

Internal Trade

PART 1

Objective Questions

• Multiple Choice Questions

1. Basic objective of trade is

- (a) social service
- (b) profit
- (c) environmental protection
- (d) None of the above

Ans. (b) Trade refers to buying and selling of goods and it's basic objective is to earn profit.

2. Government levies taxes in order to generate funds to perform its various functions. Internal trade is liable to

- (a) customs duty
- (b) import duty
- (c) GST
- (d) export duty

Ans. (c) In internal trade, movement of goods and services is confined to the domestic territory of the nation. Therefore, customs duty, import duty and export duty is not leviable on them. GST (Goods and Service Tax) is an indirect tax levied in India on sale of goods and services within the domestic territory.

3. Wholesaler not just buys goods from manufacturers but they also help manufacturer in marketing of the product by

- (a) storing goods in bulk quantities
- (b) making cash payment
- (c) transportation facilities
- (d) conveying retailers' feedback to manufacturer

Ans. (d) The wholesalers are in direct contact with retailers. Therefore, they advise manufacturers about various aspects related to customers taste, preferences, market conditions, etc.

4. Wholesalers perform variousfunctions which increases the demand of goods and ultimately increases the profits for retailers and manufacturers

- (a) financing
- (b) distribution
- (c) marketing
- (d) tax planning

Ans. (c) marketing

5. Time utility is being provided by

- (a) retailers
- (b) stockists
- (c) wholesalers
- (d) Both (a) and (c)

Ans. (c) Wholesalers keep the goods with themselves for a period of time till they are demanded by the retailers thereby creating a time utility.

6. **Statement I** No custom duty or import duty is levied on internal trade.

Statement II Storage facility provides with time utility.

Alternatives

- (a) Statement I is correct and Statement II is wrong
- (b) Statement II is correct and Statement I is wrong
- (c) Both the statements are correct
- (d) Both the statements are incorrect

Ans. (c) No custom duty or import duty is levied on internal trade as goods are part of domestic production and are meant for domestic consumption. Storage helps in bridging the gap between the time of production/procurement and the consumption of goods.

7. **Statement I** Wholesaler purchase in bulk quantity and sell in small lots to retailers.

Statement II The wholesalers perform various marketing functions and provide support to the consumer.

Alternatives

- (a) Statement I is correct and Statement II is wrong
- (b) Statement II is correct and Statement I is wrong
- (c) Both the statements are correct
- (d) Both the statements are incorrect

Ans. (a) The wholesalers perform various marketing functions and provide support to manufacturers and retailers.

8. Wholesaler provides financial assistance to manufacturers through

- (a) bulk selling of goods to them
- (b) loans
- (c) purchase of goods in small quantities for cash
- (d) bulk purchasing of goods in cash

Ans. (d) Manufacturers sell goods in bulk to wholesaler against cash payments. Therefore, it can be said that wholesalers provide financial assistance to manufacturers by bulk purchasing of goods against cash payments.



9. What types of service is not offered by retailers to manufacturers and wholesalers?
- (a) New product information
 - (b) Personal selling
 - (c) Helps in promotion
 - (d) Helps in distribution of goods

Ans. (c) Helps in promotion

10. Retailers provide various services to the ultimate customers. One of such services is after sales service. Retailers provide after sale services to consumers in form of

- (a) regular availability of goods
- (b) credit facility
- (c) wide selection
- (d) home delivery

Ans. (d) Retailers usually have their place of business in a close proximity to the places where consumers live or market places. Due to this, they are able to provide important after sale services like home delivery of goods, supply of spare parts, mirror repairs or replacement, etc.

11. **Statement I** Departmental stores have a decentralised purchasing department, whereas sales are centralised in different departments.

Statement II Departmental stores can manage with less amount of capital.

Alternatives

- (a) Statement I is correct and Statement II is wrong
- (b) Statement II is correct and Statement I is wrong
- (c) Both the statements are correct
- (d) Both the statements are incorrect

Ans. (d) Departmental stores have a centralised purchasing department, whereas sales are decentralised in different departments. Departmental stores can manage with huge amount of capital.

12. Under which of the following areas, departmental stores are not at an advantageous position over smaller forms of retail businesses?

- (a) Number of customers
- (b) Operating costs
- (c) Sales promotion
- (d) Scale of operations

Ans. (b) Operating costs are high for departmental stores because they have to maintain the stores in a standardised manner and create different departments. They also have to hire high number of staff.

13. Which type of retail business acts as suppliers of a wide variety of products under one roof?

- (a) Departmental store
- (b) Chain store
- (c) Mail order houses
- (d) Multiple shops

Ans. (a) Departmental store

14. In departmental stores, sales are according to different departments.

- (a) unsegmented
- (b) centralised
- (c) decentralised
- (d) None of these

Ans. (c) decentralised

15. **Statement I** Sales in chain stores are done on cash and credit basis.

Statement II Multiple shops normally deal in standardised and branded consumer products.

