

UNIT III SERVICE BUSINESS - I

CHAPTER

13

WAREHOUSING



Learning Objectives

To enable the students to

- i. know the meaning of warehouses and warehousing.
- ii. explain the different types of warehouses.
- iii. describe the functions of warehouses.
- iv. know about the various warehousing documents.

Introduction

The term “Ware” means products or goods. “Warehousing” generally means storage place or godowns which is located near a factory to keep the raw materials and finished products. Storage is only a holding place of goods. Whereas a warehouse is located near the market to perform the other marketing functions such as grading, standardization, blending, mixing packing, etc. The development of science and technology has improved the ways and means of storage. It removes the hindrance of time.

13.01 Meaning of Warehouse and Warehousing

Warehouse

It is a place where goods are stored for future use and act as distribution centres.

Warehouses are designed depending upon the nature of the products to be stored.

For example, to keep perishable items like fruits and vegetables, cold storages are required. Certain pharmaceutical products are to be kept under suitable temperature. Liquids like petrol, oil molasses need tanks while grains like barley, pulses, etc. need ventilated halls.

According to J. Stephenson, “a warehouse in an establishment for the storage or accumulation of goods”.

Warehousing

It is an arrangement by which goods are stored when they are not needed immediately and are kept in such a manner so as to protect from damage or deterioration.

“A warehouse is a commercial building for storage of goods. Stored goods can include any raw materials, packing materials, spare parts, component or finished goods associated with agriculture, manufacturing and production”.

13.02 Differences between Warehouse and Warehousing

Warehouse is a place where goods are stored for future use whereas, warehousing is an arrangement of goods. Warehouse is to hold goods for storing purpose only.

Warehousing object is to preserve and protect the goods from deterioration in quality and quantity.

Need for Warehousing

(a) Mass production

Production is based on the anticipated demand for goods. Mass production of goods takes place by establishing big factories and modern production. The market for such goods is spread all over the country. Therefore, warehouses are to be built at different places to store these products and provide prompt supplies when demanded.

(b) Nature of commodities

Some goods are perishable in nature and therefore it should be consumed in time to avoid deterioration. Storing them in cold storages can extend the life of the goods.

(c) Seasonal production but regular consumption

The farm products such as wheat, sugar, pulses, etc. are produced only in seasons. But the consumption of these products are evenly spread throughout the year. If proper storage facilities are not provided, the quality of these goods deteriorates and may become not usable.

(d) Regular production but seasonal consumption

Certain goods are produced regularly throughout the year. But they are demanded in seasons only. For example, rain-coats, blankets, umbrella, etc. require storage for whole year. They can be released in large quantities to meet the heavy demand in rainy and winter seasons.

(e) Proximity to production centers

Productions of goods at specific centers need to be supplied in time and without interruption to consumers throughout the country. For this purpose goods are regularly fed to the warehouses situated at different market areas.

13.03 Types of Warehouses

Warehouses can be classified as follows:

A. On the Basis of Ownership

- (a) Private Warehouses
- (b) Government Warehouses
- (c) Public Warehouses
- (d) Co-operative Warehouses
- (e) Bonded Warehouses
- (f) Institutional Warehouses
- (g) Distribution Centre Warehouses

B. On the Basis of Commodities Stored

- (a) General Warehouses
- (b) Special Commodity Warehouses
- (c) Cold Storages or Refrigerated Warehouses
- (d) Climate Controlled Warehouses

A. On the Basis of Ownership

a. Private Warehouses

Private warehouses are built and owned by private business enterprises in order to store the products produced by them. They are exclusively for their use and are not meant for other manufacturing or business units.

b. Government Warehouses

They are created and operated by the Government to implement the



programmes of the Government. Their services mostly available to government only. A detailed study on all the above warehouses is given at the end of this chapter.

c. Public Warehouse

It is open for public at large. Most of the business organisations, especially small and medium scale units cannot afford to have their own warehouses. They may be owned by an individual or some agency. These warehouses operate as per the rules and regulations formed by the Government.

