

# Lesson 11

## Warehousing

We eat a variety of food in our daily life. Some of us may take rice, while others may take *chapati* or *roti* as our main food. But have you ever thought from where the paddy or wheat from which these food items are prepared comes from. We know that these food grains are not produced throughout the year. But we need to eat them everyday. So how are the farmers able to supply these continuously to us? You might be thinking that they store the food grains in a proper place and supply them at the time of need. Yes, you are right. Since the production takes place during a particular season and in specific areas, there is a need to store these grains systematically. In our home we may keep limited stock for our own consumption. But there are certain places or stores, where these items are stored in huge quantities in a proper and systematic way. In this lesson let us learn the details about these stores.

### 11.1 Objectives

After studying this lesson, you will able to:

- explain the meaning of warehousing;
- recognise the need for warehousing;
- identify different types of warehouses;
- explain the characteristics of ideal warehouses;
- describe the functions of warehouses; and
- enlist the advantages of warehouses.

### 11.2 Meaning of Warehousing

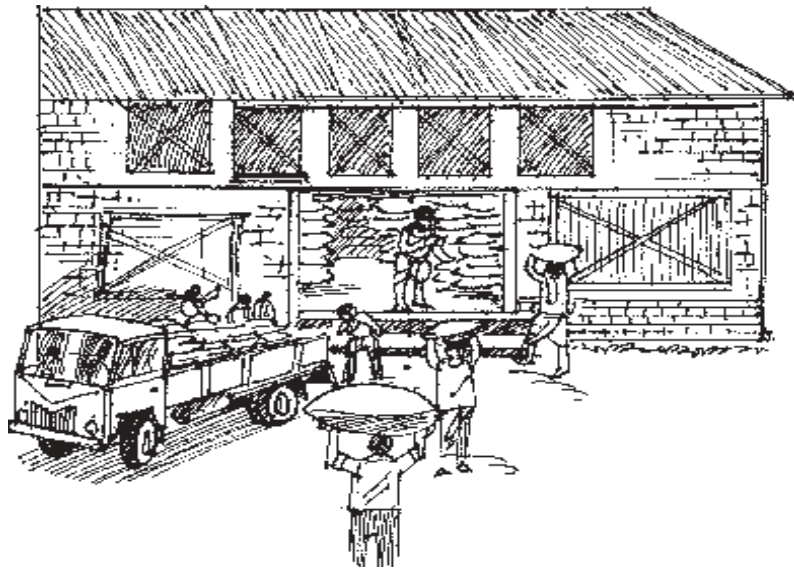
We need different types of goods in our day-to-day life. We may buy some of these items in bulk and store them in our house. Similarly, businessmen also need a variety of goods for

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their use. Some of them may not be available all the time. But, they need those items throughout the year without any break. Take the example of a sugar factory. It needs sugarcane as raw material for production of sugar. You know that sugarcane is produced during a particular period of the year. Since sugar production takes place throughout the year, there is a need to supply sugarcane continuously. But how is it possible? Here storage of sugarcane in sufficient quantity is required. Again, after production of sugar it requires some time for sale or distribution. Thus, the need for storage arises both for raw material as well as finished products. Storage involves proper arrangement for preserving goods from the time of their production or purchase till the actual use. When this storage is done on a large scale and in a specified manner it is called 'warehousing'. The place where goods are kept is called 'warehouse'. The person in-charge of warehouse is called 'warehouse-keeper'.

Warehousing refers to the activities involving storage of goods on a large-scale in a systematic and orderly manner and making them available conveniently when needed. In other words, warehousing means holding or preserving goods in huge quantities from the time of their purchase or production till their actual use or sale.

Warehousing is one of the important auxiliaries to trade. It creates time utility by bridging the time gap between production and consumption of goods.



### 11.3 Need for Warehousing

Warehousing is necessary due the following reasons.

- (i) **Seasonal Production-** You know that agricultural commodities are harvested during certain seasons, but their consumption or use takes place throughout the year. Therefore, there is a need for proper storage or warehousing for these commodities, from where they can be supplied as and when required.
- (ii) **Seasonal Demand-** There are certain goods, which are demanded seasonally, like woollen garments in winters or umbrellas in the rainy season. The production of these goods takes place throughout the year to meet the seasonal demand. So there is a need to store these goods in a warehouse to make them available at the time of need.