Alternatives

- (a) Statement I is correct and Statement II is wrong
- (b) Statement II is correct and Statement I is wrong
- (c) Both the statements are correct
- (d) Both the statements are incorrect

Ans. (b) Sales in chain stores are done on only cash basis.

16. Appollo Pharmacy has retail outlets running 24 hours a day and 7 days a week. These retail outlets are spread across the country and have centralised purchasing and decentralised sales mechanism for sale of medicines and health care related goods to its customers. Which type of business outlet is highlighted in this paragraph?

- (a) Departmental Store
- (b) Chain store
- (c) Both (a) and (b)
- (d) None of these

Ans. (b) Chain store

17. Manufacturers sell goods directly through and thus, eliminates unnecessary middlemen in the sale and purchase of goods.

- (a) street vendors
- (b) multi brand retail stores
- (c) departmental stores
- (d) chain stores

Ans. (d) chain stores

18. Each retail outlet (in chain stores setting) is under the direct supervision of a who is responsible for its day-to-day operations.

- (a) head officer
- (b) customer executive
- (c) branch manager
- (d) None of these

Ans. (c) branch manager

19. Which of the following is/are the example(s) of chain stores?

- (a) Bata showroom
- (b) Dominos
- (c) Raymond shop
- (d) All of these

Ans. (d) All of these

20. Nature Beauty is a company with cosmetics stores all over the country. The procurement of raw materials and manufacturing of merchandise for all the retail units is centralised. Which type of store is highlighted here?

- (a) Departmental Store
- (b) Chain store
- (c) Both (a) and (b)
- (d) None of these

Ans. (b) Chain store



• Assertion-Reasoning MCQs

Directions (Q.Nos. 1-7) *There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.*

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true, but Reason (R) is false.
- (d) Assertion (A) is false, but Reason (R) is true.

1. **Assertion (A)** No custom duty or import duty is levied on internal trade.

Reason (R) Goods involved in internal trade are part of domestic production and are meant for domestic consumption.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

2. **Assertion (A)** Wholesalers bear risk which would have been borne by the retailers.

Reason (R) The wholesale merchants deal in goods in their own name, take delivery of the goods and keep the goods purchased in large lots in their warehouses.

Ans. (d) In the process given in the reason, wholesalers bear risk which would have been borne by the manufacturers.

3. **Assertion (A)** Wholesalers inform the retailers about the new products, their uses, quality, prices, etc.

Reason (R) The wholesalers specialise in one line of production.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

4. **Assertion (A)** Retailers serve as an important source of collecting market information about the tastes, preferences and attitudes.

Reason (R) Retailers are not in direct and constant touch with the buyers.

Ans. (c) Retailers remain in direct and constant touch with the buyers and therefore, serve as an important source of collecting market information about the tastes, preferences and attitudes.

5. **Assertion (A)** Retailers enable the consumers to make their choice.

Reason (R) The retailers sometimes provide credit facilities to their regular buyers.

Ans. (b) Retailers generally keep stock of a variety of products. This enables the consumers to make their choice.

6. **Assertion (A)** It is convenient for customers to purchase goods from these departmental stores.

Reason (R) Departmental stores offer a large variety of goods under one roof.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

7. **Assertion (A)** Wholesalers relieve manufacturers from bearing multiple risks.

Reason (R) The wholesalers provide cash payment to the manufacturers for the goods purchased.

Ans. (b) Wholesalers bear multiple risks of theft, pilferage, fire, change in process etc. and relieve the manufacturers from the same.

• Case Based MCQs

1. **Direction** *Read the following text and answer question no. (i) to (vi) on the basis of the same.*

Lavanya Cosmetics Ltd. located in Gujarat is a manufacturer of herbal cosmetic items and a leading enterprise in the industry. Its products are demanded all over the country. Seeing the increasing demand in October and November, their marketing and sales department has made a special herbal cosmetics gift hamper which is not only economic but has got a very attractive packing too.

For the distribution of such hampers at all places, they have made an agreement with Sharma traders who will buy from them such hampers in large quantities and will reach the products to retailers in every state so that they can meet their orders in time. In Gujarat, the company has opened its own retail outlet named 'Lavanya Stores' few months ago which is showing very good response of customers and increasing their sales turnover.

Inspired from the growth of sales of their retail store, they are having plans to open such stores in Rajasthan, Delhi and Punjab too. For testing the markets in these states, they decided to place the products in some big stores which offer a wide variety of products, classified into well-defined segments in the store.

With the success in these markets, the management decided to open more stores. They are planning to establish the system in such a way that the prices of the goods are fixed and sales are made on cash basis. Daily sales are to be deposited in a local bank account and details to this regard will be sent to the head office. However, the company faced an unprecedented problem that the employees working in these stores work on the instructions of the head office and do not stand to benefit in any way by the sales made by them. This affects their performance.



- (i) Which of the following is incorrect regarding the services provided by wholesalers to manufacturers?

