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***PRESENTS***

# **BUSINESS STUDIES**

**TOPIC 12: WAREHOUSING**

**FORM TWO**

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## WAREHOUSING

### Introduction

#### Definition

A warehouse is a building for storing goods and services until the need for them arises. A warehouse is also usually referred to as a go down, silo or depot.

Warehousing is the process and the systems for relieving goods, protecting them against all types of hazards and ensuring their availability to those who need them. Therefore, it involves three main processes:

- a) Receiving goods into a warehouse;
- b) Storing them
- c) Releasing them to the users.

Thus, warehousing helps to create time utility and is therefore classified as an 'aid to trade'.

#### Importance of Warehousing to Business

- a) It enables a steady flow of goods into the market as the producers store their commodities and regulating their supply as needs arise;
- b) It stabilizes the prices by reducing the supply of goods when the market is faced with surplus and increasing the supply whenever there is shortage;
- c) It protects the goods from adverse weather conditions thereby upholding their quality until they are sold;
- d) It facilitates the bridging of time between when the goods are manufactured and when they are demanded. This is especially so for goods with seasonal demands;
- e) It acts as a reserve that can meet a sudden unexpected demand, for instance cereals can be stored in a warehouse just in case a draught strikes;
- f) It enables ample time and opportunity for such practices like blending, branding, packaging, grading and sorting out of goods before they are sold.
- g) Warehousing ensures that goods are protected from loss through theft or pilferage;
- h) It enables buyers to inspect the goods before they buy them;



- i) Warehousing allows time for some goods to ripen or mature before they are sold, for instance ripe bananas or tobacco leaves;
- j) It encourages specialization in production and distribution. Producers concentrate on producing while distributors store the goods for sale to the consumers;
- k) By allowing manufacturers to buy raw materials in bulk as they await their needs to arise, warehousing ensures a continuous production schedule;
- l) It allows importance ample time to look for a market.

## Essentials of a warehouse

In order to be as effective as possible, warehouses require some features and resources. These include:

- a) Proper buildings suitable to house various types of goods;
- b) They should be conveniently located to enhance accessibility by the users;
- c) Proximity to a good transport network system to ensure smooth movement of goods in and out;
- d) The warehouse should be equipped with appropriate protection equipment to keep the goods safe from water, sunshine, human animals, excess heat and such factors;
- e) It should be spacious enough to enable both storage of goods and movement of goods and personnel;
- f) It should be equipped with proper facilities for handling goods like forklifts and an necessary working materials and tools to facilitate operation;
- g) It should be equipped with adequate facilities to care for goods for instance coldroom facilitates for perishable goods;
- h) It should be manned by well trained staff for efficient delivery of services;
- i) The warehouse should be equipped with an efficient communication network.
- j) A warehouse should conform to the law of the land.
- k) It should have proper recording system to monitor movement of goods.

## Types of Warehouses

Warehouses are usually categorized on the basis of ownership or types of goods stored.



## I. Warehouse Types Based on Ownership

### *Private Warehouses*

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These warehouses are owned by individuals for storing goods. They include:

- i. Wholesalers warehouse – they enable the wholesalers to buy goods from the producers in bulk and prepare them so that they will be ready whenever the retailers need them;
- ii. Producer’s warehouses – they store producer’s goods before the goods are released to the market. They are most conveniently located near the producers or their clients.
- iii. Retailers – they are commonly owned by some large scale retailers like the chain store and supermarkets to suit the purchase of goods in large quantities and sell them gradually.

### *Advantages of private warehouses*

- ✓ They enable the manufacturers more control over the manufacturing operations. They enable for instance coordination between the manufacturing process and delivery to the market
- ✓ They are usually flexible enough to adapt to the different requirements for different goods by offering special facilities not accessible in public warehouses;
- ✓ The owner can custom make the warehouse to suite any need;
- ✓ The owner does not incur the cost of hiring space unlike in public warehouse;
- ✓ Decision making is independent and therefore quick since the owner does not have to consult;
- ✓ The owner is not ted down by procedures of receiving and issuing the goods unlike in public warehouses;

### *Disadvantages of public warehouses*

- ✓ When there is low volumes the resources may become underutilized;
- ✓ High initial cost of production;



- ✓ The owners may suffer some problems associated with small scale firms like lack of enough funds to employ adequately qualified personnel.

## ***Public warehouses***

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The term public implies that these warehouses can be used by any member of the public to store his/her goods whereby the owners of the premises lend parts or the entire warehouse to any individual. To enhance versatility and suitability, the owners site the warehouses strategically near ports. This is because they are most commonly used by importers or exporters.