d. Co-operative Warehouses

There are warehouses owned and managed by the marketing co-operative societies or agricultural co-operative societies. They are set up to provide warehousing facilities to their members. Example, National Co-operative Development Corporation (NCDC).

e. Bonded Warehouses

Bonded warehouses are those warehouses, which are licensed by the government to accept storage of imported goods which are not cleared due to non-payment of customs duty by the importer. Branding can

be undertaken in the warehouse itself. Bank loans can be obtained by submitting the receipt issued by these warehouses as collateral security. Strict supervision and control is imposed by custom authorities on their operation and functioning.

f. Institutional Warehouses

Different institutions and bodies have their own warehouses on account of the nature of their operations. For example, Banks, Railways, etc, have their own warehouses for conducting their activities. Various transport agencies also maintain warehouses for storing the goods which are to be despatched and received.

g. Distribution Center Warehouses

Goods which need to be temporarily stored for one or two days so that they can be distributed to other offices or customers are stored in Distribution Centers. They are owned by the manufacturer or wholesalers.

B. On the Basis of Commodities Stored

a. General Warehouses

They are ordinary warehouses which are useful for storing most of the dry food grains, fertilisers, etc. Protective measures against rat, insects, etc. are undertaken by them.



Village Storage or Warehouse

Underground storage structures are used by farmers in villages to store food grains. They are safer from threats from various external sources of damage, such as theft, rain or wind. Separate peripheral structures with mud are erected as surface storage structure for food grains. PAU bin, Pusa bin, HapurTekka, etc. are used for small scale storage of grains. Cap storage, Silos, etc, are used for large scale storage of food grains.



b. Special Commodity Warehouses

These warehouses are specially constructed for storing specific type of commodities like tobacco, cotton, wool etc. These warehouses reduce loss of quality and quantity to a great extent. Storage of petrol and oil requires special type of vertical, cylindrical storage tanks.

c. Cold Storages or Refrigerated Warehouses

Goods are transported in refrigerated containers and stored in refrigerated warehouses. These warehouses are used for storing perishable goods like fruits, vegetables, eggs, butter, fish, meat, etc. Goods stored in cold storages without deterioration in quality, can be made available throughout the year.

d. Climate Controlled Warehouses

The controlled climate environment can reduce the rate of metabolism in fruits and vegetables. Humidity controlled environments for delicate products such as flowers in dirt-free facilities in these warehouses.

e. Automated Warehouses

Automated facilities which can handle several hundreds of kilograms of product

at a time. Inside the warehouse premises physical distribution activities are carried out by moving product filled pallets (i.e. platforms that hold large amounts of product). It requires huge investment, latest technology and large turnover of goods.

13.04 Functions of Warehouses

Warehouses render invaluable services to the society by performing the following functions:

(i) Storage

There is a time gap between the time of production and the time of consumption and a gap between demand and supply. The surplus goods are stored properly for the purpose of supplying them at right place and the right time.

(ii) Price Stabilization

Warehousing ensures price stabilization by supplying goods as and when demanded. It acts as a cushion to absorb price fluctuations and supplies the goods at more or less uniform prices throughout the year.

(iii) Equalization of Demand and Supply

Warehousing equalizes the demand and supply of goods by storing the goods when they are not demanded and releasing them



Warehousing Development and Regulatory Authority (WRDA)

To develop and regulate the warehousing industry in India, Warehousing Development and Regulatory Authority was established under the Warehousing (Development and Regulation) Act, 2007. Its objective is to improve the storage capacity in the country and also help producers, farmers and consumers get a better deal by cutting the intermediaries and wastages.

when there is a demand. Thus the consumers get the commodities regularly even during the off-season periods.

(iv) Business Finance

Based on the goods deposited in a warehouse, the depositor can get finance from banks and other financial institutions by showing the receipt issued by the warehouse keeper.

(v) Risk bearing

In case of damage to the goods, warehouse keeper compensates the loss caused to the owner of the goods. Thus, warehouses bear the loss of risk involved in storage of goods.

(vi) Preparation for sale

Modern warehouses undertake the functions of sorting, packing and labelling for the purpose of making the goods suitable for marketing. Hence warehousing is needed for making the goods suitable for sale.