(a) Regular availability of products
(b) Help in marketing function
(c) Bearing risk
(d) Storage

Ans. (a) Regular availability of products

- (ii) "In Gujarat the company has opened its own retail outlet, few months ago which is showing a very good response of customers and increasing their sales turnover. Inspired from the growth of sales of their retail store they are having plans to open such stores in Rajasthan, Delhi and Punjab too." Identify the type of fixed retail shop mentioned here.

(a) Market traders
(b) Multiple shops
(c) Departmental stores
(d) General store

Ans. (b) Multiple shops

- (iii) "For the distribution of such hampers at all places, they have made an agreement with Sharma Traders." Which type of intermediary Sharma Traders is in internal trade?

(a) Wholesalers
(b) Retailers
(c) Commission agent
(d) Salesman

Ans. (a) Wholesalers

- (iv) "They are planning to establish the system in such a way that the prices of the goods are fixed and sales are made on cash basis. Daily sales are to be deposited in a local bank account and details to this regard will be sent to the head office." Identify the feature of such stores.

(a) Central location
(b) Provision of services
(c) Centralised control
(d) Corporate status

Ans. (c) Centralised control

- (v) "..... they decided to place the products in some big stores which offers a wide variety of products, classified into well-defined segments in the store." Which type of fixed shop is highlighted here?

(a) Chain stores
(b) Departmental stores
(c) Mail order houses
(d) Both (a) and (b)

Ans. (b) Departmental stores

- (vi) Which problem of this kind of stores is highlighted in the lines, "the employees working in these stores work on the instructions of the head office and do not stand to benefit in any way by the sales made by them"?

(a) Lack of personal touch
(b) Lack of initiative
(c) Lack of personal attention
(d) High operating costs

Ans. (b) Lack of initiative

2. Direction Read the following text and answer question no. (i) to (vi) on the basis of the same.

Footwear Ltd. located in Mumbai manufactures shoes. It imports raw material from Italy and dyes from Japan. The design quality and durability of the shoes manufactured by this Company has made it number one company in that area. Now the company wishes to sell its products in all the states of India as well as in international markets.

The marketing managers advised to strengthen the distribution channel by appointing more wholesalers for each area. But one of the board of directors was of the view that if they sell the product directly to retailers, they will be able to get competitive price for their products, which will result in increased sales turnover and eventually the profits.

The promoters of the company have come up with a different proposition. They believe that the company should open its own stores in different parts of the country. After lot of discussion, it was decided to go ahead with the board of director's proposal that they should sell the products directly to retailers. They also believe that retailers will provide important information about the arrival of products to the customers by arranging effective display of products.

- (i) serves as the link between wholesalers and customers.

(a) Suppliers (b) Retailers
(c) Manufactures (d) All of these

Ans. (b) Retailers

- (ii) Which of the following is incorrect regarding the services provided by retailers to consumers?

(a) Provide after sales services
(b) Offer wide selection of goods
(c) Provide credit facilities to regular buyers
(d) None of the above

Ans. (d) None of the above

- (iii) Trade is an important function of

(a) wholesalers (b) retailers
(c) manufactures
(d) Both wholesalers and retailers

Ans. (d) Both wholesalers and retailers

- (iv) Which of the following statements regarding reasons for international business are correct?
- (a) Unequal distribution of natural resources among nations or differences in their productivity levels
 - (b) Availability of various factors of production differs among nations
 - (c) Labour productivity and production costs differ among nations due to various socio-economic, geographical and political reasons
 - (d) All of the above

Ans. (d) All of the above

- (v) Which of the following is the proposition of the promoters?
- (a) Mail order houses
 - (b) Chain stores
 - (c) Departmental stores
 - (d) None of these

Ans. (b) Chain stores

- (vi) Which service to customer by retailer is highlighted in the line, "They also believe that retailers will provide important information about the arrival of products to the customers by arranging effective display of products."?
- (a) Regular availability of products
 - (b) New products information
 - (c) Convenience in buying
 - (d) Wide selection

Ans. (b) New products information

3. Direction Read the following text and answer question no. (i) to (vi) on the basis of the same.

John, Brad and Simon are three friends who want to start a business of trading and manufacturing high quality herbal products. They have been trying to figure out the right mode of running the business by evaluating each and every option.

John thinks that they should place the products in big stores where there is already a cosmetics section so that customers can easily find the product.

Simon is of the different view who believes that they should open their own stores in different cities and localities so that they develop a unique brand image.

He gives the argument that if a store is incurring loss, then it can be closed down or shifted to some other place, without any significant effect on the company.

However, Brad produces counter-argument by saying that due to operating on a large scale and lack of initiative on the part of employees, their dealings with customers will lack personal touch. Therefore, he suggested that they should deliver the goods at home with a personalised note. They decided to further explore the options.