Many public warehouses offer some additional services like packaging, clerical services, market reports, preparing export samples and insuring the goods. Ownership of the goods in the warehouse is usually proved and transferred from one owner to another through a document known as a warehouse warrant. This enables the owner of the goods to sell goods in the warehouse without having to physically transfer them from one place to another.

## ***Advantages of Public Warehouse***

- ✓ Public warehouses enable various small scale owners of goods to come together and sell their commodities together thus enjoying the economies of scale;
- ✓ The owner does not have to construct his/her own warehouse;
- ✓ Very convenient to traders since the goods can be sold while still in the warehouse;
- ✓ Goods are insured against some risk like damage by fire and theft;
- ✓ Traders can rent space to store their goods;
- ✓ The warehouse can offer additional services;
- ✓ The trader can access short term loans with the goods in the warehouse as collateral.
- ✓ The goods in the warehouse can be used as a collateral for a loan;

## ***Disadvantages of Public warehouse***

- ✓ Hiring space can eventually be more costly than constructing premises in the long run;
- ✓ Space allocation is not a guarantee, it depends on availability;
- ✓ The hirer may lose customer contact since they purchase directly from the premises;



- ✓ The presence of other suppliers in the warehouse brings in some competition;
- ✓ The presence of several hirers may lead to a complication and prolonged documentation and receipting process;
- ✓ Inconveniencies emanate from the distant location of the warehouse from the hirer's presence;

## II. Warehouse Types Based on Goods Stored

These types of warehouses are categorized on whether they house goods awaiting tax or tax free goods.

### *Bonded Warehouses*

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They store imported goods prior to payment of the duties. The warehouse owner's offers cash guarantee to assure that the goods will not be released before clearing the duties. Goods under transit to another country may not attract duties, including those that are packaged outside the warehouse. The goods may be sold inside the warehouse and the new owner undertakes the payment of the taxes. Once cleared, the owner is issued with a warrant of release.

### *Features of Bonded Warehouses*

- ✓ Goods can be sold while inside the warehouse;
- ✓ Goods are released only upon production of the warrant of release;
- ✓ Storage charges are made on all the goods under storage;
- ✓ Goods can be bonded till custom duty is paid;
- ✓ Goods can be inspected or prepared for sale while still in the warehouse;
- ✓ Goods can be re-exported while in the warehouse.

### *Advantages of using Bonded Warehouses to the importer*

- ✓ Relieves the importer the burden of securing the goods;
- ✓ Some goods lose weight while in the warehouse an advantage to those whose amount of tax depends on the weight;
- ✓ It offers an opportunity to prepare the goods for sale;
- ✓ Some goods improve in quality while in the warehouse due to maturation duration;



- ✓ The importer transfers the burden of paying the duty onto a buyer who buys the goods while still in the warehouse;
- ✓ The importer can look for the market of the goods even before paying the tax.

### *Disadvantages of using Bonded Warehouses*

- ✓ The importer pays rent for the space of goods;
- ✓ In case the importer fails to pay the duty, the custom authorities may be auction the goods;
- ✓ Withdrawing goods from the warehouse in bits ends up with a higher total tax than a one off fee.

### *Free Warehouses*

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Goods in these types of warehouses are not under the control of the custom authorities. The goods do not have any pending tax. These include locally manufactured goods or imported goods whose duty has been cleared.

### *Advantages of Free Warehouse*

- ✓ Cheaper than bonded warehouse since no duties charges;
- ✓ Goods do not risk auctioning since there are no taxes charged;
- ✓ The warehouses are usually conveniently located for the goods' owners;
- ✓ Release of goods cannot be not delayed by complicated protocols of having to produce signed release warrants

### *Disadvantages of Free Warehouse*

- ✓ Inspection of goods is relaxed and therefore it is susceptible to harbour illegal goods;
- ✓ The storing activity does not earn the government any revenue since no tax is paid;
- ✓ Hoarding of goods can occur in these uninspected warehouses.



## **Current Trends and Emerging Issues in Warehouses**

Driven by technological inventions, warehouses are undergoing revolutions such as:

- a) Computerised monitoring systems are tracking the goods inside and outside the warehouses;
- b) Conveyor belts and other mechanisms are replacing manual movement of goods in the warehouses;
- c) Newer designs with improved storage capacities are coming up;
- d) Better storage facilities like the use of racks is being employed in the warehouses;