(vii) Widening the marketing area

A manufacturer can sell the goods to different marketing areas by establishing branch warehouses or taking the service of rental warehouses at the required places. Thus warehousing widens the market for the goods.

(viii) Value added services

Warehouses also provide certain value added services, such as in transit mixing, grading, packaging and labelling. Sometimes, goods are repacked and labelled again at the time

What is in Transit Mixing?

It refers to a function in which warehouse receives products from different plants and mix and repack them as per client's requirement.

of inspection by prospective buyers.

13.05 Advantages and Drawbacks of Warehousing

Advantages

1. It safeguards the stock of the merchants who do not have storing place.
2. Warehouses reduce distribution cost of the traders by storing the goods in bulk and allow the trader to take the goods in small lots to his shop.
3. It helps in selection of channel of distribution. The producer will prefer whether to appoint a wholesaler or retailer.
4. It assists in maintaining the continuous sales and avoids the possibilities of "out of stock" position.
5. It creates employment opportunities for both skilled and unskilled workers, to improve their standard of living.

Drawbacks of Warehousing

Warehousing is not effective because of the following reasons:

1. There are no adequate transport facilities between the place of production and warehouses.
2. Lack of sufficient storage facilities for different commodities such as perishable and non-perishable commodities.
3. Complicated formalities are to be fulfilled at the warehouses. The illiterate and innocent farmers are not able to cope with these procedures.
4. Complicated process of Barcode technology can reduce the storing of goods by some producers.

5. Unavoidable delay for obtaining financial assistance may cause loss to the owner of goods.

13.06 Warehousing Documents

The following documents are used in connection with the warehousing.

a) Warehouse Warrants

It is a document issued in favour of the owner or depositor of goods by the warehouse keeper. This is a document of title of goods and can be transferred by simple endorsement and delivery. To transfer all the goods the warehouse warrant is sufficient. If only a part of the goods are to be transferred then delivery order is needed. The delivery order is to be accompanied by the warehouse warrant.

b) Warehouse Keeper's Receipt

It is a document issued by the warehouse keeper, which acknowledges the receipt of goods from the depositor of goods. It also shows the existence of an agreement to keep the goods in the warehouse subject to certain conditions. This is not a document of title of goods and is not transferable.

c) Dock Warrant

Dock is a place in the harbor where the goods are kept for loading into the ship. Dock warrant is a document of title of goods issued by dock authorities. This document certifies that the dock authorities hold the goods. To take delivery of the goods this certificate should be given back to dock authorities. The right of getting delivery of goods can be assigned to third parties too.

d) Dock Receipt

Dock receipt is an acknowledgement of receipt of goods issued by dock authorities to the owner of the goods. It is not a document of title of goods. Therefore, the right of taking of delivery of goods cannot be transferred.

e) Delivery Order

This is a document through which the depositor directs the warehouse keeper to deliver the specified goods either to the party mentioned in the document or to the bearer. The warehouse keeper delivers the goods as per the instruction. Transfer of ownership

Differences between Warehouse Warrant and Warehouse Receipt	
Warehouse Warrant	Warehouse Receipt
1. It is a document of title of goods	It is not a document of title of goods
2. It is not only an acknowledgement for the receipt of goods but also gives an authority to get delivery of goods by the owner or by third party.	It is only an acknowledgement for the receipt of goods.
3. It can be negotiated or transferred to others.	It cannot be transferred to others
4. It can be given a collateral security for getting financial assistance	It cannot be given as collateral security.
5. Delivery of goods effected by surrendering this warrant with endorsement	Delivery is effected by surrendering this receipt with letter from depositor.

takes place through this document.

13.07 Warehousing in India

India is an agrarian country but the importance of warehousing was not felt till 1950. Agriculture contributes 16 percent of the overall GDP and accounts for employment of approximately 52 percent of the Indian population. It is estimated that more than 40 percent of our agricultural productions wasted due to poor storage facilities.

On the recommendation of the All India Rural Credit Survey Committee, the Agricultural Produce (Development and warehousing) Corporation Act enacted in 1956, authorized the Government to setup National Co-operative Development and Warehousing Board to develop agricultural Co-operatives



and warehousing.