They decided that they will go with the option that Simon suggested. They also set up retail chain with many mom-and-pop stores. They believe that these stores will help them in creating place utility. Moreover, these stores will tell the consumers about their products helping them to boost sales.

- (i) Which fixed-shop large retailer John highlighted?
- (a) Departmental stores
 - (b) Chain stores
 - (c) Mail order houses
 - (d) None of the above

Ans. (a) Departmental stores

- (ii) Which fixed-shop large retailer Simon highlighted?

- (a) Departmental stores
- (b) Chain stores
- (c) Mail order houses
- (d) None of these

Ans. (b) Chain stores

- (iii) Which merit of a particular business type was highlighted by Simon?

- (a) No bad debts
- (b) Low cost
- (c) Flexibility
- (d) Economies of scale

Ans. (c) Flexibility

- (iv) Which demerit of a particular business type was highlighted by Brad?

- (a) Lack of initiative
- (b) Lack of personal touch
- (c) Loss due to change in demand
- (d) Limited selection of goods

Ans. (b) Lack of personal touch

- (v) Which service of retailers to manufacturers is highlighted in the line, "They also set up retail chain with many mom-and-pop stores. They believe that these stores will help them in creating place utility."?

- (a) Help in distribution of goods
- (b) Personal selling
- (c) Enabling large-scale operations
- (d) Help in promotion

Ans. (a) Help in distribution of goods

- (vi) Which service of retailers to consumers is highlighted in the line, "Moreover, these stores will tell the consumers about their products helping them to boost sales."?

- (a) Regular availability of products
- (b) New products information
- (c) Convenience in buying
- (d) Wide selection

Ans. (b) New products information

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. What do you mean by trade? Also explain its classification.

Ans. Trade refers to buying and selling of goods and services with the objective of earning profit. It bridges the gap between the producer and the consumer.

Trade can broadly be classified into two categories

- (i) **Internal Trade** Trade which takes place within a country is called internal trade.
- (ii) **External Trade** Trade which takes place between two or more countries is called external trade.

2. Explain the concept of internal trade along with its key features. (NCERT)

Ans. When buying and selling of goods and services take place within a country, it is referred to as internal trade.

Some of the important features of internal trade are

- (i) All payments are made in the national currency.
- (ii) Generally, there are no restrictions on the movements of goods.
- (iii) Several alternative modes of transport are available for carrying goods.

3. Wholesalers serve two-way purpose by providing warehousing facilities. Comment. (NCERT)

Ans. Two-way purpose is served by wholesalers by providing warehousing facilities in the following manner

- (i) Wholesalers take delivery of goods when these are produced in factory and keep them in their godowns/warehouses, which reduces the burden on manufacturers for providing storage facilities for the finished products.
- (ii) Warehousing by wholesalers relieves the retailers of the work of collecting goods from several producers and keeping huge inventory of the same.

4. Shyam started a hosiery factory with just 4 workers to manufacture ladies wear. The firm tasted success in business and installed new machines and hired more workers and engaged supervisors. Though his business was expanding, he was able to manage the marketing part of the business. He sold directly to customers and also to retailers in his city. About 6 months back, Shyam admitted two partners into the business to expand the business further. Both the partners contributed capital of ₹ 40 lakh each. Fresh funds were used to acquire advanced machines and purchase raw materials and other inputs. The production has increased 5 times but difficulties are being faced in marketing of finished products.

The new partners want appointment of wholesalers to distribute the products though Shyam is not in favour of this idea.

- (i) What marketing options are available with the firm?
- (ii) Should wholesalers be appointed to sell the products? Why?

Ans. The options available with the firm are

- (i) The firm may open its own sale outlets in different parts of the city to sell its products. The firm may appoint wholesalers and retailers for the distribution of its products.
- (ii) In this case, it is advisable to appoint wholesalers because of the following reasons
 - (a) The firm does not have enough capital to open new stores and even the firm does not have capability to raise funds.
 - (b) By appointing wholesalers, the firm would be relieved of the botheration of marketing its products.
 - (c) Though wholesalers take away a part of the profits margin, they provide useful services in return. These services are
 - They sell goods to retailers and big customers.
 - They can arrange for advertisement of goods and display of goods at retail outlets.In nutshell, the wholesalers would provide specialised services to market the products. This would allow the firm to concentrate on increasing production and also quality.

5. A very successful Ayurveda Company of the country sells its products to distributors who sell the products to wholesalers as and when demand is generated. These wholesalers demand the products from distributors depending upon the market demand and trends. The company contacts doctors of the country who prescribes the ayurvedic medicines to the patients. These patients demand the medicines from chemists who in turn ask the wholesalers to supply them the medicines. Identify and explain two types of internal trade highlighted in the above passage. Also, quote the lines to substantiate the answers.

Ans. (i) **Wholesale Trade** “These wholesalers demand the products from distributors depending upon the market demand and trends.”

