacturers or wholesalers and selling them to the ultimate consumers.

Types of Retail trade



- The advancement in the Information Technology has brought a revolution in the retailing business in India and the world over. Today producers and manufacturers are approaching the customers through different innovative methods like direct marketing, internet marketing, telemarketing etc. Retailing is now aiming towards earning profit by offering customers more choice, more convenience and better facilities.



KEY TERMS

- | | | |
|----------------------------|--------------------|------------------|
| Consumer cooperative store | Departmental store | Direct marketing |
| Fixed shop retailing | Franchise | General store |

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Internet marketing	Itinerant retailing	Mail order retailing
Multiple shops	Retail trade	Second-hand goods shop
Shopping mall	Single line store	Specialty store
Super Market	Telemarketing	Wholesale trade



TERMINAL EXERCISE

Very Short Answer Type Questions

1. What is meant by 'Internal Trade'?
2. State the meaning of multiple shops.
3. Mention any two benefits of wholesaler.
4. Define the term 'Franchise'.
5. Name any four types of large scale retailing business.

Short Answer Type Questions

6. Explain the role of wholesaler in the distribution channel.
7. State any four merits of departmental stores.
8. Give any four points of distinction between a retailer and a wholesaler.
9. Explain the merits of super markets.
10. What is meant by 'mail order retailing'?

Long Answer Type Questions

11. State the features of Departmental stores. How is a departmental store different from multiple shops?
12. Describe the role of middlemen in the channel of distribution.
13. What is meant by Consumer Cooperative Store? Explain its merits in brief.
14. Explain the features of Franchise as a form of large scale retailing business.
15. Describe in brief, the recent trends in distribution.

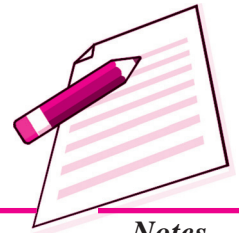


ANSWERS TO INTEXT QUESTIONS

- 22.1** 2. WT : (a), (c), (d) RT : (b), (e)

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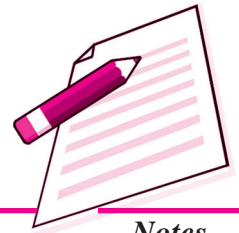


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- 22.2** 2. (a) A retailer has direct link with the consumers.
 (b) The amount of capital is less in case of retail trade.
 (c) Wholesaler/Retailer is a middleman in the chain of distribution.
 (d) No change
 (e) The retailer purchases goods from the wholesaler.
- 22.3** 2. (a) Single line store (b) Specialty store
 (c) General store or variety store (d) Itinerant retailing
 (e) Secondhand goods shop
- 22.4** 1. (a) Same ownership (b) Easy to recognise
 2. (a) Big businessman (Individual or group)
 (b) Big manufacturers or producers
 (c) Departmental store
 (d) Branch manager or any body appointed by the owner.
- 22.5** 1. (a) Food items (b) Vegetables (c) Fruits
 (d) Groceries (e) Utensils
 2. (a) Consumer Cooperative Stores are generally located near the residential areas.
 (b) The presence of salesperson is not required in super markets.
 (c) No change
 (d) The Consumer Cooperative Stores are managed by the members who may not have professional expertise in business management.
- 22.6** 1. (a) Medicine (b) Books (c) Toys
 (d) Cosmetics (e) Plant seeds
 2. (a) Franchise is a form of retailing where two parties enter into an agreement in which one party authorises the other to sell or produce and sell specified goods and services.
 (b) The party that develops a product/service or is the owner of an expertise who authorises other to sell or produce and sell a particular item.
 (c) The party that buys the rights to sell or produce and sell any item under the contract of franchise is known as franchise.
- 22.7** 2. (a) Direct marketing (b) Telemarketing
 (c) Internet Marketing (d) Automatic vending machine


DO AND LEARN

1. Visit at least 5 retail shops in your locality and record the following to have a clear information.
 - (a) Name of the store if any.
 - (b) Location of the store.
 - (c) Variety of products being sold.
 - (d) Place of procurement of the products (whether from wholesalers or producers).
 - (e) Transportation used.
 - (f) After sales service, if any provided.
 - (g) Any information that the retailer pass on to the wholesalers/producers.
 - (h) Any other relevant information.
2. Identify at least twenty different retail shops of your locality and classify them according to the different types you learnt in this lesson. Prepare a chart.


Notes

ROLE PLAY

Satish, the younger brother of Suresh came to Delhi for the first time. Suresh took him around Delhi to see the place. He was amazed to see the shopping complexes and the market places.

One day Suresh along with his mother had to go for monthly purchases. He took Satish along with them. Following is the conversation among them.

- Satish : Bhaiya, I think it will take a whole day.
 Suresh : Why do you say that?
 Satish : You have to buy things of variety and that too for a whole month.
 Suresh : So what?
 Satish : It is going to be a tiring day.
 Suresh : Why?
 Satish : Naturally we will have to go different shops to buy the variety of things that we need.
 What about our food? We will have to carry the things and look for lunch too?
 Suresh : Don't worry brother! Have you ever heard of Departmental Store?
 Satish : What? Departmental store? What is that?
 Suresh : Well! Let me explain.

You are required to continue the conversation while assuming the role of Suresh and explain to Satish all about Departmental Store.