- (iii) **Large-scale Production** - In case of manufactured goods, now-a-days production takes place to meet the existing as well as future demand of the products. Manufacturers also produce goods in huge quantity to enjoy the benefits of large-scale production, which is more economical. So the finished products, which are produced on a large scale, need to be stored properly till they are cleared by sales.
- (iv) **Quick Supply** - Both industrial as well as agricultural goods are produced at some specific places but consumed throughout the country. Therefore, it is essential to stock these goods near the place of consumption, so that without making any delay these goods are made available to the consumers at the time of their need.
- (v) **Continuous Production**- Continuous production of goods in factories requires adequate supply of raw materials. So there is a need to keep sufficient quantity of stock of raw material in the warehouse to ensure continuous production.
- (vi) **Price Stabilization**- To maintain a reasonable level of the price of the goods in the market there is a need to keep sufficient stock in the warehouses. Scarcity in supply of goods may increase their price in the market. Again, excess production and supply may also lead to fall in prices of the product. By maintaining a balance of supply of goods, warehousing leads to price stabilisation.

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### **Intext Questions 11.1**

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State which of the following statements are true and which are false.

- (i) Warehousing removes the hindrance of time.
  - (ii) Warehousing is not an important auxiliary to trade.
  - (iii) The objectives of warehousing may be to carry over the surplus goods, for consumption in future during the period of scarcity.
  - (iv) Warehousing is not used to store the goods of seasonal nature.
  - (v) Warehousing is not useful for large scale trading.
  - (vi) Warehousing helps in continuous production of goods in the factories.
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### **11.4 Types of Warehouses**

After getting an idea about the need for warehousing, let us identify the different types of warehouses.

You have learnt that warehousing caters to the storage needs of different types of commodities. In order to meet their requirement various types of warehouses came into existence, which may be classified as follows.

- i. Private Warehouses
- ii. Public Warehouses
- iii. Government Warehouses
- iv. Bonded Warehouses
- v. Co-operative Warehouses

We shall now discuss each of these.

- i. Private Warehouses** - The warehouses which are owned and managed by the manufacturers or traders to store, exclusively, their own stock of goods are known as private warehouses. Generally these warehouses are constructed by the farmers near their fields, by wholesalers and retailers near their business centres and by manufacturers near their factories. The design and the facilities provided therein are according to the nature of products to be stored.
- ii. Public Warehouses** - The warehouses which are run to store goods of the general public are known as public warehouses. Any one can store his goods in these warehouses on payment of rent. An individual, a partnership firm or a company may own these warehouses. To start such warehouses a licence from the government is required. The government also regulates the functions and operations of these warehouses. Mostly these warehouses are used by manufacturers, wholesalers, exporters, importers, government agencies, etc.
- iii. Government Warehouses** - These warehouses are owned, managed and controlled by central or state governments or public corporations or local authorities. Both government and private enterprises may use these warehouses to store their goods. Central Warehousing Corporation of India, State Warehousing Corporation and Food Corporation of India are examples of agencies maintaining government warehouses.
- iv. Bonded Warehouses** - These warehouses are owned, managed and controlled by government as well as private agencies. Private bonded warehouses have to obtain licence from the government. Bonded warehouses are used to store imported goods for which import duty is yet to be paid. In case of imported goods the importers are not allowed to take away the goods from the ports till such duty is paid. These warehouses are generally owned by dock authorities and found near the ports.
- v. Co-operative Warehouses** - These warehouses are owned, managed and controlled by co-operative societies. They provide warehousing facilities at the most economical rates to the members of their society.

## 11.5 Characteristics of Ideal Warehouses

In the above section you have learnt about different types of warehouses. In each of these warehouses adequate arrangements are made to keep the goods in proper conditions. However, any warehouse is said to be an ideal warehouse if it possesses certain characteristics, which are given below:

- i.** Warehouse should be located at a convenient place near highways, railway stations, airports and seaports where goods can be loaded and unloaded easily.
- ii.** Mechanical appliances should be there to loading and unloading the goods. This reduces the wastages in handling and also minimises handling costs.
- iii.** Adequate space should be available inside the building to keep the goods in proper order.

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- iv. Ware houses meant for preservation of perishable items like fruits, vegetables, eggs and butter etc. should have cold storage facilities.
  - v. Proper arrangement should be there to protect the goods from sunlight, rain, wind, dust, moisture and pests.
  - vi. Sufficient parking space should be there inside the premises to facilitate easy and quick loading and unloading of goods.
  - vii. Round the clock security arrangement should be there to avoid theft of goods.
  - viii. The building should be fitted with latest fire-fighting equipments to avoid loss of goods due to fire.