Wholesale trade refers to purchasing goods and services in large quantity from manufacturers (or distributors of manufacturers) and reselling them to retailers, who then sells them to the ultimate consumers. A wholesaler is an intermediary between manufacturer and retailer.

Chain of Wholesale Trade

Manufacturers — Wholesalers — Retailers — Consumers



- (ii) **Retail Trade** "...from chemists who in turn ask the wholesalers to supply them the medicines."

Retail trade refers to purchasing relatively small quantity of goods from wholesalers and selling them to ultimate consumers. A retailer is an intermediary between wholesaler and consumer.

Chain of Retail Trade

Wholesalers — Retailers — Consumers

6. Bhargav Enterprises (BE) is a wholesaler outlet in East Delhi. This outlet deals with products from personal care segment ranging from perfumes to talcum powders to shaving creams, so on and so forth. BE advertises the product through banners and activities in nearby areas to increase the demand of the products.

Since the outlet is in operations for many years now, it has cordial relations with retailers and therefore, the trusted outlets are not billed on immediate cash basis which helped them to work with low capital. In the process, it not only helps them to avoid financial burden but also helps them in avoiding the risk of theft and storage as retailers can demand good in smaller quantities. BE also keeps the retailers updated with the new products launched in the market.

Identify and explain the services given by the wholesalers to the retailers by quoting the lines.

Ans. Services given by the wholesalers to retailers in the given case are

- (i) **Marketing Support** "BE advertises the product through banners and activities in nearby areas to increase the demand of the products."
The wholesalers perform various marketing functions such as advertisements and other sales promotional activities to induce customers to purchase the goods. This increases the demand of the products which results in increased profits for the retailer.
- (ii) **Grant of Credit** ".....and therefore, the trusted outlets are not billed on immediate cash basis which helped them to work with low capital."
The wholesalers generally extend credit facilities to retailers. This enables them to manage their business with relatively small amount of working capital.
- (iii) **Specialised Knowledge** "BE also keeps the retailers updated with the new products launched in the market."
The wholesalers specialise in one line of production. They inform the retailers about the new products, their uses, quality, prices, etc.
- (iv) **Risk Sharing** "In the process, it not only helps them to avoid financial burden but also helps them in avoiding the risk of theft and storage as retailers can demand good in smaller quantities."

The wholesalers purchase in bulk and sell in small quantities to the retailers. Being able to purchase smaller quantities, retailers are in a position to avoid the risk of storage, theft, misuse, etc.

7. What difficulties would a consumer face if there is no retail shop?

Ans. A consumer would face following difficulties if there is no retail shop (any three points)

- (i) In the absence of a retail shop, consumer will have to store the goods.
- (ii) In the absence of a retail shop, a consumer shall not be able to make a good selection.
- (iii) A retail shop supplies goods in the quantities which suit the pocket and needs of different consumers. In the absence of a retail shop, a consumer will have to approach a wholesaler or a manufacturer and buy the goods in large quantities.
- (iv) There will be lot of inconvenience to the consumers.
- (v) Consumers will not be able to know about the new products available in the market.

8. What are the services offered by retailers to wholesalers?

Ans. Retailers render following services to the wholesalers

- (i) **Help in Distribution of Goods** Retailers provide help in the distribution of goods and making them available to final consumers.
- (ii) **Personal Selling** The retailers relieve the producers from selling the goods personally and help them in actualising the sale of the products.
- (iii) **Enabling Large Scale Operations** It enables them to operate on a large scale and fully concentrate on production activities.
- (iv) **Collecting Market Information** Retailers remain in touch with the buyers. They know about the tastes, attitudes, preference, etc. Such information is very useful in taking marketing decisions in an organisation.

9. Goel and sons is a grocer based in Meerut, UP. It is an outlet retailing daily day to day ration and other branded products. They have been in business for last 20 years and therefore, have developed good reputation in the market. They provide information about the arrival, special features, etc of products to the customers and sell goods in small quantities, according to the requirements of these customers. They also have a special scheme where they supply good to the home within certain range of area on a purchase of some minimum amount of goods. On the basis of loyalty of customers, they sometimes sell goods to the regular customers on purchase now, pay later basis.



The above case highlights some of the services retailer provides to the consumers. Identify and explain these services by quoting the lines.

Ans. Services provided by retailers to customers are

- (i) **New Products Information** "They provide information about the arrival, special features, etc of products to the customers...."
By arranging effective display of products, retailers provide important information about the arrival, special features, etc of products to the customers.
- (ii) **Convenience in Buying** "..... sell goods in small quantities, according to the requirements of these customers."
Retailers generally sell goods in small quantities, according to the requirements of their customers. This offers great convenience to the customers.
- (iii) **After Sales Services** "They also have a special scheme where they supply good to the home within certain range of area on a purchase of some minimum amount of goods."
Retailers provide important after-sales services in the form of home delivery, supply of spare parts etc.
- (iv) **Provide Credit Facilities** "On the basis of loyalty of customers, they sometimes sell goods to the regular customers on purchase now, pay later basis."
The retailers sometimes provide credit facilities to their regular buyers, leading to increased level of consumption and better standard of living.