Main Warehousing Agencies in the Public Sector

The three main agencies in the public sector engaged in providing large scale warehousing facilities are:

A. Food Corporation of India (FCI)

It provides storage facilities for food grains. Food Corporation of India also hires storage capacity from other sources such as Central Warehousing Corporation, State Warehousing Corporation and private parties. The available storage capacity of Food Corporation of India is 74.6 million tonnes. (August 28, 2013 Government told in Lok Sabha). The FCI was set-up under the Food Corporation Act 1964, in order to fulfil following objectives of the food policy:

- i. Distribution of food grains throughout the country for public distribution system.
- ii. Effective price support operations for safeguarding the interests of farmers.
- iii. Maintaining satisfactory level of operational and buffer stocks of food grains to ensure National food security.

B. Central Warehousing Corporation (CWC)

It was established in 1957. The available storage capacity of Central Warehousing Corporation is 11.17 million tonnes and with the operation through 464 warehousing centers across the country. (as on 30th September, 2017).

Functions of Central Warehousing Corporation:

1. To provide agency services for scientific storage of agricultural produce, seeds, manures fertilizers, agricultural implements and other notified commodities.
2. To issue a negotiable warehouse receipt for procuring credit to the owners of goods.
3. To preserve the produce deposited with care and protect against insects and various pests and deterioration due to moisture and dampness.
4. To act as an agent of the government for the purchase and sale, storage and distribution of specified commodities and transport to and from warehouse.
5. To reduce the cost of storage and facilitate the marketing of produce through proper grading.

C. State Warehousing Corporation (SWC)

Every state government is given power to establish its own Warehousing Corporation after getting approval from the CWC. 50% of the capital is contributed by the CWC and the balance 50% contributed by State Government.

D. Tamil Nadu Warehousing Corporation (TNWC)

It was established in 1959. The available storage capacity of TNWC is 6.83 Lakh MT with 7 Regional offices and 256 Godowns across the state. It is one of the biggest public warehouses operating in the state, offering logistic services to a diverse group of clients.

Key Terms

Warehouse, Warehousing, Bonded warehouses, Warehouse warrant, Dock warrant. Dock receipt, Food Corporation of India, CWC – Central Warehousing Corporation.



For Future Learning

The warehouse of the future: How will it impact efficiency?

From 2019, new technology could be revolutionary and improving efficiency in warehouse by Warehousing Management System (WMS). Technologies including artificial intelligence, 3D printing and self-driving vehicle could be more widely used in warehouses everywhere sooner than you think. By 2030, warehouses will be a part of initiative to achieve Zero net energy.

Warehouse buildings will operate 24X7X365 and be designed with sustainability. By creating strategies, warehouse will save costs and prevent harmful emissions. Solar panels will become the main sources of energy for warehouses.



Exercise

I Choose the Correct Answer

1. Warehouses remove the hindrance of _____
 a) Person
 b) Time
 c) Risk
 d) Knowledge

2. A warehouse holds goods as a _____ center.

- a) Marketing b) sorting
c) distribution d) selling

3. _____ can be given as a collateral security for getting financial assistance from bank.

- a) Dock warrant
b) Warehouse receipt
c) Dock receipt
d) Warehouse warrant

4. _____ warehouses are licensed by the government and are permitted to accept the goods on bond.

- a) Bonded b) Cold Storage
c) Public d) All the Above

5. _____ warehouses are used for storing perishable goods like fruits, vegetables etc.

- a) Bonded b) Private
c) Cold storage d) Co-operative

Answers

1. b 2. c 3. d 4. a 5. c 6. c

II Very Short Answer Questions

1. What is Warehouse?
2. List the various types of warehouses.
3. Give any two functions of warehouses.
4. Give a note on FCI.

III Short Answer Questions

1. Differentiate the warehouse warrant from the warehouse receipt. (any 3)
2. Explain Cold storage warehouse.

IV. Long Answer Questions

1. Explain the different types of warehouses. (any 5)
2. Explain the advantages of warehousing.

Reference

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