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### Intext Questions 11.2

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Fill in the blanks with suitable words given in brackets.

- (i) Food Corporation of India maintains \_\_\_\_\_ warehouses. (government, private, bonded)
- (ii) Warehouses used exclusively by the traders to store their own goods are known as \_\_\_\_\_ warehouses. (bonded, public, private)
- (iii) License from the government is not required to start a \_\_\_\_\_ warehouse. (Bonded, Private, Public).
- (iv) Bonded warehouses are generally found near \_\_\_\_\_. (industrial area, ports, commercial centers)
- (v) Goods, for which import duty is not paid, are kept in \_\_\_\_\_ warehouses. (private, public, bonded)

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### 11.6 Functions of Warehouses

You have learnt that warehouses preserve goods on a large-scale in a systematic and orderly manner. They provide protection to goods against heat, wind, storm, moisture, etc. and also cut down losses due to spoilage, wastage etc. This is the basic function of every warehouse. In addition to this, warehouses now a days also perform a variety of other functions. In this section let us learn about the various functions of warehouses.

Warehouses perform the following functions-

- i. Storage of goods
- ii. Protection of goods
- iii. Risk bearing
- iv. Financing
- v. Processing

- vi. Grading and branding
- vii. Transportation

We shall now discuss each of these functions.

- i. Storage of goods-** The basic function of warehouses is to store large stock of goods. These goods are stored from the time of their production or purchase till their consumption or use.
- ii. Protection of goods-** A warehouse provides protection to goods from loss or damage due to heat, dust, wind and moisture, etc. It makes special arrangements for different products according to their nature. It cuts down losses due to spoilage and wastage during storage.
- iii. Risk bearing -** Warehouses take over the risks incidental to storage of goods. Once goods are handed over to the warehouse-keeper for storage, the responsibility of these goods passes on to the warehouse-keeper. Thus, the risk of loss or damage to goods in storage is borne by the warehouse keeper. Since it is bound to return the goods in good condition, the warehouse becomes responsible for any loss, theft or damage, etc. Thus, it takes all precautions to prevent any mishap.
- iv. Financing-** When goods are deposited in any warehouse, the depositor gets a receipt, which acts as a proof about the deposit of goods. The warehouses can also issue a document in favour of the owner of the goods, which is called warehouse-keeper's warrant. This warrant is a document of title and can be transferred by simple endorsement and delivery. So while the goods are in custody of the warehouse-keeper, the businessmen can obtain loans from banks and other financial institutions keeping this warrant as security. In some cases, warehouses also give advances of money to the depositors for a short period keeping their goods as security.
- v. Processing -** Certain commodities are not consumed in the form they are produced. Processing is required to make them consumable. For example, paddy is polished, timber is seasoned, and fruits are ripened, etc. Sometimes warehouses also undertake these activities on behalf of the owners.
- vi. Grading and branding-** On request warehouses also perform the functions of grading and branding of goods on behalf of the manufacturer, wholesaler or the importer of goods. It also provides facilities for mixing, blending and packaging of goods for the convenience of handling and sale.
- vii. Transportation-** In some cases warehouses provide transport arrangement to the bulk depositors. It collects goods from the place of production and also sends goods to the place of delivery on request of the depositors.

Endorsement: Transfer of any document or instrument to another person by signing on its back or face or on a slip of paper attached to it.
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## 11.7 Advantages of Warehousing

Warehousing offers many advantages to the business community. Whether it is industry or trade, it provides a number of benefits which are listed below.

- i. Protection and Preservation of goods -** Warehouse provides necessary facilities to the businessmen for storing their goods when they are not required for sale. It provides protection to the stocks, ensures their safety and prevents wastage. It minimises losses

from breakage, deterioration in quality, spoilage etc. Warehouses usually adopt latest technologies to avoid losses, as far as possible.