10. Differentiate between retailers and wholesalers on following basis

- | | |
|-------------------------|------------------------|
| (i) Purchases and sales | (ii) Quantity of goods |
| (iii) Specialisation | (iv) Capital |

Ans. The differences between wholesalers and retailers are

Basis	Wholesalers	Retailers
Purchases and Sales	They purchase goods from manufacturers and sell them to retailers.	They purchase goods from wholesalers and sell them to ultimate consumers.
Quantity of Goods	They buy and sell goods in large quantities.	They buy and sell goods in small quantities.
Specialisation	They specialise, generally, in purchase and sale of one commodity only.	They do not specialise in only one good, but provide all types of goods.
Capital	They require a large amount of capital.	They require comparatively less capital.

11. Explain some of the major features of departmental stores.

Ans. Some of the important features of a departmental store are

- (i) A modern departmental store may provide all facilities such as restaurant, restrooms, etc. In this way, they try to provide maximum service to higher class of customers, for whom price is of secondary importance.
- (ii) These stores are generally located at a central place in the city, which caters to a large number of customers.
- (iii) They are generally formed as a joint stock company, managed by a board of directors as the size of these stores is very large.
- (iv) A departmental store combines both the functions of retailing as well as warehousing. They purchase directly from manufacturers and operate separate warehouses, thereby eliminating undesirable middlemen between the producers and the customers for their products.

12. 'Easy Day', 'Vishal Mega Mart' and 'Big Bazaar' are the examples of which type of fixed shops? Give any two merits.

Ans. 'Easy Day', 'Vishal Mega Mart' and 'Big Bazaar' are the examples of departmental stores.

Merits of departmental stores are

- (i) A departmental store keeps very wide variety of goods with different designs, colours, styles, etc.
- (ii) Departmental stores provide various types of services to customers. They extend liberal credit, accept telephone order, provide for free home delivery services, etc.

13. Multiple shops are networks of retail shops that are owned and operated by manufacturers or intermediaries. Under this type of arrangement, a number of shops with similar appearance are established in localities, spread over different parts of the country. These shops normally deal in standardised and branded consumer products, which have rapid sales turnover. In the light of the statement, state any four features of multiple shops.

Ans. Features of multiple shops are (any four)

- (i) These shops are located in populous localities, so that customers can be served at a place near their residence.
- (ii) The manufacturing or procurement of merchandise for all the retail units is centralised.
- (iii) Each retail outlet is under the direct supervision of a branch manager, who is responsible for its day-to-day operations.
- (iv) All branches are controlled by the head office. The head office formulates policies and gets them implemented.



- (v) The price of the goods is fixed and sales are made on cash basis. Daily sales are deposited in a local bank account and details to this regard are sent to the head office.

14. Zar is a company who have got stores all around the country. They are famous for quality clothes which are supplied at a not so expensive price. The clothes are also said to be very fashionable and are always in trend in the urban youth and working class. However, they only sell clothes manufactured by them and not of any other company. These stores work on the instructions of head office and have little to no motivation to sell effectively.

The customers usually choose clothes themselves and at times, no salesperson is involved leaving the customers all by themselves. At times, the company burns its clothes when demand trend changes rapidly and company's large stock remains unsold. The above case highlights some of the disadvantages of chain stores. Identify and explain these by quoting the lines.

Ans. Disadvantages of chain stores highlighted in the case are

- (i) **Limited Selection of Goods** "However, they only sell clothes manufactured by them and not of any other company."
Majority of the multiple shops deal only in limited range of products. For example, Reebok deals in sportswear and foot wear. These stores do not sell products of other manufacturers. Therefore, customers visiting these stores have only selected items to choose from.
- (ii) **Lack of Initiative** "These stores work on the instructions of head office and have little to no motivation to sell effectively."
The employees working in these stores work on the instructions of the head office. Also, they do not stand to benefit in any way by the sales made by them. So, they do not take initiative on their own.
- (iii) **Lack of Personal Touch** "The customers usually choose clothes themselves and at times, no salesperson is involved leaving the customers all by themselves."
Due to operating on a large scale and lack of initiative on the part of employees, their dealings with customers lack personal touch.
- (iv) **Loss Due to Change in Demand** "At times, the company burns its clothes when demand trend changes rapidly and company's large stock remains unsold."
If the demand for the goods sold by these stores change rapidly, then the management may have to sustain heavy losses, because of large stocks lying unsold at the central depot.

● Long Answer (LA) Type Questions

1. Wholesalers play an inevitable role in the success of the manufacturers of various goods. Comment on this statement by stating the services provided by the wholesalers to manufacturers.

Ans. The services provided by the wholesalers to manufacturers are (any six)

- (i) **Facilitating Large Scale Production** Wholesalers collect small orders from a number of retailers and pass on the pool of such orders to the manufacturers and make purchases in bulk quantities. This enables the producers to undertake production on a large scale.
- (ii) **Bearing Risk** The wholesale merchants deal in goods in their own name, take delivery of the goods and keep the goods purchased in large lots in their warehouses. In this process, they bear risk which would have been borne by the manufacturer.
- (iii) **Financial Assistance** They provide financial assistance to the manufacturers as they generally make cash payment for the goods purchased by them.
- (iv) **Expert Advice** The wholesalers are in direct contact with the retailers, therefore they can advice the manufacturers about various aspects related to customer's tastes and preferences, market conditions, etc.
- (v) **Help in the Marketing Function** The wholesalers distribute goods to a number of retailers. They in turn, sell to a large number of customers thus, helping to market the product.
- (vi) **Facilitates Continuity** The wholesalers facilitate continuity of production activity throughout the year by purchasing the goods as and when they are produced.
- (vii) **Storage** Wholesalers take delivery of goods when they are produced and keep them in their godowns/warehouses, thereby helping in storage of goods.

2. Explain any four advantages of departmental stores.

Ans. The advantages of departmental stores are (any four)

- (i) **Attract Large Number of Customers** As these stores are centrally located, therefore they attract a large number of customers.
- (ii) **Convenience in Buying** These stores offer a large variety of goods under one roof. Therefore, it is convenient for customers to purchase goods from these stores.
- (iii) **Attractive Services** These stores provide extra services to the customers, such as, home delivery of goods, accepting orders through telephone and online, provision of rest rooms, restaurants, etc.



(iv) **Economy of Large-scale Operations** These stores are organised and managed on a large scale. Therefore, they are able to enjoy economies of large scale operations and increase their profits.

(v) **Promotion of Sales** The departmental stores are in a position to spend considerable amount of money on advertising and other promotional activities which help in boosting the sales.

3. Akbarally was the first departmental store of India. There were two full line department stores and eight supermarkets called Mini-Akbarallys across Mumbai. This store was generating phenomenal profits upto 1990s, but with the onset of the retail boom in 1990s and the subsequent proliferation of speciality stores, malls and branded stores, the downward slide of Akbarally began. In 2009, not being able to sustain losses, Akbarally closed down.

(i) What are departmental stores?

(ii) State the limitations of departmental stores which could have been the cause of Akbarally's failure.

Ans. (i) Departmental store is a large establishment offering a wide variety of products, classified into well-defined departments. A departmental store aims at satisfying practically all the needs of the consumers under one roof. It has a number of departments, each one confining its activities to a specific kind of product.

(ii) Following are the limitations of departmental stores which could have been the cause of Akbarally's failure

(a) **Lack of Personal Attention** Because of large scale operations, these stores are not able to give personal attention to each and every customer.

(b) **High Operating Costs** Since these stores provide a number of additional services to their customers, therefore their operating costs are also high.

(c) **High Possibility of Loss** These stores operate on large scale and incur high operating costs. Therefore, their exposure to risk is also high.

(d) **Inconvenient Location** These stores are generally located in a central location. Customers encounter traffic problems while visiting these stores. Also, it is not convenient for the purchase of goods that are needed at short notice.

4. Chain stores have some inherent advantages. Comment.

Ans. Chain stores exhibits following advantages (any six)

(i) **Economies of Scale** These stores operate on a high scale and procure the goods centrally. Therefore, they are also able to enjoy economies of scale.

(ii) **Elimination of Middlemen** Through these stores, the manufacturers sell goods directly to the consumers, thus eliminating unnecessary middlemen in the sale and purchase of goods.

(iii) **No Bad Debts** All the sales in these stores are made on cash. Therefore, there is no question of bad debts.

(iv) **Transfer of Goods** In case of lack of demand, goods from one store can be transferred to another store.

(v) **Diffusion of Risk** The risk is spread over a number of shops. Loss from one shop can be recovered from the profit of another shop.

(vi) **Low Cost** Because of centralised purchasing, elimination of middlemen and centralised promotion of sales, chain stores have low operational costs.

(vii) **Flexibility** This system offers the advantage of flexible operations. If a shop is incurring loss, then it can be closed down or shifted to some other place, without any significant effect on the organisation.

5. Pad Chihan Limited is a large-sized company manufacturing shoes. It has to determine whether it should use wholesalers or set up its own chain stores for distributing its products. What alternatives would you suggest? Give reasons in support of your answer.

Ans. In the above case, we find there are two alternatives before the company

(i) To have wholesalers as middlemen.

(ii) have its own multiple shops

Both the alternatives have their own merits and demerits. We suggest multiple shops are the better alternative than the wholesalers due to following reasons

(i) Multiple shops eliminate middlemen. Hence, there is direct contact between the company and consumers. All advantages of elimination of wholesalers can be enjoyed.

(ii) Since the company is large sized, it means company has sufficient financial resources to have its own shops. Thus, the company is in a position to eliminate middlemen.