- ii. **Regular flow of goods-** Many commodities like rice, wheat etc. are produced during a particular season but are consumed throughout the year. Warehousing ensures regular supply of such seasonal commodities throughout the year.
- iii. **Continuity in production-** Warehouse enables the manufacturers to carry on production continuously without bothering about the storage of raw materials. It helps to provide seasonal raw material without any break, for production of finished goods.
- iv. **Convenient location-** Warehouses are generally located at convenient places near road, rail or waterways to facilitate movement of goods. Convenient location reduces the cost of transportation.
- v. **Easy handling-** Modern warehouses are generally fitted with mechanical appliances to handle the goods. Heavy and bulky goods can be loaded and unloaded by using modern machines, which reduces cost of handling such goods. Mechanical handling also minimizes wastage during loading and unloading.
- vi. **Useful for small businessmen-** Construction of own warehouse requires heavy capital investment, which small businessmen cannot afford. In this situation, by paying a nominal amount as rent, they can preserve their raw materials as well as finished products in public warehouses.
- vii. **Creation of employment -** Warehouses create employment opportunities both for skilled and unskilled workers in every part of the country. It is a source of income for the people, to improve their standards of living.
- viii. **Facilitates sale of goods-** Various steps necessary for sale of goods such as inspection of goods by the prospective buyers, grading, branding, packaging and labelling can be carried on by the warehouses. Ownership of goods can be easily transferred to the buyer by transferring the warehouse keeper's warrant.
- ix. **Availability of finance-** Loans can be easily raised from banks and other financial institutions against the security of the warehouse-keeper's warrant. In some cases warehouses also provide advance to the depositors of goods on keeping the goods as security.
- x. **Reduces risk of loss -** Goods in warehouses are well guarded and preserved. The warehouses can economically employ security staff to avoid theft, use insecticides for preservation and provide cold storage facility for perishable items. They can instal fire-fighting equipment to avoid fire. The goods stored can also be insured for compensation in case of loss.

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### Intext Questions 11.3

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State which of the following statements are true and which are false.

- (i) The basic function of warehousing is to store the goods.
- (ii) The loss occurring in a warehouse is not borne by the warehouse-keeper.
- (iii) Warehouse-keeper's warrant can serve as a security for loans from bank.

- (iv) Warehousing helps in continuous production and regular supply of the goods.
  - (v) Warehousing does not create any employment opportunities.
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## 11.8 What You Have Learnt

- Warehousing refers to storing of the goods on large scale in a systematic and orderly manner from the time they are produced until they are consumed. It removes the hindrance of time. It is an important auxiliary to trade.
- The **need for warehousing** arises due to
  - i. Seasonal production of goods
  - ii. Seasonal Demand
  - iii. Large-scale Production
  - iv. Quick Supply
  - v. Continuous Production.
  - vi. Price Stabilization
- **Types of Warehouses**
  - Private warehouses
  - Public warehouses
  - Government warehouses
  - Bonded warehouses
  - Co-operative warehouses
- **Characteristics of an ideal warehouse**
  - i. Convenient location
  - ii. Use of mechanical devices for handling goods
  - iii. Adequate space for storage of goods
  - iv. Cold storage facility for perishable items
  - v. Protection of goods from sunlight, rain, wind, dust, moisture and pests
  - vi. Sufficient parking space for vehicles
  - vii. Round the clock security
  - viii. Availability of fire fighting equipment.
- **Functions of warehouses**
  - i. Storage of goods
  - ii. Protection of goods
  - iii. Risk bearing
  - iv. Financing

- v. Processing
- vi. Grading and branding
- vii. Transportation

● **Advantages of warehousing**

- i. Protection and Preservation of goods
- ii. Regular flow of goods
- iii. Continuity in production
- iv. Convenient location
- v. Easy handling
- vi. Useful for small businessmen
- vii. Creation of employment
- viii. Facilitates sale of goods
- ix. Availability of finance
- x. Reduces risk of loss

## **11.9 Terminal Exercise**

1. What is meant by Warehousing?
2. Explain the need for warehousing.
3. Describe any six characteristics of an ideal warehouse.
4. Classify the various types of warehouses. Explain them briefly.
5. Distinguish between public and private warehouse.
6. Explain the functions of warehouses.
7. What is meant by public warehouse? State any three functions of a public warehouse.
8. Describe the advantage of warehouses to the businessmen.
9. How is a bonded warehouse useful for the importers?
10. Warehousing is one of the important auxiliaries to trade. Explain this statement in about 60 words.

## **10.10 Key to Intext Questions**

- 11.1** (i) True  
(ii) False  
(iii) True  
(iv) False  
(v) False  
(vi) True

- 11.2** (i) Government  
(ii) Private  
(iii) Private  
(iv) Ports  
(v) Bonded

- 11.3** (i) True  
(ii) False  
(iii) True  
(iv) True  
(v) False.

**Activity For You**

Make a comparative statement of the functions of a store and a warehouse. How does a store differ from a warehouse?

**(Hints:** Make comparison on the basis of Storage capacity, Storage conditions, Ownership, Facilities available)