(iii) Company is manufacturing shoes i.e., durable consumer product, therefore, multiple shops are better alternative.

(iv) Company can approach maximum customers through its own shops. Wholesalers may not find it profitable to deal in shoes of a new company and therefore, wholesalers will not be taking interest.

(v) Multiple shops have a better appeal to consumers. Bata Shoe Company is a good example.

In brief, we can suggest to the company that multiple shops will be the better alternative for distribution of its product-shoes.



6. Differentiate between departmental stores and chain stores/multiple shops.

Ans. The differences between departmental stores and chain stores are

Basis	Departmental Stores	Chain Stores
Location	A departmental store is located at a central place, where a large number of customers can be attracted.	A chain store is located at a number of places within a approach of a large number of customers. Thus, central location is not necessary for a chain store.
Range of Products	Departmental stores aim at satisfying all the needs of customers under one roof. As such, they have to maintain a variety of products of different types.	Chain stores aim to satisfy the requirements of customers relating to a specified range of products only.
Services Offered	The departmental stores lay great emphasis on providing maximum service to their customers. Some of the services, provided by them include free wi-fi, restaurant and so on.	Chain stores provide very limited service confined to guarantees and repairs if the sold out goods turn out to be defective.
Pricing	The departmental stores, however, do not have uniform pricing policy for all the departments; rather they have to occasionally offer discounts on certain products and varieties to clear their stock.	Chain stores sell goods at fixed prices and maintain uniform pricing policies for all the shops.
Class of Customers	The departmental stores cater to the needs of relatively high income group of customers, who care more for the services provided rather than the prices of the product.	Chain stores cater to different types of customers, including those belonging to the lower income groups, who are interested in buying quality goods at reasonable prices.
Credit Facilities	Departmental stores may provide credit facilities to some of their regular customers.	All sales in the chain stores are made strictly on cash basis.



Chapter Test

Multiple Choice Questions

1. Which of the following is not a service offered by wholesaler to manufacturer?
(a) Storage (b) Grant of credit (c) Bearing risk (d) Financial assistance
2. All the branches of chain stores are controlled by
(a) branches themselves (b) head office
(c) city office (d) general manager of each branch
3. In chain store, the manager sends daily reports to the head office.
(a) city (b) area (c) branch (d) region
4. Retailer is at the end of the distribution chain. Based on the demand from the consumers, retailers buy goods of different types from various wholesalers and make them available to final consumers. By doing so retailers create
(a) place utility (b) time utility (c) profit utility (d) price utility
5. **Statement I** Departmental stores give high level of personal attention to all the customers.
Statement II Departmental stores are generally located in central locations.
Alternatives
(a) Statement I is correct and Statement II is wrong (b) Statement II is correct and Statement I is wrong
(c) Both the statements are correct (d) Both the statements are incorrect

Short Answer (SA) Type Questions

1. State any three important features of Internal trade.
2. Discuss the features of a departmental store which makes it different from other stores.
3. Differentiate between departmental stores and chain stores on following basis.
(i) Services offered (ii) Pricing (iii) Class of customers (iv) Credit facilities
4. Mention the various features of chain stores.
5. Reekob is a shoe brand operating in the world. It has got stores all over the country with wide variety of footwears. The footwears of Reekob are known to be of premium quality and therefore, attract upper-middle-income and upper-income segment of the society. The company manufactures these footwears and sells them directly through the stores. The stores also have the policy that when certain SKUs are not available in one store, they are transferred by the other store. The company remains fairly with positive cash flow as some or the other stores are generating good profits for the company. Identify and explain the advantages of the chain stores by quoting the lines.

Long Answer (LA) Type Questions

1. KKK is a departmental store in the city of Mumbai. The store has 5 different sections for five different items Food & Beverages, books & accessories, personal care, health care and kids' zone. Because of multiple sections, it experiences a large footfall during all the working hours. Store has the facility of home delivery and even accepts the orders in the online mode. But because of all these services and facilities, it has got very high operational cost due to which the profits are hampered. However, it has always been compensated by good foot fall but recently it has faced decrease in number of people coming in. Fortunately, the departmental store is in a position to spend considerable amount of money on advertising and other promotional activities to boost the sales. But this comes with a slight factor that due to large footfall, the store is not able to give personal attention to each and every customer. So to improve the services, they decided to take feedback from the customers through a feedback form. In the time, it was reflected by the customers that they would like a parking facility near the store because the store is located in an area of heavy traffic which makes it difficult for them to park on the roadside.
The passage above highlights some of the advantages and disadvantages of departmental stores. Identify three advantages and three disadvantages each by quoting the lines.
2. Wholesalers not only provide services to the retailers but also to the manufacturers. In the light of the statement, explain the services provided by the wholesalers to the manufacturers.

Answers

Multiple Choice Questions

1. (b) 2. (b) 3. (c) 4. (a) 5. (b)

